

Message from the Management



Hirokazu Nakaima, *Chairman*

Tsugiyoshi Toma, *President*

The Japanese economy has been undergoing an extensive structural reorganization, which includes widespread deregulation in numerous sectors, with the aim of achieving economic revitalization and enhancing international competitiveness. Against this backdrop, the electric power industry has entered an era of reform, characterized by advancements in the phased lifting of regulations on small-lot sales of electric power, an intensification of competition resulting from the emergence of private power generation companies, and an expansion of business domains through diversification into new business areas.

To overcome these challenging management conditions, we will continue to cultivate a strong relationship with our stakeholders, while undertaking various measures to increase management efficiency, and reduce costs to ensure sustained growth, with the aim of bolstering our price competitiveness and improving our financial position. Moreover, in keeping with our responsibilities as a company whose stock is listed on the First Section of the Tokyo Stock Exchange, we will conduct information disclosure swiftly and accurately, and make utmost efforts to maximize our enterprise value.

With the aim of becoming the electric power supply company of choice for the residents of Okinawa, the staff of OEPC are making extensive efforts to identify customers' needs and provide services tailored to meet those needs. In addition, we are also responding to public concerns such as the maintenance of universal services, enhancement of the degree of reliability in electric power supply, and preservation of the natural environment.

We will continue to work diligently to maintain the confidence of our customers and shareholders, and to remain the company of choice.

Hirokazu Nakaima
Chairman

Tsugiyoshi Toma
President

Overview of Okinawa Electric Power's Business

Volume of Electricity Sold

The volume of electricity sold in fiscal 2004, the business term ended March 31, 2004, was 2,808 million kWh for low-voltage residential use, up 3.8% year-on-year, and 4,348 million kWh for high-voltage business use, up 4.0% year-on-year. The total was 7,156 million kWh, an increase of 4.0%.

In fiscal 2005 the volume of electricity sold is expected to rise by 0.5% from fiscal 2004 in the case of electricity for residential use, to 2,823 million kWh, but to decline by 1.9% for business use, to 4,267 million kWh. As a result, total volume is expected to decline by 0.9% to 7,090 million kWh.

Peak load in fiscal 2004 increased by 6.3% from the previous year, to 1,409,000 kW, and in fiscal 2005 there will be a further 1.0% increase to 1,423,000 kW.

Electric Power Sales		(Millions of kWh) (%) (Thousands of kW)		
		FY2003	FY2004	FY2005 (Estimate)
Electric Power Sales	Residential use	2,704 (-0.9)	2,808 (3.8)	2,823 (0.5)
	Business use	4,179 (0.4)	4,348 (4.0)	4,267 (-1.9)
	Total	6,883 (-0.1)	7,156 (4.0)	7,090 (-0.9)
Peak load (Thousands of kW)		1,325 (-5.1)	1,409 (6.3)	1,423 (1.0)

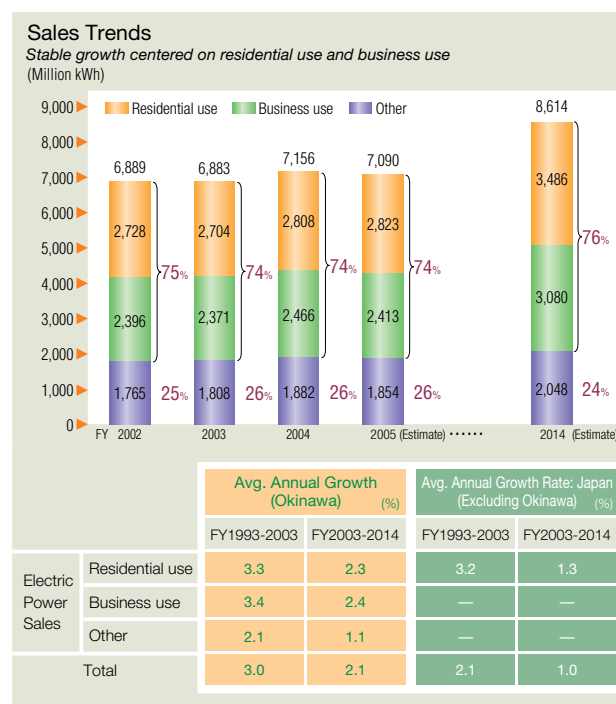
Change year-on-year

Sales Trends

Demand for electric power in Okinawa Prefecture is characterized by a high proportion of private-sector demand for residential and business use. Residential and business demand currently account for approximately 75% of total demand.

The rate of Okinawa's population growth is high relative to the average for the nation as a whole, and thus power demand for residential use is projected to continue increasing steadily. Stable growth in demand for electric power for business use is also forecast, owing to an increase in new customers such as supermarkets and hotels.

Based on these trends, the Company projects ongoing robust growth in demand.



Electric Power Demand in Fiscal 2004

Private-sector demand for electric power grew by 3.8% year-on-year. The factors behind this were the increases in the number of accounts for residential use and in the volume of business demand, and also the surge in the use of air conditioning as a result of particularly high summer temperatures.

Industrial demand is increasing steadily as population growth is generating a stable increase in demand in industries that have a close relationship with the daily

lives of the people, such as food manufacturing. In addition, demand for electric power in the steel industry is rising as a result of the increase in output. Overall, demand grew by 4.9% year-on-year.

Consequently, demand totaled 7,156 million kWh, up by 4.0%.

Peak load was affected by the hot weather in July, with average temperatures 1.7°C higher than the same month of the previous year, the month in which power output is typically at its highest. As a result it reached 1,409,000 kW, up by 6.3% year-on-year.

Electric Power Demand in Fiscal 2005

Private-sector demand is expected to be positively affected by stable growth in the number of accounts for residential use, and in the field of business demand by the increase in the number of customers such as supermarkets and hotels. However, as a result of a reaction to the surge in demand sparked by the previous year's high temperatures, overall private-sector demand is forecast to edge downwards by 1.1%.

Industrial demand is expected to record a stable increase, primarily because of the growth in demand from industries such as food processing. It is expected to show 0.1% growth from the previous year.

As a result, demand should total 7,090 million kWh, a decline of 0.9%.

Peak load in fiscal 2005 is expected to rise by 1.0% from the previous year, to 1,423,000 kW, owing to the increase in the number of households and of users.

Fiscal 2004 Income and Expenditures

Operating revenue in fiscal 2004 was affected by the reduction in charges made in October 2002, but the increase in the volume of sales of electric power more than offset this negative factor. Expenses were impacted by the increase in costs, such as depreciation charges, upon the start of operation of the No. 2 generator at Kin Thermal Power Station. However, the shift in fuel for power generation from oil to coal reduced spending on fuel, and there were also positive impacts from a program to enhance operating efficiency throughout the Company and cut costs. As a result, OEPC posted income before

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income taxes totaling ¥7,790 million (US\$74 million) and net income of ¥5,594 million (US\$53 million) on a non-consolidated basis, and recurring profit of ¥8,811 million (US\$83 million) and net income of ¥5,497 million (US\$52 million) on a consolidated basis. In both cases, these figures constituted increases in both revenues and earnings.

Earnings Performance in Fiscal 2004

Non-consolidated (Increases in both revenues and earnings)	
Operating revenue	¥134,756 million
Recurring profit	¥ 7,790 million
Net income	¥ 5,594 million
Consolidated (Increases in both revenues and earnings)	
Operating revenue	¥148,627 million
Recurring profit	¥ 8,811 million
Net income	¥ 5,497 million

Fiscal 2005 Forecast

The forecast for fiscal 2005 points to a steady increase in income from power for residential use, but income from sales of electric power for business use will be affected by the reaction to the demand fueled by the previous year's high temperatures. As a result of factors such as these, non-consolidated operating revenue is expected to remain roughly at the year-earlier level, approximately ¥134.5 billion.

With respect to expenses, the Company is experiencing increases in fuel costs and charges for the purchase of power from other utilities, impacted by sharp rises in coal prices. However, depreciation charges and interest payments are forecast to decline, and steps are being taken to curb growth in other expenses. In consequence, non-consolidated recurring profit is projected at ¥10.5 billion, and net income is expected to rise to ¥6.5 billion.

On a consolidated basis, the Company forecasts increases in both revenues and earnings: operating revenue of ¥154.0 billion, recurring profit of ¥11.5 billion, and net income of ¥6.5 billion.

Earnings Forecasts for Fiscal 2005

Non-consolidated (Decrease in revenues, increase in earnings)	
Operating revenue	¥134,500 million
Recurring profit	¥ 10,500 million
Net income	¥ 6,500 million
Consolidated (Increases in both revenues and earnings)	
Operating revenue	¥154,000 million
Recurring profit	¥ 11,500 million
Net income	¥ 6,500 million

Fiscal 2005 Capital Investment Plan

The philosophy underlying the formulation of OEPC's capital investment plan for fiscal 2005 was to ensure an efficient configuration of plant and equipment from a long-term perspective based on changes in the operating environment. The prime changes are the widening of the scope of liberalization of electric power retailing that was effected in April this year, and the expected stiffening of environmental regulations by the national government in the future.

1. The planning for the principal power plants includes the construction of the No. 4 generator at the Ishigaki No. 2 power plant, a facility on a remote island. Start of operations is planned for fiscal 2006. With respect to the development of the No. 1 and No. 2 generators at the Yoshinoura thermal power plant, OEPC's first LNG-powered plant, environmental assessment procedures are currently underway, and earnest efforts are being made with a view to starting construction in fiscal 2007.

2. Capital investment spending planned for fiscal 2005 totals ¥21.8 billion, representing a decrease of ¥6.4 billion from the initial spending level of ¥28.2 billion planned for fiscal 2004. This figure encompasses spending on these power plant facilities and on transmission, transformer facilities, power distribution facilities, and also on other business-related facilities and research and survey expenses.

Targeted capital investment spending over the next 10 years, including for the Yoshinoura No. 1 and No. 2 generators, will be capped at ¥250 billion, which is within the scope of depreciation charges. This is part of OEPC's efforts to reduce costs.

Fiscal 2005 OEPC Management Plan

During the current term — fiscal 2005 — we are experiencing a lull in large-scale capital investment and we are taking this opportunity to prepare for our next growth phase. For this purpose, we have designated the following five priority tasks.

The first task is to increase customer satisfaction. Now that customers are able to choose their power

supplier, to ensure that they select OEPC it is essential for us to strengthen our marketing capabilities. In this, we will strive to increase the degree of customer satisfaction by providing them with a service fine-tuned to their needs, including by assessing and understanding those needs sensitively, providing uses with the range of charges they require, in addition to expert consulting and improved after-sales service.

The second task is to ensure that we are always a reliable power utility, the stable supply of electricity being the cornerstone of our business.

Events last year freshly reinforced our strong awareness of the need for stability in electric power supply. They included major blackouts in the United States, and an accident at a nuclear power station in Japan, as well as severe damage to electric power facilities caused by a powerful typhoon. Additionally, there are stringent requirements for active information disclosure and the observance of laws, and the trustworthiness of companies is coming under close public scrutiny.

Given these circumstances, our aim is to continue being a reliable, trusted power utility supplier by building, operating, and maintaining efficient and effective plant and equipment, always conscious of the necessity of assuring a stable power supply, and by ensuring that we make prompt and accurate information disclosure and conduct our business in accordance with high ethical standards.

The third task is to strengthen our financial position. We must strengthen our financial position, including by reducing our interest-bearing debt, to enable a level of charges comparable to those prevalent on the Japanese mainland, to return profit to our shareholders, and to develop new business activities. In every division we will always conduct business in a cost-conscious manner, and will maintain strict adherence to the ISO 9001 quality management standard, constantly enhancing operating efficiency.

The fourth task is to address environmental problems actively. Measures to counter global warming are one example of the type of action being taken to resolve the broad array of environmental issues. As a responsible company, OEPC will fulfill its environmental role and responsibilities by applying all possible technologies and know-how from every angle, independently and actively helping to alleviate the burden on the environment.

The fifth and final task is to increase Group

enterprise value.

In the future, the electric power industry will see a slowing of demand and the likelihood of competition from strong inroads made by independent power producers. In view of this, it is incumbent on us to strengthen the resilience of our electricity supply business and at the same time take vigorous, Group-wide steps to develop and support new business activities. In tandem with this, we must ensure our business makes efficient and effective use of Group management resources, so as to increase the enterprise value of the entire Group.

These five priority tasks constitute our management policy for fiscal 2005:

OEPC's Management Policies for FY2005

1. Improve customer satisfaction

- Expand our offering of customer-tailored services

2. Be a trustworthy company by providing a stable supply of electricity

- Create, operate and maintain electric power plants that are efficient and effective, never forgetting the vital importance of ensuring a steady supply of electric power
- Disclose precise information promptly

3. Strengthen our financial position

- Increase cost awareness
- Raise efficiency of business operations

4. Work actively to implement environment-related measures

- Give environmental considerations greater priority in daily business operations

5. Raise the Group's enterprise value

- Develop and support new businesses
- Expand business operations by efficiently and effectively employing the Group's management resources

Management Goals and Progress Report

OEPC has laid down four numerical management goals for improving its financial condition.

1. To achieve average annual income before income taxes of at least ¥10 billion (fiscal 2005 - fiscal 2007)
2. To achieve average annual return on assets (ROA) of at least 2.0% (fiscal 2005 - fiscal 2007)
3. To reduce the balance of interest-bearing debt by at least ¥30 billion from its level at March 31, 2004, to approximately ¥240 billion (at end fiscal 2007)
4. To achieve an equity ratio of approximately 25% (at

end fiscal 2007)

In setting out these goals, we have foreseen an increasingly difficult business environment. Accordingly, to strengthen the foundations of our operations, we added the new goal of achieving a certain level of ROA (net income as a percentage of total assets), a valuable indicator of increasing profitability and efficiency of asset utilization. To this end, all employees of the Group are committed to implementing the measures set out below.

First, we will promote load leveling by strengthening marketing capabilities. Specifically, we have fixed a numerical target for the diffusion of load-leveling units and are undertaking marketing activities to achieve it. In tandem with this, we engage in a solutions business through which we provide optimal systems after careful examination of the ways that customers use electricity.

Second, we will hold down capital investment spending to a maximum of ¥250 billion over the next 10 years. Capital investment in fiscal 2005 will be reduced to ¥21.8 billion, down by ¥6.4 billion from the planned level in fiscal 2004. We aim to ensure an efficient configuration of plant and equipment from a long-term perspective, while continuing to reduce capital investment spending.

Third, while enhancing the efficiency with which plant and equipment are operated and maintained, we will keep repair costs below an average of ¥15 billion annually over the next three years. This represents a reduction of ¥1 billion from our previous target, which has been made possible by reviewing the nature of the repairs despite the fact that an increase in plant and equipment will lead to higher repair costs.

Fourth, based on our Action Program III targeting an improvement in the profitability of remote island operations, we will accelerate efficiency enhancements and improve the high-cost structure of these operations.

Fifth, we will increase business efficiency through the use of IT and the adoption of measures such as business outsourcing. In addition we will ensure strict cost management and income and expenditure control at the divisional level with the use of our managerial accounting system, and employ this as a springboard for the introduction of a system of performance assessment for each division.

OEPC's Management Objectives and Progress Report

1. Bolster OEPC's financial structure

- (1) Realize average annual recurring profit of ¥10 billion or more (FY2005–2007)
- (2) Achieve an ROA (net income as a percentage of total assets) of 2.0% on average (FY2005–2007)
- (3) Reduce interest-bearing debt by more than ¥30 billion in three years by the end of March 2007, to the ¥240 billion level
- (4) Raise the equity ratio to 25% (by the end of March 2007)



We will undertake the following measures to achieve these goals.

2. Plan for Increasing Management Efficiency in FY2005

- (1) Expand marketing capabilities to even out load levels
- (2) Keep capital investment below ¥250 billion during the next 10 years
- (3) Increase efficiency in facility operation and maintenance
 - Keep average annual maintenance costs below ¥15 billion over the next three years
- (4) Make remote island operations more profitable
 - Reduce the losses from remote island operations by 50% by the end of March 2006
- (5) Raise the efficiency of operations

Improving Profitability of Remote Island Operations

OEPC's remote island operations have a high-cost structure owing to a variety of factors caused by the distance of these scattered islands from the Okinawa Main Island, and by their small size. As a result, these operations have hitherto recorded an average annual deficit of approximately ¥4 billion.

Amid the progressive liberalization of electric power retailing, OEPC regards the improvement of the efficiency of its remote island operations as an important issue for the maintenance of its universal services. Steps were initiated in the fiscal 2002 to achieve that goal, and have since been strengthened with the aim of halving the deficit to around ¥2 billion by fiscal 2006.

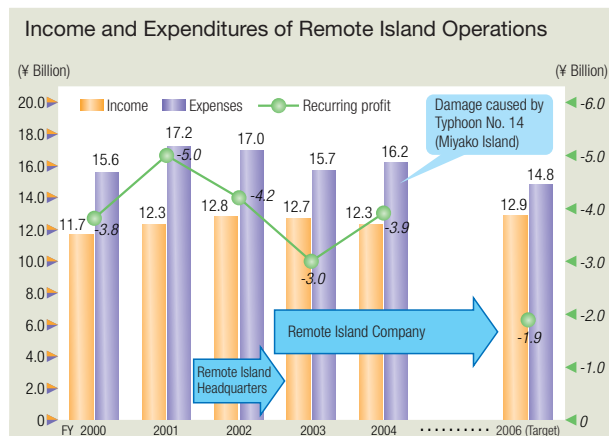
The Remote Island Electric Service Headquarters has been reorganized into an in-house company (Remote Island Company), and a range of measures taken to reduce personnel expenses and repair costs and to limit capital investment. Internal analyses show that these steps enabled the deficit to be reduced to around ¥3 billion in fiscal 2003.

The estimates for fiscal 2004, however, indicate a deficit of approximately ¥3.9 billion. This has resulted from factors such as a fall in income resulting from the full-year impact of the reductions in electricity charges in

October 2002, higher fuel expenses caused by increased demand and price increases, and damage inflicted by Typhoon No. 14.

Nevertheless, as a result of the efforts made to date, the deficit was reduced by ¥0.2 billion year-on-year in fiscal 2004, if the extraordinary factor of the damage from Typhoon No. 14 is excluded. This was possible thanks to improvements in the areas of personnel, repair, and interest costs, and indicates the downward trend in the deficit.

Steps being taken in fiscal 2005 in preparation for attaining the target for fiscal 2006 include the switch to remote control of the power plants on the islands of Miyako and Ishigaki, leading to the reduction of personnel, and the laying of a fuel pipeline on Miyako.



Group Management Policies for Fiscal 2005

The Okiden Group aims to grow and develop into a strong group with a cleancut vision. To that end, throughout the Group we will work as one to achieve a high level of efficiency and to actively expand operations in fields outside the electric power business.

During fiscal 2005 the Group will ensure steady implementation of three priority policies: the establishment of the Okiden Group brand, the enhancement of efficiency, and the expansion of sales outside the Group.

To implement the first of these policies, namely the establishment of the Okiden Group brand, we will fulfill our mission as a corporation operating in the public interest, and under the motto “With the region; for the region,” we will build a relationship of ever-greater trust with our customers. Specifically, we will ensure strict adherence to business practices that adopt the customer’s perspective, we will address environmental

problems vigorously, we will secure capabilities in various technologies, we will contribute to the local communities we serve, and we will create safe and comfortable workplaces for our staff.

With respect to the second policy, the enhancement of efficiency, OEPC will implement a program of steady cost reductions. To counter declines in the value of orders, every Group company will implement measures to promote efficiency, including the cutting of controllable costs such as personnel expenses and general and administrative expenses, and also of outsourcing costs, so as to ensure an appropriate level of profit. To ensure the efficient use of Group funds, we are studying measures such as the introduction of a group-wide cash-flow management system.

Group-wide Management Policies in Fiscal Year 2005

Priority Initiatives

Raise the brand profile of the Okiden Group

- Introduce marketing activities that focus more on the customer’s real needs
- Actively take steps to resolve environmental problems
- Make efforts to advance our technological capabilities
- Contribute to the local community
- Create a safe and pleasant workplace

Promote more efficient operations

- Conduct a feasibility study for a centralized cash-flow management system
- Ensure steady implementation by Group companies of efficiency-raising measures

Expand sales to companies outside the Group

- Expand business operations and develop new businesses by leveraging the management resources of the Group
- Led by OEPC’s new business development department, make aggressive efforts to establish new core businesses to supplement the electricity business
- Conduct joint sales activities, utilizing each Group company’s products and strengths

To achieve the expansion of sales outside the Group — the third policy — each Group company will both expand existing activities that employ their management resources, and develop new activities. In addition, OEPC’s department responsible for the development of new business will pursue that task vigorously with the aim of establishing businesses that will form the principal driving force of Group operations as successors to the electricity supply business. By cooperation, and by shaping an astute mix of their products and strengths, Group companies will be able to create new opportunities for

winning orders, conducting Group marketing that combines Group management resources effectively.

Development Plan for Next-Generation Power Sources

Plan for Construction of LNG Combined-Cycle Power Plant in Fiscal 2011

OEPC constructs power plants to meet robust growth in demand, and it has opted to construct an LNG combined-cycle plant, because this type of plant is environmentally friendly, featuring reduced emissions of carbon dioxide.

OEPC is exempt from the tax on petroleum and coal introduced in October 2003. Nevertheless, there are mounting demands for carbon dioxide to be reduced, reflected in developments such as the Ministry of the Environment's current study on the introduction of an environment tax.

At present the majority of the electric power supplied by the Company is derived from coal-fired thermal power plants with relatively high volumes of carbon dioxide emissions, but the situation is very difficult with respect to the reduction of such emissions, and currently OEPC has no means of cutting them drastically. In addition, owing to geographical and topographical limitations and restrictions in terms of the scale of demand, in the near future there can be no prospect of using alternatives such as hydro or nuclear power generation. In consequence, the sole realistic option for the Company in order to ensure an environmentally friendly approach is to build a power plant fueled by LNG.

In addition, the introduction of LNG will give OEPC a third fuel after oil and coal, thereby diversifying the composition of its network of power plants. Therefore, from the perspective of the security of fuel procurement, this will make a major contribution to assuring greater stability in power supply.

Development of Cost-Competitive Power Plants

OEPC is making exhaustive efforts to reduce costs, including rationalizing plant specifications and conducting studies on fuel procurement, and we predict that we will be able to achieve a level of costs for on-grid power

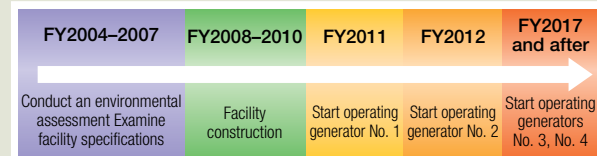
generation on a par with those of our currently most cost-competitive coal-fired plants. Additionally, studies from a variety of perspectives aimed at realizing even further cost reductions are under way.

Development Schedule

Out of environmental considerations, taking into account that the first commitment period under the Kyoto Protocol is from 2008 to 2012, OEPC plans to introduce its No. 1 generator midway through that period, in fiscal 2011, and the No. 2 generator in the following year. Fiscal 2011 is also the target year for the reduction of carbon dioxide emissions by the Federation of Electric Power Companies.

In regard to the number of units, plans call for the establishment of four 240,000 kW-class power generators, which is the maximum number that is possible to install within the planned site. The third and fourth generators will be developed from fiscal 2017 onwards as part of the Company's flexible response to fluctuations in power demand as well as the ongoing requirement to reduce carbon dioxide emissions.

Construction Schedule



We will continue to do our utmost to live up to the expectations of our customers, shareholders, and investors, and we hope to receive your ongoing support and understanding for our endeavors.