

Financial Review (consolidated)

Business Performance

Overall, the economy of Okinawa Prefecture showed signs of recovery in fiscal 2004. Although investment in private housing and public works declined, consumer spending increased moderately and tourism-related industries continued to perform well.

Electric power demand in the fiscal year under review exceeded previous-year levels, due to increased demand for home and office-use air-conditioning as customer numbers grew and summer temperatures soared. Industrial power consumption was also higher than year-earlier levels, due to increased demand from food manufacturers and steelmakers.

Lighting (residential) power demand rose 3.8% to 2,808 million kWh, while industrial power demand rose 3.9% to 4,205 million kWh. Total sales volume including unregulated area demand totaled 7,156 million kWh, a 4.0% increase compared with the previous fiscal year.

Conditions remained harsh in construction, an important business for our consolidated subsidiaries, with competition for orders intensifying sharply amid reduced public works spending and sluggish private sector investment. Operating conditions were also difficult in the IT and telecommunications sector, which continues to evolve rapidly in terms of service diversification and sophistication, and rate reductions.

Operating revenues (sales) on a consolidated basis rose 2.4% to ¥148,627 million (US\$1,406 million) on increased sales volumes in the Electric Power Business and increased operating revenues from Other Operations.

However, operating expenses increased 2.9% to ¥131,768 million (US\$1,247 million), rising in Other Operations, although they were unchanged from the previ-

ous fiscal year in the Electric Power Business.

As a result of the foregoing, operating income totaled ¥16,859 million (US\$160 million), a 1.0% decrease compared with the previous fiscal year. However, net income increased 7.3% to ¥5,497 million (US\$52 million) on reduced interest expenses.

On a non-consolidated basis, net income increased 26.3% to ¥5,594 million (US\$53 million), with operating revenues increasing 0.5% to ¥134,756 million (US\$1,275 million).

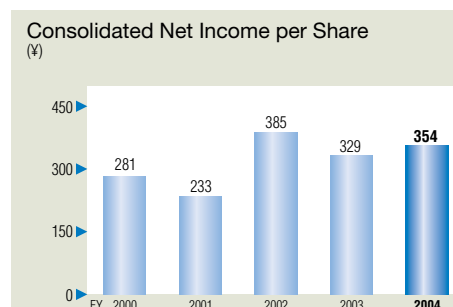
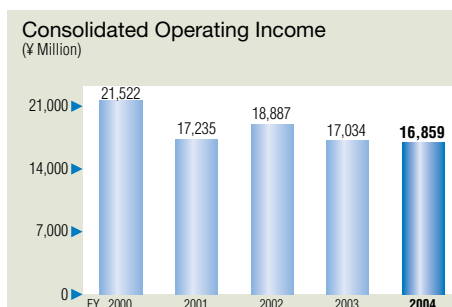
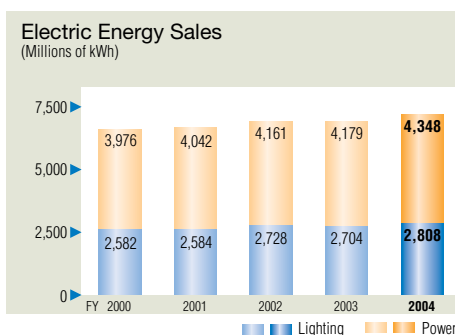
Segment Analysis (before elimination of intersegment transactions for purposes of consolidation)

1. Electric Power Business

Electric utility operating revenues increased 0.4% to ¥134,576 million (US\$1,273 million). Sales volumes were pushed up by high temperatures compared with the previous fiscal year, which more than offset the impact of electric charge reductions implemented in October 2002 and lower revenues due to changes in fuel costs under the official fuel price adjustment system.

Operating expenses were flat from the previous fiscal year at ¥119,326 million (US\$1,129 million). Although depreciation costs at the Kin thermal power station rose at the startup of operation, fuel costs were greatly reduced by a shift from oil to coal, and various costs were pared through efficiency improvements.

As a result, operating income increased 4.2% to ¥15,250 million (US\$144 million) compared with the previous fiscal year.



2. Construction Business

Operating revenues fell 9.5% to ¥20,662 million (US\$195 million) compared with the previous fiscal year, and operating expenses declined 8.5% to ¥20,170 million (US\$191 million). An increase in completions of large-scale private and public projects was outweighed by a drop in power-related building projects.

As a result, operating income decreased 37.6% to ¥492 million (US\$5 million) compared with the previous fiscal year.

3. Other Operations

Operating revenues fell 2.8% to ¥29,988 million (US\$284 million), reflecting the absence of large power-generation and transmission equipment orders seen in the previous fiscal year, reduced orders for telecommunications projects, and lower income from telephone-charge earnings. Operating expenses increased 1.0% to ¥29,051 million (US\$275 million), on a surge in depreciation expenses compared with the previous fiscal year due to recalculation of service life periods for fixed assets used in the PHS-type mobile phone business.

As a result, operating income decreased 55.0% to ¥937 million (US\$9 million) compared with the previous fiscal year.

(Note) The above figures do not include consumption tax.

Cash Flows

Net cash provided by operating activities totaled ¥33,210 million (US\$314 million), an increase of ¥2,590 million (8.5%) compared with the previous fiscal year, due chiefly to increased income before income taxes and minority interests and depreciation expenses.

Net cash used in investing activities totaled ¥19,744 million (US\$187 million), ¥7,787 million (28.3%) less than in the previous fiscal year, reflecting a fall in capital expenditures due to completion of major works at the No. 1 and No. 2 generators at Kin thermal power station.

Accordingly, free cash flows (operating and investing cash flows combined) totaled ¥13,466 million (US\$127 million), an increase of ¥10,377 million (336.0%) compared with the previous fiscal year.

Net cash used in financing activities totaled ¥17,992 million (US\$170 million), ¥15,484 million (617.4%) more than in the previous fiscal year, with repayment of bank loans outweighing proceeds from the issue of bonds and increases in long-term debt.

As a result of the above, cash and cash equivalents at the end of the fiscal year under review totaled ¥8,000 million (US\$76 million) on a consolidated basis, a decrease of ¥4,526 million (36.1%) compared with the previous fiscal year.

