

Operational Risks

The following is a description of the various risks whose materialization might have an impact on the Okiden Group's business performance and financial position. Statements contained in this report regarding the Company's projections for future performance fall into the category of "forward-looking statements." Such statements are based on current estimates and industry forecasts, as well as the management's beliefs and assumptions. Management decisions were made based on the data available at the time of writing, i.e. up until the end of the reporting period.

1. Ongoing deregulation of the electricity business

Starting April 1, 2004, the scope of deregulated retail power sales for extra-high-voltage electricity was expanded further in a downward direction, from power supply at 60,000 volts previously to 20,000 volts or higher. As a result, the percentage of users under extra-high-voltage purchase contracts (now 20,000 volts or higher) rose to 16%, compared with 2% (contracts of 60,000 volts or higher) as of March 31, 2004.

Currently, there are no signs of new entrants making moves to enter the prefecture's electric power industry. However, such new entrants could have a potential impact on our earnings performance and financial position.

2. Economic and climatic conditions

Changes in economic or climatic conditions have the potential to substantially affect the Okiden Group's business performance, in view of the consequent fluctuation in power demand.

3. Fuel price fluctuations

In our operations, we primarily use coal and oil as our thermal fuel sources, and yen-denominated fuel prices fluctuate in tandem with changes in foreign exchange rates in addition to changes in international prices. The current fuel cost adjustment system, which reflects fuel price fluctuations in electricity fees, limits the impact of fuel price fluctuations on our earnings performance.

4. Interest-rate fluctuations

The balance of the Okiden Group's interest-bearing liabilities totaled ¥279,629 million (US\$2,646 million) as of March 31, 2004. Future movements in interest rates have the potential to impact the Okiden Group's earnings performance. However, as the interest rates are fixed rates for the major portion of our interest-bearing debt, and as we are taking steps to substantially reduce our balance of interest-bearing debt to strengthen our financial position, the actual impact of interest rates is expected to have a limited impact on the Okiden Group's earnings performance.

In the event that a credit-rating agency lowers the credit rating for OEPC, the interest rates on fund procurement for the Okiden Group would rise, and such a rise has the potential to affect the Group's earnings performance.

5. Special legal measures

To ensure a stable and adequate supply of electric power to Okinawa, in accordance with the Law for Special Measures to Promote Okinawa, we benefit from special measures and provisions that enable us to secure funds and facilitate other aspects of our operations. More specifically, in accordance with the Okinawa Development Finance Corporation Law, we receive the most preferential interest rates from the Okinawa Development Finance Corporation (ODFC), in line with the stipulations of the ODFC's business and service manual.

OEPC receives various tax advantages (such as reduced enterprise and fixed property taxes, and exemption from oil and coal tariffs). However, the savings achieved through these special benefits is passed on to electricity users. In the event that these measures and provisions are abolished, this development would have a significant impact on the Okiden's Group business performance.