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Consolidated Balance Sheets

March 31, 2004 and 2003	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Assets			
Property, plant and equipment (Note 3):			
Utility plants	¥733,432	¥689,596	\$6,939,460
Other plant and equipment	38,025	36,005	359,782
Construction in progress	6,356	37,499	60,141
	<u>777,813</u>	<u>763,100</u>	<u>7,359,383</u>
Less:			
Contributions in aid of construction	(22,093)	(21,936)	(209,044)
Accumulated depreciation	(399,369)	(369,102)	(3,778,680)
	<u>(421,462)</u>	<u>(391,038)</u>	<u>(3,987,724)</u>
Net property, plant and equipment	<u>356,351</u>	<u>372,062</u>	<u>3,371,659</u>
Investments and other assets:			
Investment securities (Note 4)	7,008	5,430	66,305
Investments in and advances to non-consolidated subsidiaries and affiliates	889	880	8,413
Deferred tax assets (Note 8).....	10,743	10,443	101,647
Other assets	2,930	2,142	27,729
Allowance for doubtful accounts	(238)	(273)	(2,255)
Total investments and other assets	<u>21,332</u>	<u>18,622</u>	<u>201,839</u>
Current assets:			
Cash and cash equivalents	8,000	12,526	75,692
Short-term investment	690	1,290	6,529
Trade notes and accounts receivable, net of allowance for doubtful accounts of ¥174 (\$1,650) in 2004 and ¥214 in 2003.....	7,313	7,572	69,196
Inventories	6,620	7,337	62,632
Deferred tax assets (Note 8)	1,590	1,326	15,045
Other current assets	512	346	4,840
Total current assets	<u>24,725</u>	<u>30,397</u>	<u>233,934</u>
Total	<u>¥402,408</u>	<u>¥421,081</u>	<u>\$3,807,432</u>
Liabilities and shareholders' equity			
Long-term liabilities:			
Long-term debt, less current maturities (Note 5)	¥233,744	¥254,792	\$2,211,605
Liabilities for employees' retirement benefits (Note 7)	16,680	16,536	157,819
Other long-term liabilities	438	126	4,142
Total long-term liabilities	<u>250,862</u>	<u>271,454</u>	<u>2,373,566</u>
Current liabilities:			
Current maturities of long-term debt (Note 5)	37,836	32,828	357,985
Commercial paper (Note 6).....	3,000	4,000	28,385
Short-term bank loans (Note 6)	5,049	5,001	47,774
Trade notes and accounts payable	12,739	18,072	120,534
Income taxes payable (Note 8)	2,385	2,767	22,571
Accrued expenses	7,907	9,059	74,808
Other current liabilities	1,364	1,869	12,903
Total current liabilities	<u>70,280</u>	<u>73,596</u>	<u>664,960</u>
Minority interests	1,818	1,705	17,200
Commitments and contingent liabilities (Notes 9, 10 and 14)			
Shareholders' equity (Notes 11 and 15):			
Common stock,			
Authorized — 30,000,000 shares			
Issued — 15,172,921 shares (2004 and 2003)	7,586	7,586	71,780
Capital surplus.....	7,142	7,142	67,572
Retained earnings	64,145	59,688	606,919
Unrealized gain (loss) on available-for-sale securities.....	587	(81)	5,551
Treasury stock, at cost 4,741 shares in 2004 and 3,624 shares in 2003	(12)	(9)	(116)
Total shareholders' equity	<u>79,448</u>	<u>74,326</u>	<u>751,706</u>
Total	<u>¥402,408</u>	<u>¥421,081</u>	<u>\$3,807,432</u>

See notes to consolidated financial statements.

Consolidated Statements of Income

Years ended March 31, 2004 and 2003	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Operating revenues:			
Electric	¥134,331	¥133,738	\$1,270,986
Other	14,296	11,334	135,266
Total operating revenues	<u>148,627</u>	<u>145,072</u>	<u>1,406,252</u>
Operating expenses (Notes 7, 9 and 12):			
Electric	117,423	117,456	1,111,015
Other	14,345	10,582	135,723
Total operating expenses	<u>131,768</u>	<u>128,038</u>	<u>1,246,738</u>
Operating income	16,859	17,034	159,514
Other expenses:			
Interest expense (Notes 5 and 6)	7,630	8,195	72,195
Other — net	418	483	3,952
Net other expenses	<u>8,048</u>	<u>8,678</u>	<u>76,147</u>
Income before income taxes and minority interests	8,811	8,356	83,367
Income taxes (Note 8):			
Current	4,086	4,264	38,662
Deferred	(924)	(1,152)	(8,741)
Total	<u>3,162</u>	<u>3,112</u>	<u>29,921</u>
Income before minority interests	5,649	5,244	53,446
Minority interests in net income	152	123	1,436
Net income	<u>¥ 5,497</u>	<u>¥ 5,121</u>	<u>\$ 52,010</u>
		Yen	U.S. Dollars
Per share of common stock (Note 2 (j)):			
Basic net income.....	¥354.44	¥329.01	\$3.35
Cash dividends applicable to the year.....	60.00	60.00	0.57

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2004 and 2003	Shares	Millions of Yen				
	Issued number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on available-for-sale securities	Treasury stock
Balance, April 1, 2002	15,172,921	¥7,586	¥7,142	¥55,674	¥(139)	¥ (2)
Adjustment of retained earnings for newly consolidated subsidiaries				(84)		
Appropriations:						
Cash dividends				(910)		
Bonuses to directors and corporate auditors				(113)		
Increase in treasury stock (2,836 shares)						(7)
Net decrease in unrealized loss on available-for-sale securities					58	
Net income				5,121		
Balance, March 31, 2003	15,172,921	7,586	7,142	59,688	(81)	(9)
Appropriations:						
Cash dividends				(910)		
Bonuses to directors and corporate auditors				(130)		
Increase in treasury stock (1,117 shares)						(3)
Net increase in unrealized gain on available-for-sale securities					668	
Net income				5,497		
Balance, March 31, 2004	<u>15,172,921</u>	<u>¥7,586</u>	<u>¥7,142</u>	<u>¥64,145</u>	<u>¥ 587</u>	<u>¥(12)</u>

	Thousands of U.S. Dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on available-for-sale securities	Treasury stock
Balance, March 31, 2003	\$71,780	\$67,572	\$564,743	\$ (767)	\$ (85)
Appropriations:					
Cash dividends			(8,611)		
Bonuses to directors and corporate auditors			(1,223)		
Increase in treasury stock (1,117 shares)					(31)
Net increase in unrealized gain on available-for-sale securities				6,318	
Net income			52,010		
Balance, March 31, 2004	<u>\$71,780</u>	<u>\$67,572</u>	<u>\$606,919</u>	<u>\$5,551</u>	<u>\$(116)</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2004 and 2003	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Operating activities:			
Income before income taxes and minority interests	¥ 8,811	¥ 8,356	\$ 83,367
Adjustments for:			
Income taxes paid.....	(4,465)	(3,382)	(42,245)
Depreciation and amortization.....	33,485	30,265	316,818
Provision for employees' retirement benefits.....	144	132	1,362
Loss on disposal of property, plant and equipment	1,002	1,573	9,477
Changes in operating assets and liabilities:			
Decrease in trade notes and accounts receivable	626	2,169	5,924
Decrease in inventories.....	731	468	6,919
Decrease in trade notes and accounts payables	(5,333)	(8,786)	(50,458)
Decrease in interest payable.....	(257)	(125)	(2,434)
Other — net	(1,534)	(50)	(14,510)
Total adjustments	24,399	22,264	230,853
Net cash provided by operating activities.....	33,210	30,620	314,220
Investing activities:			
Purchase of property, plant and equipment	(19,343)	(26,309)	(183,025)
Proceeds from sale of property, plant and equipment	446	489	4,222
Purchase of investment securities	(278)	(2,125)	(2,629)
Increase in investments in advances to unconsolidated subsidiaries and affiliates	(13)	(251)	(119)
Purchase of short-term investment	(770)	(1,270)	(7,285)
Proceeds from maturity of short-term investment	1,370	1,620	12,962
Other — net	(1,156)	315	(10,934)
Net cash used in investing activities	(19,744)	(27,531)	(186,808)
Financing activities:			
Proceeds from issuance of bonds	12,000	13,000	113,540
Repayments of bonds	(8,000)		(75,693)
Proceeds from long-term debt	13,250	14,560	125,367
Repayments of long-term debt	(33,046)	(30,843)	(312,668)
Proceeds from short-term bank loans	10,049	11,100	95,082
Repayments of short-term bank loans	(10,000)	(11,150)	(94,620)
Proceeds from issuance of commercial paper	18,000	16,000	170,309
Repayments on maturity of commercial paper	(19,000)	(14,000)	(179,771)
Cash dividends paid	(912)	(914)	(8,632)
Other — net	(333)	(261)	(3,151)
Net cash used in financing activities	(17,992)	(2,508)	(170,237)
Net increase (decrease) in cash and cash equivalents	(4,526)	581	(42,825)
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year		334	
Cash and cash equivalents, beginning of year.....	12,526	11,611	118,517
Cash and cash equivalents, end of year	¥ 8,000	¥12,526	\$ 75,692

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended March 31, 2004 and 2003

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements are prepared from the consolidated financial statements which are issued for domestic reporting purposes in accordance with the provisions set forth in the Japanese Securities and Exchange Law, the Japanese Electric Utility Law and their related accounting regulations. The Okinawa Electric Power Company, Incorporated (the "Company") and its consolidated subsidiaries (together the "Companies") maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financing Reporting Standards.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in 2003 financial statements to conform to the classifications used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥105.69 to \$1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements for the years ended March 31, 2004 and 2003 include the accounts of the Company and its thirteen significant subsidiaries. Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary / affiliated company at the date of acquisition is being amortized over five years using the straight-line method, or has been written off if the amount is ¥100 million or less.

Consolidation of the remaining subsidiaries and the application of the equity method to the remaining affiliates would not have a material effect on the accompanying consolidated financial statements. Investments in such unconsolidated subsidiaries and affiliates are stated at cost.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is provided mainly on the declining-balance method over the estimated useful lives of the assets.

Contributions in aid of construction are deducted from the cost of the related assets. Such accounting treatment is required by regulations described in Note 1.

Effective April 1, 2003, Astel Okinawa Corporation, a consolidated subsidiary of the Company, changed its estimated useful lives of telecommunication equipment in other plant and equipment to two years from five to thirteen years. These reductions of useful lives were made to better reflect the estimated periods during which such assets will remain in service under the continuing advancement of telecommunication technology. The effects of these changes were to increase in depreciation expenses by ¥640 million and to decrease income before income taxes and minority interests by ¥640 million for the year ended March 31, 2004.

(c) Investment securities

Investment securities are classified and accounted for, depending upon management's intent, as follows:

i) marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity, and ii) non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

(d) Cash and cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

(e) Inventories

Inventories are stated at cost, based principally on the average method.

(f) Derivative financial instruments

The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of raw materials from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

(g) Severance payments and pension plan

The liability for retirement benefits are accounted for based on projected benefit obligations and plan assets at the balance sheet date.

Severance payments to directors and corporate auditors are charged to income when authorized by resolution of the shareholders.

(h) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(i) Stock and bond issue costs and bond discount charges

Stock and bond issue costs and bond discount charges are charged to income when paid or incurred.

(j) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of year.

(k) Lease

Leases that transfer ownership of the leased property to the lessee are accounted for as finance leases. All other leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(l) Appropriations of retained earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

(m) New accounting pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An

impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Companies are currently in the process of assessing the effect of adoption of these pronouncements.

3. Property, plant and equipment

The major classes of property, plant and equipment as of March 31, 2004 and 2003 consisted of the following:

At March 31, 2004	Millions of Yen			
	Original Cost	Contributions in Aid of Construction	Accumulated Depreciation	Carrying Value
Thermal power				
generating facilities	¥369,964	¥(17,091)	¥(210,330)	¥142,543
Transmission facilities	128,281	(2,330)	(57,792)	68,159
Transformation facilities	83,882	(367)	(47,828)	35,687
Distribution facilities	127,016	(2,183)	(58,235)	66,598
General facilities	24,289	(23)	(11,320)	12,946
Utility plants	733,432	(21,994)	(385,505)	325,933
Other plant and equipment	38,025	(99)	(13,864)	24,062
Construction in progress	6,356			6,356
Total	¥777,813	¥(22,093)	¥(399,369)	¥356,351

At March 31, 2003	Millions of Yen			
	Original Cost	Contributions in Aid of Construction	Accumulated Depreciation	Carrying Value
Thermal power				
generating facilities	¥334,092	¥(17,108)	¥(192,091)	¥124,893
Transmission facilities	125,070	(2,334)	(53,066)	69,670
Transformation facilities	81,744	(339)	(45,524)	35,881
Distribution facilities	123,522	(2,132)	(55,666)	65,724
General facilities	25,168	(23)	(11,358)	13,787
Utility plants	689,596	(21,936)	(357,705)	309,955
Other plant and equipment	36,005		(11,397)	24,608
Construction in progress	37,499			37,499
Total	¥763,100	¥(21,936)	¥(369,102)	¥372,062

At March 31, 2004	Thousands of U.S. Dollars			
	Original Cost	Contributions in Aid of Construction	Accumulated Depreciation	Carrying Value
Thermal power				
generating facilities	\$3,500,461	\$(161,707)	\$(1,990,067)	\$1,348,687
Transmission facilities	1,213,747	(22,049)	(546,804)	644,894
Transformation facilities	793,657	(3,467)	(452,527)	337,663
Distribution facilities	1,201,783	(20,661)	(550,998)	630,124
General facilities	229,812	(219)	(107,108)	122,485
Utility plants	6,939,460	(208,103)	(3,647,504)	3,083,853
Other plant and equipment	359,782	(941)	(131,176)	227,665
Construction in progress	60,141			60,141
Total	\$7,359,383	\$(209,044)	\$(3,778,680)	\$3,371,659

4. Investment securities

The carrying amounts and aggregate fair values of investment securities at March 31, 2004 and 2003 were as follows:

At March 31, 2004	Millions of Yen			
	Cost (Carrying Amount)	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,520	¥1,011	¥ 97	¥3,434
Debt securities	20			20
Other	300		12	288
Total	¥2,840	¥1,011	¥109	¥3,742

At March 31, 2003	Millions of Yen			
	Cost (Carrying Amount)	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,520	¥111	¥239	¥2,392
Debt securities	20			20
Total	¥2,540	¥111	¥239	¥2,412

At March 31, 2004	Thousands of U.S. Dollars			
	Cost (Carrying Amount)	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$23,843	\$9,561	\$ 914	\$32,490
Debt securities	189	2		191
Other	2,838		116	2,722
Total	\$26,870	\$9,563	\$1,030	\$35,403

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Available-for-sale:			
Equity securities	¥3,266	¥3,018	\$30,902
Total	¥3,266	¥3,018	\$30,902

The carrying values of debt securities by contractual maturities of securities classified as available-for-sale at March 31, 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
Due in one year or less		¥20	\$191
Due after one year through five years			
Due after five years through ten years			
Due after ten years			
Total		¥20	\$191

5. Long-term debt

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of
	2004	2003	U.S. Dollars
			2004
Secured bond, 0.2% to 1.97% in 2004 and 0.2% to 1.97% in 2003, due serially through 2018	¥ 54,000	¥ 50,000	\$ 510,928
Secured loans from Okinawa Development Finance Public Corporation, 0.55% to 6.30% in 2004 and 1.10% to 6.30% in 2003, due serially through 2024	203,351	220,988	1,924,035
Secured and unsecured loans from banks, 0.39% to 3.40% in 2004 and 0.37% to 3.40% in 2003 due serially through 2016	13,568	15,726	128,372
Secured debt with a leasing company, semi-annual payment of ¥144 million (\$1,361 thousand) with interest, maturity in 2005 and 2008	661	906	6,255
Total	271,580	287,620	2,569,590
Less current maturity	(37,836)	(32,828)	(357,985)
Long-term debt, less current maturity	¥233,744	¥254,792	\$2,211,605

All of the Company's assets are subject to certain statutory preferential rights established to secure bonds, loans from the Okinawa Development Finance Public Corporation and banks, and bonds transferred to banks under debt assumption agreements (see Note 10).

Certain assets of the consolidated subsidiaries, amounting to ¥11,524 million (\$109,040 thousand), are pledged as collateral for a portion of the long-term debt as of March 31, 2004.

The aggregate annual maturities of long-term debt outstanding at March 31, 2004 were as follows:

Year ending March 31,	Millions of Yen	Thousands of
		U.S. Dollars
2005	¥ 37,836	\$ 357,985
2006	31,607	299,056
2007	38,672	365,898
2008	25,375	240,086
2009	21,057	199,239
2010 and thereafter	117,033	1,107,326
Total	¥271,580	\$2,569,590

6. Commercial paper and short-term bank loans

The weighted average interest rates applicable to commercial paper and short-term bank loans were 0.01% and 0.60% at March 31, 2004 and 0.01% and 0.38% at March 31, 2003, respectively.

7. Employees' retirement benefits

The Companies have unfunded retirement plans for all of their employees. Additionally, the Company and most of the consolidated subsidiaries have non-contributory funded defined benefit pension plans covering substantially all of their employees.

Under the pension plan, employees terminate their employment are, in most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service, and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to greater payment than in the case of voluntary termination.

The liability (assets) for employees' retirements benefit at March 31, 2004 and 2003 consisted of the followings:

	Millions of Yen		Thousands of
	2004	2003	U.S. Dollars
			2004
Projected benefit obligation	¥27,128	¥26,146	\$256,679
Fair value of pension assets	(8,639)	(7,781)	(81,742)
Unrecognized actuarial loss	(1,809)	(1,829)	(17,118)
Net liability	¥16,680	¥16,536	\$157,819

The components of net periodic retirement benefit costs for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of
	2004	2003	U.S. Dollars
			2004
Service cost	¥1,330	¥1,330	\$12,584
Interest cost	564	662	5,334
Amortization of prior service cost		(179)	
Recognized actuarial loss	675	311	6,387
Net periodic retirement benefit costs	¥2,569	¥2,124	\$24,305

Assumptions for actuarial computations for the years ended March 31, 2004 and 2003 were set forth as follows:

	2004	2003
Discount rate	2.0%	2.5%
Expected rate of return on plan assets	0.0%	0.0%
Amortization period of prior service cost		1 year
Recognition period of actuarial gain/loss	primarily 5 years	primarily 5 years

8. Income taxes

The Companies are subject to several taxes based on income. For the years ended March 31, 2004 and 2003, the aggregate normal statutory tax rates approximated 35%.

The tax effects of significant temporary differences and loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of
	2004	2003	U.S. Dollars
			2004
Deferred tax assets:			
Unrealized profit	¥ 4,332	¥ 4,438	\$ 40,987
Tax loss carry forwards	800	915	7,565
Pension and severance costs	5,100	4,481	48,258
Other	4,010	3,331	37,943
Sub-total	14,242	13,165	134,753
Less: valuation allowance	(1,141)	(943)	(10,795)
Total deferred tax assets	13,101	12,222	123,958
Deferred tax liabilities:			
Unrealized gain on land revaluation	(434)	(434)	(4,111)
Unrealized gain on available-for-sale securities	(315)		(2,984)
Other	(19)	(19)	(171)
Total deferred tax liabilities	(768)	(453)	(7,266)
Net deferred tax assets	¥12,333	¥11,769	\$116,692

The difference between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2004 is immaterial.

Reconciliations between the normal effective statutory tax rate for the years ended March 31, 2003 and the actual effective tax rate reflected in the accompanying consolidated statements of income were as follows:

	2003
Normal effective statutory tax rate	35.0%
Expenses not deductible for income tax purposes...	1.5
Investment tax credits	(3.2)
Statutory tax rate differences between the Company and consolidated subsidiaries	1.7
Other-net	2.3
Actual effective tax rate	<u>37.3%</u>

9. Lease

The Companies lease certain automobiles and office equipment. Total lease payments under the above leases for the years ended March 31, 2004 and 2003 were ¥725 million (\$6,856 thousand) and ¥605 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003 were as follows:

As of March 31, 2004	Millions of Yen		
	General Facilities	Other	Total
Acquisition cost	<u>¥1,648</u>	<u>¥2,861</u>	<u>¥4,509</u>
Accumulated depreciation	<u>(697)</u>	<u>(519)</u>	<u>(1,216)</u>
Net leased property	<u>¥ 951</u>	<u>¥2,342</u>	<u>¥3,293</u>

As of March 31, 2003	Millions of Yen		
	General Facilities	Other	Total
Acquisition cost	¥1,709	¥2,173	¥3,882
Accumulated depreciation	(545)	(272)	(817)
Net leased property	<u>¥1,164</u>	<u>¥1,901</u>	<u>¥3,065</u>

As of March 31, 2004	Thousands of U.S. Dollars		
	General Facilities	Other	Total
Acquisition cost	<u>\$15,591</u>	<u>\$27,075</u>	<u>\$42,666</u>
Accumulated depreciation	<u>(6,595)</u>	<u>(4,913)</u>	<u>(11,508)</u>
Net leased property	<u>\$ 8,996</u>	<u>\$22,162</u>	<u>\$31,158</u>

Obligations under finance leases as of March 31, 2004 and 2003:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	<u>¥ 706</u>	¥ 633	<u>\$ 6,682</u>
Due after one year	<u>2,597</u>	2,432	<u>24,570</u>
Total	<u>¥3,303</u>	<u>¥3,065</u>	<u>\$31,252</u>

The imputed interest expense portion is immaterial and therefore not excluded from the above obligations under finance leases.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method over the remaining lease term was ¥725 million (\$6,856 thousand) and ¥605 million for the years ended March 31, 2004 and 2003, respectively.

The Companies are also lessor of certain automobiles and office equipment. Total lease income from the above leases for the years ended March 31, 2004 and 2003 was ¥74 million (\$699 thousand) and ¥60 million, respectively.

At March 31, 2004 and 2003, summaries of the above leased property were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Other equipment:			
Acquisition cost	<u>¥376</u>	¥272	<u>\$3,560</u>
Accumulated depreciation	<u>(176)</u>	(143)	<u>(1,667)</u>
Net leased property	<u>¥200</u>	<u>¥129</u>	<u>\$1,893</u>

At March 31, 2004 and 2003, the total lease payments to be received from the above leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	<u>¥ 84</u>	¥ 59	<u>\$ 796</u>
Due after one year	<u>207</u>	117	<u>1,956</u>
Total	<u>¥291</u>	<u>¥176</u>	<u>\$2,752</u>

10. Contingent liabilities

As of March 31, 2004, the Company was contingently liable for:

Guarantees and items of a similar nature of loans of customer amounting to ¥432 million (\$4,092 thousand).

Redemption of bonds transferred to banks under the debt assumption agreements amounting to ¥6,000 million (\$56,770 thousand).

11. Shareholders' equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥61,309 million (\$580,082 thousand) as of March 31, 2004, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code also imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

12. Research and development costs

Research and development costs charged to income were ¥913 million (\$8,642 thousand) and ¥1,163 million for the years ended March 31, 2004 and 2003, respectively.

13. Segment information

Information about operations in different industry segments of the Companies for the years ended March 31, 2004 and 2003 is as follows:

2004	Millions of Yen					Thousands of U.S. Dollars				
	Electric	Construction	Other	Elimination	Consolidated	Electric	Construction	Other	Elimination	Consolidated
Sales to customers.....	¥134,331	¥ 6,447	¥ 7,849		¥148,627	\$1,270,986	\$ 61,003	\$ 74,263		\$1,406,252
Intersegment sales	245	14,215	22,139	¥(36,599)		2,315	134,492	209,476	\$(346,283)	
Total operating revenues.....	134,576	20,662	29,988	(36,599)	148,627	1,273,301	195,495	283,739	(346,283)	1,406,252
Operating expenses.....	119,326	20,170	29,051	(36,779)	131,768	1,129,014	190,835	274,872	(347,983)	1,246,738
Operating income	¥ 15,250	¥ 492	¥ 937	¥ 180	¥ 16,859	\$ 144,287	\$ 4,660	\$ 8,867	\$ 1,700	\$ 159,514
Total assets.....	¥370,170	¥10,754	¥34,346	¥(12,862)	¥402,408	\$3,502,414	\$101,747	\$324,969	\$(121,698)	\$3,807,432
Depreciation and amortization...	31,378	113	2,944	(950)	33,485	296,890	1,071	27,848	(8,991)	316,818
Capital investments.....	17,554	382	2,174	(813)	19,297	166,092	3,610	20,571	(7,692)	182,581

2003	Millions of Yen				
	Electric	Construction	Other	Elimination	Consolidated
Sales to customers	¥133,738	¥ 3,397	¥ 7,937		¥145,072
Intersegment sales	236	19,440	22,915	¥(42,591)	
Total operating revenues	133,974	22,837	30,852	(42,591)	145,072
Operating expenses.....	119,338	22,048	28,770	(42,118)	128,038
Operating income.....	¥ 14,636	¥ 789	¥ 2,082	¥ (473)	¥ 17,034
Total assets.....	¥386,258	¥12,506	¥36,724	¥(14,407)	¥421,081
Depreciation and amortization	28,812	92	2,294	(933)	30,265
Capital investments.....	23,494	427	4,317	(1,484)	26,754

"Other" industry segment consisted of sales and maintenance services of electric appliances, information and telecommunication service and others. The Companies do not have foreign operations. No sales to foreign customers were made during the years ended March 31, 2004 and 2003.

14. Derivatives

The Companies use derivative financial instruments ("derivatives"), including foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Companies also enter into interest rate swap agreements as a means of managing its interest rate exposures on certain liabilities. The Companies do not hold or issue derivatives for trading or speculative purposes.

Derivatives are subject to market risk, which is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates. Because the counterparties to those derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Companies have been made in accordance with internal policies.

15. Subsequent event

The following appropriations of retained earnings at March 31, 2004 were approved at the shareholders' meeting held on June 29, 2004:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30 (28¢) per share.....	¥455	\$4,305
Bonuses to directors and corporate auditors.....	82	779

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Okinawa Electric Power Company, Incorporated:

We have audited the accompanying consolidated balance sheets of The Okinawa Electric Power Company, Incorporated (the "Company") and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Okinawa Electric Power Company, Incorporated and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2004

Non-Consolidated Balance Sheets

March 31, 2004 and 2003	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Assets			
Property, plant and equipment (Note 3):			
Utility plants and equipment	¥755,704	¥710,939	\$7,150,192
Construction in progress (Note 12).....	6,632	38,072	62,749
	<u>762,336</u>	<u>749,011</u>	<u>7,212,941</u>
Less:			
Contributions in aid of construction	(21,995)	(21,936)	(208,105)
Accumulated depreciation	(396,512)	(367,875)	(3,751,650)
	<u>(418,507)</u>	<u>(389,811)</u>	<u>(3,959,755)</u>
Net property, plant and equipment	<u>343,829</u>	<u>359,200</u>	<u>3,253,186</u>
Investments and other assets:			
Investment securities (Note 4)	6,420	5,136	60,743
Investments in and advances to subsidiaries and affiliates	12,206	11,375	115,488
Deferred tax assets (Note 7)	6,671	6,382	63,122
Other assets	806	680	7,620
Allowance for doubtful accounts	(3,186)	(3,182)	(30,142)
Total investments and other assets	<u>22,917</u>	<u>20,391</u>	<u>216,831</u>
Current assets:			
Cash and cash equivalents	2,077	4,874	19,654
Short-term investment		280	
Trade accounts receivable, net of allowance for doubtful accounts of ¥128 (\$1,214) in 2004 and ¥162 in 2003	4,154	4,064	39,305
Fuel and supplies inventories	5,298	5,394	50,123
Deferred tax assets (Note 7)	1,249	988	11,818
Other current assets	168	69	1,591
Total current assets	<u>12,946</u>	<u>15,669</u>	<u>122,491</u>
Total	<u>¥379,692</u>	<u>¥395,260</u>	<u>\$3,592,508</u>
Liabilities and shareholders' equity			
Long-term liabilities:			
Long-term debt, less current maturities (Note 5)	¥223,236	¥242,785	\$2,112,175
Liabilities for employees' retirement benefits.....	14,185	14,214	134,209
Other long-term liabilities.....	11	6	107
Total long-term liabilities	<u>237,432</u>	<u>257,005</u>	<u>2,246,491</u>
Current liabilities:			
Current maturities of long-term debt (Note 5)	36,468	31,605	345,045
Commercial paper (Note 6).....	3,000	4,000	28,385
Short-term bank loan (Note 6).....	5,000	5,000	47,308
Trade accounts payable (Note 12).....	7,869	12,245	74,457
Income taxes payable (Note 7)	1,827	1,723	17,288
Accrued expenses (Note 12)	8,952	9,341	84,698
Other current liabilities	1,553	2,014	14,694
Total current liabilities	<u>64,669</u>	<u>65,928</u>	<u>611,875</u>
Commitments and contingent liabilities (Notes 8 and 9)			
Shareholders' equity (Notes 10 and 13):			
Common stock,			
Authorized — 30,000,000 shares			
Issued — 15,172,921 shares (2004 and 2003)	7,586	7,586	71,780
Capital surplus:			
Additional paid-in capital	7,142	7,142	67,572
Retained earnings:			
Legal reserve	965	965	9,130
Unappropriated	61,321	56,721	580,198
Unrealized gain (loss) on available-for-sale securities.....	589	(78)	5,578
Treasury stock, at cost 4,741 shares in 2004 and 3,624 shares in 2003	(12)	(9)	(116)
Total shareholders' equity.....	<u>77,591</u>	<u>72,327</u>	<u>734,142</u>
Total	<u>¥379,692</u>	<u>¥395,260</u>	<u>\$3,592,508</u>

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

Years ended March 31, 2004 and 2003	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Operating revenues	¥134,756	¥134,141	\$1,275,014
Operating expenses (Notes 8, 11 and 12):			
Fuel	20,212	21,127	191,236
Purchased power	11,250	12,300	106,448
Depreciation	31,360	28,796	296,716
Repair and maintenance	14,572	15,727	137,873
Taxes other than income taxes	6,623	6,613	62,668
Other	35,532	35,016	336,188
Total operating expenses.....	119,549	119,579	1,131,129
Operating income	15,207	14,562	143,885
Other expenses:			
Interest expense (Notes 5 and 6).....	7,387	7,923	69,895
Other — net	30	39	283
Net other expenses	7,417	7,962	70,178
Income before income taxes	7,790	6,600	73,707
Income taxes (Note 7):			
Current	3,106	2,906	29,389
Deferred	(910)	(737)	(8,613)
Total.....	2,196	2,169	20,776
Net income	¥ 5,594	¥ 4,431	\$ 52,931
		Yen	U.S. Dollars
Per share of common stock (Note 2 (i)):			
Basic net income.....	¥363.37	¥286.52	\$3.44
Cash dividends applicable to the year.....	60.00	60.00	0.57

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

Years ended March 31, 2004 and 2003	Shares		Millions of Yen					
	Issued number of shares of common stock	Common stock	Capital surplus		Retained earnings		Unrealized gain (loss) on available-for-sale securities	Treasury stock
			Additional paid-in capital	Legal reserve	Unappropriated			
Balance, April 1, 2002	15,172,921	¥7,586	¥7,142	¥965	¥53,273	¥(132)	¥ (2)	
Appropriations:								
Cash dividends					(911)			
Bonuses to directors and corporate auditors...					(72)			
Increase in treasury stock (2,836 shares).....							(7)	
Net decrease in unrealized loss on available-for-sale securities						54		
Net income					4,431			
Balance, March 31, 2003	<u>15,172,921</u>	<u>7,586</u>	<u>7,142</u>	<u>965</u>	<u>56,721</u>	<u>(78)</u>	<u>(9)</u>	
Appropriations:								
Cash dividends					(910)			
Bonuses to directors and corporate auditors...					(84)			
Increase in treasury stock (1,117 shares).....							(3)	
Net increase in unrealized gain on available-for-sale securities						667		
Net income					5,594			
Balance, March 31, 2004	<u>15,172,921</u>	<u>¥7,586</u>	<u>¥7,142</u>	<u>¥965</u>	<u>¥61,321</u>	<u>¥ 589</u>	<u>¥(12)</u>	

	Thousands of U.S. Dollars (Note 1)							
	Common stock	Additional paid-in capital	Capital surplus		Retained earnings		Unrealized gain (loss) on available-for-sale securities	Treasury stock
			Legal reserve	Unappropriated				
Balance, March 31, 2003	\$71,780	\$67,572	\$9,130	\$536,677	\$ (739)	\$ (85)		
Appropriations:								
Cash dividends				(8,611)				
Bonuses to directors and corporate auditors				(799)				
Increase in treasury stock (1,117 shares)						(31)		
Net increase in unrealized gain on available-for-sale securities					6,317			
Net income				52,931				
Balance, March 31, 2004	<u>\$71,780</u>	<u>\$67,572</u>	<u>\$9,130</u>	<u>\$580,198</u>	<u>\$5,578</u>	<u>\$(116)</u>		

See notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

Years ended March 31, 2004 and 2003

1. Basis of presenting non-consolidated financial statements

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by The Okinawa Electric Power Company, Incorporated (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code (the "Code"), the Securities and Exchange Law, the Japanese Electric Utility Law and their related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

As consolidated statements of cash flows and certain disclosures are presented in the consolidated financial statements of the Company, non-consolidated statements of cash flows and certain disclosures are not presented herein in accordance with accounting procedures generally accepted in Japan.

In preparing these non-consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the 2003 non-consolidated financial statements to conform to the presentations and classifications used in 2004. In accordance with accounting procedures generally accepted in Japan, certain comparative disclosures are not required to be and, have not been, presented herein.

The non-consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥105.69 to \$1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

(a) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is provided on the declining-balance method over the estimated useful lives of the assets.

Contributions in aid of construction are deducted from the cost of the related assets. Such accounting treatment is required by the regulations described in Note 1.

(b) Investment securities

Investment securities are classified and accounted for, depending on management's intent, as follows:

i) marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity, ii) non-marketable available-for-sale securities are stated at cost determined by the moving-average method, and iii) investment in subsidiaries and affiliates are stated at cost, determined by the moving average method.

(c) Cash and cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

(d) Fuel and supplies inventories

Fuel and supplies inventories are stated at cost, based principally on the average method.

(e) Derivative financial instruments

The Company uses derivative financial instruments to manage their exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Company to reduce interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

(f) Severance payments and pension plan

The liability for retirement benefits are accounted for based on projected benefit obligations and plan assets at the balance sheet date.

Severance payments to directors and corporate auditors are charged to income when authorized by resolution of the shareholders.

(g) Income taxes

The provision for income taxes is computed based on the pretax income included in the non-consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(h) Stock and bond issue costs and bond discount charges

Stock and bond issue costs and bond discount charges are charged to income when paid or incurred.

(i) Per share information

Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying non-consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

(j) Lease

Leases that transfer ownership of the leased property to the lessee are accounted for as finance leases. All other leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(k) Appropriations of retained earnings

Appropriations of retained earnings are reflected in the non-consolidated financial statements for the following year upon shareholders' approval.

(l) New accounting pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. Property, plant and equipment

The major classes of property, plant and equipment as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
At March 31, 2004				
Thermal power				
generating facilities	¥373,215	¥(17,091)	¥(212,303)	¥143,821
Transmission facilities	134,213	(2,330)	(60,850)	71,033
Transformation facilities	86,933	(367)	(49,519)	37,047
Distribution facilities	133,436	(2,184)	(60,818)	70,434
General facilities	27,907	(23)	(13,022)	14,862
Utility plants and equipment	755,704	(21,995)	(396,512)	337,197
Construction in progress	6,632			6,632
Total	¥762,336	¥(21,995)	¥(396,512)	¥343,829

	Millions of Yen			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
At March 31, 2003				
Thermal power				
generating facilities	¥337,290	¥(17,109)	¥(194,053)	¥126,128
Transmission facilities	130,821	(2,333)	(55,896)	72,592
Transformation facilities	84,691	(338)	(47,088)	37,265
Distribution facilities	129,655	(2,132)	(58,024)	69,499
General facilities	28,482	(24)	(12,814)	15,644
Utility plants and equipment	710,939	(21,936)	(367,875)	321,128
Construction in progress	38,072			38,072
Total	¥749,011	¥(21,936)	¥(367,875)	¥359,200

	Thousands of U.S. Dollars			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
At March 31, 2004				
Thermal power				
generating facilities	\$3,531,222	\$(161,707)	\$(2,008,735)	\$1,360,780
Transmission facilities	1,269,874	(22,049)	(575,736)	672,089
Transformation facilities	822,526	(3,467)	(468,534)	350,525
Distribution facilities	1,262,521	(20,661)	(575,436)	666,424
General facilities	264,049	(221)	(123,209)	140,619
Utility plants and equipment	7,150,192	(208,105)	(3,751,650)	3,190,437
Construction in progress	62,749			62,749
Total	\$7,212,941	\$(208,105)	\$(3,751,650)	\$3,253,186

4. Investment securities

At March 31, 2004, the unrealized gain of market value over the carrying amount of quoted securities was ¥907 million (\$8,581 thousand), at March 31, 2003, the unrealized loss of which was ¥120 million.

5. Long-term debt

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Secured bond, 0.20% to 1.97% in 2004 and 2003, due serially through 2018....	¥ 54,000	¥ 50,000	\$ 510,928
Secured loans from Okinawa Development Finance Public Corporation, 0.55% to 6.30% in 2004 and 1.10% to 6.30% in 2003, due serially through 2017	198,373	215,987	1,876,931
Unsecured loans from banks, 0.39% to 2.10% in 2004 and 0.37% to 2.50% in 2003, due serially 2014....	7,331	8,403	69,361
Total	259,704	274,390	2,457,220
Less current maturity	(36,468)	(31,605)	(345,045)
Long-term debt, less current maturity	¥223,236	¥242,785	\$2,112,175

All of the Company's assets are subject to certain statutory preferential rights established to secure bonds, loans from the Okinawa Development Finance Public Corporation, and bonds transferred to banks under debt assumption agreements (see Note 9).

The aggregate annual maturities of long-term debt outstanding at March 31, 2004 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2005.....	¥ 36,468	\$ 345,045
2006.....	30,324	286,910
2007.....	37,104	351,069
2008.....	24,369	230,575
2009.....	20,166	190,800
2010 and thereafter	111,273	1,052,821
Total.....	¥259,704	\$2,457,220

6. Commercial paper and short-term bank loans

The weighted average interest rates applicable to commercial paper and short-term bank loans were 0.01% and 0.60% at March 31, 2004 and 0.01% and 0.38% at March 31, 2003, respectively.

7. Income taxes

The Company is subject to national corporate tax and local inhabitant taxes based on income with aggregate normal statutory tax rates of approximately 35% for the years ended March 31, 2004 and 2003, respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Allowance for doubtful accounts	¥1,111	¥1,119	\$10,513
Pension and severance costs	4,302	3,816	40,706
Other non-current assets	2,010	1,881	19,018
Other	1,249	988	11,817
Total deferred tax assets	8,672	7,804	82,054
Deferred tax liabilities:			
Unrealized gain on land revaluation...	(434)	(434)	(4,111)
Unrealized gain on available-for-sale securities	(318)		(3,003)
Total deferred tax liabilities	(752)	(434)	(7,114)
Net deferred tax assets	¥7,920	¥7,370	\$74,940

Reconciliations between the normal effective statutory tax rate for the years ended March 31, 2004 and 2003 and the actual effective tax rate reflected in the accompanying non-consolidated statements of income were as follows:

	2004	2003
Normal effective statutory tax rate	35.0%	35.0%
Expenses not deductible for income		
tax purposes	0.9	1.1
Investment tax credits.....	(8.6)	(4.0)
Other — net	0.9	0.8
Actual effective tax rate	<u>28.2%</u>	<u>32.9%</u>

8. Lease

The Company leases certain automobiles and office equipment. Total lease payments under the above leases for the years ended March 31, 2004 and 2003 were ¥534 million (\$5,049 thousand) and ¥549 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an “as if capitalized” basis for the years ended March 31, 2004 and 2003 were as follows:

As of March 31, 2004	Millions of Yen		
	General facilities	Other	Total
Acquisition cost	¥2,566	¥51	¥2,617
Accumulated depreciation	(1,248)	(18)	(1,266)
Net leased property.....	<u>¥1,318</u>	<u>¥33</u>	<u>¥1,351</u>

As of March 31, 2003	Millions of Yen		
	General facilities	Other	Total
Acquisition cost	¥2,628	¥29	¥2,657
Accumulated depreciation	(916)	(12)	(928)
Net leased property.....	<u>¥1,712</u>	<u>¥17</u>	<u>¥1,729</u>

As of March 31, 2004	Thousands of U.S. Dollars		
	General facilities	Other	Total
Acquisition cost	\$24,284	\$482	\$24,766
Accumulated depreciation	(11,814)	(166)	(11,980)
Net leased property.....	<u>\$12,470</u>	<u>\$316</u>	<u>\$12,786</u>

Obligations under finance leases as of March 31, 2004 and 2003:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	¥ 499	¥ 507	\$ 4,719
Due after one year	852	1,222	8,067
Total	<u>¥1,351</u>	<u>¥1,729</u>	<u>\$12,786</u>

The imputed interest expense portion is immaterial and therefore not excluded from the above obligations under finance leases.

Depreciation expense, which is not reflected in the accompanying non-consolidated statements of income, computed by the straight-line method over the remaining lease term was ¥534 million (\$5,049 thousand) and ¥549 million for the years ended March 31, 2004 and 2003, respectively.

9. Contingent liabilities

At March 31, 2004, the Company was contingently liable as a guarantor for loans and accounts payable of subsidiaries in the amount of ¥5,048 million (\$4,762 thousand), and ¥1 million (\$10 thousand), respectively.

Under the debt assumption agreements, the Company was contingently liable for the redemption of bonds transferred to banks in the amount of ¥6,000 million (\$56,770 thousand) as of March 31, 2004.

10. Shareholders' equity

Japanese companies are subject to the Japanese Commercial Code (the “Code”) to which various amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The amount of retained earnings available for dividends under the Code was ¥61,309 million (\$580,082 thousand) as of March 31, 2004, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

11. Research and development costs

Research and development costs charged to income were ¥913 million (\$8,642 thousand) and ¥1,163 million for the years ended March 31, 2004 and 2003, respectively.

12. Related party transactions

The following is a summary of transactions and balances with subsidiaries and affiliates for the years ended March 31, 2004 and 2003:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Transactions:			
Construction cost and facilities	¥ 9,699	¥16,412	\$ 91,764
Repair and other operating expenses...	25,017	22,437	236,701
Balance of accounts:			
Trade accounts payable	¥ 3,375	¥ 3,372	\$ 31,932
Accrued expenses	2,515	3,623	23,793

13. Subsequent event

The following appropriations of retained earnings at March 31, 2004 were approved at the shareholders' meeting held on June 29, 2004:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends,		
¥30 (28¢) per share	¥455	\$4,305
Bonuses to directors and		
corporate auditors	82	779

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Okinawa Electric Power Company, Incorporated:

We have audited the accompanying non-consolidated balance sheets of The Okinawa Electric Power Company, Incorporated (the "Company") as of March 31, 2004 and 2003, and the related non-consolidated statements of income and shareholders' equity for the years then ended, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Okinawa Electric Power Company, Incorporated as of March 31, 2004 and 2003, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2004