

Business Performance

Although conditions remained difficult in construction, the Okinawa economy was supported in 2005 by continuing buoyancy in tourism and the emergence of consumer spending from the doldrums. The employment picture likewise continued to show moderate improvement, and the prefectural economy overall showed signs of recovery despite stagnation in some sectors.

Electric power demand in the fiscal year under review (consolidated) was about the same year on year. A reduction in demand due to lower summer temperatures, which affected power consumption for residential and commercial use, was offset by an increase in customers. Additionally, industrial power demand rose year on year due to expanded demand from the food processing, cement, railway (monorail) and other sectors.

Residential power demand inched up to 2,809 million kWh, while industrial demand increased 0.8% to 4,384 million kWh. Total sales volume rose 0.5% to 7,193 million kWh.

In construction, an important business for our consolidated subsidiaries, operating conditions were adversely affected by intensifying competition for orders in public and private works. Conditions grew more difficult in the IT and telecommunications sector, due to the increasing diversification and sophistication of services and the lowering of prices.

Operating revenues (sales) on a consolidated basis rose ¥2,142 million or 1.4% to ¥150,769 million, reflecting increased sale volumes in the electric power business and a raise in electricity rates, to offset higher fuel costs.

However, operating income rose ¥615 million, or 3.6%, to ¥17,474 million. A rise in fuel costs due to higher fuel prices was offset by a decrease in depreciation expenses for the Kin thermal power station, and a Groupwide efficiency drive.

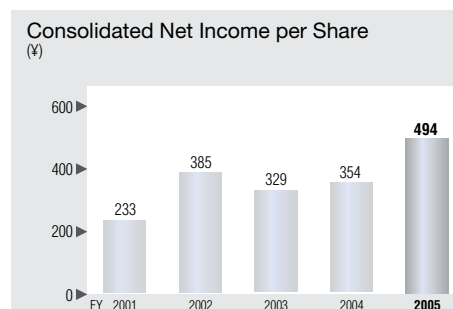
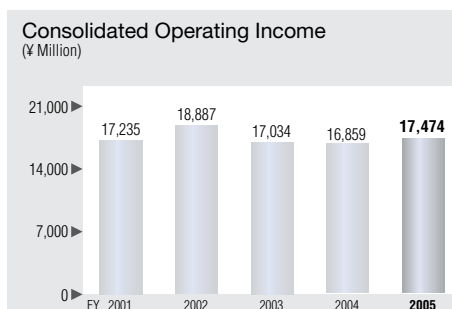
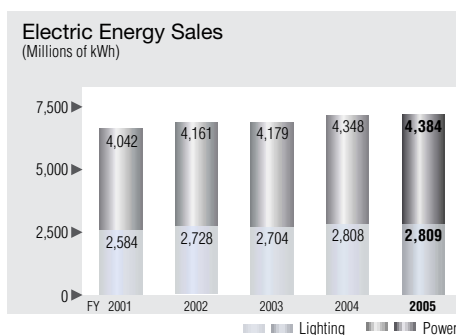
As a result, net income rose ¥2,117 million, or 38.5%, to ¥7,614 million.

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

1. Electric Power Business

Electric utility operating revenues increased ¥2,409 million, or 1.8%, to ¥136,984 million year on year, due mainly to the above-mentioned increase in total electricity sales, and to rate increases corresponding to higher fuel prices.

Although depreciation costs relating to the Kin thermal power station declined, fuel expenses rose due to soaring fuel prices, pushing operating expenses up ¥489 million, or 0.4%, to ¥119,815 million. As a result, operating income rose ¥1,919 million, or 12.6%, to ¥17,169 million in the fiscal year.



2. Construction Business

Sales fell ¥1,743 million year on year, or 8.4%, to ¥18,919 million, reflecting a fall in the number of public works projects as well as tougher order and cost competition. Operating expenses fell ¥1,548 million, or 7.7%, to ¥18,622 million.

As a result, operating income in this segment fell ¥195 million, or 39.6%, to ¥297 million compared with the previous fiscal year.

3. Other Operations

Sales fell ¥1,384 million, or 4.6%, to ¥28,603 million due to a correction after the spike in power plant works in the previous fiscal year and a fall in fee revenue following withdrawal from the PHS (Personal Handyphone System) business in January 2005. The segment booked an operating loss of ¥201 million, compared with a ¥937 million profit in the previous fiscal year.

(Note) Consumption and other taxes are not included in the above sums.

Cash Flows

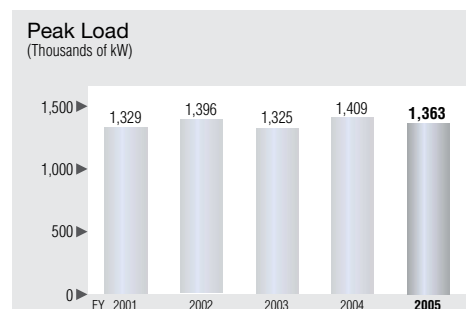
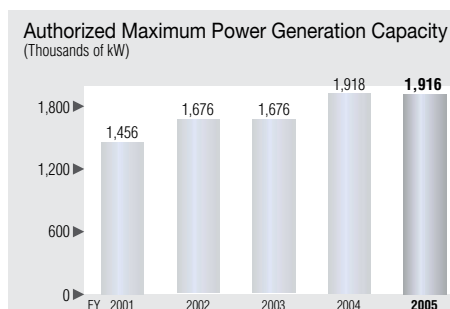
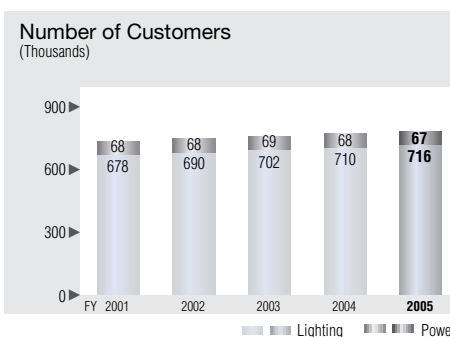
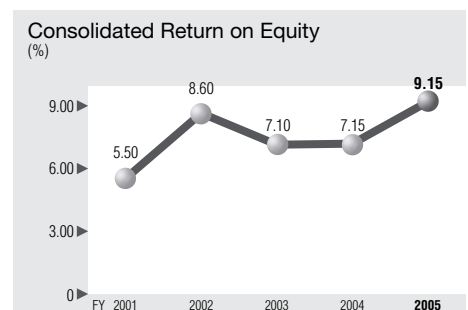
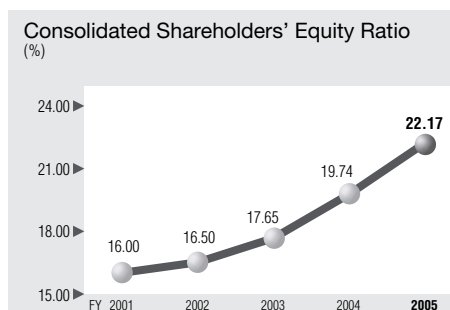
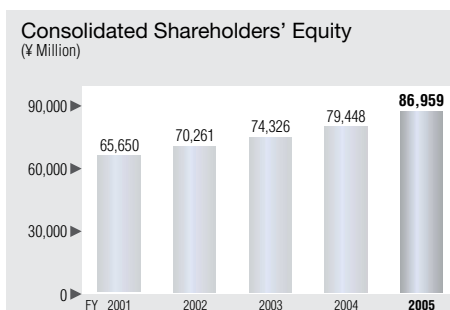
Net cash provided by operating activities totaled ¥40,540 million, an increase of ¥7,330 million, or 22.1%, compared with the previous fiscal year, due chiefly to an increase in income before income taxes, and accounts payable.

Net cash used in investing activities totaled ¥14,675 million, down ¥5,069 million or 25.7%, reflecting a fall in capital expenditures.

As a result of the above, free cash flow rose ¥12,400 million, or 92.1%, to ¥25,864 million.

Net cash used in financing activities rose ¥6,125 million, or 34.0%, to ¥24,118 million compared with the previous fiscal year, reflecting a reduction in interest-bearing debt due to use of the above free cash flow to repay long-term borrowings.

As a result of the above, cash and cash equivalents at the end of the fiscal year under review totaled ¥9,762 million on a consolidated basis, an increase of ¥1,762 million, or 22.0%, compared with the previous fiscal year.



Consolidated Balance Sheets

March 31, 2005 and 2004	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Assets			
Property, plant and equipment (Note 4):			
Utility plants	¥741,362	¥733,432	\$6,903,457
Other plant and equipment	41,777	38,025	389,024
Construction in progress	6,190	6,356	57,636
	<u>789,329</u>	<u>777,813</u>	<u>7,350,117</u>
Less:			
Contributions in aid of construction	(22,343)	(22,093)	(208,056)
Accumulated depreciation	(426,571)	(399,369)	(3,972,169)
	<u>(448,914)</u>	<u>(421,462)</u>	<u>(4,180,225)</u>
Net property, plant and equipment	<u>340,415</u>	<u>356,351</u>	<u>3,169,892</u>
Investments and other assets:			
Investment securities (Note 5)	8,924	7,008	83,095
Investments in and advances to non-consolidated subsidiaries and affiliates	734	889	6,834
Deferred tax assets (Note 9).....	11,644	10,743	108,430
Other assets	3,007	2,930	28,005
Allowance for doubtful accounts	(239)	(238)	(2,227)
Total investments and other assets	<u>24,070</u>	<u>21,332</u>	<u>224,137</u>
Current assets:			
Cash and cash equivalents	9,762	8,000	90,906
Short-term investment	5	690	48
Trade notes and accounts receivable, net of allowance for doubtful accounts of ¥229 (\$2,142) in 2005 and ¥174 in 2004.....	7,560	7,313	70,392
Inventories	8,056	6,620	75,010
Deferred tax assets (Note 9)	1,664	1,590	15,499
Other current assets	627	512	5,839
Total current assets	<u>27,674</u>	<u>24,725</u>	<u>257,694</u>
Total	<u>¥392,159</u>	<u>¥402,408</u>	<u>\$3,651,723</u>
Liabilities and shareholders' equity			
Long-term liabilities:			
Long-term debt, less current maturities (Note 6)	¥217,226	¥233,744	\$2,022,775
Liabilities for employees' retirement benefits (Note 8)	17,060	16,680	158,859
Other long-term liabilities	688	438	6,411
Total long-term liabilities	<u>234,974</u>	<u>250,862</u>	<u>2,188,045</u>
Current liabilities:			
Current maturities of long-term debt (Note 6)	34,042	37,836	316,995
Commercial paper (Note 7).....		3,000	
Short-term bank loans (Note 7)	5,220	5,049	48,608
Trade notes and accounts payable	13,991	12,739	130,279
Income taxes payable (Note 9)	4,004	2,385	37,282
Accrued expenses	8,982	7,907	83,637
Other current liabilities (Note 9)	2,383	1,364	22,191
Total current liabilities	<u>68,622</u>	<u>70,280</u>	<u>638,992</u>
Minority interests	1,604	1,818	14,934
Commitments and contingent liabilities (Notes 10 and 11)			
Shareholders' equity (Notes 12 and 16):			
Common stock,			
Authorized — 30,000,000 shares			
Issued — 15,172,921 shares (2005 and 2004)	7,586	7,586	70,644
Capital surplus.....	7,142	7,142	66,502
Retained earnings	70,531	64,145	656,775
Unrealized gain on available-for-sale securities.....	1,721	587	16,025
Treasury stock, at cost — 6,677 shares in 2005, 4,741 shares in 2004	(21)	(12)	(194)
Total shareholders' equity	<u>86,959</u>	<u>79,448</u>	<u>809,752</u>
Total	<u>¥392,159</u>	<u>¥402,408</u>	<u>\$3,651,723</u>

See notes to consolidated financial statements.

Consolidated Statements of Income

Years ended March 31, 2005 and 2004	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Operating revenues:			
Electric	¥136,773	¥134,331	\$1,273,613
Other	13,996	14,296	130,325
Total operating revenues	<u>150,769</u>	<u>148,627</u>	<u>1,403,938</u>
Operating expenses (Notes 8, 10 and 13):			
Electric	118,539	117,423	1,103,813
Other	14,756	14,345	137,405
Total operating expenses	<u>133,295</u>	<u>131,768</u>	<u>1,241,218</u>
Operating income	17,474	16,859	162,720
Other expenses:			
Interest expense (Notes 6 and 7).....	5,586	7,630	52,018
Other — net	570	418	5,307
Net other expenses	<u>6,156</u>	<u>8,048</u>	<u>57,325</u>
Income before income taxes and minority interests	11,318	8,811	105,395
Income taxes (Note 9):			
Current	5,520	4,086	51,402
Deferred	(1,605)	(924)	(14,944)
Total	<u>3,915</u>	<u>3,162</u>	<u>36,458</u>
Income before minority interests	7,403	5,649	68,937
Minority interests in net income	(211)	152	(1,968)
Net income	<u>¥ 7,614</u>	<u>¥ 5,497</u>	<u>\$ 70,905</u>
		Yen	U.S. Dollars
Per share of common stock (Note 2 (k)):			
Basic net income.....	¥494.78	¥354.44	\$4.61
Cash dividends applicable to the year.....	60.00	60.00	0.56

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2005 and 2004	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, 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	15,172,921	7,586	7,142	64,145	587	(12)
Adjustment of retained earnings for newly consolidated subsidiaries				(197)		
Appropriations:						
Cash dividends				(910)		
Bonuses to directors and corporate auditors				(121)		
Increase in treasury stock (1,936 shares)						(9)
Net increase in unrealized gain on available-for-sale securities					1,134	
Net income				7,614		
Balance, March 31, 2005	<u>15,172,921</u>	<u>¥7,586</u>	<u>¥7,142</u>	<u>¥70,531</u>	<u>¥1,721</u>	<u>¥(21)</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, 2004	\$70,644	\$66,502	\$597,311	\$ 5,463	\$(114)
Adjustment of retained earnings for newly consolidated subsidiaries			(1,835)		
Appropriations:					
Cash dividends			(8,474)		
Bonuses to directors and corporate auditors			(1,132)		
Increase in treasury stock (1,936 shares)					(80)
Net increase in unrealized gain on available-for-sale securities				10,562	
Net income			70,905		
Balance, March 31, 2005	<u>\$70,644</u>	<u>\$66,502</u>	<u>\$656,775</u>	<u>\$16,025</u>	<u>\$(194)</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2005 and 2004	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Operating activities:			
Income before income taxes and minority interests	¥11,318	¥ 8,811	\$105,395
Adjustments for:			
Income taxes paid.....	(3,870)	(4,465)	(36,037)
Depreciation and amortization.....	30,094	33,485	280,229
Provision for employees' retirement benefits.....	380	144	3,538
Loss on disposal of property, plant and equipment	902	1,002	8,397
Changes in operating assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable	(58)	626	(542)
Decrease (increase) in inventories.....	(1,315)	731	(12,246)
Increase (decrease) in trade notes and accounts payable.....	1,251	(5,333)	11,653
Decrease in interest payable.....	(325)	(257)	(3,027)
Other — net	2,163	(1,534)	20,142
Total adjustments.....	29,222	24,399	272,107
Net cash provided by operating activities.....	40,540	33,210	377,502
Investing activities:			
Purchase of property, plant and equipment	(15,686)	(19,343)	(146,063)
Proceeds from sale of property, plant and equipment	575	446	5,351
Purchase of investment securities	(148)	(278)	(1,373)
Increase in investments in and advances to unconsolidated subsidiaries and affiliates	(62)	(13)	(577)
Purchase of short-term investment	(1,045)	(770)	(9,732)
Proceeds from maturity of short-term investment	1,730	1,370	16,109
Other — net	(39)	(1,156)	(368)
Net cash used in investing activities	(14,675)	(19,744)	(136,653)
Financing activities:			
Proceeds from issuance of bonds	6,969	12,000	64,897
Repayments of bonds	(2,000)	(8,000)	(18,624)
Proceeds from long-term debt	15,700	13,250	146,196
Repayments of long-term debt	(40,351)	(33,046)	(375,742)
Proceeds from short-term bank loans	12,325	10,049	114,769
Repayments of short-term bank loans	(12,154)	(10,000)	(113,179)
Proceeds from issuance of commercial paper	19,000	18,000	176,925
Repayments on maturity of commercial paper	(22,000)	(19,000)	(204,861)
Cash dividends paid	(912)	(912)	(8,492)
Other — net	(695)	(333)	(6,474)
Net cash used in financing activities	(24,118)	(17,992)	(224,585)
Net increase (decrease) in cash and cash equivalents	1,747	(4,526)	16,264
Cash and cash equivalents of newly consolidated subsidiaries.....	15		148
Cash and cash equivalents, beginning of year.....	8,000	12,526	74,494
Cash and cash equivalents, end of year	¥ 9,762	¥ 8,000	\$ 90,906

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended March 31, 2005 and 2004

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 2004 financial statements to conform to the classifications used in 2005.

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 ¥107.39 to \$1, the approximate rate of exchange at March 31, 2005. 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, 2005 and 2004 include the accounts of the Company and its fourteen 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 the regulations described in Note 1.

(c) Long-lived assets

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 Companies adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

The Companies review its long-lived assets for impairment whenever events or changes in circumstance indicate 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 effect of adoption of the new accounting standard for impairment of fixed assets was minimal.

(d) 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.

(e) 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.

(f) Inventories

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

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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 the year.

(l) 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.

(m) Appropriations of retained earnings

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

3. Accounting change

Till last fiscal year ended March 31, 2004, Okidenko Company, a consolidated subsidiary of the Company, had recognized its construction contract revenues and expenses under the completed contract method. However, effective April 1, 2004, Okidenko Company adopted the percentage-of-completion method for any work with a contract amount and construction period exceeding ¥500 million and one year respectively. This change is made so as to present revenues and expenses more appropriately derived from or incurred in performing long-term, large-scale contracts. The impact of this change was minimal.

4. Property, plant and equipment

The major classes of property, plant and equipment as of March 31, 2005 and 2004, consisted of the following:

At March 31, 2005	Millions of Yen			
	Original Cost	Contributions in Aid of Construction	Accumulated Depreciation	Carrying Value
Thermal power				
generating facilities	¥373,701	¥(17,090)	¥(225,334)	¥131,277
Transmission facilities	128,927	(2,331)	(62,447)	64,149
Transformation facilities	84,717	(373)	(49,872)	34,472
Distribution facilities	129,439	(2,187)	(60,748)	66,504
General facilities	24,578	(23)	(11,748)	12,807
Utility plants	741,362	(22,004)	(410,149)	309,209
Other plant and equipment	41,777	(339)	(16,422)	25,016
Construction in progress	6,190			6,190
Total	¥789,329	¥(22,343)	¥(426,571)	¥340,415

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, 2005	Thousands of U.S. Dollars			
	Original Cost	Contributions in Aid of Construction	Accumulated Depreciation	Carrying Value
Thermal power				
generating facilities	\$3,479,849	\$(159,134)	\$(2,098,276)	\$1,222,439
Transmission facilities	1,200,548	(21,708)	(581,501)	597,339
Transformation facilities	788,869	(3,470)	(464,399)	321,000
Distribution facilities	1,205,324	(20,367)	(565,672)	619,285
General facilities	228,867	(216)	(109,400)	119,251
Utility plants	6,903,457	(204,895)	(3,819,248)	2,879,314
Other plant and equipment	389,024	(3,161)	(152,921)	232,942
Construction in progress	57,636			57,636
Total	\$7,350,117	\$(208,056)	\$(3,972,169)	\$3,169,892

5. Investment securities

The carrying amounts and aggregate fair values of investment securities at March 31, 2005 and 2004 were as follows:

At March 31, 2005	Millions of Yen			
	Cost (Carrying Amount)	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,521	¥2,705		¥5,226
Debt securities	20			20
Other	300		¥11	289
Total	¥2,841	¥2,705	¥11	¥5,535

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, 2005	Thousands of U.S. Dollars			
	Cost (Carrying Amount)	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$23,478	\$25,192		\$48,670
Debt securities	186			186
Other	2,792		\$107	2,685
Total	\$26,456	\$25,192	\$107	\$51,541

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

Available-for-sale:	Carrying Amount		
	Millions of Yen	Thousands of U.S. Dollars	
	2005	2004	2005
Equity securities	¥3,389	¥3,266	\$31,554
Total	¥3,389	¥3,266	\$31,554

The carrying values of debt securities by contractual maturities of securities classified as available-for-sale at March 31, 2005 are as follows:

	Thousands of U.S. Dollars	
	Millions of Yen	U.S. Dollars
Due in one year or less	¥20	\$186
Due after one year through five years		
Due after five years through ten years		
Due after ten years		
Total	¥20	\$186

6. Long-term debt

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of
	2005	2004	U.S. Dollars
Secured bond, 0.20% to 1.97% in 2005 and 2004, due serially through 2018.....	¥ 59,000	¥ 54,000	\$ 549,399
Secured loans from Okinawa Development Finance Public Corporation, 0.55% to 6.20% in 2005 and 0.55% to 6.30% in 2004, due serially through 2024.....	179,534	203,351	1,671,792
Secured and unsecured loans from banks, 0.12% to 3.40% in 2005 and 0.39% to 3.40% in 2004 due serially through 2016....	12,734	13,568	118,579
Secured debt with a leasing company.....		661	
Total	251,268	271,580	2,339,770
Less current maturity	(34,042)	(37,836)	(316,995)
Long-term debt, less current maturity.....	¥217,226	¥233,744	\$2,022,775

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 11).

Certain assets of the consolidated subsidiaries, amounting to ¥10,534 million (\$98,089 thousand), are pledged as collateral for a portion of the long-term debt as of March 31, 2005.

The aggregate annual maturities of long-term debt outstanding at March 31, 2005 were as follows:

Year ending March 31,	Millions of Yen	Thousands of
		U.S. Dollars
2006	¥ 34,042	\$ 316,995
2007	34,643	322,589
2008	25,306	235,646
2009	22,528	209,780
2010	20,503	190,921
2011 and thereafter.....	114,246	1,063,839
Total	¥251,268	\$2,339,770

7. Short-term bank loans and commercial paper

The weighted average interest rates of short-term bank loans were 0.45% and 0.60% at March 31, 2005 and 2004, respectively. At March 31, 2004, the weighted average interest rate applicable to commercial paper was 0.01%.

8. 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 terminating their employment, in most circumstances, are 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 for employees' retirements benefit at March 31, 2005 and 2004 consisted of the followings:

	Millions of Yen		Thousands of
	2005	2004	U.S. Dollars
Projected benefit obligation	¥27,210	¥27,128	\$253,377
Fair value of pension assets	(9,130)	(8,639)	(85,020)
Unrecognized actuarial loss	(1,020)	(1,809)	(9,498)
Net liability	¥17,060	¥16,680	\$158,859

The components of net periodic retirement benefit costs for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of
	2005	2004	U.S. Dollars
Service cost.....	¥1,471	¥1,330	\$13,701
Interest cost.....	464	564	4,326
Expected return on plan assets.....			
Recognized actuarial loss	668	675	6,216
Net periodic retirement benefit costs.....	¥2,603	¥2,569	\$24,243

Assumptions for actuarial computations for the years ended March 31, 2005 and 2004 were set forth as follows:

	2005	2004
Discount rate.....	2.0%	2.0%
Expected rate of return on plan assets.....	0.0%	0.0%
Recognition period of actuarial gain/loss....	primarily 5 years	primarily 5 years

As to prior service cost, the Company charges to expense as incurred.

9. Income taxes

The Companies are subject to several taxes based on income and revenue. For the years ended March 31, 2005 and 2004, the aggregate normal statutory tax rates approximated 35%.

The tax effects of significant temporary differences and loss carry forwards, which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of
	2005	2004	U.S. Dollars
Deferred tax assets:			
Unrealized profit.....	¥ 4,175	¥ 4,332	\$ 38,877
Tax loss carry forwards.....	1,364	800	12,698
Pension and severance costs	5,624	5,100	52,375
Other.....	6,432	4,010	59,893
Sub-total.....	17,595	14,242	163,843
Less: valuation allowance	(2,899)	(1,141)	(26,993)
Total deferred tax assets.....	14,696	13,101	136,850
Deferred tax liabilities:			
Unrealized gain on land revaluation	(426)	(434)	(3,967)
Unrealized gain on available-for-sale securities	(951)	(315)	(8,857)
Other	(17)	(19)	(157)
Total deferred tax liabilities.....	(1,394)	(768)	(12,981)
Net deferred tax assets	¥13,302	¥12,333	\$123,869

Other current liabilities in the consolidated balance sheets contain deferred tax liabilities of ¥6 million (\$60 thousand) for the year ended March 31, 2005 recognized in consolidated subsidiaries.

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 years ended March 31, 2005 and 2004 are immaterial.

10. Lease

The Companies lease certain automobiles and office equipment. Total lease payments under the above leases for the years ended March 31, 2005 and 2004 were ¥833 million (\$7,761 thousand) and ¥725 million, respectively.

Pro forma information on 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, 2005 and 2004 were as follows:

As of March 31, 2005	Millions of Yen		
	General Facilities	Other	Total
Acquisition cost.....	¥1,622	¥3,608	¥5,230
Accumulated depreciation.....	(984)	(757)	(1,741)
Net leased property.....	¥ 638	¥2,851	¥3,489

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

As of March 31, 2005	Thousands of U.S. Dollars		
	General Facilities	Other	Total
Acquisition cost.....	\$15,101	\$33,599	\$48,700
Accumulated depreciation.....	(9,167)	(7,046)	(16,213)
Net leased property.....	\$ 5,934	\$26,553	\$32,487

Obligations under finance leases as of March 31, 2005 and 2004:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year.....	¥ 799	¥ 706	\$ 7,440
Due after one year.....	2,709	2,597	25,234
Total.....	¥3,508	¥3,303	\$32,674

The imputed interest expense portion is immaterial and therefore is 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 ¥833 million (\$7,761 thousand) and ¥725 million for the years ended March 31, 2005 and 2004, 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, 2005 and 2004 was ¥118 million (\$1,096 thousand) and ¥74 million, respectively.

At March 31, 2005 and 2004, summaries of the above leased property were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Other equipment:			
Acquisition cost.....	¥578	¥376	\$5,386
Accumulated depreciation.....	(227)	(176)	(2,116)
Net leased property.....	¥351	¥200	\$3,270

At March 31, 2005 and 2004, the total lease payments to be received from the above leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year.....	¥141	¥ 84	\$1,309
Due after one year.....	375	207	3,497
Total.....	¥516	¥291	\$4,806

11. Contingent liabilities

As of March 31, 2005, the Company was contingently liable for:

Redemption of bonds transferred to banks under the debt assumption agreements amounting to ¥6,000 million (\$55,871 thousand).

12. Shareholders' equity

Japanese companies are subject to 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 to 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 ¥67,899 million (\$632,267 thousand) as of March 31, 2005, 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.

13. Research and development costs

Research and development costs charged to income were ¥593 million (\$5,522 thousand) and ¥913 million for the years ended March 31, 2005 and 2004, respectively.

14. Segment information

Information about operations in different industry segments of the Companies for the years ended March 31, 2005 and 2004 is as follows:

2005	Millions of Yen					Thousands of U.S. Dollars				
	Electric	Construction	Other	Elimination	Consolidated	Electric	Construction	Other	Elimination	Consolidated
Sales to customers.....	¥136,773	¥ 5,571	¥ 8,425		¥150,769	\$1,273,613	\$ 51,871	\$ 78,454		\$1,403,938
Intersegment sales.....	211	13,348	20,178	¥(33,737)		1,967	124,295	187,897	\$(314,159)	
Total operating revenues.....	136,984	18,919	28,603	(33,737)	150,769	1,275,580	176,166	266,351	(314,159)	1,403,938
Operating expenses.....	119,815	18,622	28,804	(33,946)	133,295	1,115,701	173,397	268,225	(316,105)	1,241,218
Operating income.....	¥ 17,169	¥ 297	¥ (201)	¥ 209	¥ 17,474	\$ 159,879	\$ 2,769	\$ (1,874)	\$ 1,946	\$ 162,720
Total assets.....	¥356,921	¥14,393	¥34,041	¥(13,196)	¥392,159	\$3,323,592	\$134,029	\$316,986	\$(122,884)	\$3,651,723
Depreciation and amortization...	27,774	131	3,080	(891)	30,094	258,624	1,216	28,686	(8,297)	280,229
Capital expenditures.....	12,891	693	2,814	(732)	15,666	120,042	6,457	26,190	(6,813)	145,876

2004	Millions of Yen				
	Electric	Construction	Other	Elimination	Consolidated
Sales to customers.....	¥134,331	¥ 6,447	¥ 7,849		¥148,627
Intersegment sales.....	245	14,215	22,139	¥(36,599)	
Total operating revenues.....	134,576	20,662	29,988	(36,599)	148,627
Operating expenses.....	119,326	20,170	29,051	(36,779)	131,768
Operating income.....	¥ 15,250	¥ 492	¥ 937	¥ 180	¥ 16,859
Total assets.....	¥370,170	¥10,754	¥34,346	¥(12,862)	¥402,408
Depreciation and amortization.....	31,378	113	2,944	(950)	33,485
Capital expenditures.....	17,554	382	2,174	(813)	19,297

"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, 2005 and 2004.

As described in Note 3, effective April 1, 2004, Okidenko Company adopted the new accounting policy for revenue recognition. As a result of the change, intersegment sales and operating income of construction segment were increased by ¥1,107 million and ¥148 million, respectively, in 2005, compared with the previous revenue recognition method.

15. 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.

16. Subsequent event

The following appropriations of retained earnings at March 31, 2005 were approved at the shareholders' meeting held on June 29, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30 (28¢) per share.....	¥455	\$4,237
Bonuses to directors and corporate auditors.....	87	810

On May 20, 2005, the Company made a 1.05-for-1 stock split for each outstanding share and 758,646 shares were consequently issued to shareholders recorded in the registration book of shareholders on March 31, 2005.

If the stock split had gone into effect during the years ended March 31, 2005 and 2004, net income per share and the amount per share of net assets would have been ¥471.22 (\$4.39) and ¥5,453.79 (\$50.78) in 2005 and ¥337.56 and ¥4,980.80 in 2004, respectively.



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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 (together the "the Companies") as of March 31, 2005 and 2004, 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, 2005 and 2004, and the consolidated results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2(c) to the consolidated financial statements, the Companies adopted a new accounting standard for impairment of fixed assets as of April 1, 2004. As discussed in Note 3 to the consolidated financial statements, Okidenko Company, a consolidated subsidiary of the Company changed their accounting standard for the revenue recognition from the completed contract method to the percentage-of-completion method as of April 1, 2004.

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, 2005

Non-Consolidated Balance Sheets

March 31, 2005 and 2004	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Assets			
Property, plant and equipment (Note 3):			
Utility plants and equipment	¥765,185	¥755,704	\$7,125,291
Construction in progress.....	6,407	6,632	59,659
	<u>771,592</u>	<u>762,336</u>	<u>7,184,950</u>
Less:			
Contributions in aid of construction	(22,004)	(21,995)	(204,898)
Accumulated depreciation	(422,291)	(396,512)	(3,932,310)
	<u>(444,295)</u>	<u>(418,507)</u>	<u>(4,137,208)</u>
Net property, plant and equipment	<u>327,297</u>	<u>343,829</u>	<u>3,047,742</u>
Investments and other assets:			
Investment securities (Note 4)	8,258	6,420	76,895
Investments in and advances to subsidiaries and affiliates	14,100	12,206	131,299
Deferred tax assets (Note 7)	6,840	6,671	63,695
Other assets	883	806	8,224
Allowance for doubtful accounts	(3,185)	(3,186)	(29,664)
Total investments and other assets	<u>26,896</u>	<u>22,917</u>	<u>250,449</u>
Current assets:			
Cash and cash equivalents	1,947	2,077	18,130
Trade accounts receivable, net of allowance for doubtful accounts of ¥171 (\$1,589) in 2005 and ¥128 in 2004.....	4,533	4,154	42,207
Fuel and supplies inventories	5,548	5,298	51,661
Deferred tax assets (Note 7)	1,350	1,249	12,576
Other current assets	291	168	2,711
Total current assets	<u>13,669</u>	<u>12,946</u>	<u>127,285</u>
Total	<u>¥367,862</u>	<u>¥379,692</u>	<u>\$3,425,476</u>
Liabilities and shareholders' equity			
Long-term liabilities:			
Long-term debt, less current maturities (Note 5)	¥207,572	¥223,236	\$1,932,882
Liabilities for employees' retirement benefits.....	14,385	14,185	133,947
Other long-term liabilities.....	586	11	5,458
Total long-term liabilities	<u>222,543</u>	<u>237,432</u>	<u>2,072,287</u>
Current liabilities:			
Current maturities of long-term debt (Note 5)	32,903	36,468	306,392
Commercial paper (Note 6).....		3,000	
Short-term bank loans (Note 6)	5,000	5,000	46,559
Trade accounts payable (Note 12).....	6,682	7,869	62,226
Income taxes payable (Note 7)	3,469	1,827	32,299
Accrued expenses (Note 12)	9,313	8,952	86,717
Other current liabilities	2,704	1,553	25,183
Total current liabilities	<u>60,071</u>	<u>64,669</u>	<u>559,376</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 (2005 and 2004)	7,586	7,586	70,644
Capital surplus:			
Additional paid-in capital	7,142	7,142	66,502
Retained earnings:			
Legal reserve	965	965	8,986
Unappropriated	67,920	61,321	632,461
Unrealized gain on available-for-sale securities.....	1,656	589	15,414
Treasury stock, at cost 6,677 shares in 2005 and 4,741 shares in 2004.....	(21)	(12)	(194)
Total shareholders' equity.....	<u>85,248</u>	<u>77,591</u>	<u>793,813</u>
Total	<u>¥367,862</u>	<u>¥379,692</u>	<u>\$3,425,476</u>

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

Years ended March 31, 2005 and 2004	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Operating revenues	¥137,210	¥134,756	\$1,277,682
Operating expenses (Notes 8, 11 and 12):			
Fuel	24,848	20,212	231,385
Purchased power	12,305	11,250	114,586
Depreciation	27,713	31,360	258,056
Repair and maintenance	13,470	14,572	125,435
Taxes other than income taxes	6,662	6,623	62,031
Other	35,266	35,532	328,394
Total operating expenses.....	120,264	119,549	1,119,887
Operating income	16,946	15,207	157,795
Other expenses:			
Interest expense (Notes 5 and 6).....	5,452	7,387	50,765
Other — net	(94)	30	(873)
Net other expenses	5,358	7,417	49,892
Income before income taxes	11,588	7,790	107,903
Income taxes (Note 7):			
Current	4,841	3,106	45,075
Deferred	(844)	(910)	(7,861)
Total.....	3,997	2,196	37,214
Net income	¥ 7,591	¥ 5,594	\$ 70,689
		Yen	U.S. Dollars
Per share of common stock (Note 2 (j)):			
Basic net income.....	¥494.77	¥363.37	\$4.61
Cash dividends applicable to the year.....	60.00	60.00	0.56

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

Years ended March 31, 2005 and 2004	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, 2003	15,172,921	¥7,586	¥7,142	¥965	¥56,721	¥ (78)	¥ (9)	
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>	
Appropriations:								
Cash dividends					(910)			
Bonuses to directors and corporate auditors...					(82)			
Increase in treasury stock (1,936 shares).....							(9)	
Net increase in unrealized gain on available-for-sale securities						1,067		
Net income					7,591			
Balance, March 31, 2005	<u>15,172,921</u>	<u>¥7,586</u>	<u>¥7,142</u>	<u>¥965</u>	<u>¥67,920</u>	<u>¥1,656</u>	<u>¥(21)</u>	

	Thousands of U.S. Dollars (Note 1)						
	Common stock	Capital surplus		Retained earnings		Unrealized gain (loss) on available-for-sale securities	Treasury stock
		Additional paid-in capital	Legal reserve	Unappropriated			
Balance, March 31, 2004	\$70,644	\$66,502	\$8,986	\$571,014	\$ 5,489	\$(114)	
Appropriations:							
Cash dividends				(8,475)			
Bonuses to directors and corporate auditors				(767)			
Increase in treasury stock (1,936 shares)						(80)	
Net increase in unrealized gain on available-for-sale securities					9,925		
Net income				70,689			
Balance, March 31, 2005	<u>\$70,644</u>	<u>\$66,502</u>	<u>\$8,986</u>	<u>\$632,461</u>	<u>\$15,414</u>	<u>\$(194)</u>	

See notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

Years ended March 31, 2005 and 2004

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 2004 non-consolidated financial statements to conform to the presentations and classifications used in 2005. 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 ¥107.39 to \$1, the approximate rate of exchange at March 31, 2005. 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) Long-lived assets

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 Company adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate 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 effect of adoption of the new accounting standard for impairment of fixed assets was minimal.

(c) 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.

(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 that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

(e) Fuel and supplies inventories

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

(f) 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.

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 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.

(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 non-consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the 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 non-consolidated financial statements for the following year upon shareholders' approval.

3. Property, plant and equipment

The major classes of property, plant and equipment as of March 31, 2005 and 2004, consisted of the following:

	Millions of Yen			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
At March 31, 2005				
Thermal power				
generating facilities	¥377,182	¥(17,090)	¥(227,657)	¥132,435
Transmission facilities	134,892	(2,331)	(65,722)	66,839
Transformation facilities	87,868	(373)	(51,691)	35,804
Distribution facilities	136,099	(2,187)	(63,550)	70,362
General facilities	29,144	(23)	(13,671)	15,450
Utility plants and equipment	765,185	(22,004)	(422,291)	320,890
Construction in progress	6,407			6,407
Total	¥771,592	¥(22,004)	¥(422,291)	¥327,297

	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

	Thousands of U.S. Dollars			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
At March 31, 2005				
Thermal power				
generating facilities	\$3,512,259	\$(159,135)	\$(2,119,912)	\$1,233,212
Transmission facilities	1,256,099	(21,708)	(611,989)	622,402
Transformation facilities	818,211	(3,470)	(481,336)	333,405
Distribution facilities	1,267,333	(20,367)	(591,772)	655,194
General facilities	271,389	(218)	(127,301)	143,870
Utility plants and equipment	7,125,291	(204,898)	(3,932,310)	2,988,083
Construction in progress	59,659			59,659
Total	¥7,184,950	\$(204,898)	\$(3,932,310)	\$3,047,742

4. Investment securities

At March 31, 2005, the unrealized gain of market value over the carrying amount of quoted securities was ¥2,547 million (\$23,714 thousand), at March 31, 2004, the unrealized gain of which was ¥907 million.

5. Long-term debt

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Secured bond, 0.20% to 1.97% in 2005 and 2004, due serially through 2018....	¥ 59,000	¥ 54,000	\$ 549,399
Secured loans from Okinawa Development Finance Public Corporation, 0.55% to 6.20% in 2005 and 0.55% to 6.30% in 2004, due serially through 2018	175,222	198,373	1,631,649
Unsecured loans from banks, 0.12% to 1.95% in 2005 and 0.39% to 2.10% in 2004, due serially 2015 ...	6,253	7,331	58,226
Total	240,475	259,704	2,239,274
Less current maturity	(32,903)	(36,468)	(306,392)
Long-term debt, less current maturity ...	¥207,572	¥223,236	\$1,932,882

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, 2005 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2006.....	¥ 32,903	\$ 306,392
2007.....	33,101	308,230
2008.....	24,276	226,055
2009.....	21,507	200,273
2010.....	19,482	181,413
2011 and thereafter	109,206	1,016,911
Total.....	¥240,475	\$2,239,274

6. Short-term bank loans and commercial paper

The weighted average interest rates of short-term bank loans were 0.45% and 0.60% at March 31, 2005 and 2004, respectively. At March 31, 2004, the weighted average interest rate applicable to commercial paper was 0.01%.

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, 2005 and 2004, respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets:			
Allowance for doubtful accounts	¥1,056	¥1,111	\$ 9,836
Pension and severance costs	4,703	4,302	43,798
Other non-current assets	2,496	2,010	23,238
Other	1,351	1,249	12,576
Sub total.....	9,606	8,672	89,448
Less: valuation allowance	(98)		(910)
Total deferred tax assets.....	9,508	8,672	88,538
Deferred tax liabilities:			
Unrealized gain on land revaluation...	(426)	(434)	(3,967)
Unrealized gain on available-for-sale securities	(891)	(318)	(8,300)
Total deferred tax liabilities	(1,317)	(752)	(12,267)
Net deferred tax assets	¥8,191	¥7,920	\$76,271

The difference between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying non-consolidated statements of income for the year ended March 31, 2005 is immaterial.

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

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

8. Lease

The Company leases certain automobiles and office equipment. Total lease payments under the above leases for the years ended March 31, 2005 and 2004 were ¥519 million (\$4,829 thousand) and ¥534 million, respectively.

Pro forma information on 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, 2005 and 2004 were as follows:

As of March 31, 2005	Millions of Yen		
	General facilities	Other	Total
Acquisition cost	¥2,353	¥43	¥2,396
Accumulated depreciation	(1,483)	(18)	(1,501)
Net leased property	<u>¥ 870</u>	<u>¥25</u>	<u>¥ 895</u>

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, 2005	Thousands of U.S. Dollars		
	General facilities	Other	Total
Acquisition cost	\$21,914	\$401	\$22,315
Accumulated depreciation	(13,810)	(172)	(13,982)
Net leased property	<u>\$ 8,104</u>	<u>\$229</u>	<u>\$ 8,333</u>

Obligations under finance leases as of March 31, 2005 and 2004:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥484	¥ 499	\$4,505
Due after one year	411	852	3,828
Total	<u>¥895</u>	<u>¥1,351</u>	<u>\$8,333</u>

The imputed interest expense portion is immaterial and therefore is 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 ¥519 million (\$4,829 thousand) and ¥534 million for the years ended March 31, 2005 and 2004, respectively.

9. Contingent liabilities

At March 31, 2005, the Company was contingently liable as a guarantor for loans and accounts payable of subsidiaries in the amount of ¥4,625 million (\$43,068 thousand), and ¥4 million (\$40 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 (\$55,871 thousand) as of March 31, 2005.

10. Shareholders' equity

Japanese companies are subject to 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 to 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 ¥67,899 million (\$632,267 thousand) as of March 31, 2005, 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 ¥593 million (\$5,522 thousand) and ¥913 million for the years ended March 31, 2005 and 2004, respectively.

12. Related party transactions

The following is a summary of transactions and balances with subsidiaries and affiliates for the years ended March 31, 2005 and 2004:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Transactions:			
Construction cost and facilities	¥ 8,530	¥ 9,699	\$ 79,430
Repair and other operating expenses	24,249	25,017	225,805
Balance of accounts:			
Trade accounts payable	¥ 2,353	¥ 2,515	\$ 21,915
Accrued expenses	3,636	3,375	33,857

13. Subsequent event

The following appropriations of retained earnings at March 31, 2005 were approved at the shareholders' meeting held on June 29, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30 (28¢) per share	¥455	\$4,237
Bonuses to directors and corporate auditors	87	810

On May 20, 2005, the Company made a 1.05-for-1 stock split for each outstanding share and 758,646 shares were consequently issued to shareholders recorded in the registration book of shareholders on March 31, 2005.

If the stock split had gone into effect during the years ended March 31, 2005 and 2004, net income per share and the amount per share of net assets would have been ¥471.21 (\$4.39) and ¥5,347.76 (\$49.80) in 2005 and ¥346.07 and ¥4,866.65 in 2004, respectively.



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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, 2005 and 2004, 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, 2005 and 2004, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2(b) to the non-consolidated financial statements, the Company adopted a new accounting standard for impairment of fixed assets as of April 1, 2004.

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, 2005