

Corporate Governance

Basic Approach

The Group will conduct its business in conformity with relevant laws and in an ethical manner, and will deepen relations of trust with shareholders, investors and customers through prompt and appropriate disclosure, to ensure that it remains the electricity supplier of choice for its community. To this end, we are vigorously strengthening corporate governance throughout the Group.

In the fiscal 2008 business plan, we continue to pursue our Group target of establishing a Group "brand" by raising our reputation for trustworthiness through enhanced compliance with laws and regulations.

1. Structure and Internal Controls of Group Organizations

Group Senior Executive Council

The Group has established a Senior Executive Council, chaired by the Company president, to discuss important Group matters and assume a decision-making role in strategic management planning and implementation. In principle, the council meets once a quarter, and additionally whenever needed.

Affiliates

With regard to major matters affecting the management of the Group, the Group positions itself for rapid decision-making based on maximized information-sharing by using summaries and reports of discussions undertaken in advance by Group members.

The Board of Directors / Board of Managing Directors

The Board of Directors has 13 members, of whom one is an outside director. It generally meets twice a month. In addition to deciding on significant matters in day-to-day operations, it receives reports on the conduct of business from individual directors and oversees their performance of duties.

In addition, based on the policies decided by the Board of Directors, the Board of Managing Directors discusses issues vital for smooth management of operations under the President's supervision, and works to assure smooth execution. It generally meets two or three times every month, and deals with conduct of important operations.

Board of Auditors

The Company uses the traditional corporate governance system based on corporate auditors. Corporate auditors supervise the conduct of operations by directors through attendance of important meetings such as the Board of Directors' meeting.

The Board of Auditors, comprising 4 statutory auditors including two outside auditors, generally meets once every two months, and receives and discusses reports concerning important auditing matters.

The Board of Auditors has its own staff, working from a corporate auditors' office, to offer support in auditing, and to handle administration.

In addition, the corporate auditors work in partnership with certified public accountants and the internal auditing department to strengthen internal controls and risk avoidance in all Group companies.

At the 35th annual regular general meeting of shareholders, held on June 28, 2007, a further outside auditor was appointed, so that three of the five auditors are outside auditors.

Conflict of Interest Involving External Directors and External Auditors

No substantial conflict of interest exists between the Company and the external director and two external auditors.

Internal Audits

A four-person internal auditing office has been set up as a separate entity under the President. To improve performance, this team carries out annual internal audits to confirm and evaluate the diligence of employees charged with target achievement with respect to management policy, corporate rules and regulations and legal observance in the conduct of their work.

Accounting Auditors

Based on a contract between the Company and Deloitte Touche Tohmatsu, an accounting firm, Certified Public Accountants Noriyuki Takayama and Tatsuya Yasuda were responsible for auditing the settlement of accounts for this period. They were assisted by ten other certified public accountants, three assistant accountants and five others.

Compliance

We aim to raise and uphold compliance awareness by establishing in-house regulations for legal and regulatory compliance and corporate ethics (Basic Code of Corporate Conduct, and Ethical Code for Employees), and by holding regular lectures on legal observance and corporate ethics.

We have established a corporate ethics committee chaired by the President, and ensure rigorous standards of corporate conduct based on observation of the law and corporate ethics standards. In addition to deliberating and deciding on frameworks and internal regulations relating to legal observance and corporate ethics, the committee works to prevent wrongful behavior and, failing that, ensure early remedial measures are taken, after discussion of specific instances as reported to the corporate ethics consultation office.

Disclosure

The Company discloses financial information in the first and third quarters in addition to disclosures for term-end and interim account settlements, to keep shareholders and investors fully informed.

Other

To enhance operational efficiency, the Company has acquired the ISO9001 international quality management standard. Through internal audits, we ensure ISO9001 methods take root and promote more efficient, enhanced operation of our business (excluding the corporate auditors' office and internal auditing office). Based on internal audit using the ISO standard, the Company is improving its capability to assess and manage performance in observation of internal regulations and laws, and related processes.

2. Risk Management

The Company has compiled a variety of manuals for each of its offices and departments dealing with hypothetical risk, and is taking measures to forestall risk and deal quickly with it when it occurs.

The Company has fully prepared itself for the occurrence of risk events by compiling a procedure for mobilization of its crisis management centers and a handbook of measures for emergencies and disasters. It has in place a framework for responding rapidly to major disasters and accidents.

3. Measures undertaken during the past year to enhance corporate governance

At the Okinawa Electric Group Senior Executive Council, Group management policies are discussed and Group companies report on and business progress and reconfirm targets. At this conference, each Company president reports directly, to enable a more accurate overview of business performance.

To foster more efficient Group management, important matters affecting Group management are reported by affiliated companies in advance. Occasionally, these issues are discussed with the parent company beforehand.

In fiscal 2007, the internal auditing office carried out audits and took remedial measures in respect of risk management, internal control processes and governance processes, at 21 locations at 15 offices and six affiliated companies of the Company.

Consolidated Five-Year Summary

Years ended March 31

Millions of Yen

Financial Statistics	2007	2006	2005	2004	2003
For the year:					
Operating revenues	¥159,395	¥157,080	¥150,768	¥148,626	¥145,072
Electric.....	146,735	143,234	136,773	134,330	133,738
Other	12,660	13,845	13,995	14,296	11,334
Operating expenses	143,912	137,264	133,294	131,767	128,038
Electric.....	131,852	123,439	118,538	117,423	117,455
Other	12,059	13,824	14,755	14,344	10,582
Interest expense.....	4,055	4,513	5,586	7,630	8,194
Income before income taxes and minority interests.....	10,643	15,437	11,318	8,811	8,356
Income taxes.....	4,357	6,048	3,915	3,162	3,112
Net income	6,418	9,975	7,614	5,496	5,121
Per share of common stock (Yen):					
Basic net income	¥403.50	¥620.68	¥471.22	¥337.56	¥313.34
Cash dividends applicable to the year.....	60.00	60.00	60.00	60.00	60.00
At year-end:					
Total assets	¥376,071	¥378,666	¥392,158	¥402,407	¥421,080
Net property, plant and equipment	325,450	328,524	340,414	356,350	372,062
Long-term debt, less current maturities	198,107	197,041	217,225	233,744	254,791
Total equity	102,661	96,899	86,959	79,447	74,325
Operating Statistics					
	2007	2006	2005	2004	2003
For the year:					
Electric energy sales (Millions of kWh)	7,376	7,346	7,193	7,156	6,883
Peak load (Thousands of kW)	1,408	1,394	1,363	1,409	1,325
At year-end:					
Generating capacity (Thousands of kW).....	1,924	1,926	1,916	1,918	1,676
Transmission lines (km)	976	945	906	870	799
Distribution lines (km)	10,625	10,562	10,516	10,483	10,372

Financial Review (Consolidated Basis)

Business Performance

Economic recovery continued in Okinawa Prefecture during fiscal 2007 (the fiscal year ended March 31, 2007), with growth led by a pickup in tourism, and strong private sector investment. Personal spending was also robust.

There was only moderate momentum in employment, though. Despite an increase in demand for labor, reflecting buoyant economic conditions in the prefecture and beyond, jobseekers and vacancies were not well matched.

In these economic conditions, electric power demand in the fiscal year under review rose overall year-on-year in the private sector. A decline in residential power use, after the demand boost triggered by high temperatures in the previous fiscal year, was outweighed by higher commercial power use from an increase in the number of customers. Industrial consumption was down year-on-year, due to a correction from the one-time increase in demand caused by capacity surges at seawater desalination facilities in the previous year due to a water shortage.

Residential power demand declined 0.7% year-on-year to 2,881 million kWh, and industrial demand increased 1.1% to 4,495 million kWh. Total sales volume increased 0.4% year-on-year to 7,376 million kWh.

The operating environment was difficult for our Construction Business, due to intense competition for orders in the private sector, and likewise for our IT/Telecommunications Business, which faced increasing diversification and sophistication of service requirements and lower prices.

Against this backdrop, operating revenues (sales) rose ¥2,315 million or 1.5% to ¥159,395 million (US\$1,350 million), driven by increased volume sales and fuel cost adjustment measures.

Operating expenses increased ¥6,648 million or 4.8% to ¥143,912 million (US\$1,219 million). Despite our efforts to reduce costs, including a decline in depreciation expenses (on a declining-balance basis) for the Kin thermal power plant, and an efficiency drive across our businesses, we could not absorb a significant rise fuel costs due to soaring crude oil prices.

As a result, operating income declined ¥4,333 million or 21.9% to ¥15,482 million (US\$131 million). And net income slumped ¥3,557 million or 35.7% to ¥6,418 million (US\$54 million), due partly to booking of loss on impairment of long-lived assets.

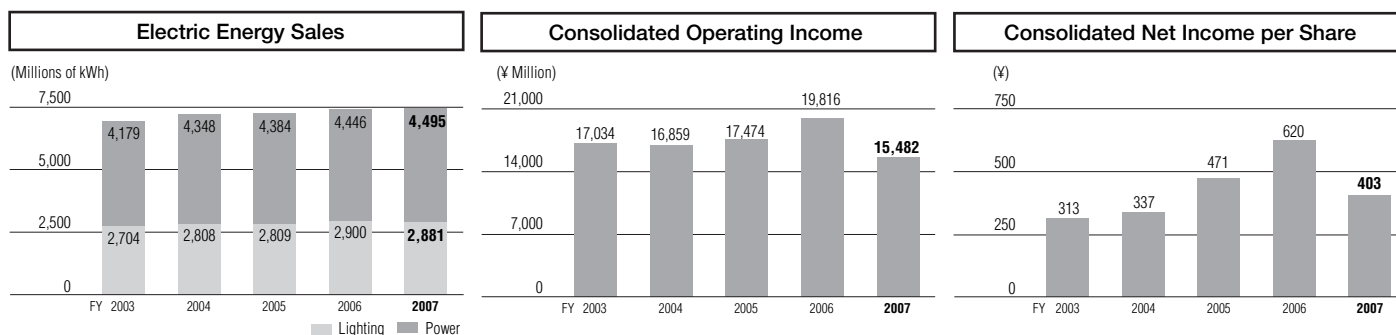
Segment analysis (before elimination of intersegment transactions for purposes of consolidation)

1. Electric Power Business

Electric utility operating revenues increased ¥3,547 million or 2.5% to ¥146,930 million (US\$1,244 million), due to an increase in sales volumes and fuel cost adjustment measures.

However operating expenses rose ¥8,286 million or 6.6% to ¥133,196 million (US\$1,128 million). Despite our efforts to reduce costs, including a decline in depreciation expenses (on a declining-balance basis) for the Kin thermal power plant, and an efficiency drive across our businesses, we could not absorb a significant rise fuel costs due to soaring crude oil prices.

As a result, operating income declined ¥4,739 million or 25.7% to ¥13,734 million (US\$116 million).



2. Construction Business

Sales in the Construction Business decreased ¥2,749 million or 13.2% to ¥18,135 million (US\$153 million), after strong revenues from private sector and large-scale power generation projects in the previous fiscal year.

Operating expenses also declined ¥2,666 million or 13.1% to ¥17,701 million (US\$149 million).

As a result, operating income in the period under review declined ¥82 million or 16.0% to ¥433 million (US\$3 million).

3. Other Operations

Sales in Other Operations increased ¥4,699 million or 16.3% to ¥33,584 million, chiefly reflecting an increase in private sector project orders, while operating expenses rose ¥4,209 million or 15.1% to ¥32,113 million (US\$272 million).

As a result, operating income in this segment increased by ¥489 million or 49.9% to ¥1,470 million (US\$12 million).

(Note): The above values do not include consumption tax.

Cash Flows (Consolidated Basis)

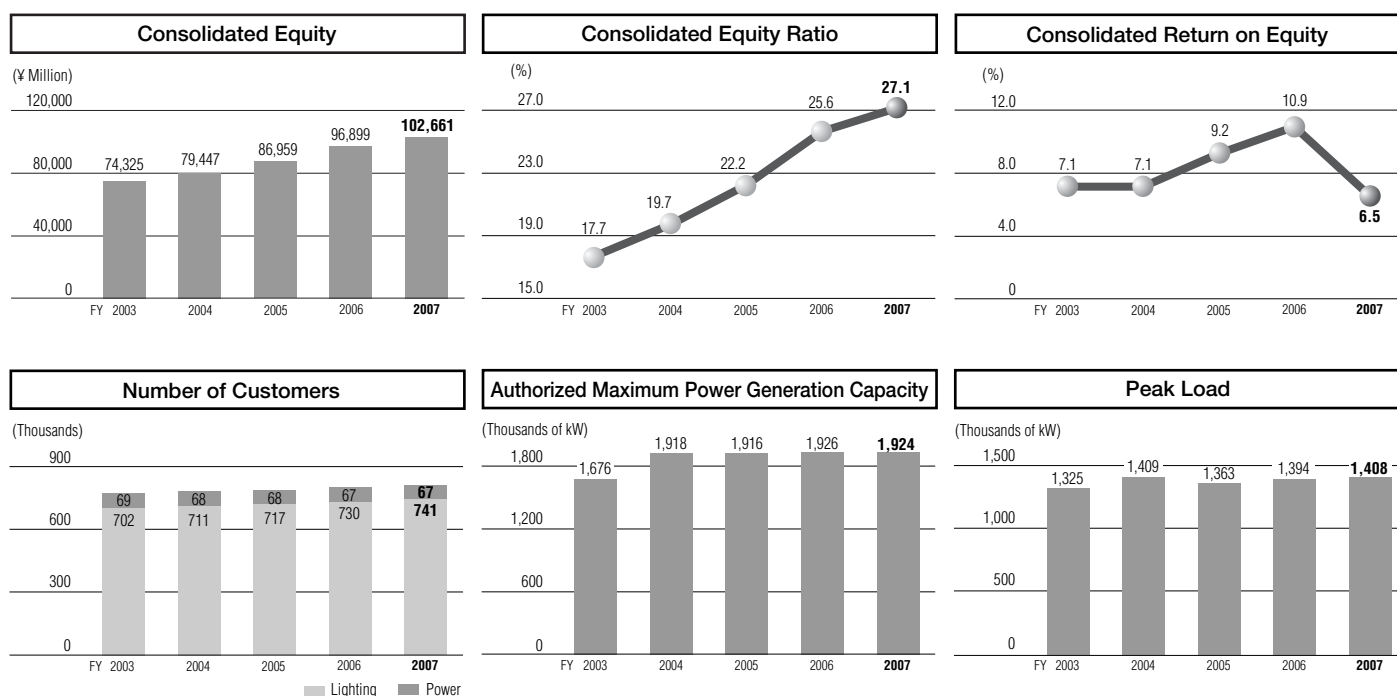
Net cash provided by operating activities decreased by ¥2,340 million or 6.9% to ¥31,558 million (US\$267 million), due chiefly to a decline in income before income taxes, and a decline in depreciation.

Net cash used in investing activities grew ¥8,857 million or 57.0% to ¥24,393 million (US\$206 million), due mainly to an increase in capital expenditures reflecting large-scale projects.

Free cash flow declined ¥11,197 million or 61.0% to ¥7,165 million (US\$60 million).

Net cash used in financing activities declined by ¥10,679 million or 58.4% to ¥7,615 million (US\$64 million), due mainly to a reduction in repayments of long-term debt.

As a result of the above, cash and cash equivalents at the end of the term under review totaled ¥9,380 million (US\$79 million), a decline of ¥450 million or 4.6% from the previous term-end.



Business and Other Risks

The following is a description of the various risks which could have an impact on the Group's business performance and financial position.

Statements contained in this report regarding the Companies' projections for future performance are based on our evaluations at the end of the fiscal year under review (consolidated basis).

1. Deregulation in the electricity business

Starting April 1, 2004, the scope of deregulated retail power sales for extra-high-voltage electricity was expanded, and as of the end of March 2007, around 16% of our customers in terms of electric power sold are in this category. During the current fiscal year, a government committee began subcommittee-level discussions of deregulation including expansion of this customer category.

Although there are no real signs of deregulation bringing new entrants into the power industry in Okinawa Prefecture, if this were to happen, it could have an adverse effect on the business performance of the Group.

2. Businesses other than electricity business

To improve enterprise value, the Group is leveraging its management resources to expand its scope of operations and develop new businesses. It is currently also engaged in businesses such as construction, IT/telecommunications, real estate, dispersed power generation (small-scale power plant for outlying islands), and operation of retirement communities. The Group is also considering entry into the gas business. Unfavorable competitive developments, or a change in the operating environment surrounding these businesses, could have an adverse affect on the business performance of the Group.

3. Economic and climatic conditions

Changes in economic and climatic conditions have the potential to substantially affect volumes of electricity sold by the Group's Electric Power Business. The Group's business and financial performance could be affected by such economic and climatic factors.

4. Fuel-price fluctuations

In our Group operations, we primarily use coal and oil as our thermal fuel sources. Fuel costs fluctuate in tandem with changes in fuel prices and foreign exchange rates.

However, we can minimize the impact on our earnings by applying our fuel cost adjustment measures, which take account of changing fuel prices and foreign exchange rates in the setting of electricity fees.

5. Interest-rate fluctuations

The balance of the Group's interest-bearing liabilities totaled ¥232.6 billion as of March 31, 2007. Future movements in interest rates have the potential to impact the Group's earnings performance.

However, as the interest rates are fixed for the major portion of our interest-bearing debt, and as we are taking steps to substantially reduce our balance of interest-bearing debt to strengthen our financial position, the actual impact of interest rates on the Group's earnings performance is expected to be limited.

In the event that a ratings agency lowers our credit rating, the interest rates on fund procurement for the Group would rise, with the potential to affect the Group's earnings.

6. Special legal measures

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

The Company also benefits from various tax advantages (such as reduced fixed property taxes, and exemption from coal tariffs). However, the savings achieved through these special benefits are passed on to electricity users.

Any abolition of these measures and provisions would have a significant impact on Group business performance.

7. Natural disasters, etc.

Mindful of its duty to ensure a stable supply of electric power, the Company is committed to efficient facility construction, operation, and maintenance to ensure it can cope with natural disasters. However, Group earnings may be adversely affected by major natural disasters, typhoons and earthquakes in particular, and accidents.

8. Personal information leakage

The Group's earnings may be adversely affected by problems arising from leakage of customers' personal information acquired or managed for operation of Group business, despite our best efforts to prevent such an occurrence.

Consolidated Balance Sheets

March 31, 2007 and 2006	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Assets			
Property, plant and equipment (Note 3):			
Utility plants	¥750,719	¥746,931	\$6,359,333
Other plant and equipment (Note 5)	41,391	41,053	350,622
Construction in progress	20,840	11,605	176,542
Total	812,951	799,590	6,886,498
Less:			
Contributions in aid of construction (Note 2(b))	(22,663)	(22,565)	(191,980)
Accumulated depreciation	(464,836)	(448,501)	(3,937,626)
Total	(487,500)	(471,066)	(4,129,607)
Net property, plant and equipment	325,450	328,524	2,756,890
Investments and other assets:			
Investment securities (Note 4)	11,299	11,360	95,716
Investments in and advances to unconsolidated subsidiaries and affiliates	559	521	4,739
Deferred tax assets (Note 8).....	8,523	8,643	72,203
Other assets	2,701	2,653	22,888
Allowance for doubtful accounts	(188)	(117)	(1,597)
Total investments and other assets	22,895	23,002	193,950
Current assets:			
Cash and cash equivalents	9,380	9,831	79,464
Trade notes and accounts receivable, net of allowance for doubtful accounts of ¥266 (\$2,255) in 2007 and ¥249 in 2006.....	7,257	7,128	61,475
Inventories	7,463	7,527	63,223
Deferred tax assets (Note 8)	1,951	1,867	16,530
Other current assets	1,672	784	14,165
Total current assets	27,725	27,139	234,859
Total	¥376,071	¥378,666	\$3,185,700
Liabilities and equity			
Long-term liabilities:			
Long-term debt, less current maturities (Note 5)	¥198,107	¥197,041	\$1,678,167
Liabilities for employees' retirement benefits (Note 7)	13,098	13,151	110,960
Other long-term liabilities	1,000	584	8,479
Total long-term liabilities	212,207	210,777	1,797,607
Current liabilities:			
Current maturities of long-term debt (Note 5)	25,534	34,642	216,299
Commercial paper (Note 6).....	5,000	2,000	42,354
Short-term bank loans (Note 6)	4,007	5,547	33,946
Trade notes and accounts payable	15,577	17,274	131,954
Income taxes payable	2,443	1,628	20,697
Accrued expenses	5,918	5,839	50,135
Other current liabilities	2,722	3,059	23,060
Total current liabilities	61,202	69,991	518,448
Commitments and contingent liabilities (Notes 9 and 10)			
Minority interests			
		997	
Equity (Note 11):			
Common stock,			
Authorized — 30,000,000 shares			
Issued — 15,931,567 shares in 2007 and 2006.....	7,586	7,586	64,264
Capital surplus.....	7,141	7,141	60,497
Retained earnings	84,829	79,464	718,593
Unrealized gain on available-for-sale securities.....	2,489	2,812	21,087
Treasury stock, at cost — 26,266 shares in 2007, 22,522 shares in 2006.....	(133)	(106)	(1,126)
Total	101,914	96,899	863,315
Minority interests.....	747		6,328
Total equity.....	102,661	96,899	869,644
Total	¥376,071	¥378,666	\$3,185,700

See notes to consolidated financial statements.

Consolidated Statements of Income

Years ended March 31, 2007 and 2006	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Operating revenues:			
Electric	¥146,735	¥143,234	\$1,242,992
Other	12,660	13,845	107,245
Total operating revenues	<u>159,395</u>	<u>157,080</u>	<u>1,350,237</u>
Operating expenses (Notes 7, 9 and 12):			
Electric	131,852	123,439	1,116,923
Other	12,059	13,824	102,157
Total operating expenses	<u>143,912</u>	<u>137,264</u>	<u>1,219,081</u>
Operating income	15,482	19,816	131,155
Other expenses:			
Interest expense (Notes 5 and 6)	4,055	4,513	34,354
Loss on impairment of long-lived assets (Note 13)	1,095		9,279
Other — net	(311)	(134)	(2,642)
Net other expenses	<u>4,839</u>	<u>4,378</u>	<u>40,991</u>
Income before income taxes and minority interests	10,643	15,437	90,164
Income taxes (Note 8):			
Current	4,134	3,855	35,021
Deferred	223	2,193	1,892
Total	<u>4,357</u>	<u>6,048</u>	<u>36,913</u>
Income before minority interests	6,286	9,388	53,250
Minority interests	132	587	1,121
Net income	¥ 6,418	¥ 9,975	\$ 54,372
		Yen	U.S. Dollars
Per share of common stock (Note 2 (I)):			
Basic net income	¥403.50	¥620.68	\$3.42
Cash dividends applicable to the year	60.00	60.00	0.51

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Years ended March 31, 2007 and 2006	Common stock		Shares / Millions of Yen							Minority interests	Total equity
	Shares	Amount	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Shares	Amount	Total			
Balance, April 1, 2005	15,172,921	¥7,586	¥7,141	¥70,531	¥1,720	6,677	¥ (20)	¥ 86,959		¥ 86,959	
Common stock split (Note 11)	758,646										
Net income				9,975				9,975		9,975	
Cash dividends				(932)				(932)		(932)	
Bonuses to directors and corporate auditors				(110)				(110)		(110)	
Increase in treasury stock						15,845	(85)	(85)		(85)	
Net change in the year					1,091			1,091		1,091	
Balance, March 31, 2006	<u>15,931,567</u>	<u>7,586</u>	<u>7,141</u>	<u>79,464</u>	<u>2,812</u>	<u>22,522</u>	<u>(106)</u>	<u>96,899</u>		<u>96,899</u>	
Reclassified balance as of March 31, 2006 (Note 2(m))									¥997	997	
Net income				6,418				6,418		6,418	
Cash dividends				(954)				(954)		(954)	
Bonuses to directors and corporate auditors				(98)				(98)		(98)	
Increase in treasury stock						3,744	(27)	(27)		(27)	
Net change in the year					(323)			(323)	(250)	(573)	
Balance, March 31, 2007	<u>15,931,567</u>	<u>¥7,586</u>	<u>¥7,141</u>	<u>¥84,829</u>	<u>¥2,489</u>	<u>26,266</u>	<u>¥(133)</u>	<u>¥101,914</u>	<u>¥747</u>	<u>¥102,661</u>	

	Thousands of U.S. Dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Treasury stock	Total	Minority interests	Total equity	
Balance, March 31, 2006	\$64,264	\$60,497	\$673,141	\$23,825	\$ (897)	\$820,831		\$820,831	
Reclassified balance as of March 31, 2006 (Note 2(m))							\$8,451	8,451	
Net income			54,372			54,372		54,372	
Cash dividends			(8,085)			(8,085)		(8,085)	
Bonuses to directors and corporate auditors			(835)			(835)		(835)	
Increase in treasury stock					(228)	(228)		(228)	
Net change in the year				(2,738)		(2,738)	(2,122)	(4,861)	
Balance, March 31, 2007	<u>\$64,264</u>	<u>\$60,497</u>	<u>\$718,593</u>	<u>\$21,087</u>	<u>\$(1,126)</u>	<u>\$863,315</u>	<u>\$6,328</u>	<u>\$869,644</u>	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2007 and 2006	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Operating activities:			
Income before income taxes and minority interests	¥10,643	¥15,437	\$ 90,164
Adjustments for:			
Income taxes paid.....	(3,319)	(6,197)	(28,119)
Depreciation and amortization.....	24,911	26,577	211,025
Loss on impairment of long-lived assets.....	1,095		9,279
Provision for employees' retirement benefits.....	(52)	(3,908)	(442)
Loss on disposal of property, plant and equipment	1,235	513	10,465
Changes in operating assets and liabilities:			
Increase (decrease) in trade notes and accounts receivable	(144)	414	(1,224)
Decrease in inventories.....	84	593	717
Decrease (increase) in trade notes and accounts payable.....	(1,697)	3,259	(14,379)
Increase (decrease) in interest payable	25	(171)	217
Other — net	(1,224)	(2,617)	(10,373)
Total adjustments	20,914	18,461	177,164
Net cash provided by operating activities.....	31,558	33,898	267,329
Investing activities:			
Purchase of property, plant and equipment	(24,122)	(15,880)	(204,338)
Proceeds from sale of property, plant and equipment	440	733	3,730
Purchase of investment securities	(43)	(38)	(367)
Increase in investments in and advances to unconsolidated subsidiaries and affiliates	(15)	(151)	(133)
Purchase of short-term investment.....		(180)	
Proceeds from maturity of short-term investment		15	
Other — net	(652)	(34)	(5,524)
Net cash used in investing activities	(24,393)	(15,535)	(206,634)
Financing activities:			
Proceeds from issuance of bonds	11,957	1,989	101,290
Repayments of bonds	(12,000)	(3,000)	(101,651)
Proceeds from long-term debt	13,953	12,459	118,195
Repayments of long-term debt	(22,595)	(31,042)	(191,410)
Proceeds from short-term bank loans	57,711	32,199	488,869
Repayments of short-term bank loans	(58,650)	(31,872)	(496,830)
Proceeds from issuance of commercial paper	37,000	24,000	313,426
Repayments on maturity of commercial paper	(34,000)	(22,000)	(288,013)
Cash dividends paid	(955)	(935)	(8,096)
Other — net	(34)	(92)	(289)
Net cash used in financing activities	(7,615)	(18,294)	(64,508)
Net decrease (increase) in cash and cash equivalents	(450)	68	(3,813)
Cash and cash equivalents, beginning of year.....	9,831	9,762	83,278
Cash and cash equivalents, end of year	¥ 9,380	¥ 9,831	\$ 79,464

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended March 31, 2007 and 2006

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements which are issued for domestic reporting purposes in accordance with the provisions set forth in the Securities and Exchange Law, the Japanese Electricity Utilities Industry 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") as well as a new corporate law of Japan (the "Corporate Law") 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.

On December 27, 2005, the Accounting Standards Board of Japan ("ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the statement of changes in equity" in the current fiscal year.

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 2006 financial statements to conform to the classifications used in 2007.

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 ¥118.05 to \$1, the approximate rate of exchange at March 31, 2007. 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.

Amounts of less than one million yen have been rounded off except for per share data. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

2. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements for the years ended March 31, 2007 and 2006 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. 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.

Depreciation is principally computed using the declining-balance method based on the estimated useful lives of the assets. Depreciation of easements is computed using the straight-line method based on the estimated useful lives of the transmission lines.

(c) Long-lived assets

The Companies review their 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.

(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.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(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.

(b) 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 in order to provide employees' severance and retirement benefits.

Prior service costs are recognized in expenses within the statement of income for the year ended March 31, 2006.

Actuarial gains and losses are recognized in expenses using a declining-balance method over five years which is within the average of estimated remaining periods of the employees commencing with the following period.

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

(i) Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005 bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Companies adopted the new accounting standard for bonuses to directors

and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease operating income, income before income taxes and minority interests for the year ended March 31, 2007 by ¥73 million (\$625 thousand).

(j) 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.

(k) Stock and bond issuance costs and bond discount charges

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

(l) 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. Diluted net income per share is not disclosed because no latent shares were outstanding.

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.

(m) Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

(n) Lease

All 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.

(o) Appropriations of retained earnings

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

(p) New Accounting Pronouncements

Measurement of Inventories

Under generally accepted accounting principles in Japan, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. Property, plant and equipment

The major classes of property, plant and equipment as of March 31, 2007 and 2006, consisted of the following:

	Millions of Yen			
	Original Cost	Contributions in Aid of Construction	Accumulated Depreciation	Carrying Value
At March 31, 2007				
Thermal power				
generating facilities	¥373,732	¥(17,017)	¥(248,249)	¥108,466
Transmission facilities	132,003	(2,392)	(69,297)	60,313
Transformation facilities	86,404	(517)	(53,835)	32,051
Distribution facilities	134,991	(2,222)	(65,492)	67,275
General facilities	23,587	(21)	(10,073)	13,492
Utility plants	750,719	(22,171)	(446,948)	281,599
Other plant and				
equipment	41,391	(492)	(17,888)	23,010
Construction in progress	20,840			20,840
Total	¥812,951	¥(22,663)	¥(464,836)	¥325,450

	Millions of Yen			
	Original Cost	Contributions in Aid of Construction	Accumulated Depreciation	Carrying Value
At March 31, 2006				
Thermal power				
generating facilities	¥374,917	¥(17,073)	¥(238,625)	¥119,219
Transmission facilities	130,674	(2,402)	(66,775)	61,496
Transformation facilities	85,530	(511)	(52,158)	32,859
Distribution facilities	132,065	(2,215)	(63,155)	66,694
General facilities	23,744	(23)	(11,730)	11,990
Utility plants	746,931	(22,226)	(432,445)	292,259
Other plant and				
equipment	41,053	(338)	(16,056)	24,659
Construction in progress	11,605			11,605
Total	¥799,590	¥(22,565)	¥(448,501)	¥328,524

	Thousands of U.S. Dollars			
	Original Cost	Contributions in Aid of Construction	Accumulated Depreciation	Carrying Value
At March 31, 2007				
Thermal power				
generating facilities	\$3,165,884	\$(144,153)	\$(2,102,915)	\$ 918,815
Transmission facilities.....	1,118,202	(20,266)	(587,019)	510,916
Transformation facilities ...	731,930	(4,381)	(456,040)	271,508
Distribution facilities.....	1,143,508	(18,827)	(554,789)	569,891
General facilities	199,807	(183)	(85,330)	114,293
Utility plants	6,359,333	(187,812)	(3,786,095)	2,385,425
Other plant and equipment.....	350,622	(4,168)	(151,531)	194,922
Construction in progress...	176,542			176,542
Total.....	<u>\$6,886,498</u>	<u>\$(191,980)</u>	<u>\$(3,937,626)</u>	<u>\$2,756,890</u>

4. Investment securities

The carrying amounts and aggregate fair values of investment securities at March 31, 2007 and 2006 were as follows:

At March 31, 2007	Millions of Yen			
	Cost (Carrying Amount)	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥2,544	¥3,888	¥0	¥6,432
Other	499	7	5	501
Total.....	<u>¥3,044</u>	<u>¥3,896</u>	<u>¥6</u>	<u>¥6,934</u>

At March 31, 2006	Millions of Yen			
	Cost (Carrying Amount)	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥2,543	¥4,421		¥6,964
Other	549		¥8	540
Total.....	<u>¥3,092</u>	<u>¥4,421</u>	<u>¥8</u>	<u>¥7,505</u>

At March 31, 2007	Thousands of U.S. Dollars			
	Cost (Carrying Amount)	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities.....	\$21,554	\$32,940	\$ 5	\$54,488
Other	4,233	66	47	4,252
Total.....	<u>\$25,787</u>	<u>\$33,006</u>	<u>\$53</u>	<u>\$58,740</u>

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Available-for-sale:			
Equity securities	¥4,364	¥3,855	\$36,975
Total.....	<u>¥4,364</u>	<u>¥3,855</u>	<u>\$36,975</u>

5. Long-term debt

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Secured bond, 0.30% to 2.02% in 2007 and 0.20% to 1.97% in 2006, due serially through 2018.....	¥ 58,000	¥ 58,000	\$ 491,317
Loans from Okinawa Development Finance Public Corporation, 0.55% to 4.60% in 2007 and 0.55% to 6.20% in 2006, due serially through 2024			
Collateralized	155,021	163,311	1,313,189
Unsecured.....	200		1,694
Secured and unsecured loans from banks, insurance companies and other sources, 0.50% to 3.03% in 2007 and 0.15% to 3.40% in 2006 due serially through 2016	10,419	10,373	88,266
Total	<u>223,641</u>	<u>231,684</u>	<u>1,894,467</u>
Less current maturity	(25,534)	(34,642)	(216,299)
Long-term debt, less current maturity.....	<u>¥198,107</u>	<u>¥197,041</u>	<u>\$1,678,167</u>

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 ¥9,574 million (\$81,105 thousand), are pledged as collateral for a portion of the long-term debt as of March 31, 2007.

The aggregate annual maturities of long-term debt outstanding at March 31, 2007 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008.....	¥ 25,534	\$ 216,229
2009.....	26,383	223,497
2010.....	25,209	213,551
2011.....	33,232	281,513
2012.....	17,485	148,122
2013 and thereafter.....	95,795	811,483
Total	<u>¥223,641</u>	<u>\$1,894,467</u>

6. Short-term bank loans and commercial paper

The weighted average interest rates applicable to short-term bank loans and commercial paper were 0.90% and 0.66% at March 31, 2007 and 0.56% and 0.07% at March 31, 2006, respectively.

7. Employees' retirement benefits

After having obtained the labor union's mutual agreement in October 2005, the Company revised its rules related to retirement benefit and pension plan to new rules under the Defined Benefit Corporate Pension Law. Elements of the new rules applied from January 1, 2006 are as follows:

- The Company shifted from a qualified retirement pension plan to contract-type corporate pension plan, which is a defined benefit pension plan based on variable interest rate, enabling the Company to flexibly respond to market interest rate fluctuations.
- A part of the former lump-sum retirement benefit plan was shifted to a defined contribution pension plan and a contract-type corporate pension plan.
- Benefits under the plans are calculated according to accumulated "points" that are earned based on employee's position and length of service period during employment.

Consolidated subsidiaries have the tax qualified pension plan and the lump-sum retirement benefit plan as defined benefit plan.

The liability for employees' retirements benefit at March 31, 2007 and 2006 consisted of the followings:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
Projected benefit obligation	¥23,976	¥23,722	\$203,106
Fair value of pension assets	(10,831)	(10,419)	(91,750)
Unrecognized actuarial loss	(46)	(152)	(395)
Net liability	¥13,098	¥13,151	\$110,960

The effect of the transition to the defined contribution pension plan at March 31, 2006, is summarized as follows:

	Millions of Yen
Decrease in projected benefit obligation	¥3,259
Unrecognized actuarial loss	(242)
Decrease in liability for severance and retirement benefits	¥3,017

The amount of pension assets to be transferred to the defined contribution pension plan is ¥3,690 million and the pension assets will be transferred over a period of 4 years. At March 31, 2006, the amount of pension assets not yet transferred is ¥2,769 million, which is included in trade notes and accounts payable.

The components of net periodic retirement benefit costs for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
Service cost.....	¥1,220	¥1,275	\$10,342
Interest cost.....	382	421	3,241
Expected return on plan assets.....	(174)		(1,477)
Recognized actuarial loss	56	329	477
Prior service cost.....		(838)	
Contribution to the defined contribution pension plan.....	191		1,624
Net periodic retirement benefit costs.....	¥1,677	¥1,189	\$14,209
Loss on the transition to the defined contribution pension plan.....		673	

Assumptions used for the years ended March 31, 2007 and 2006 were set forth as follows:

	2007	2006
Discount rate.....	2.0%	2.0%
Expected rate of return on plan assets.....	2.0%	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.

8. Income taxes

The Companies are subject to several taxes based on income and revenue. For the years ended March 31, 2007 and 2006, 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, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
Deferred tax assets:			
Pension and severance costs	¥ 4,806	¥ 4,641	\$ 40,712
Unrealized profit.....	3,879	3,955	32,860
Depreciation and amortization	1,933	1,748	16,377
Tax loss carry forward	929	815	7,871
Accrued bonus to employees	872	864	7,390
Other.....	2,809	2,867	23,803
Sub-total	15,230	14,893	129,016
Less: valuation allowance	(2,882)	(2,424)	(24,418)
Total deferred tax assets.....	¥12,347	¥12,468	\$104,597
Deferred tax liabilities:			
Unrealized gain on land revaluation	(406)	(406)	(3,446)
Unrealized gain on available-for-sale securities	(1,372)	(1,559)	(11,627)
Other	(104)	(1)	(882)
Total deferred tax liabilities.....	(1,883)	(1,968)	(15,956)
Net deferred tax assets	¥10,464	¥10,500	\$ 88,640

Other long-term liabilities in the consolidated balance sheets contain deferred tax liabilities of ¥11 million (\$93 thousand) and ¥11 million for the years ended March 31, 2007 and 2006, respectively, recognized in consolidated subsidiaries.

Reconciliations between the normal effective statutory tax rate for the years ended March 31, 2007 and the actual effective tax rate reflected in the accompanying consolidated statements of income were as follows:

	2007	2006
Normal effective statutory tax rate.....	35.0%	35.0%
Expenses not deductible for income tax purposes.....	1.0	1.0
Changes in valuation allowance	2.7	2.1
Unrecognized tax effect against elimination of unrealized profit.....	1.3	1.7
Other-net	0.9	(0.6)
Actual effective tax rate	40.9%	39.2%

9. Lease

The Companies lease certain automobiles and office equipment. Total lease payments under the above leases for the years ended March 31, 2007 and 2006 were ¥790 million (\$6,700 thousand) and ¥853 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, 2007 and 2006 were as follows:

	Millions of Yen		
	General Facilities	Other	Total
As of March 31, 2007			
Acquisition cost.....	¥566	¥4,019	¥4,586
Accumulated depreciation.....	(99)	(1,488)	(1,588)
Net leased property.....	¥466	¥2,531	¥2,997

	Millions of Yen		
	General Facilities	Other	Total
As of March 31, 2006			
Acquisition cost.....	¥1,680	¥4,078	¥5,758
Accumulated depreciation.....	(1,255)	(1,135)	(2,390)
Net leased property.....	<u>¥ 425</u>	<u>¥2,942</u>	<u>¥3,367</u>

As of March 31, 2007	Thousands of U.S. Dollars		
	General Facilities	Other	Total
Acquisition cost	\$4,797	\$34,052	\$38,850
Accumulated depreciation	(844)	(12,610)	(13,454)
Net leased property	\$3,953	\$21,442	\$25,395

Obligations under finance leases as of March 31, 2007 and 2006:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 557	¥ 786	\$ 4,722
Due after one year	2,446	2,594	20,721
Total	¥3,003	¥3,381	\$25,444

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 ¥790 million (\$6,700 thousand) and ¥853 million for the years ended March 31, 2007 and 2006, 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, 2007 and 2006 were ¥204 million (\$1,728 thousand) and ¥152 million, respectively. Lease income is recognized in income on a straight-line basis over the lease term.

At March 31, 2007 and 2006, summaries of the above leased property were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Other equipment:			
Acquisition cost	¥1,010	¥702	\$8,559
Accumulated depreciation	(342)	(252)	(2,903)
Net leased property	¥ 667	¥450	\$5,656

At March 31, 2007 and 2006, the total lease payments to be received from the above leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥226	¥165	\$1,921
Due after one year	528	393	4,473
Total	¥754	¥558	\$6,395

10. Contingent liabilities

As of March 31, 2007, the Company was contingently liable for:

Redemption of bonds transferred to banks under the debt assumption agreements amounting to ¥6,000 million (\$50,825 thousand).

11. Equity

On and after May 1, 2006, Japanese companies are subject to the Corporate Law which reformed and replaced the Code with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

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.

12. Research and development costs

Research and development costs charged to income were ¥470 million (\$3,984 thousand) and ¥547 million for the years ended March 31, 2007 and 2006, respectively.

13. Loss on impairment of long-lived assets

The Companies reviewed their long-lived assets for impairment as of the year ended March 31, 2007 and, as a result, recognized an impairment loss of ¥1,095 million (\$9,279 thousand) as other expense mainly for the FTTH (Fiber to the Home) assets group and the idle assets.

The recoverable amount of the FTTH assets group was measured at their value in use and a prospect of the future cash flow generated from the FTTH business would be negative. As the result, the whole carrying amount of the FTTH assets was written down.

The idle assets for which market value has fallen have been adjusted to their recoverable amount, which was mainly measured at the respective net selling prices based on assessed value of the relevant assets.

14. Segment information

Information about operations in different industry segments of the Companies for the years ended March 31, 2007 and 2006 is as follows:

2007	Millions of Yen					Thousands of U.S. Dollars				
	Electric	Construction	Other	Eliminations / Corporate	Consolidated	Electric	Construction	Other	Eliminations / Corporate	Consolidated
Sales to customers.....	¥146,735	¥ 3,302	¥ 9,357		¥159,395	\$1,242,992	\$ 27,974	\$ 79,270		\$1,350,237
Intersegment sales	195	14,832	24,226	¥(39,254)		1,653	125,648	205,219	\$(332,520)	
Total operating revenues.....	146,930	18,135	33,584	(39,254)	159,395	1,244,645	153,622	284,489	(332,520)	1,350,237
Operating expenses.....	133,196	17,701	32,113	(39,098)	143,912	1,128,304	149,953	272,029	(331,205)	1,219,081
Operating income	¥ 13,734	¥ 433	¥ 1,470	¥ (155)	¥ 15,482	\$ 116,340	\$ 3,669	\$ 12,460	\$ (1,315)	\$ 131,155
Total assets.....	¥343,301	¥11,772	¥34,855	¥(13,856)	¥376,071	\$2,908,099	\$ 99,724	\$295,257	\$(117,380)	\$3,185,700
Depreciation and amortization...	23,429	173	2,124	(815)	24,911	198,466	1,473	17,992	(6,907)	211,025
Loss on impairment of long-lived assets.....			913	182	1,095			7,736	1,542	9,279
Capital expenditures.....	23,492	109	2,196	(1,054)	24,743	199,004	926	18,607	(8,933)	209,604

2006	Millions of Yen				
	Electric	Construction	Other	Eliminations / Corporate	Consolidated
Sales to customers	¥143,234	¥ 6,246	¥ 7,598		¥157,080
Intersegment sales	148	14,637	21,285	¥(36,072)	
Total operating revenues	143,383	20,884	28,884	(36,072)	157,080
Operating expenses.....	124,909	20,368	27,903	(35,917)	137,264
Operating income.....	¥ 18,473	¥ 515	¥ 981	¥ (154)	¥ 19,816
Total assets.....	¥345,684	¥11,928	¥35,448	¥(14,394)	¥378,666
Depreciation and amortization	25,121	154	2,129	(827)	26,577
Capital expenditures.....	14,432	259	2,136	(946)	15,881

“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, 2007 and 2006.

The Companies adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007 (see Note 2(i)). The effect of adoption of this accounting standard was to decrease operating income of Electric for the year ended March 31, 2007 by ¥73 million (\$625 thousand) from such a segment in the prior year.

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.

Since all derivatives utilized by the Company were qualified for hedge-accounting, information on the market value is not provided.

16. Subsequent event

The following appropriations of retained earnings at March 31, 2007 were approved at the Company’s shareholders’ meeting held on June 28, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30 (25¢) per share.....	¥477	\$4,042

On April 1, 2007, the Company made a 1.1-for-1 stock split for each outstanding share and 1,593,156 shares were consequently issued to shareholders recorded in the registration book of shareholders on March 31, 2007.

If the stock split had gone into effect during the years ended March 31, 2007 and 2006, net income per share and the amount per share of net assets would have been ¥366.82 (\$3.11) and ¥5,825.07 (\$49.34) in 2007 and ¥564.25 and ¥5,531.48 in 2006, 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 "Companies") as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in 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, 2007 and 2006, and the consolidated results of their operations and 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 28, 2007

Non-Consolidated Balance Sheets

March 31, 2007 and 2006	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Assets			
Property, plant and equipment (Note 3):			
Utility plants and equipment	¥775,616	¥771,319	\$6,570,234
Construction in progress.....	20,523	11,424	173,851
Total	796,139	782,744	6,744,085
Less:			
Contributions in aid of construction (Note 2(a))	(22,232)	(22,226)	(188,331)
Accumulated depreciation	(461,100)	(445,579)	(3,905,975)
Total	(483,332)	(467,805)	(4,094,306)
Net property, plant and equipment	312,806	314,938	2,649,779
Investments and other assets:			
Investment securities (Note 4)	9,834	10,246	83,307
Investments in and advances to subsidiaries and affiliates	11,170	11,173	94,625
Deferred tax assets (Note 7)	4,625	4,864	39,180
Other assets	1,010	849	8,558
Allowance for doubtful accounts	(153)	(133)	(1,301)
Total investments and other assets	26,487	27,000	224,371
Current assets:			
Cash and cash equivalents	1,593	3,223	13,498
Trade accounts receivable, net of allowance for doubtful accounts of ¥184 (\$1,564) in 2007 and ¥156 in 2006	4,637	3,998	39,283
Fuel and supplies	5,574	5,577	47,218
Deferred tax assets (Note 7)	1,615	1,456	13,687
Other current assets	1,399	464	11,855
Total current assets	14,820	14,720	125,543
Total	¥354,113	¥356,659	\$2,999,694
Liabilities and equity			
Long-term liabilities:			
Long-term debt, less current maturities (Note 5)	¥188,296	¥188,471	\$1,595,055
Liabilities for employees' retirement benefits.....	10,010	10,261	84,794
Other long-term liabilities.....	835	487	7,073
Total long-term liabilities	199,141	199,221	1,686,924
Current liabilities:			
Current maturities of long-term debt (Note 5)	24,475	33,100	207,327
Commercial paper (Note 6).....	5,000	2,000	42,354
Short-term bank loan (Note 6).....	4,000	5,000	33,883
Trade accounts payable	10,591	11,658	89,724
Income taxes payable	1,833	1,387	15,529
Accrued expenses	8,253	8,476	69,917
Other current liabilities	1,425	1,475	12,079
Total current liabilities	55,579	63,098	470,816
Commitments and contingent liabilities (Notes 8 and 9)			
Equity (Note 10):			
Common stock,			
Authorized — 30,000,000 shares			
Issued — 15,931,567 shares (2007 and 2006)	7,586	7,586	64,264
Capital surplus:			
Additional paid-in capital	7,141	7,141	60,497
Retained earnings:			
Legal reserve	964	964	8,174
Unappropriated	81,432	76,063	689,812
Unrealized gain on available-for-sale securities.....	2,400	2,688	20,331
Treasury stock, at cost — 26,266 shares in 2007 and 22,522 shares in 2006	(133)	(106)	(1,126)
Total equity.....	99,392	94,339	841,952
Total	¥354,113	¥356,659	\$2,999,694

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

Years ended March 31, 2007 and 2006	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Operating revenues	¥147,201	¥143,653	\$1,246,944
Operating expenses (Notes 8 and 11):			
Fuel	40,607	32,578	343,984
Purchased power	12,766	13,422	108,145
Depreciation	23,319	25,062	197,540
Repair and maintenance	15,100	14,922	127,917
Taxes other than income taxes	6,672	6,553	56,521
Other	35,044	32,817	296,865
Total operating expenses.....	133,511	125,357	1,130,974
Operating income	13,690	18,296	115,970
Other expenses:			
Interest expense (Notes 5 and 6).....	3,860	4,316	32,698
Other — net	(266)	(83)	(2,257)
Net other expenses	3,593	4,232	30,440
Income before income taxes	10,096	14,063	85,529
Income taxes (Note 7):			
Current	3,462	3,587	29,329
Deferred	235	1,312	1,996
Total.....	3,697	4,900	31,325
Net income	¥ 6,398	¥ 9,163	\$ 54,203
		Yen	U.S. Dollars
Per share of common stock (Note 2 (k)):			
Basic net income.....	¥402.25	¥571.05	\$3.41
Cash dividends applicable to the year.....	60.00	60.00	0.51

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Changes in Equity

Years ended March 31, 2007 and 2006	Shares / Millions of Yen								
	Common stock		Capital surplus	Retained earnings			Treasury stock		Total equity
	Shares	Amount	Additional paid-in capital	Legal reserve	Unappropriated	Unrealized gain on available-for-sale securities	Shares	Amount	
Balance, April 1, 2005	15,172,921	¥7,586	¥7,141	¥964	¥67,919	¥1,655	6,677	¥ (20)	¥85,247
Common stock split (Note 10)	758,646								
Net income					9,163				9,163
Cash dividends					(932)				(932)
Bonuses to directors and corporate auditors.....					(86)				(86)
Increase in treasury stock							15,845	(85)	(85)
Net change in the year						1,033			1,033
Balance, March 31, 2006	15,931,567	7,586	7,141	964	76,063	2,688	22,522	(106)	94,339
Net income					6,398				6,398
Cash dividends					(954)				(954)
Bonuses to directors and corporate auditors.....					(75)				(75)
Increase in treasury stock							3,744	(27)	(27)
Net change in the year						(288)			(288)
Balance, March 31, 2007	<u>15,931,567</u>	<u>¥7,586</u>	<u>¥7,141</u>	<u>¥964</u>	<u>¥81,432</u>	<u>¥2,400</u>	<u>26,266</u>	<u>¥(133)</u>	<u>¥99,392</u>

	Thousands of U.S. Dollars (Note 1)							
	Common stock	Capital surplus		Retained earnings		Unrealized gain on available-for-sale securities	Treasury stock	Total equity
		Additional paid-in capital	Legal reserve	Unappropriated				
Balance, March 31, 2006	\$64,264	\$60,497	\$8,174	\$644,334	\$22,776	\$ (897)	\$799,149	
Net income				54,203			54,203	
Cash dividends				(8,085)			(8,085)	
Bonuses to directors and corporate auditors				(640)			(640)	
Increase in treasury stock						(228)	(228)	
Net change in the year					(2,445)		(2,445)	
Balance, March 31, 2007	<u>\$64,264</u>	<u>\$60,497</u>	<u>\$8,174</u>	<u>\$689,812</u>	<u>\$20,331</u>	<u>\$(1,126)</u>	<u>\$841,952</u>	

See notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

Years ended March 31, 2007 and 2006

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") as well as a new corporate law of Japan (the "Corporate Law"), the Securities and Exchange Law, the Japanese Electricity Utilities Industry 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.

On December 27, 2005, the Accounting Standards Board of Japan ("ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the statement of changes in equity" in the current fiscal year.

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 2006 non-consolidated financial statements to conform to the presentations and classifications used in 2007. 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 ¥118.05 to \$1, the approximate rate of exchange at March 31, 2007. 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.

Amounts of less than one million yen have been rounded off except for per share data. Consequently, the totals shown in the accompanying non-consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

2. Summary of significant accounting policies

(a) Property, plant and equipment

Property, plant and equipment are stated at cost. 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.

Depreciation is principally computed using the declining-balance method based on the estimated useful lives of the assets. Depreciation of easements is computed using the straight-line method based on the estimated useful lives of the transmission lines.

(b) Long-lived assets

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.

(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.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(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

Fuel and supplies 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 in order to provide employees' severance and retirement benefits.

Prior service costs are recognized in expenses within the statement of income for the year ended March 31, 2006.

Actuarial gains and losses are recognized in expenses using a declining-balance method over five years which is within the average of estimated remaining periods of the employees commencing with the following period.

(b) Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005 bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease operating income, income before income taxes for the year ended March 31, 2007 by ¥73 million (\$625 thousand).

(i) 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.

(j) Stock and bond issuance costs and bond discount charges

Stock and bond issuance 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. Diluted net income per share is not disclosed because no latent shares were outstanding.

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.

(l) Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The non-consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

(m) Lease

All 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.

(n) Appropriations of retained earnings

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

(o) New Accounting Pronouncements Measurement of Inventories

Under generally accepted accounting principles in Japan, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

3. Property, plant and equipment

The major classes of property, plant and equipment as of March 31, 2007 and 2006, consisted of the following:

	Millions of Yen			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
At March 31, 2007				
Thermal power				
generating facilities	<u>¥377,270</u>	<u>¥(17,017)</u>	<u>¥(250,854)</u>	<u>¥109,398</u>
Transmission facilities	<u>138,183</u>	<u>(2,392)</u>	<u>(72,969)</u>	<u>62,821</u>
Transformation facilities	<u>89,722</u>	<u>(517)</u>	<u>(55,900)</u>	<u>33,304</u>
Distribution facilities	<u>142,239</u>	<u>(2,222)</u>	<u>(68,735)</u>	<u>71,281</u>
General facilities	<u>28,200</u>	<u>(82)</u>	<u>(12,641)</u>	<u>15,476</u>
Utility plants				
and equipment	<u>775,616</u>	<u>(22,232)</u>	<u>(461,100)</u>	<u>292,283</u>
Construction in progress.....	<u>20,523</u>			<u>20,523</u>
Total	<u>¥796,139</u>	<u>¥(22,232)</u>	<u>¥(461,100)</u>	<u>¥312,806</u>

	Millions of Yen			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
At March 31, 2006				
Thermal power				
generating facilities	<u>¥378,416</u>	<u>¥(17,073)</u>	<u>¥(241,097)</u>	<u>¥120,244</u>
Transmission facilities	<u>136,688</u>	<u>(2,402)</u>	<u>(70,250)</u>	<u>64,035</u>
Transformation facilities	<u>88,763</u>	<u>(511)</u>	<u>(54,102)</u>	<u>34,148</u>
Distribution facilities	<u>139,017</u>	<u>(2,215)</u>	<u>(66,178)</u>	<u>70,623</u>
General facilities	<u>28,434</u>	<u>(23)</u>	<u>(13,949)</u>	<u>14,461</u>
Utility plants				
and equipment	<u>771,319</u>	<u>(22,226)</u>	<u>(445,579)</u>	<u>303,513</u>
Construction in progress.....	<u>11,424</u>			<u>11,424</u>
Total	<u>¥782,744</u>	<u>¥(22,226)</u>	<u>¥(445,579)</u>	<u>¥314,938</u>

	Thousands of U.S. Dollars			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
At March 31, 2007				
Thermal power				
generating facilities	<u>\$3,195,852</u>	<u>\$(144,153)</u>	<u>\$(2,124,982)</u>	<u>\$ 926,716</u>
Transmission facilities	<u>1,170,552</u>	<u>(20,266)</u>	<u>(618,122)</u>	<u>532,163</u>
Transformation facilities	<u>760,036</u>	<u>(4,381)</u>	<u>(473,528)</u>	<u>282,125</u>
Distribution facilities	<u>1,204,910</u>	<u>(18,827)</u>	<u>(582,258)</u>	<u>603,823</u>
General facilities	<u>238,882</u>	<u>(701)</u>	<u>(107,082)</u>	<u>131,097</u>
Utility plants				
and equipment	<u>6,570,234</u>	<u>(188,331)</u>	<u>(3,905,975)</u>	<u>2,475,928</u>
Construction in progress.....	<u>173,851</u>			<u>173,851</u>
Total	<u>\$6,744,085</u>	<u>\$(188,331)</u>	<u>\$(3,905,975)</u>	<u>\$2,649,779</u>

4. Investment securities

At March 31, 2007, the unrealized gain of market value over the carrying amount of quoted securities was ¥3,692 million (\$31,278 thousand), at March 31, 2006, the unrealized gain of which was ¥4,136 million.

5. Long-term debt

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
Secured bond, 0.30% to 2.02% in 2007 and 0.20% to 1.97% in 2006, due serially through 2018.....	¥ 58,000	¥ 58,000	\$ 491,317
Secured loans from Okinawa Development Finance Public Corporation, 0.55% to 4.60% in 2007 and 0.55% to 6.20% in 2006, due serially through 2021	150,176	158,261	1,272,142
Unsecured loans from banks, 0.74% to 2.20% in 2007 and 0.15% to 2.10% in 2006, due serially 2015 ...	4,594	5,311	38,923
Total.....	212,771	221,572	1,802,383
Less current maturity.....	(24,475)	(33,100)	(207,327)
Long-term debt, less current maturity	¥188,296	¥188,471	\$1,595,055

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, 2007 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2008.....	¥ 24,475	\$ 207,327
2009.....	25,320	214,487
2010.....	23,146	196,070
2011.....	32,133	272,199
2012.....	15,541	131,650
2013 and thereafter	92,155	780,647
Total.....	¥212,771	\$1,802,383

6. Short-term bank loans and commercial paper

The weighted average interest rates applicable to short-term bank loans and commercial paper were 0.90% and 0.66% at March 31, 2007 and 0.50% and 0.07% at March 31, 2006 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, 2007 and 2006, respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
Deferred tax assets:			
Pension and severance costs.....	¥3,503	¥3,591	\$29,678
Depreciation and amortization.....	1,810	1,602	15,333
Accrued bonus to employees.....	633	629	5,370
Accrued defined contribution pension plan.....	597	969	5,062
Other.....	1,666	1,550	14,116
Sub total.....	8,211	8,343	69,560
Less: valuation allowance	(271)	(167)	(2,297)
Total deferred tax assets.....	¥7,940	¥8,176	\$67,262
Deferred tax liabilities:			
Unrealized gain on land revaluation...	(406)	(406)	(3,446)
Unrealized gain on available-for-sale securities.....	(1,292)	(1,447)	(10,947)
Total deferred tax liabilities	(1,699)	(1,854)	(14,393)
Net deferred tax assets	¥6,241	¥6,321	\$52,868

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, 2007 and 2006 is immaterial.

8. Lease

The Company leases certain automobiles and office equipment. Total lease payments under the above leases for the years ended March 31, 2007 and 2006 were ¥427 million (\$3,618 thousand) and ¥510 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, 2007 and 2006 were as follows:

	Millions of Yen		
	General facilities	Other	Total
As of March 31, 2007			
Acquisition cost	¥1,004	¥84	¥1,089
Accumulated depreciation	(197)	(43)	(241)
Net leased property.....	¥ 806	¥41	¥ 848
	Millions of Yen		
As of March 31, 2006	General facilities	Other	Total
Acquisition cost	¥2,338	¥69	¥2,408
Accumulated depreciation	(1,891)	(36)	(1,927)
Net leased property.....	¥ 446	¥33	¥ 480
	Thousands of U.S. Dollars		
As of March 31, 2007	General facilities	Other	Total
Acquisition cost	\$8,508	\$717	\$9,226
Accumulated depreciation	(1,674)	(366)	(2,041)
Net leased property.....	\$6,833	\$350	\$7,184

Obligations under finance leases as of March 31, 2007 and 2006:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥215	¥380	\$1,823
Due after one year	632	99	5,361
Total	¥848	¥480	\$7,184

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 ¥427 million (\$3,618 thousand) and ¥510 million for the years ended March 31, 2007 and 2006, respectively.

9. Contingent liabilities

At March 31, 2007, the Company was contingently liable as a guarantor for loans and accounts payable of subsidiaries in the amount of ¥6,018 million (\$50,981 thousand), and ¥6 million (\$57 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 (\$50,825 thousand) as of March 31, 2007.

10. Equity

On and after May 1, 2006, the Corporate Law became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 31, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria. The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

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.

11. Research and development costs

Research and development costs charged to income were ¥477 million (\$4,043 thousand) and ¥547 million for the years ended March 31, 2007 and 2006, respectively.

12. Subsequent event

The following appropriations of retained earnings at March 31, 2007 were approved at the Company's shareholders' meeting held on June 28, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30 (25¢) per share	¥477	\$4,042

On April 1, 2007, the Company made a 1.1-for-1 stock split for each outstanding share and 1,593,156 shares were consequently issued to shareholders recorded in the registration book of shareholders on March 31, 2007.

If the stock split had gone into effect during the years ended March 31, 2007 and 2006, net income per share and the amount per share of net assets would have been ¥365.68 (\$3.10) and ¥5,680.93 (\$48.12) in 2007 and ¥519.13 and ¥5,386.53 in 2006, 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, 2007 and 2006, and the related non-consolidated statements of income and changes in 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.

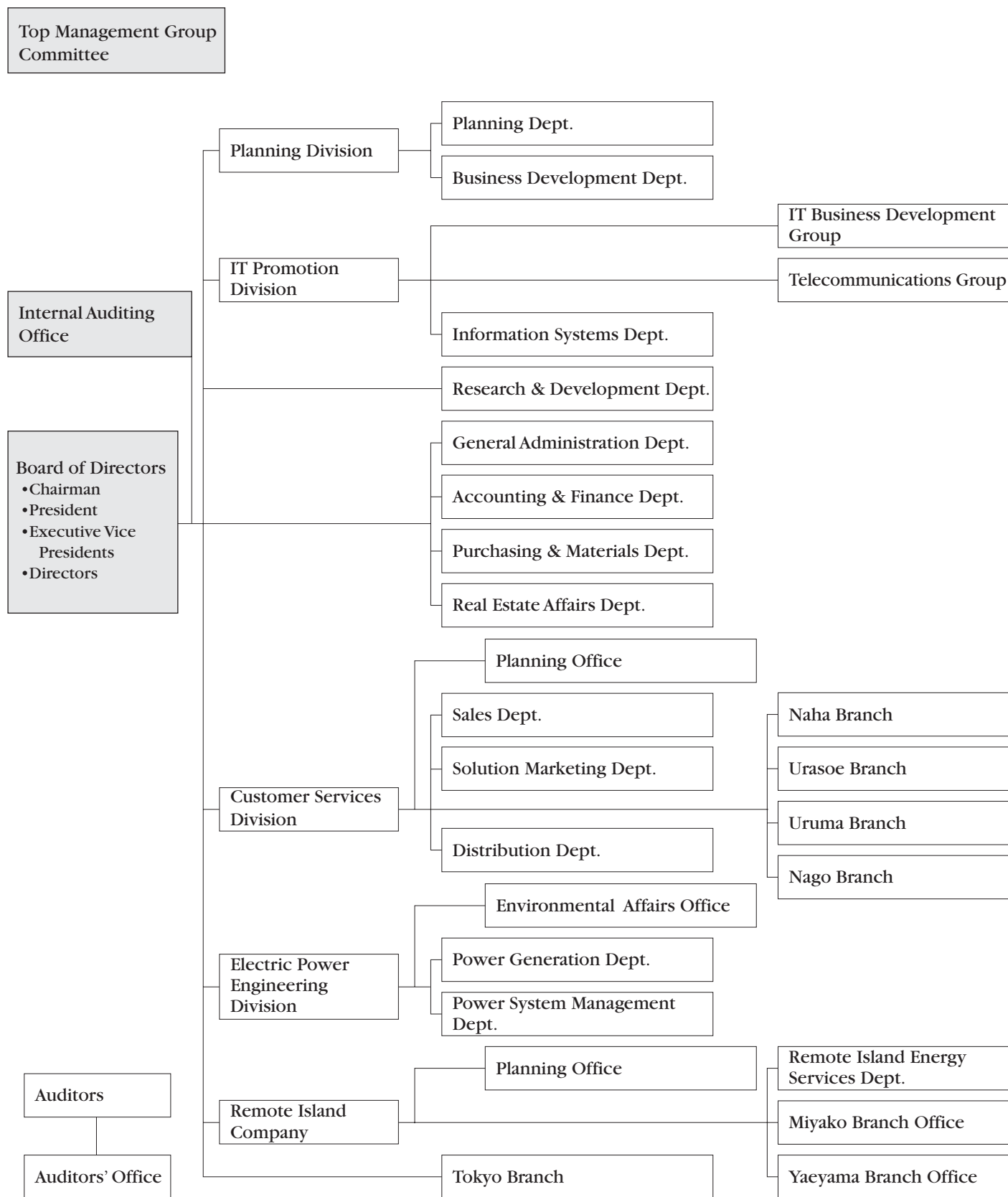
In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Okinawa Electric Power Company, Incorporated as of March 31, 2007 and 2006, and the results of its operations for the years then ended in conformity with 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 28, 2007

Organization Chart



An Outline of the OEPC Group

Okiden Group Companies (As of March 31, 2007)

Company Name	Established/Capital	Business Areas
a. Construction		
Okidenko Company, Incorporated	June 12, 1968 ¥130 million	Construction and installation of power distribution and generation facilities; civil engineering work; and building construction
Okiden Sekkei Company, Incorporated	May 10, 1994 ¥40 million	Feasibility studies and design of electric power facilities, and supervision of construction; environmental surveys, soil quality examination and land surveys
Okinawa New Energy Development Company, Incorporated	October 14, 1996 ¥49 million	Feasibility studies, design, and management of construction of new energy power generation systems; management of operation and maintenance of such systems
Okisetsubi Company, Limited	September 18, 1995 ¥20 million	Installation of air conditioning, sanitation, and electric water-heating equipment; design and installation of ice-storage air-conditioning equipment
b. Electric power supply and peripheral businesses		
Okiden Kigyo Company, Incorporated	October 15, 1975 ¥43 million	Sale and maintenance of electrical equipment; lease of vehicles and property; maintenance of vehicles; agency business for non-life insurance companies
Okinawa Plant Kogyo Company, Incorporated	June 1, 1981 ¥32 million	Operation of electrical machinery and facilities, etc. on commission; installation of electrical machinery and equipment
Okinawa Denki Kogyo Company, Incorporated	December 23, 1971 ¥23 million	Repair of electrical measuring equipment and inspection agency work; sale of components for electrical facilities
c. Information and telecommunication business		
The Okiden Global Systems Company, Incorporated	April 12, 1991 ¥20 million	Computer systems design and software development; sale, leasing, etc. of computers and peripheral equipment
Okinawa Telecommunication Network Company, Incorporated	October 29, 1996 ¥700 million	Operation of Type 1 carrier business based on the Telecommunications Business Law; telecommunications equipment installation & maintenance
OTNet Service Company, Incorporated	May 21, 2001 ¥10 million	Type 2 carrier under the Telecommunications Business Law; supplier of high-speed digital communication service via dedicated optic-fiber network
First Riding Technology Company, Incorporated	July 11, 2001 ¥945 million	Internet solutions; call center business
d. Real estate business		
Okiden Kaihatsu Company, Incorporated	April 26, 1989 ¥50 million	Management, buying & selling, and leasing of real estate
e. Dispersed generating plant business		
Progressive Energy Corporation (PEC)	August 23, 2001 ¥100 million	Installation, operation, and maintenance of home-use power generation systems, and support services for energy saving
f. Support services for active seniors		
Kanucha Community Company, Incorporated	February 18, 2003 ¥472 million	Development and management of resort communities
g. Other businesses (including funding of businesses unrelated to electric power)		
Quetech Company, Limited	March 30, 2001 ¥3 million	Management consultant services, ISO certification support training, application software development business
Ganju Company, Incorporated	March 25, 2003 ¥10 million	Hog raising, and wholesaling and retailing of pork
Grace Rum Company, Incorporated	March 1, 2004 ¥10 million	Production and sale of rum
Aqua Culture Okinawa Company, Incorporated	June 13, 2005 ¥15 million	Cultivation and sale of decorative corals and other marine organisms
Churaumi Trading Co., Ltd.	Feb. 15, 2005 ¥47 million	Development and manufacture of ceramic products, their import & export, and sale via directly operated outlets; import & export of interior goods, textile products, accessories, health foods, and alcoholic beverages
Hoian Okinawa Co., Ltd.	Feb. 18, 2005 US\$500,000	Production, and sale in Japan of blown-glass products and accessories

Corporate Data

Head Office

2-1, Makiminato 5-chome, Urasoe, Okinawa 901-2602, Japan

Tel: +81 (0)98-877-2341

Fax: +81 (0)98-877-6017

e-mail: ir@okiden.co.jp

URL: www.okiden.co.jp/english/index.html

Tokyo Branch

No. 45 Kowa Bldg. 6F, 15-9, Minami-Aoyama 1-chome,
Minato-ku, Tokyo 107-0062, Japan

Tel: +81 (0)3-3796-7768

Established

May 15, 1972

Capital

¥7,586 million

Total Assets

¥354,113 million

Number of Customers

807,791 (Includes users of both lighting and power)

Number of Employees

1,515

(As of March 31, 2007)

Power Generation Facilities

Type of Station	Number of Facilities	Generating Capacity [kW]
Steam	4	1,467,000
Gas Turbine	4	291,000
Internal Combustion	13	166,025
Total	21	1,924,025

Independent Certified Public Accountants

Deloitte Touche Tohmatsu

Consolidated Subsidiaries

Name	Capital	Main Business Lines	Equity Ownership
Okidenko Co., Ltd.	¥130 million	Construction	48.0%
Okiden Kigyo Co., Ltd.	¥43 million	Peripheral operations related to electric power business	91.7%
Okinawa Plant Kogyo Co., Inc.	¥32 million	Peripheral operations related to electric power business	89.9%
Okinawa Denki Kogyo Co., Ltd.	¥23 million	Peripheral operations related to electric power business	99.4%
Okiden Kaihatsu Co., Inc.	¥50 million	Real estate	100.0%
The Okiden Global Systems Company, Inc.	¥20 million	Information and telecommunications	100.0%
Okiden Sekkei Co., Ltd.	¥40 million	Construction	95.5%
Okinawa New Energy Development Co., Inc.	¥49 million	Construction	42.1%
Okinawa Telecommunication Network Co., Inc.	¥700 million	Information and telecommunications	54.9%
Okisetsubi Company, Ltd.	¥20 million	Construction	48.0%
First Riding Technology Co., Inc.	¥945 million	Information and telecommunications	91.0%
Progressive Energy Corp.	¥100 million	Dispersed generating plant business	58.0%
Kanucha Community Co., Inc.	¥472 million	Support services for active senior	74.2%

Investor Information

Transfer Agent and Registrar

The Mitsubishi Trust & Banking Corporation
11-1, Nagata-cho 2-chome, Chiyoda-ku,
Tokyo 100-8212, Japan

Securities Traded

Tokyo Stock Exchange,
Fukuoka Stock Exchange

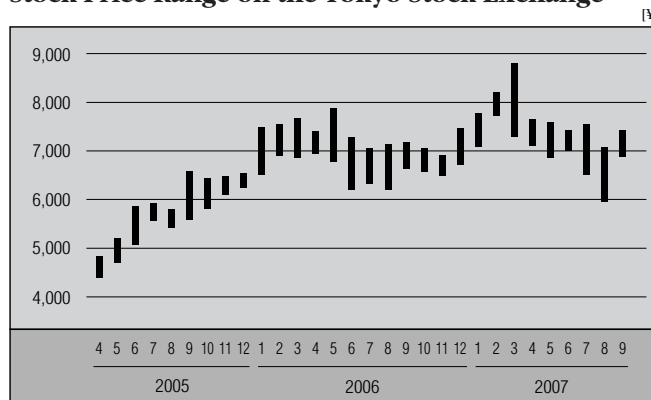
Common Stock Issued

15,931,567 shares

Number of Shareholders

7,420

Stock Price Range on the Tokyo Stock Exchange



Credit Ratings

	Long-Term	Short-Term	Outlook
S&P	AA	A-1+	Stable
Moody's	AA2	—	Stable
R&I	AA+	a-1+	Stable
JCR	AAA	J-1+	Stable

(As of August 31, 2007)

Board of Directors and Auditors



Tsugiyoshi Toma
Chairman



Denichiro Ishimine
President

Directors:

Inekazu Uehara
Kaoru Shimabukuro
Mitsuru Omine
Katsunari Omine
Tsutomu Ikemiya
Katsuaki Chinen
Kazuji Shimazaki
Sunao Tamaki
Kunio Oroku

Standing Auditors:

Hiroshi Teruya
Choei Yogi

External Auditors:

Honshin Aharen
Masateru Higa
Shiro Nozaki

(As of June 28, 2007)



Akira Sakuma
*Executive
Vice President*



Seiyu Ishikawa
*Executive
Vice President*



Kazuhiro Nakada
*Executive
Vice President*