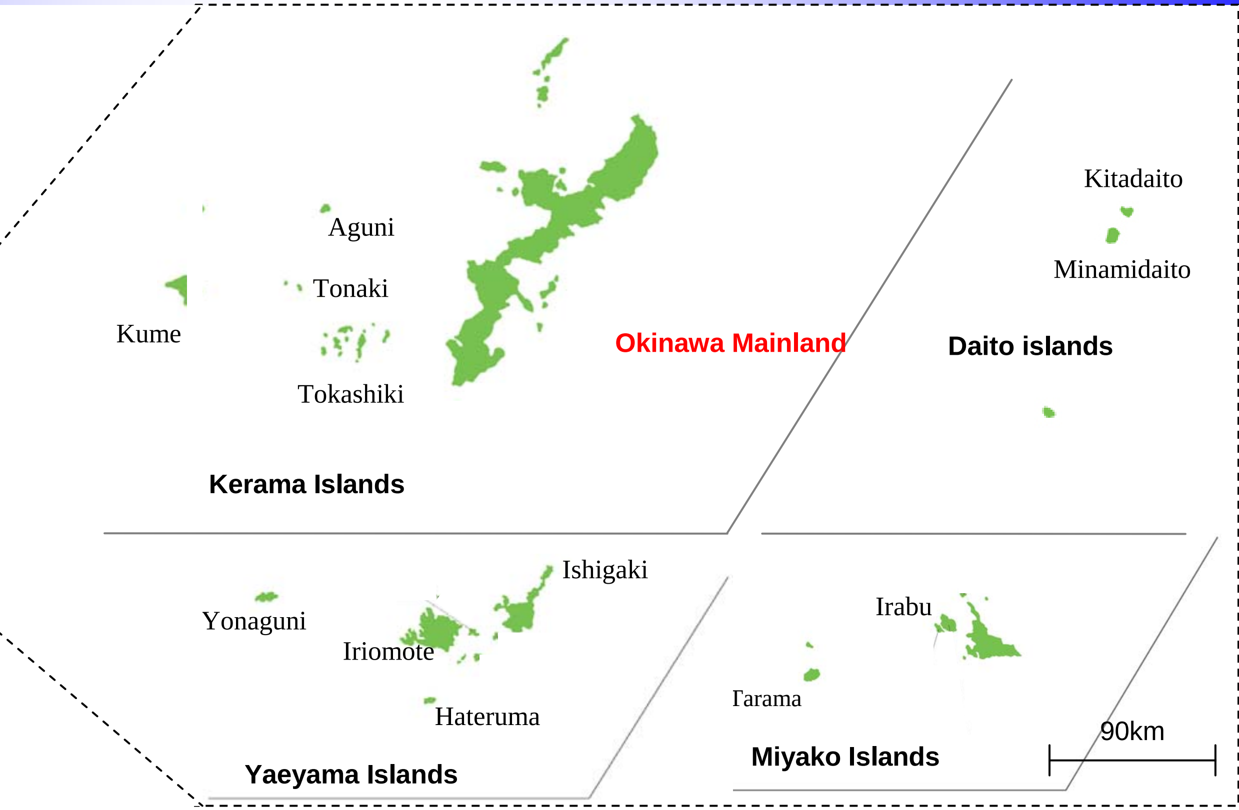
Management Summary

February 2007

The Okinawa Electric Power Company, Inc.

Management Overview　Table of Contents

Overview of Okinawa Prefecture



Basic Data

Population:	1,370,024
No. of Households	500,514
Land Area	2274.59km²
Climate	Subtropical
Location	26 °13N 127 °41E
Gross Prefectural Product	¥3,745.6 billion
Tourism Revenue	¥398.3 billion

- **Tertiary industrial sectors including comerce, finance and service account for roughly 80% of gross prefectural product.**

Population and No. of Households as of December 1, 2006
Land Area as of October 1, 2005
Gross Prefectural Product as of Fiscal Year 2004
Tourism Revenue as of Fiscal Year 2005
(Source: Okinawa Prefecture Statistical Yearbook, Prefectural Residents Economic Calculation, etc.)

Cities of the World at a similar latitude

Las Palmas (Canary Islands)	28°6N
dubai (UAE)	25°18N
Miami (Florida,USA)	25°46N

Corporate Overview of Okinawa Electric Power Co.

Okinawa Electric Power supplies electricity to all part of Okinawa Prefecture including 40 inhabited islands scattered over a vast sea area lying 1,000 kilometers east and west and 400 kilometers north and south. Okinawa Electric Power maintains its own electric line system without any linkage to that of any other electric power company based in mainland Japan.

Date established	May 15, 1972
Capital	¥7,586 million
No. of shareholders	7,689
Sales (Fiscal Year 2005)	¥143.65 billion
Total assets	¥356.65billion
No. of employees	1,497

Securities identification code	9511
Supply area	Okinawa Prefecture
No. of customers	Lighting 730 thousand units Power 67 thousand units
Electric power sales (Fiscal Year 2005)	Lighting 2,901 million kWh Power 4,445 million kWh (Deregulated demand 1,159million kWh) Total 7,346 million kWh
Supply facilities	Steam-power generators 4 locations 1,467 thousand kW Gas turbine generators 4 locations 291 thousand kW Internal-combustion power generators 14 locations 168 thousand kW

(as of March 31, 2006)

Ratings

Rating agency	S&P	Moody's	R&I	JCR
Rating	AA-	Aa3	AA+	AAA
Ratings accorded to 9 other domestic electric power companies	9 companies AA-	3 companies Aa3 6 companies A1	9 companies AA+	8 companies AAA

* Ratings on long-term preferred debts as of September 30, 2006

Prospect for FY2006

The Economy of Okinawa

◎Current Situation

Personal consumption and the number of inbound tourists both continue to be strong. In the construction industry, private-sector construction work keeps increasing on brisk housing starts. Thus, the economy of the prefecture is slowly expanding as a whole.

◎Prospects

Backed by the continuing "Okinawa Boom," tourism-related sectors are forecasted to do well. Personal consumption is expected to be robust. Also, the construction industry is expected to show continuing momentum toward recovery, due to a rise in private-sector new housing construction. We expect the prefectural economy to expand slowly as a whole.

Trends in Main Economic Indicators (Rates of Growth)

(Unit: %)

Indicators	2005			2006
	First half	Second half	Total	Apr. to Dec.
Sales by large-scale retailers	2.2	1.8	2.0	−3.2
No. of new cars sold	10.0	7.1	8.6	3.0
Wholesale shipments of household appliances	−2.4	11.8	4.3	6.5
New residential construction starts	11.5	−4.5	3.3	17.8
Value of public works ontracts	0.5	−1.4	−0.4	−14.9
No. of inbound tourists	7.3	8.2	7.7	1.6
Total unemployment rate	7.8	7.9	7.9	7.7
Value of corporate failures	234.0	3.8	145.2	−15.1

Note 1: The figures for sales by large-scale retailers are calculated from the values given in preliminary figures for December 2006, and on an all-store base.
Note 2: The figures for total unemployment rates are raw data.

Source: Okinawa General Bureau, Okinawa Prefecture, Okigin Economic Institute, and others.

State of Electric Power Demand in FY 2006

Results for First Half of FY2006

(Unit: Million kWh, %)

		First half FY2006	First half FY 2005	First half FY2006 target	YoY Change	Performance against target
Electricity sales	Lighting	1,555	1,526	1,564	2.0	99.5
	Power	2,429	2,393	2,423	1.5	100.2
	Total	3,984	3,919	3,987	1.7	99.9

(Lighting)

- Lighting sales increased 2% year-on-year due to steady growth in the number of customers.

(Power)

- Power sales increased 1.5% year-on-year due to growth in the number of customers in electric power for business use and high voltage power A.

(Total)

- As such, total electricity sales grew 1.7% from a year earlier to 3,984 million kWh.

FY2006 Annual Outlook

(Unit: Million kWh, %)

		FY2006 (Forecast)	FY2005 (Actual results)	YoY Change	Performance against target
Electricity sales	Lighting	2,911	2,901	0.3	99.4
	Power	4,464	4,445	0.4	100.8
	Total	7,375	7,346	0.4	100.2

(Lighting)

- Lighting sales are expected to increase 0.3% year-on-year due to steady growth in the number of customers.

(Power)

- Power sales are expected to grow 0.4% year-on-year due in part to growth in the number of customers in electric power for business use.

(Total)

- As such, total electricity sales are expected to grow 0.4% from a year earlier to 7,375 million kWh.

Prospect for FY 2006

(billion yen, %)

	Non-Consolidated			Consolidated		
	Results expected	YoY Change	Performance Against target	Results expected	YoY Change	Performance Against target
Sales	Approx.147.5	+2.7%	+0.3%	Approx. 160	+1.9%	−1.5%
Operating Income	Approx. 14.5	−20.7%	0.0%	Approx.15.8	−20.3%	−1.2%
Ordinary Income	Approx.11	−21.8%	0.0%	Approx.12	−22.3%	−2.4%
Net Income	Approx. 7	−23.6%	0.0%	Approx.7.3	−26.8%	−2.7%

〔Year on Year〕

- Sales increased while profits declined both on consolidated and non-consolidated bases.
- Factors that improved the bottom line include increased electricity sales gains due to the effects of the fuel cost adjustment system and the rises in the electricity sales volume, decreased depreciation cost as a result of the ongoing depreciation, decreased purchase cost of electricity from other companies and decreased interest payment.
- Factors that worsened the bottom line include an increase in fuel cost due to soaring crude oil prices and increases in personnel cost and other expenses.

〔Against Target〕

- On a non-consolidated basis, sales increased due to the effect of the fuel adjustment system.
- On a consolidated basis, sales and profits decreased due to the sales decline in the construction sector.

Highlights of Management

The Management Environment for OEPC [1/2]

Demand for Electric Power

- Increase in demand as population increases
  - ✓ Population is projected to peak in 2022.
  - ✓ The average growth rate from 2004 to 2015 is projected at 2.0%.
- As the proportion of energy for consumer use is high, the effects of business fluctuations are low.
  - ✓ At OEPC: Demand for consumer use accounts for 80% of total demand. Nationwide (excluding Okinawa): Demand for consumer use accounts for 60% of total demand.

Power System

- Individual system independent of the national system
- While OEPC is isolated from competition among electric power companies, it shoulders a burden of capital spending.
  - ✓ Great power supply reserve capacity is necessary for stable supply.
  - ✓ The balance of payments and cash flows fluctuate greatly when the company develops power sources.
- Electrical power source composition reliant only on oil and coal
  - ✓ It is difficult to introduce nuclear and hydroelectric power generation.
  - ✓ Sharp rises in fuel prices have a great influence.
  - ✓ OEPC depends on fossil fuels that have great environmental impact.
- With a high ratio of remote islands where cost efficiency is low, *the remote islands company* constantly records losses.

The Management Environment for OEPC [2/2]

Competition

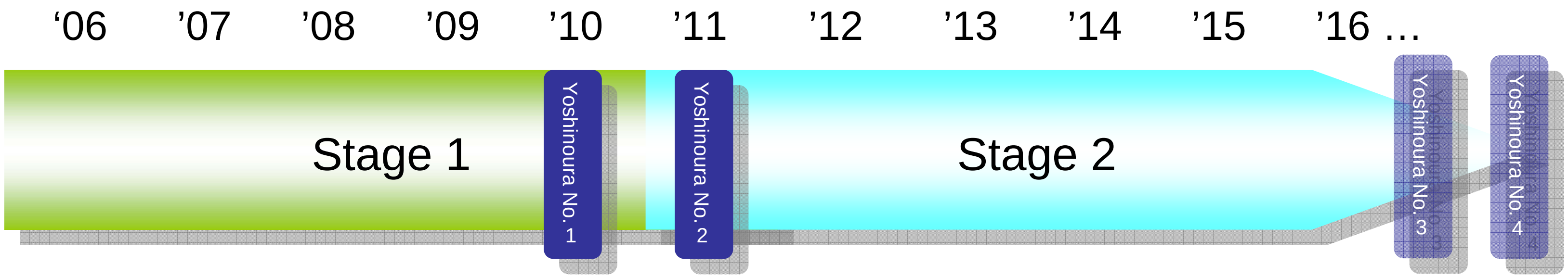
- Severance from competition among electric power companies as OEPC has independent power system.
- No competition with PPS
- The advance of private power generation operations is limited:
  - ✓ Prevention of demand withdrawals through Progressive Energy Corp. (PEC; a subsidiary of OEPC)
  - ✓ Declines in competitiveness → Moves to convert to buying electricity (from OEPC)

Support through policies

- The scope of liberalization for OEPC differs from that for other companies.
- Preferential treatment for tax purposes
  - ✓ Reduction of tax burden by about 2 billion yen a year
  - ✓ Extension of the reduction of and exemption from the prefectural fixed assets tax and the exemption from the coal and petroleum tax has been decided.
- Support in line with the Law on Special Measures Concerning the Development of Okinawa
  - ✓ Reduction of and exemption from the prefectural fixed assets tax by an ordinance
  - ✓ A liberal policy loan system by the Okinawa Development Finance Corporation

Summary of Financial Targets [1/2]

If a forecast is made for the coming 10 years taking the start of thermal power operations at Yoshinoura in FY2010/11 as the dividing point, the first 5 years can be positioned as Stage 1 and the second 5 years as Stage 2 because the company expects to undergo a big turnaround at this point, including in its financial situation.



Stage 1 → Concerted Effort on the Construction of Thermal Power Facilities at Yoshinoura

- Increased investment due to the full-fledged construction work for the Yoshinoura thermal power facility > Investment value of approx. 180 billion yen over 5 years
- Interest bearing debt is forecasted to move generally upward > Constraints to keep such debt below 260 billion yen even at peak times
- Enhancement of owners' capital aimed at strengthening financial standing
- Further promotion of efficiency while ensuring a fixed level of profit, and investigation of price reductions and returns to shareholders, to the extent possible.

Stage 2 →Branching out into New Business

- Although there are plans for Yoshinoura No.3 and No.4, the development of large scale electric power resources is slowing down → reduction of capital expenditure
- Looking for business development that utilizes LNG effectively
- Investigation of well-balanced CF distribution towards shareholder returns, price reductions, reducing interest bearing debt, and business development, etc.
- As it is assumed that the depreciation costs of the Yoshinoura thermal power facility will squeeze profits, currently investigating measures to cut costs (introduction of lease financing, etc.)

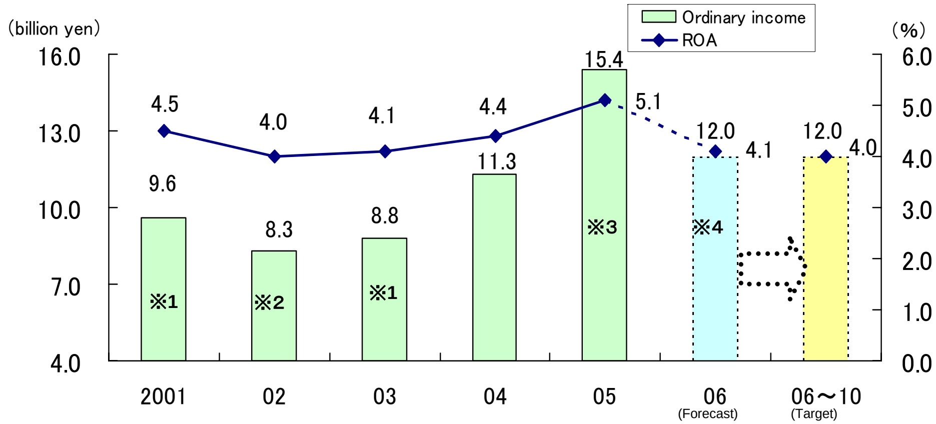
Summary of Financial Targets [2/2]

	FY2004 Management Plan		FY2005 Result (Non-Consolidated)	FY2006 Management Plan		FY2006 Forecast
Ordinary Income	Yearly average of at least 10 billion yen	FY2004-2006	14 billion yen	Non-consolidated: yearly average of at least 11 billion yen Consolidated: yearly average of at least 12 billion yen	FY2006 -2010	Non-consolidated : 11 billion yen Consolidated : 12 billion yen
ROA (Return on Assets)	Yearly average of at least 2% (Current net income / total assets)	FY2004-2006	2.5% (Rate of current net income to total assets) 5.1% (Rate of operating income to total assets)	Non-consolidated & consolidated: yearly average of at least 4% (operating income ÷ total assets)	FY2006 -2010	Non-consolidated : 4.1% Consolidated : 4.1%
Balance of Interest Bearing Debt	approx. 240 billion yen	End of FY2006	228.5 billion yen	Non-consolidated: Approx. 260 billion yen Consolidated: Approx. 270 billion yen	End of FY2010	Non-consolidated: 223.3 billion yen Consolidated: 234.6 billion yen
Owners' Equity to Total Assets	approx. 25%	End of FY2006	26.5%	Non-consolidated and consolidated: Approx. 30%	End of FY2010	Non-consolidated : 27.9% Consolidated : 26.8%

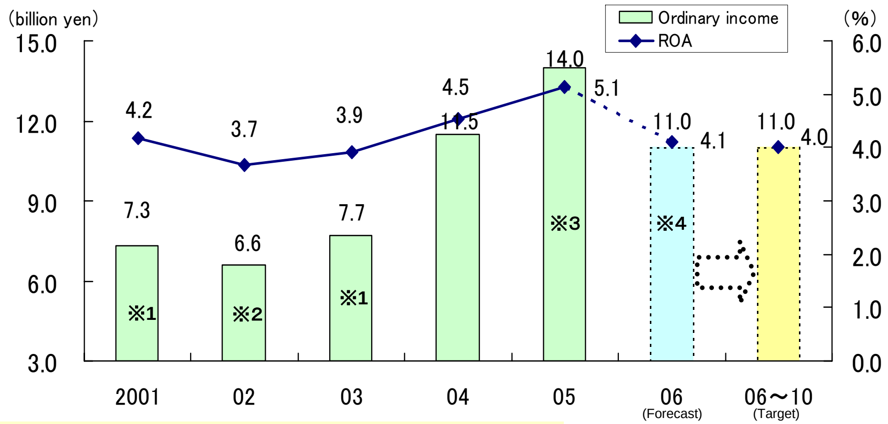
Efficiency Promotion

Trends in Ordinary Income and ROA

Consolidated



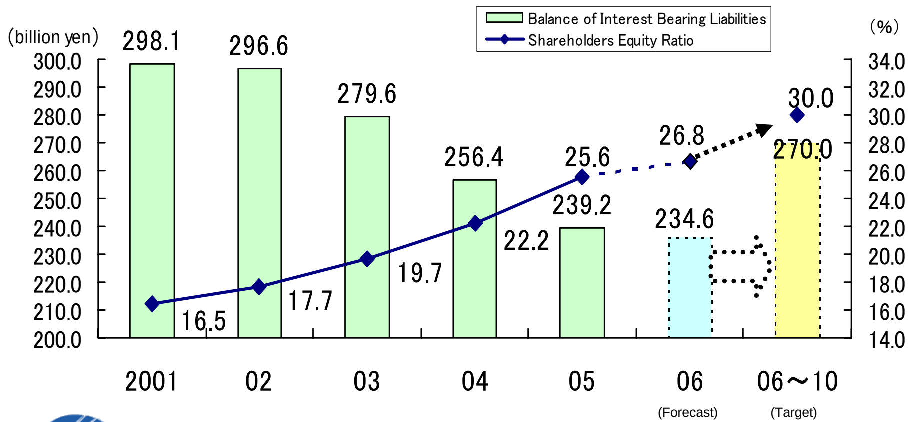
Non-Consolidated



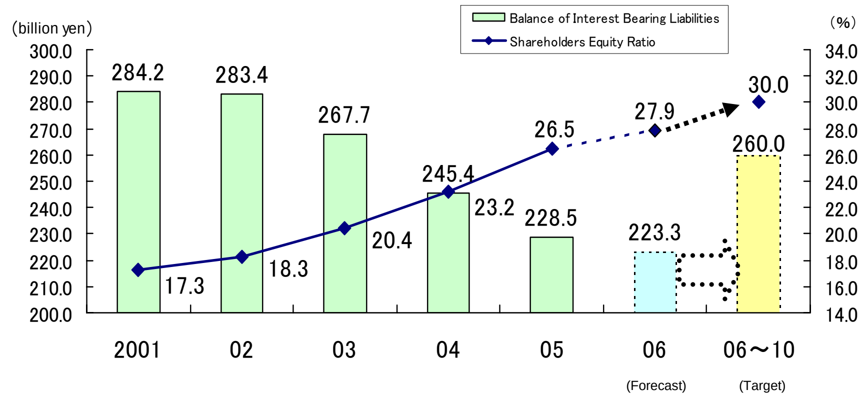
※1 Kin Thermal Power Plant Generator No1 began operation in 2001, No2 in 2003
※2 Electricity Rate Revision ▲5.79% in Oct 2002
※3 Electricity Rate Revision ▲3.27% in Jul 2005
※4 Electricity Rate Revision ▲3.24% in Jul 2006

Trends in Balance of Interest Bearing Liabilities and Shareholders' Equity Ratio

Consolidated



Non-Consolidated



Upcoming Power Generation Development
(Yoshinoura LNG Thermal Power Plant) 〔1/2〕

Construction Purpose

Response towards steady demand increases
Environmental measures → Avoidance of large, environment-related costs
Fuel diversification → Improvement of energy security
Search for new business opportunities making efficient use of LNG

Investment Plan

Power generation facilities, Generator Nos.1 & 2 (251,000 kW each), 2 LNG terminals (140,000 kl each)
Including other expenses, the operation is on the scale of 100 billion yen
The forecast investment peak is from FY2007 – FY2010

Conceptual Image of the Completed Facility

Construction Schedule

FY2003-FY2006	FY2006-FY2009	Nov. 2010	May 2011	From 2016 on:
Environmental assessment, etc., investigation of various procedural matters, facility specifications, etc.	Construction work	Start of operations at Generator No.1	Start of operations at Generator No.2	Start of operations at Generators No.3 & 4

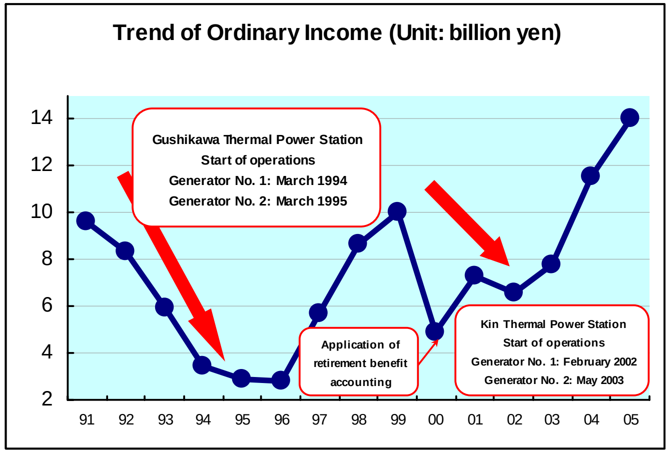
Main Points for FY2006-2007

- Notification and inspection of the Environmental Impact Assessment (Completion of procedure of the Environmental Assessment)
- Submission of documents required under article 48 of the Electric Utility Law (start of construction described in supply plans)
- Preparatory construction work (leveling the ground for power plant, preparatory work for LNG tank)

Upcoming Power Generation Development
(Yoshinoura LNG Thermal Power Plant)〔2/2〕

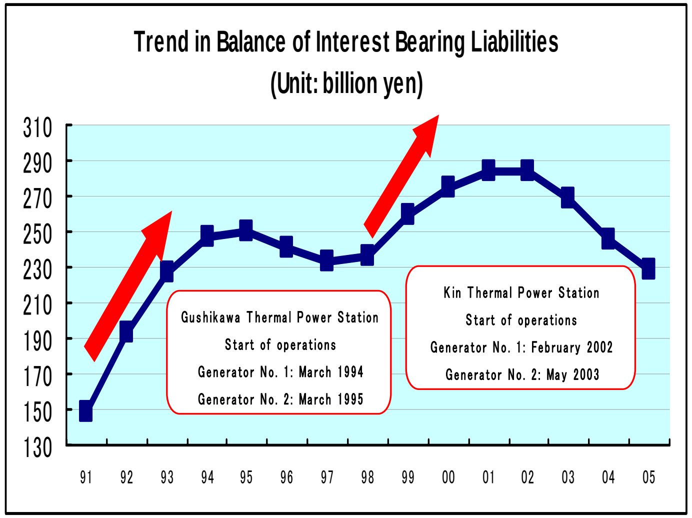
Effects on Finance（Past Tendencies）

- Large depreciation burden and decreased income associated with large-scale facility investment
  - → Constraining the depreciation burden is a issue.
- The balance of interest bearing liabilities will increase
  - → In order to minimize deterioration of the company's financial standing following the start of operations at Yoshinoura Thermal Power Station, reducing the balance of interest bearing liabilities is an urgent task.



Countermeasures

- Creation of strong financial characteristics able to withstand the Yoshinoura Thermal Power Station investment burden
  - → Promotion of further reductions in the balance of interest bearing liabilities
- Reduction of the depreciation burden associated with the start of operations at Yoshinoura Thermal Power Station
  - → Currently investigating cost leveling through lease finance for the LNG terminals

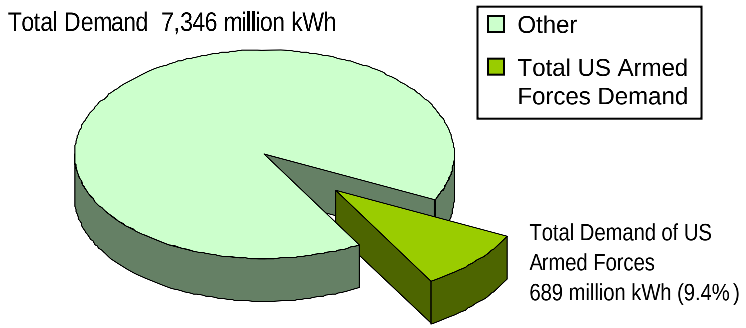


Perspective

Power Generation Facilities	LNG Terminals
■ Application of usual finance to electricity operation as a whole ■ Earlier depreciation as previously using a fixed percentage method	■ Aim at stable costs for a part of fuel costs ■ Currently investigating cost leveling through lease finance

U.S. Military Bases

[Proportion of Demand Taken Up By U.S. Armed Forces] (FY2005 Result)



[Summary of U.S. Armed Forces in Okinawa]

(As of Jan. 2006)

No. of Facilities		36
Area		233 square kilometers
Personnel*	Soldiers	22,470
	Other Staff, Families	20,100
	Total	42,570

* The figures for personnel are as of the end of September 2005.
Reference: No. of army employees: 9,023 *As of the end of September 2006

* Source: Website of Defense Facilities Administration Agency; "Bases of the U.S. Armed Forces and Japan's Self-Defense Forces in Okinawa (collection of statistics and materials) March 2006," issued by the Military Base Affairs Office, Executive Office of the Governor, Department of General Affairs, Okinawa Prefectural Government; and the guide on recruitment of employees at U.S. Forces in Japan, prepared by the Labor Management Organization for USFJ Employees

- U.S. Armed Forces demand was about 9.4% of total demand and about 7.3% of revenue in fiscal 2005.
- The proposal for reorganization of the U.S. Armed Forces was agreed upon by the U.S.-Japan Security Consultative Committee on May 1, 2006, and the facilities **to be returned were clarified.**
- The schedule for return of the facilities will be formulated by March 2007 and remains unclear at the present time.
- Although there will be a temporary decrease in demand if facilities are returned, activation of the regional economy is forecasted in line with the redevelopment of returned sites.
- From now on, the company shall analyze the effects of returns on operations while paying attention to state and prefectural activity with regard to the proposal for reorganization of the U.S. Armed Forces.

[U.S.-Japan roadmap drafted for realignment of U.S. forces]
(Source: Website of Defense Facilities Administration Agency)

- Realignment of U.S. forces in Okinawa (main contents)

(a) Construction of supplement facility of Futenma Airbase: Futenma Replacement Facility (FRF)
  → Relocation to Camp Schwab scheduled to complete in 2014.

(b) Reduction of military forces and relocation to Guam
  → Relocation of 8,000 Marine Corps and their family (9,000 persons) to Guam by 2014.

(c) Return of land
  → Total or partial return of land of six bases south of Kadena airport.
  * Said return of land will take place after completion of personnel relocation, after 2014.

[Others]
In addition to the plan mentioned above, there is a plan to deploy a PAC-3 unit, which calls for relocation of 600 staffers and their 900 family members from Texas, the U.S., to Okinawa. Operation of PAC-3 will partially start by the end of 2006.

This document includes statements concerning future results. Such statements are based on calculations and predictions and are neither definite nor guaranteed. Please be aware that future results may change in accordance with changes in assumptions related to the management environment and the like.

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