

# Management Overview

**November, 2007**



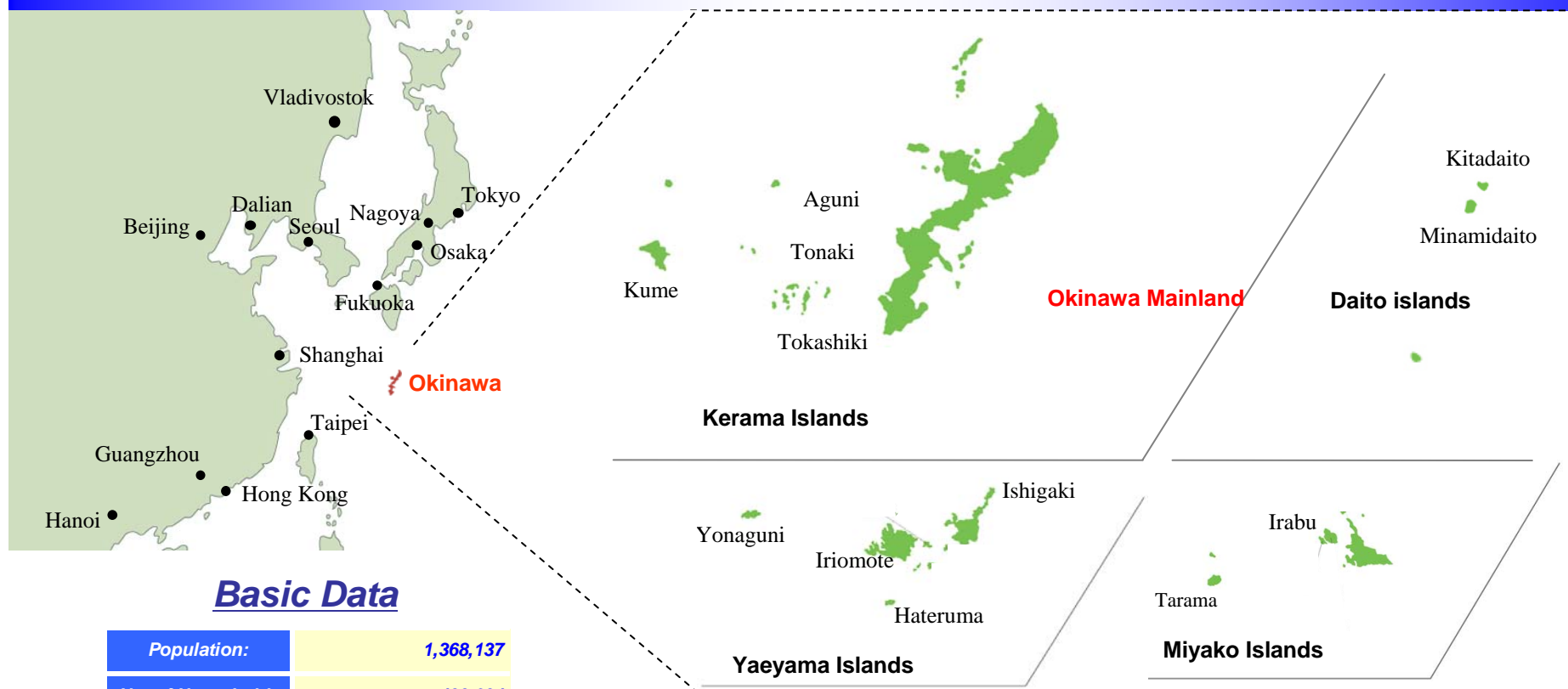
The Okinawa Electric Power Company, Inc.

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# Overview of Okinawa Prefecture



## Basic Data

Population:	1,368,137
No. of Households	499,094
Land Area	2274.59km <sup>2</sup>
Climate	Subtropical
Location	26 ° 12N 127 ° 41E
Gross Prefectural Product	¥3,818 billion
Tourism Revenue	¥410.4 billion

- ◆ 90% of the population is concentrated on the main island of Okinawa.
- ◆ Tertiary industrial sectors including commerce, finance and service account for roughly 90% of gross prefectural product.

### Cities of the World at a similar latitude

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

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



# Corporate Overview of OEPC

Okinawa Electric Power supplies electricity to all part of Okinawa Prefecture including 37 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	Securities identification code	9511
Capital	¥7,586 million	Supply area	Okinawa Prefecture
No. of shareholders	7,420	No. of customers	Lighting 741 thousand units Power 67 thousand units
Total assets	¥354.11 billion (Non-consolidated) ¥376.07 billion (Consolidated)	Electric power sales (Fiscal Year 2006)	Lighting 2,881 million kWh Power 4,495 million kWh (Deregulated demand 1,154million kWh) Total 7,376 million kWh
Sales (Fiscal Year 2006)	¥147.20 billion (Non-consolidated) ¥159.39 billion (Consolidated)	Supply facilities	Steam-power generators 4 locations 1,467 thousand kW Gas turbine generators 4 locations 291 thousand kW Internal-combustion power generators 13 locations 166 thousand kW
No. of employees	1,515 (Non-consolidated) 2,582 (Consolidated)		

(as of March 31, 2007)

## Ratings

Rating agency	S&P	Moody's	R&I	JCR
Rating	AA	Aa2	AA+	AAA

\* S&P has reviewed the rating on April 23, 2007 from AA-/Positive to AA/Stable.

\* Ratings on long-term preferred debts as of September 30, 2007



# FY2007 Interim Financial Results Summary

	Non-consolidated			Consolidated		
	FY2007 Interim (Results)	Comparison With FY06 Interim	Comparison With Forecast ※	FY2007 Interim (Results)	Comparison With FY06 Interim	Comparison With Forecast ※
Sales	78,188 million yen	-1.6%	-0.4%	83,025million yen	-2.1%	-1.9%
Operating income	9,351 million yen	-25.1%	-20.1%	9,662 million yen	-24.0%	-20.1%
Ordinary income	7,643 million yen	-28.2%	-23.6%	7,701 million yen	-27.6%	-24.5%
net income	4,879 million yen	-28.3%	-24.9%	4,832 million yen	-29.7%	-26.8%

※ Forecast announced in July

## Comparison with FY2006 interim

### ■ Decrease in Sales, Decrease in Income (Non-consolidated and Consolidated)

#### 【 Factors for improved performance 】

- Increase in electricity sales
- Decrease in personnel cost and depreciation cost

#### 【 Factors for weakened performance 】

- Increase in fuel cost , maintenance costs and power purchase cost
- Decrease in income from the Fuel Cost Adjustment System



# FY2007 Annual Outlook Summary

	Non-consolidated			Consolidated		
	FY2007 Forecast (Announced in Oct)	YoY change	Comparison with Previous Forecast ※	FY2007 Forecast (Announced in Oct)	YoY change	Comparison with Previous Forecast ※
Sales	Approx. 149.0 billion yen	+1.2%	+0.3%	Approx. 162.0 billion yen	+1.6%	-0.5%
Operating income	Approx. 13.5 billion yen	-1.4%	-12.9%	Approx. 14.4 billion yen	-7.0%	-13.3%
Ordinary income	Approx. 10.0 billion yen	-1.0%	-16.7%	Approx. 10.6 billion yen	-9.7%	-17.2%
Net income	Approx. 6.3 billion yen	-1.5%	-18.2%	Approx. 6.5 billion yen	+1.3%	-18.8%

※ Forecast announced in July

## Comparison with FY2006

### ■ Increase in Sales, Decrease in Income (Non-consolidated and Consolidated)

【Factors for improved performance】 · Increase in electricity sales · Decrease in personnel cost

【Factors for weakened performance】 · Increase in maintenance costs, power purchase cost and depreciation cost

## Comparison with Previous Forecast (July, 2007)

### (Non-consolidated)

- Sales were revised up : Predicted increase income from the Fuel Cost Adjustment System
- Income was revised down : Predicted increase fuel cost and maintenance costs

### (Consolidated)

- Sales and Income were revised down
- : Predicted decrease construction orders from public and private sector in the Construction Business



# Electric Energy Demand (FY2007 Interim and Annual Outlook)

## FY2007 Interim Results

(Unit: Million kWh, %)

		FY2007 Interim (Result)	FY2006 Interim (Result)	FY2007 Interim (Target)	YoY Change	Performance Against target
Electricity sales	Lighting	1,555	1,555	1,583	0.0	98.3
	Power	2,449	2,429	2,449	0.8	100.0
	Total	4,004	3,984	4,032	0.5	99.3

### (Lighting)

- While the number of customers increased, the demand for lighting remained unchanged from the same period of the previous year due to lower temperature than last year. (0.0%)

### (Power)

- The record exceeded that of the previous year due to the increased number of customers in the fields of industrial electric power and high-voltage power A. (0.8%)

### (Total)

- As a result, the figure totaled at 4,004million kWh, which exceeded the previous year's figure. (0.5%)

## FY2007 Annual Outlook

(Unit: Million kWh, %)

		FY2007 (Forecast)	FY2006 (Result)	YoY Change
Electricity sales	Lighting	2,950	2,881	2.4
	Power	4,490	4,495	-0.1
	Total	7,440	7,376	0.9

### (Lighting)

- Expected to exceed the previous year's figure with a growth of the number of customers. (2.4%)

### (Power)

- The number of customers is expected to increase but the figure is estimated to remain unchanged from the previous year (-0.1%) due to decreased demand, reacting against the increased demand caused by previous year's higher temperatures.

### (Total)

- As a result, the figure totals at 7,440million kWh, which is expected to exceed the previous year's figure. (0.9%)



# Electric Energy Demand (long-term forecast)

Forecast for long-term Electric Energy demand

(Unit: million kWh, Thousand kW, %)

(Unit:%)

		2005 (Result)	2006 (Result)	2007 (Forecast)	2015 (Forecast)	2016 (Forecast)	Average growth rate per annum		Average growth rate per annum FY2005 – FY2016 Total of 9 companies
							FY1995 – FY2005	FY2005 – FY2016	
No. 110 EI forecast	Electric energy demand	(7,246) 7,346	(7,300) 7,376	(7,448) 7,468	8,709	8,865	(2.3) 2.3	(1.9) 1.7	(1.1) 0.9
	Peak load	(1,412) 1,394	《1,419》 (1,391) 1,408	1,451	1,674	1,701	(1.1) 1.2	(1.7) 1.8	(1.0) 1.0
	Annual load factor	(61.2) 63.0	《61.3》 (62.6) 62.5	61.4	62.2	62.3	—	—	
No. 108 EI forecast	Electric energy demand	(7,246) 7,346	7,358	(7,499) 7,519	8,794	—	(2.6) 2.5	(2.0) 1.8	
	Peak load	(1,412) 1,394	1,446	1,473	1,719	—	(1.5) 1.3	(1.9) 2.1	
	Annual load factor	(61.2) 63.0	60.9	60.9	61.2	—	—	—	

Note 1: ( ) indicates the adjusted intercalary temperature .

Note 2: << >> indicates the adjusted temperature plus the adjustment for typhoon.

Note 3: The figure indicated for FY2006 of No. 108 EI is the estimate value.

Note 4: Average growth rate per annum for No. 108 EI are from 1994 to 2004 and 2004 to 2015.

FY2006 – FY2008 Economic forecast

(Average growth rate per annum, Unit:%)

		2005 (Result)	2006 (Estimated Result)	2007 (Forecast)	2008 (Forecast)
Real GDP	Okinawa	2.5	4.3	2.2	—
	Japan	2.4	1.9	2.0	1.7

Note: GDP in Okinawa for FY2005 indicates the estimated performance.

(Source: Cabinet Office, Okinawa prefecture, FEPC)

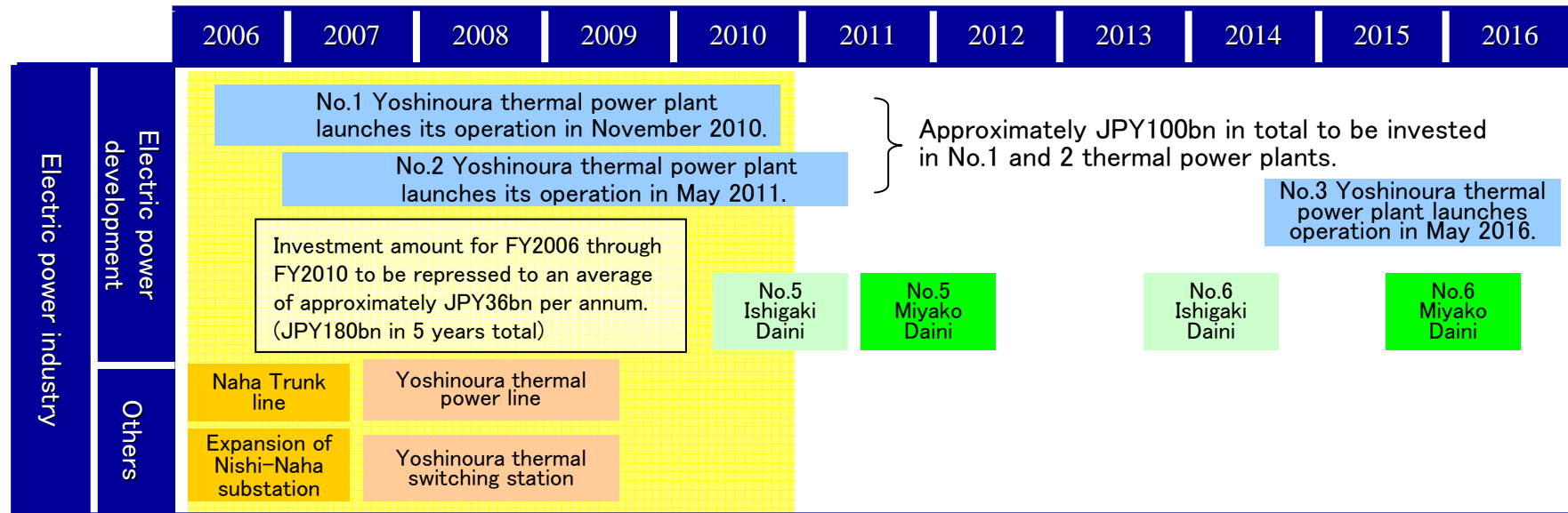
The economy in Okinawa is expected to grow under the Special Measures for the Promotion and Development of Okinawa, and various systems and policies in line with the Okinawa Promotion Plan which was compiled based on the said measures.

(According to the Economic and Social Outlook for the Okinawa Promotion Plan, average growth rate per annum of the real GDP in Okinawa for the period from 2000 to 2011 is expected to mark 2.6%.)





# Capital investment plan (Electric Business I)



Note: In the electric power development section, the facilities which launched its operation during the period between FY2007 and FY2016 with the power output of over 10,000kW are specified.

Note: The power transmission facilities which launched its operation during the period between FY2007 and FY2016 with the working voltage of over 132kV are specified.

## Capital investment plan from FY2006 to FY2010

Substantial increase in capital investment with the development of Yoshinoura thermal power plant.  
(251,000 kW × 2, LNG terminal 140,000 kl × 2)

Approximately JPN100bn to be invested in Yoshinoura thermal power plant,  
and the overall investment amount will be about JPY180bn in 5 years.

## Capital investment plan after FY2011

Capital investment for No.3 and 4 Yoshinoura thermal power plants is purposed for electric generators only.

The investment amount will be lower than those of the plants No.1 and 2.

Launch date may be reviewed depending on further demand increase.



# Capital investment plan (Electric Business II)

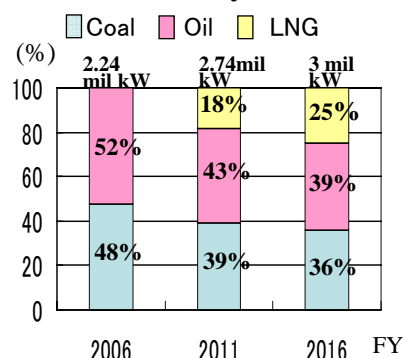
## Demand-supply balance of maximum electric power (August)

(Unit : Thousand kW, %)

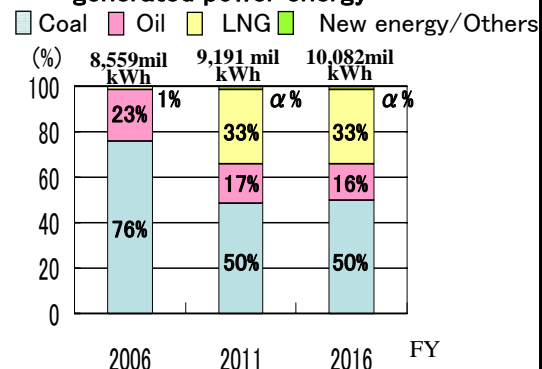
		2006 (Result)	2007 (Result)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Demand-supply balance	Peak load	1,408	1,431	1,476	1,505	1,534	1,562	1,590	1,618	1,646	1,674	1,701
	Supply capacity	1,888	1,953	1,935	1,949	1,948	2,132	2,161	2,138	2,143	2,136	2,301
	Reserve supply capacity	480	522	459	444	414	570	571	520	497	462	600
	Reserve supply rate	34.1	36.5	31.1	29.5	27.0	36.5	35.9	32.1	30.2	27.6	35.3

\*Maximum electric power in FY2006、2007 was generated in July.

### Composition ratio of plant facilities for the year-end



### Composition ratio of generated power energy



- Reserve supply rate for FY2011 is about 36.5% reflecting the launch of Yoshinoura thermal power plant operation.
  - This is the result of front-loading the operation launch in response to the environmental measure (CO<sub>2</sub>).
- Capital investment amount is expected to reach a peak in FY2008 with the amount of JPY50.5bn when Yoshinoura-related construction is fully in progress.
  - The progress of the project, however, slightly falls behind the schedule of work.

## Capital investment amount

(Unit : billion yen)

			2006 (Result)	2007	2008
Expansion	Power supply	Steam power	4.1	16.2	32.4
		Internal combustion power	0.2	—	0
		Subtotal	4.3	16.2	32.4
	Others	Electric power transmission	4.0	2.8	4.7
		Electric power transformation	2.9	2.5	2.4
		Electric power distribution	3.9	3.9	3.7
		Power dispatching, others	0.2	0.9	1.3
		Subtotal	11.0	10.1	12.1
	Total		15.3	26.3	44.5
	Improvement work, others		8.1	7.4	6.0
Total		23.4	33.7	50.5	



# Capital investment plan (Subsidiaries)

## □ Kanucha Community Co., Inc. (KCC)

- Total construction cost, JPY15.6bn (517 premises)
- Established a sales office in Tokyo in April 2007 and start a promotion for the booking.
- Construction schedule breakdown: 1st period (September 2007 – February 2009) 73 premises, 2nd period (March 2009 – June 2010) 120 premises, 3rd period (July 2010 – October 2011) 188 premises, 4th period (November 2011 – March 2013) 136 premises.

## □ Okinawa Telecommunication Network Co., Inc. (OTNet)

- Will implement a capital investment within the range of depreciation.
- Applied the asset impairment accounting for asset in relation to FTTH (Fiber to the Home) business at the end of FY2006 and FY2007 interim.

## □ Okinawa New Energy Development Co., Inc.

- The Miyako wind power (900kW × 4, Total construction cost, approximately JPY950mil) in FY2007 and 2008.
- The Nakizin wind power (1,995 kW) in FY2009.

## □ Others

- The Okiden Kigyo Co., Ltd. is implementing a capital investment in leasing.
- Okiden Kaihatsu Co., Inc. may implement a capital investment depending on the received order status of PFI, etc.
- Okinawa Plant Kogyo Co., Inc. is expected to implement a Yoshinoura thermal power plant-related capital investment.



# Business challenges

## Our Company Mission

- ① Providing a stable supply of electricity.
- ② Offer electricity at rates comparable with those on the Japanese mainland.
- ③ Secure appropriate levels of profit.
- ④ Earn the trust of our shareholders, investors and customers.

As a corporation in charge of providing the lifeline to the residents in Okinawa, we will address various challenges in order to conduct a long-term stable business management.

Profitability enhancement		Capital control	
Profitability	Profitability enhancement through cost efficiency. Development of new demands and promotion of liabilities standardization	Stability securement	Secure the stability of financial ground. Control the increase of interest-bearing liabilities.
Asset efficiency	Profitability enhancement through efficient Capex. Promote the efficiency of facility's operations security.	Equity efficiency	Appropriate balance between equity and liabilities. Maintain the earnings on equity.
Operating base		Reliability securement	
Stable supply	Sound promotion of power resources development and stable operation of facilities. Improvement of fuel balance and stable procurement.	Customer credibility	Approach for charging the similar amount of electric power charge to that of the mainland. Improve customer satisfaction through better services.
Business expansion	Expansion to the field of the gas. Enhancement of the business base of the existing group companies.	CSR	Approach to the environmental issues. Promoting compliance with laws. Contribution to the local community.



# Outlook of financial position

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.

	1st Stage (2006–2010)	2nd Stage (2011–)
Summary	<ul style="list-style-type: none"> <li>■ Burden for capital investment has increased due to the construction work of the Yoshinoura thermal power plant.</li> <li>■ Income and expenditure has stabled due to decreased cost of depreciation.</li> <li>■ Operating CF remains unchanged, and FCF is expected to result in minus (in fiscal 2008, 2009)</li> </ul>	<ul style="list-style-type: none"> <li>■ Burden for capital investment will be reduced significantly</li> <li>■ Depreciation cost will increase and temporarily puts pressure on income and expenditure.</li> <li>■ Operating CF will increase, and FCF is expected to recover rapidly.</li> </ul>
Issues	<ul style="list-style-type: none"> <li>■ Will control the increase of interest-bearing liabilities</li> <li>■ Will enhance the stability of financial position by increasing the equity capital</li> </ul>	<ul style="list-style-type: none"> <li>■ Controlling the balance between capital and liabilities (Securing capital efficiency)</li> <li>■ Implement the additional capital investment, taking into account profitability and efficiency.</li> <li>■ Improvement of return to stockholders</li> </ul>
CF usage	<ul style="list-style-type: none"> <li>■ Will prioritize the capital investment in the Yoshinoura thermal power plant</li> <li>■ Will consider the reduction of charge and return to stockholders based on the assumption that the financial goal can be achieved</li> </ul>	<ul style="list-style-type: none"> <li>■ Reduction of charges</li> <li>■ Improvement of return to stockholders</li> <li>■ Bolstering the foundation of integrated energy business</li> <li>■ Improvement of balance sheet</li> </ul>



# Summary of Mid-term Financial Targets

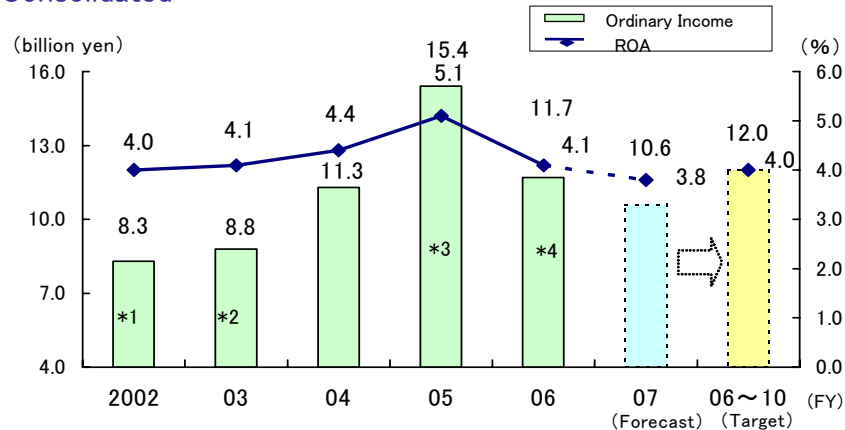
		FY2007 Management Plan		FY2006 Result	FY2007 Forecast
Ordinary Income	Consolidated	Yearly average of at least 12 billion yen	FY2006~FY2010	11.7 billion yen	10.6 billion yen
	Non-consolidated	Yearly average of at least 11 billion yen		10.0 billion yen	10.0 billion yen
ROA ( operating Income / total assets)	Consolidated	Yearly average of at least 4%	FY2006~FY2010	4.1%	3.8%
	Non-consolidated			3.9%	3.7%
Balance of interest bearing debt	Consolidated	Approx. 270 billion yen	End of FY2010	232.6 billion yen	231.9 billion yen
	Non-consolidated	Approx. 260 billion yen		221.7 billion yen	219.7 billion yen
Equity ratio	Consolidated	Approx. 30%	End of FY2010	27.1%	27.5%
	Non-consolidated			28.1%	28.5%



# Efficiency Promotion

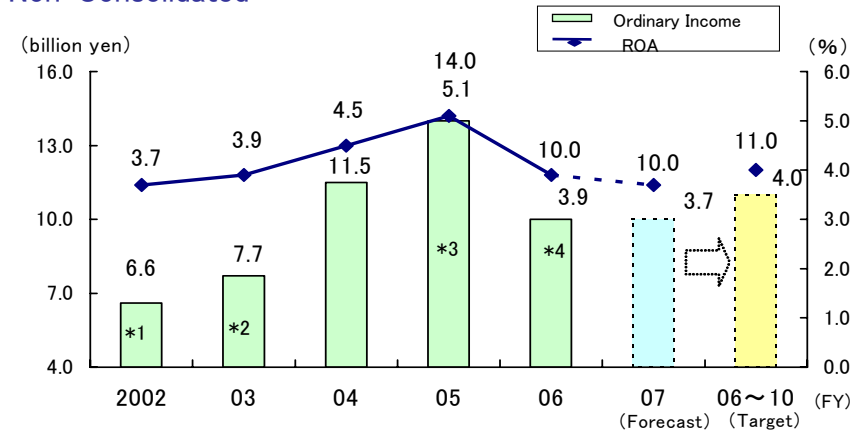
## Trends in Ordinary Income and ROA

### Consolidated



\*1 Electricity Rate Revision -5.79% in Oct 2002  
 \*2 Kin Thermal Power Plant No2 began operation in 2003

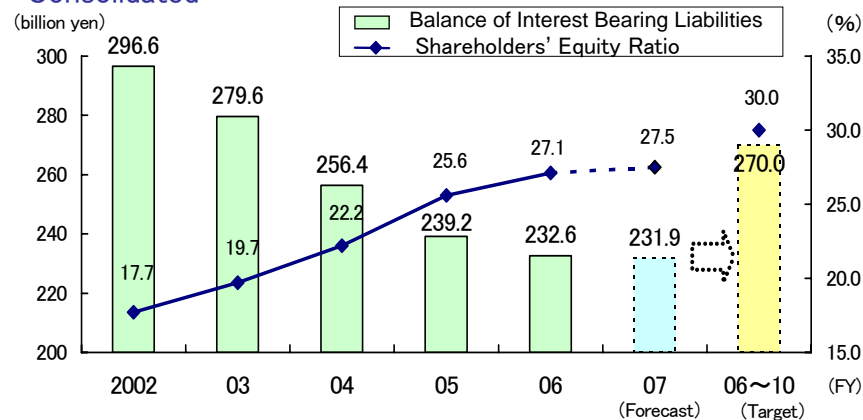
### Non-Consolidated



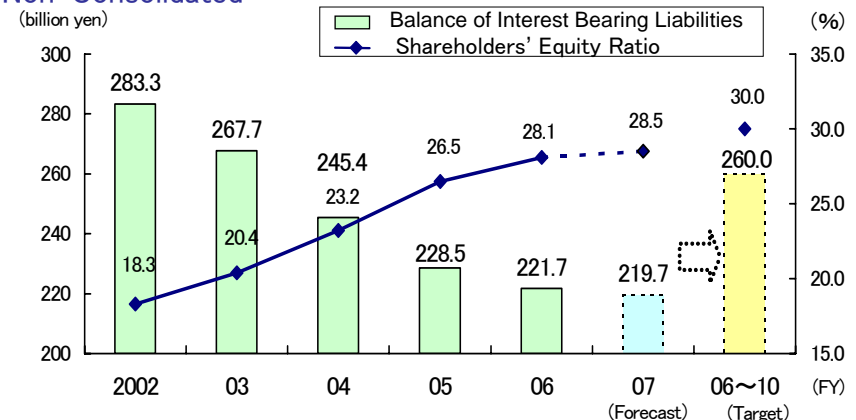
\*3 Electricity Rate Revision -3.27% in Jul 2005  
 \*4 Electricity Rate Revision -3.24% in Jul 2006

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

### Consolidated



### Non-Consolidated





# Mid-term prospects for each item of expenses

	Item of expenses	Mid-term prospects
Non-consolidated	Sales amount	Sales amount may vary with the impact on the Fuel Cost Adjustment System, but is expected to increase as a base due to the increase of electric energy demand.
	Personnel cost	Expected to remain unchanged at about JPY16bn to maintain about 1,500 staff .
	Fuel cost	Fuel costs are increasing due to fuel price hikes. It is required to control the increase of the cost.
	Repair and Maintenance cost	Expected to remain unchanged at about JPY15 billion. But estimated to exceed JPY16 billion in fiscal 2007 due to damages caused by typhoons.
	Depreciation cost	Effect amount of the tax reform will be about JPY1.1bn in FY2007. (Effect amount of 95% less current maturity is about JPY0.8bn per annum.) The amount will continue to slightly decrease until FY2009, but will increase significantly in FY2010 with the operation launch of Yoshinoura thermal power plant.
	Expenditure for power purchase	Expected to remain nearly flat.
	Tax and public dues	Business tax has increased to approximately JPY250mil with the abolition of the relief measure. (Tax rate: 1.1%→1.3%) Tax rate of the promotion of power resources development tax has changed (JPY400 → JPY375), which leads to a decrease of approximately JPY180mil.
	Other expenses	Amount may vary due to the cost of outsourcing for system development, etc. Recorded the Co2 credit cost (JPY280mil) in FY2007. Will record the cost based on the acquisition of the credit after FY2008 as well.
Consolidated	Construction business	Although there are slight ups and downs each year, OKIDENKO, Okiden Sekkei and Oki Setsubi are expected to show nearly flat movements. Okinawa New Energy Development has recognized a sales increase with the expansion of wind power electricity. (Parent-subsidiary)
	Other businesses	The Okinawa Electric Company, Okinawa Denki Kogyo and OGS are expected to show nearly flat movement. Okinawa plant increases the Yoshinoura-related sales for the period of 2009-2010. (Parent - subsidiary) Okiden Kaihatsu Company seems to continue to achieve handsome profits. OTNet will try to reconstruct the FTTH Division to aim for an prompt turnaround. FRT has restored profitability in FY2006, and will aim to achieve further profit increase after FY2007 by increase the number of customers. KCC will start the sales promotion for the booking in April 2007.





# Characteristics of the business bases


## Advantage

<b>Demand for Electric Power</b>	<ul style="list-style-type: none"> <li>◆ Increasing demand as population increasing</li> <li>◆ As the proportion of energy for consumer use is high, the effects of business fluctuations are low.</li> </ul>
<b>Competition</b>	<ul style="list-style-type: none"> <li>◆ Severance from competition among electric power companies on account of independent producers</li> <li>◆ No competition with PPS (Power producers and Suppliers)</li> <li>◆ The advance of private power generation operations is limited (Prevention of demand withdrawals through Progressive Energy Corp.)</li> </ul>

## Disadvantage

<b>Electric Power Generation Facilities</b>	<ul style="list-style-type: none"> <li>◆ Due to having an isolated system, it is necessary to have a high margin of power generation reserves</li> <li>◆ Electrical power source composition reliant only on oil and coal</li> </ul>
<b>Fuel</b>	<ul style="list-style-type: none"> <li>◆ As oil and coal are the only fuels used, high commodity prices exert a great influence</li> </ul>
<b>Remote Islands</b>	<ul style="list-style-type: none"> <li>◆ With a high ratio of remote islands where cost efficiency is low, the company constantly records losses.</li> </ul>
<b>The Environment</b>	<ul style="list-style-type: none"> <li>◆ Dependent on fossil fuels (oil and coal) with a high environmental burden</li> </ul>





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.

**【Enquiries regarding this document】**

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