Management Overview

February 2011

The Okinawa Electric Power Company, Inc.

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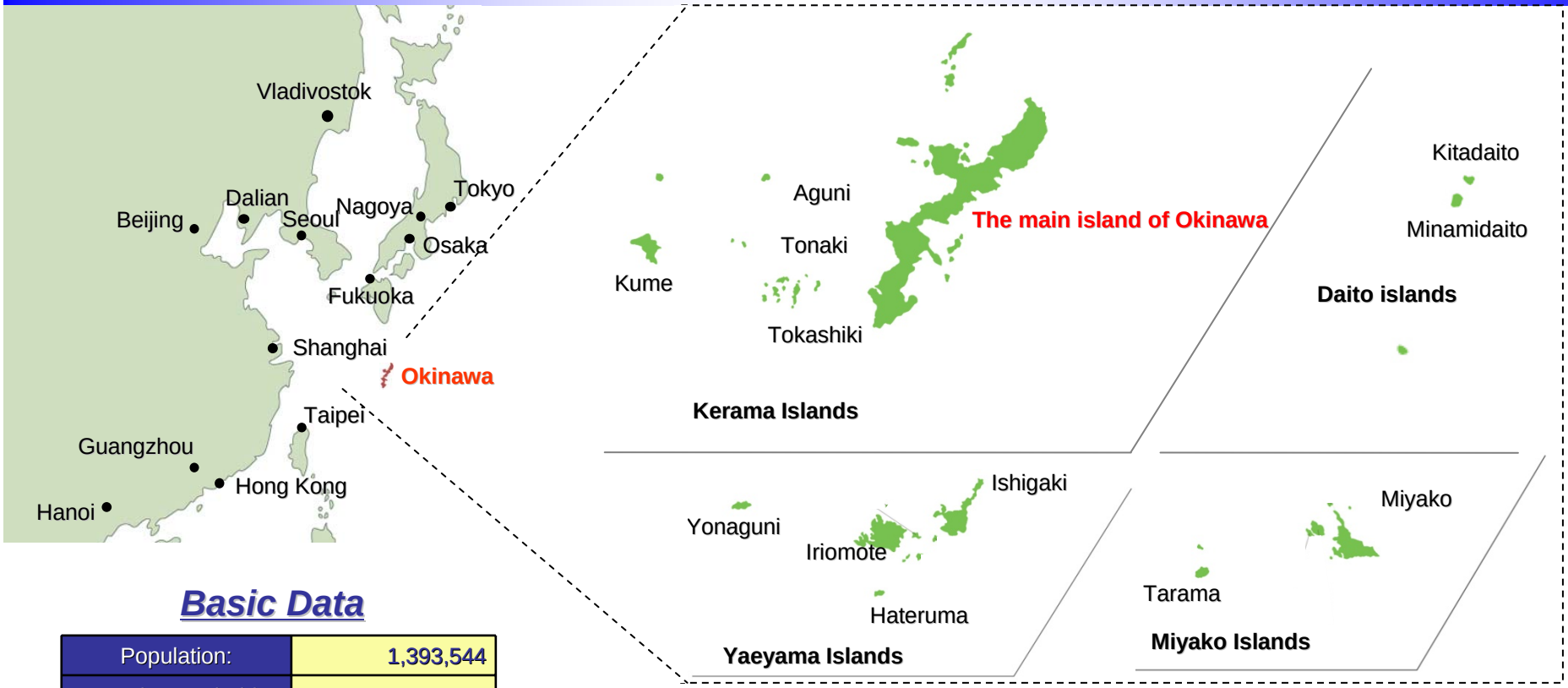
Overview of Okinawa Prefecture



Basic Data

Population:	1,393,544
No. of Households	535,180
Area	2,276.01㎢
Climate	Subtropical
Location	26˚12N 127˚41E
Prefectural GDP	¥3,984.5billion
Tourism Revenue	¥377.8billion

- **The main island of Okinawa is the most populous with 90% of the resident population.**
- **Tertiary industrial sectors including commerce, finance and service which account for roughly 90% of the prefectural GDP.**

Population, No. of Households and Area as of October 1, 2010
Prefectural GDP as of 2008
Tourism Revenue as of FY 2009
(Source: Okinawa Prefectural Government, Geographical Survey Institute etc.)

Locales with similar latitude zones

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

Corporate Overview of OEPC

Okinawa Electric Power supplies electricity to all parts 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.

Established	May 15, 1972
Capital	¥7,586 million
Shareholders	7,582
Total assets	¥349.30 billion (Non-consolidated) ¥365.29 billion (Consolidated)
Sales (FY 2009)	¥151.82billion (Non-consolidated) ¥162.50 billion (Consolidated)
Employees	1,499 (Non-consolidated) 2,495(Consolidated)

Security code	9511
Service area	Okinawa Prefecture
Customers	Lighting 769 thousand units Power 63 thousand units
Electricity sales (FY 2009)	Lighting 2,916 million kWh Power 4,562 million kWh (Deregulated demand 1,169million kWh) Total 7,478 million kWh
Generating 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

(as of March 31, 2010)

Ratings

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

Ratings on long-term preferred debts as of January 31, 2011

Financial Results for FY2010 3Q YTD
(Year-on-Year Comparison)

(Unit: million yen, X)

	Consolidated (A)			Non-consolidated (B)			(A)/ (B)	
	FY2010 3Q YTD Results	FY2009 3Q YTD Results	Rate of change	FY2010 3Q YTD Results	FY2009 3Q YTD Results	Rate of change	FY2010 3Q YTD Results	FY2009 3Q YTD Results
Sales	122,394	126,029	-2.9%	116,880	118,453	-1.3%	1.05	1.06
Operating income	15,642	19,739	-20.8%	14,656	18,654	-21.4%	1.07	1.06
Ordinary income	13,677	17,029	-19.7%	12,422	16,087	-22.8%	1.10	1.06
Net income	9,709	11,037	-12.0%	8,884	10,471	-15.2%	1.09	1.05

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

【Revenue】

- Decrease in income from the Fuel Cost Adjustment System in Electric business.
- Decrease in sales due to the influence of change in consolidated subsidiaries.(※)
- Decrease in construction orders from private sector and public sector in consolidated subsidiaries.

【Expenditure】

- Increase in fuel cost , repair and maintenance cost and business consignment expenses in Electric business.
- Decrease in expenditure due to the influence of change in consolidated subsidiaries.(※)

※“Okinawa Telecommunication Network Co.,Inc.” has become an equity-method affiliate since Jan.2010.

Annual Outlook Summary

(Unit: million yen, X)

	Consolidated				Non-consolidated				(A)/(B)	
	FY2010 Forecast		Change (A)-(B)	FY2009 (Results)	FY2010 Forecast		Change (A)-(B)	FY2009 (Results)	FY 2010 (Forecast)	FY 2009 (Results)
	Announced in Jan 2011 (A)	Announced in Oct 2010 (B)			Announced in Jan 2011 (A)	Announced in Oct 2010 (B)				
Sales	158,100	158,300	-200	162,501	149,500	149,700	-200	151,825	1.06	1.07
Operating income	12,200	11,700	+500	17,397	10,200	10,000	+200	14,935	1.20	1.16
Ordinary income	9,600	9,000	+600	13,659	7,300	7,000	+300	11,315	1.32	1.21
Net income	7,100	6,700	+400	8,950	5,500	5,300	+200	7,293	1.29	1.23

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

［ Comparison with previous forecast (Oct.2010) ］

(Electric business)
【Revenue】 Decrease in electricity sales volume.
【Expenditure】 Decrease in fuel cost.
Increase in depreciation cost.
(Consolidated subsidiaries)
Increase in operating income due to an increase in sales.

Electric Energy Demand (FY2010 3Q YTD and FY2010 Outlook)

FY2010 3Q YTD Results

（Unit：Million kWh、%）

		FY2010 3Q YTD		FY2009 3Q YTD Results	Perform-ance Against targets	YoY Change
		Results	Targets			
Lighting		2,261	2,259	2,229	100.1	1.5
Power		3,620	3,638	3,636	99.5	-0.4
Total		5,881	5,897	5,865	99.7	0.3
Reference	Consumer Use	4,889	4,861	4,842	100.6	1.0
	Industrial Use	992	1,036	1,023	95.7	-3.1

(Lighting)

- The demand for Lighting increased year-on-year due to increased number of customers.(1.5%)

(Power)

- The demand for Power decreased year-on-year due to the influence of high rate of operation of Sea Water Desalination Plant in Large industrial power in the previous year.(-0.4%)

(Total)

- As a result, the figure totals at 5,881million kWh, which remained almost on a par with the previous year's figure. (0.3%)

FY2010 Outlook

（Unit：Million kWh、%）

		FY2010 (Forecast)	FY2009 (Results)	YoY Change
Lighting		2,937	2,916	0.8
Power		4,545	4,562	-0.4
Total		7,482	7,478	0.1
Reference	Consumer Use	6,190	6,155	0.6
	Industrial Use	1,292	1,323	-2.4

(Lighting)

- The demand for Lighting is expected to exceed the previous year's figure with a growth of the number of customers. (0.8%)

(Power)

- The demand for Power is expected to decrease year-on-year due to the influence of high rate of operation of Sea Water Desalination Plant in Large industrial power in the previous year.(-0.4%)

(Total)

- As a result, the figure totals at 7,482 million kWh, which is around the same level as the previous year. (0.1%)

Electric Energy Demand (Long-term forecast)

Forecast for long-term Electric Energy demand

(Unit: million kWh, Thousand kW, %)

		2008 (Result)	2009 (Result)	2010 (Forecast)	2018 (Forecast)	2019 (Forecast)	Average growth rate per annum	
							FY1998 – FY2008	FY2008 – FY2019
No. 116EI forecast (2010)	Electric energy demand	(7,412) 7,476	(7,382) 7,478	7,498	8,541	8,674	(1.7) 1.2	(1.4) 1.4
	Peak load	(1,388) 1,388	(1,393) 1,422	1,434	1,612	1,635	(0.6) 0.4	(1.5) 1.5
	Annual load factor	(63.8) 64.5	(63.3) 62.9	62.5	63.3	63.4	–	–
No. 114EI forecast (2009)	Electric energy demand	(7,412) 7,476	7,483	7,606	8,749	–	(2.0) 2.0	(1.5) 1.4
	Peak load	(1,388) 1,388	1,426	1,448	1,654	–	(0.8) 1.4	(1.5) 1.3
	Annual load factor	(63.8) 64.5	62.7	62.8	63.2	–	–	–

(Unit:%)

Average growth rate per annum FY2008 – FY2019
Average of 9 other Electric Power companies (ex- OEPC)
(0.9) 0.9
(0.4) 0.4

Note 1: ( ) indicates the adjusted intercalary temperature. FY2009 is a provisional figure.
Note 2: The figure indicated for FY2009 of No. 114 EI is the estimate value.
Note 3: Average growth rate per annum for No. 114 EI are from 1997 to 2007 and 2007 to 2018.

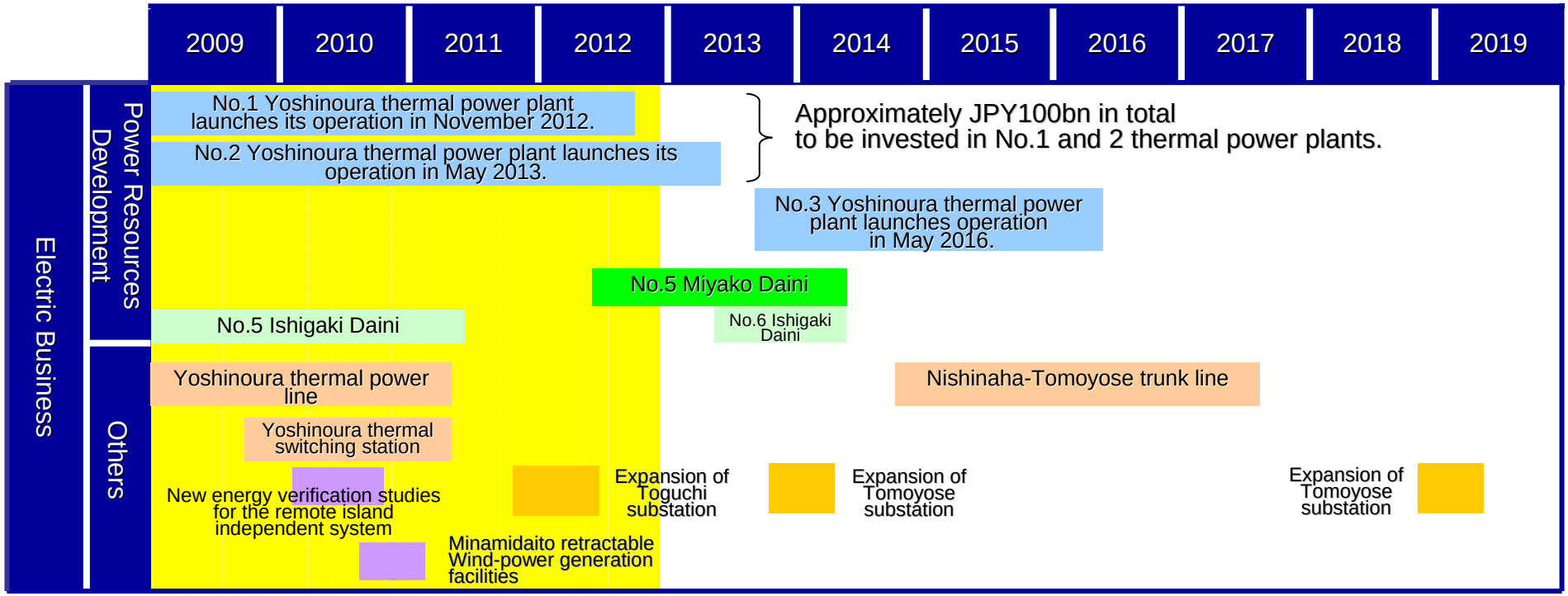
FY2009 – FY2010 Economic forecast

(Average growth rate per annum, Unit:%)

		2008 (Result)	2009 (Estimated Result)	2010 (Forecast)	
Real GDP	Okinawa	1.3	0.6	1.1	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.
	Japan	-4.1	-2.4	3.1	

(Source for this page : Cabinet Office, Okinawa prefecture, FEPC)

Capital Investment Plan (Electric Business I)



Note: Power Rsources development cases listed above are those plants which have more than 10,000 kW generating capacity and are expected to initiate operations within 10 years from FY2010 for the Main island, and 5 years for remote islands.

Note: Power distribution facilities cases listed above have more than 132kV working voltage, and are under construction or expected to begin construction within 10 years from FY 2010.

■ Capital investment for Yoshinoura thermal power plant (Power resources development section)

- Approximately JPY100bn to be invested in Yoshinoura thermal power plant No1.and No2 plants.
- The investment for Yoshinoura thermal power plant after its No1.and No2 plants launched will be lower than those of the plants No.1 and 2 because the investment will be only for generators.

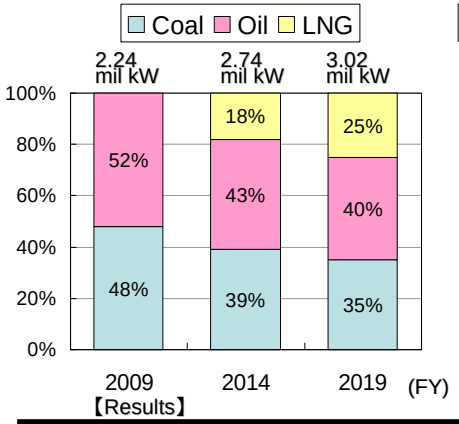
Capital Investment Plan (Electric Business II)

Demand-supply balance of maximum electric power (August)

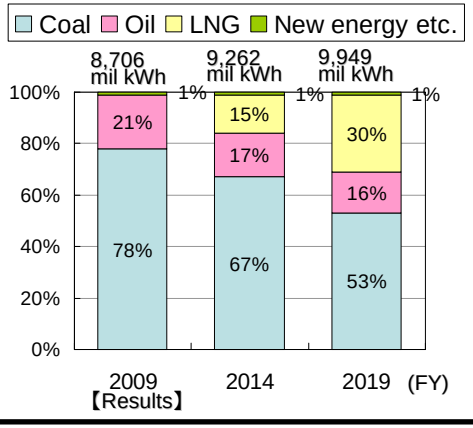
(Unit : Thousand kW, %)

		2009 【Results】	2010 【Results】	2011	2012	2013	2014	2015	2016	2017	2018	2019
Demand-supply balance	Peak load	1,422	1,377	1,452	1,474	1,497	1,521	1,544	1,567	1,590	1,612	1,635
	Supply capacity	1,955	1,836	1,924	1,910	2,127	2,136	2,135	2,274	2,346	2,355	2,275
	Reserve supply capacity	533	459	472	436	630	615	591	707	756	743	640
	Reserve supply rate	37.5	33.3	32.5	29.6	42.1	40.4	38.3	45.1	47.5	46.1	39.1

Composition ratio of plant facilities for the year-end



Composition ratio of generated power energy



- Reserve supply rate will be 42.1% in FY 2013 by the start of operation of the Yoshinoura Thermal Power Station.
- The amount of capital investment is expected to increase following the full-scale start of construction works related to the Yoshinoura Thermal Power Station.

Capital investment amount

(Unit : billion yen)

			2009 (Results)	2010	2011
Expansion	Power supply	Steam power	15.3	19.8	28.8
		Internal combustion power	0.5	0.0	3.8
		Subtotal	15.8	19.8	32.6
	Others	Electric power transmission	1.3	4.1	3.1
		Electric power transformation	2.1	3.7	3.3
		Electric power distribution	3.9	3.9	3.6
		Power dispatching, others	2.8	10.8	2.7
		Subtotal	10.2	22.5	12.7
	Total		26.1	42.3	45.3
Improvement work, others			4.8	14.6	7.2
Total			31.0	56.9	52.5

Management Issues

【 Issues and measures for resolving them 】

Medium and long-term management policy	Management Issues	Measures for resolving the issues
Stable supply of high quality electricity	Improvement of energy security	・Steady efforts for construction work and starting operation of the Yoshinoura Thermal Power Plant ・Stable fuel procurement, etc.
Raising the customer satisfaction levels	Ensuring electricity charge comparable with the level in the mainland	・Curtailing capital investment ・Further improving the operational efficiency ・Stimulating demand, etc.
Harmonizing with the society and global environment	Addressing the global warming issue	・Introduction of LNG thermal power (Yoshinoura Thermal Power Plant) with lower CO2 emissions ・Efficient operation of existing thermal power plants ・Mixed combustion of biomass fuel ・Introduction of mega solar power generation plant ・Introduction of retractable wind turbine systems to remote islands ・Utilization of Electric vehicles ・Procuring CO2 credit using the Kyoto Mechanisms, etc.
Ensuring proper profit levels	Improving the management of facilities	・ Reduction of the periodical inspection period by close examination of the inspection contents ・ Extending the life of existing facilities and effective utilization of removed facilities, etc.
	Reduction of fuel costs	・Spot purchasing of C Heavy Oil ・Reduction in transportation cost, etc.
	Improving income and expenditure of operation in remote islands	・Introduction of renewable energy facilities such as retractable wind power facilities in consideration of economy. ・Improving the operational efficiency of power generation facilities through the EDC (economic load dispatching control) system ・Effective utilization of waste oil, etc.
	Establishing a strong and flexible financial position	・Reasonable and efficient execution of operations ・Stimulation of additional demand, etc.
Effectively utilizing management results	Dividend policy / return to stockholders	・Well-balanced allocation of Free Cash Flow among “Dividend policy”, ”Electricity charge policy”, “Improvement of financial position”, and “Investment in growth fields”.
Enhancing the group management		・Enhancing the integrated operation of the Group ・Establishing an efficient and optimal organizational framework ・Establishing the OEPC Group brand, etc.

Outlook of Financial Position

Looking at 10 years from now on, our first stage is considered to be until 2012 and the second stage is 2013 and after, by separating a decade with the start year of operation of the Yoshinoura Thermal Power Plant.

	1st Stage(～2012)	2nd Stage(2013～)
Summary	■ Burden for capital investment has increased due to the construction work of the Yoshinoura thermal power plant ■ Profits have stabled until FY2011 due to the decrease in depreciation cost ■ Operating CF remains unchanged, and FCF is expected to result in minus ■ Cost increase by acquisition of the CO_2 credit	■ Burden for capital investment will be reduced significantly ■ Depreciation cost and environmental cost will increase and put pressure on profits ■ Operating CF will increase, and FCF is expected to recover ■ The population will continue to increase even with a slower rate
Issues	■ Will control the increase of interest-bearing liabilities ■ Enhancement of the financial stability by accumulating the interest ■ Measures for the introduction of new energy and an increase in environmental cost	■ Efforts for the improvement of capital efficiency ■ Implement the additional capital investment, taking into account profitability and efficiency ■ Improvement of return to stockholders
CF usage	■ Will prioritize the capital investment in the Yoshinoura thermal power plant ■ Will consider return to stakeholders based on the assumption that the financial goal can be achieved	■ Improvement of return to stakeholders ■ Bolstering the foundation of the integrated energy business

Summary of Mid-term Financial Targets

		FY2010 Management Plan		FY2009 Result	FY2010 Forecast
Ordinary Income	Consolidated	Yearly average of at least 11 billion yen	FY2008～FY2012	13.6 billion yen	9.6 billion yen
	Non-consolidated	Yearly average of at least 10 billion yen		11.3 billion yen	7.3 billion yen
ROA (operating Income / total assets)	Consolidated	Yearly average of at least 3.5%	FY2008～FY2012	4.8%	3.2%
	Non-consolidated			4.3%	2.8%
Balance of interest bearing debt	Consolidated	Approx. 260 billion yen	End of FY2012	200.8billion yen	211.3 billion yen
	Non-consolidated	Approx. 250 billion yen		198.7billion yen	209.7 billion yen
Equity ratio	Consolidated	Approx. 30%	End of FY2012	32.5%	31.4%
	Non-consolidated			32.1%	30.8%

Mid-term Prospects for Each Item of Expenses (Non-consolidated)

	Mid-term prospects
Sales amount	Steady growth is expected in keeping with the increase in electricity sales volume.
Personnel cost	Expected to remain unchanged at JPY16bn. level to maintain about 1,500 staff.
Fuel cost	Fuel prices have been an upward trends, and the outlook is unclear. The risk of potential higher crude oil price remains. After the start-up of Yoshinoura Thermal Power Plant, fuel cost may increase due to the change in the fuel composition.
Repair and Maintenance costs	While the cost is expected to increase due to increase of facilities, we will attempt to keep the cost down by improving operational efficiency.
Depreciation cost	A significant increase is temporarily expected with the start of operation of the Yoshinoura Thermal Power Plant. It will be at its peak when the Unit No. 2 starts its operation, but it is expected to be in decreasing trend in and after FY 2014.
Expenditure for power purchase	Expenditure for power purchase will change mainly with the coal price. The purchase of new energy such as wind power and solar power will increase.
Tax and public dues	Assuming the special measure continues, it is expected to remain almost constant.
Other expenses	Other expenses will increase due to CO_2 credit cost.

Mid-term Prospects of Consolidated Subsidiaries

	Mid-term prospects
Construction Business	▸ Okidenko, Oki Setsubi are expected to be stable in revenue and expenditure. ▸ Okinawa Enetech is expected to be stable in sales, by leveraging energy supply technologies and new energy technologies, and strengthening the proposal-type business. ▸ Okinawa New Energy Development is expected to have increasing cost due to the change of depreciation methods (from the straight-line method to the declining-balance method). However, the company strives to improve its revenue and expenditures though increasing sales from wind power generation and orders from public works, etc.
Other Businesses	▸ Okiden Kigyo's business environment is difficult, but it ensures sales from expansion and improvement construction on power plants in remote islands, as well as other businesses including the insurance business. ▸ Okinawa Plant Kogyo's sales are expected to remain stable after a temporary sales increase related to Yoshinoura settles down. ▸ Okinawa Denki Kogyo is expected to show nearly flat movement in sales. ▸ Okiden Global Systems (OGS) is expected to show nearly flat movement in sales. ▸ First Riding Technology (FRT) seeks an increase in sales through acquiring new customers and improving the quality of its services. ▸ Okiden Kaihatsu is expected to be stable in revenue and expenditure. ▸ Progressive Energy's (PEC) private power generation business is uncertain in sales and income. The company strive to increase sales by focusing on businesses other than private power generation business. ▸ Kanucha Community (KCC) decided to dissolve itself because continuing the business is extremely difficult under its severe business environment.

※ We don't mention about Okinawa Telecommunication Network Co.,Inc.(OTNet) because OTNet has changed from a consolidated subsidiary to an equity-method affiliate as a result of a capital increase through third-party allotment of shares. (January 4th, 2010)

Characteristics of the Business Bases

Advantages

Demand for Electric Power	◆ Increasing demand as population increasing ◆ As the proportion of energy for consumer use is high, the effects of business fluctuations are low
Competition	◆ Severance from competition among electric power companies on account of its isolated system ◆ No competition with PPS (Power Producers and Suppliers) ◆ The advance of private power generation operations is limited (Prevention of demand withdrawals through Progressive Energy Corp , a subsidiary of OEPC.)

Disadvantages

Electric Power Generation Facilities	◆ Due to having an isolated system, it is necessary to have a high margin of power generation reserves ◆ Electrical power source composition reliant only on oil and coal
Fuel	◆ As oil and coal are the only fuels used, high commodity prices exert a great influence
Remote Islands	◆ With remote islands where cost efficiency is low, the Remote Islands Company constantly records losses
The Environment	◆ Dependent on fossil fuels (oil and coal) with a high environmental burden

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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