Management Overview

May 2013

The Okinawa Electric Power Company, Inc.

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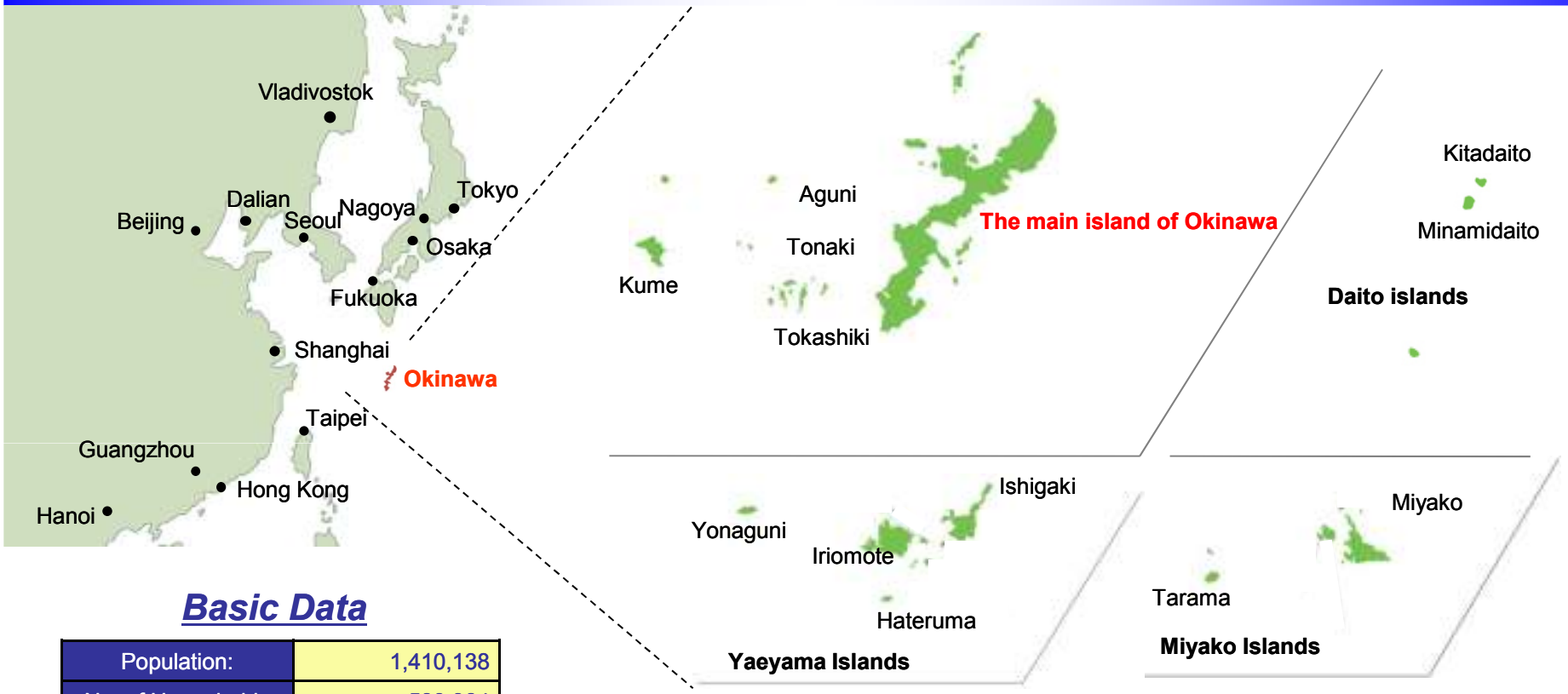
Overview of Okinawa Prefecture



Basic Data

Population:	1,410,138
No. of Households	539,984
Area	2,276㎢
Climate	Subtropical
Location	26°12N 127°41E
Prefectural GDP	¥4,099.8billion
Tourism Revenue	¥378.3billion

- **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, 2012
Prefectural GDP as of FY2011
Tourism Revenue as of FY 2011
(Source: Okinawa Prefecture, 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 38 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	8,254
Total assets	¥415.08 billion (Non-consolidated) ¥435.51 billion (Consolidated)
Sales (FY 2011)	¥158.91 billion (Non-consolidated) ¥166.43 billion (Consolidated)
Employees	1,540 (Non-consolidated) 2,550 (Consolidated)

Security code	9511
Service area	Okinawa Prefecture
Customers	Lighting 798 thousand units Power 60 thousand units Total 859 thousand units
Electricity sales (FY 2011)	Lighting 2,851 million kWh Power 4,463 million kWh (Deregulated demand 1,156 million kWh) Total 7,314 million kWh
Generating facilities	Steam-power generators 5 locations 1,718 thousand kW (Oil 2 locations 715 thousand kW) (Coal 2 locations 752 thousand kW) (LNG 1 locations 251 thousand kW) Gas turbine generators 4 locations 291 thousand kW Internal-combustion power generators 13 locations 174 thousand kW

(as of March 31, 2013)

Ratings

Rating agency	S&P	Moody's	R&I	JCR
Rating	AA−	Aa3	AA+	AAA

Ratings on long-term preferred debts as of March 31, 2013

Financial Results for FY2012
(Year-on-Year Comparison)

(Unit: million yen, X)

	Consolidated (A)			Non-consolidated (B)			(A) / (B)	
	FY2011 Results	FY2012 Results	Rate of Change	FY2011 Results	FY2012 Results	Rate of change	FY2011 Results	FY2012 Results
Sales	166,075	166,439	+0.2%	157,886	158,911	+0.6%	1.05	1.05
Operating income	12,769	8,969	-29.8%	10,844	7,047	-35.0%	1.18	1.27
Ordinary income	10,273	6,307	-38.6%	8,059	4,309	-46.5%	1.27	1.46
Net income	6,956	4,318	-37.9%	5,050	3,098	-38.7%	1.38	1.39

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

【Revenue】

■ Increase in income from the Fuel Cost Adjustment System in Electric business.

■ Decrease in Sales in consolidated subsidiaries.

【Expenditure】

■ Increase in Depreciation costs, Fuel costs and Repair and maintenance costs in Electric business.

Annual Outlook Summary

(Unit: million yen, X)

	Consolidated (A)				Non-consolidated (B)				(A)/(B)	
	FY2012 (Results)	FY2013 (Forecast)	Rate of Change	【Reference】 FY2013 1st half (Forecast)	FY2012 (Results)	FY2013 (Forecast)	Rate of Change	【Reference】 FY2013 1st half (Forecast)	FY2012 (Results)	FY2013 (Forecast)
Sales	166,439	182,400	+9.6%	94,500	158,911	174,100	+9.6%	91,300	1.05	1.05
Operating income	8,969	8,600	-4.1%	7,400	7,047	7,000	-0.7%	7,100	1.27	1.23
Ordinary income	6,307	5,700	-9.6%	6,000	4,309	4,000	-7.2%	5,800	1.46	1.43
Net income	4,318	4,000	-7.4%	4,000	3,098	3,000	-3.2%	3,900	1.39	1.33

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

【 Sales 】

- Increase in income from Fuel Cost Adjustment System and Electricity Sales Volume in Electric business.
- Increase in Sales in consolidated subsidiaries.

【 Income 】

- Increase in Fuel costs, Depreciation costs and Power purchase costs in Electric business.

Electric Energy Demand
(FY2012 Results and FY2013 Outlook)

FY2012 Results

(Unit:Million kWh、%)

		FY 2012 Results	FY 2012 Plans	FY2011 Results	Perform-ance Against Plans	YoY Change
Lighting		2,851	2,988	2,938	95.4	-3.0
Power		4,463	4,553	4,502	98.0	-0.9
Total		7,314	7,541	7,440	97.0	-1.7
Reference	Consumer Use	6,051	6,238	6,159	97.0	-1.8
	Industrial Use	1,263	1,303	1,281	96.9	-1.5
	Large Industrial Power (Restated)	830	868	849	95.7	-2.2

(Lighting)
- Although number of customers increased, the demand for Lighting decreased Year-on-Year due to typhoons and temperature variations.(-3.0%)

(Power)
- Although demand of new customers increased, the demand for Power decreased Year-on-Year due to typhoons and temperature variations.(-0.9%)

(Total)
- As a result, the figure totals at 7,314million kWh, which fell bellow the previous fiscal year.(-1.7%)

FY2013 Outlook

(Unit:Million kWh、%)

		FY2013 (Forecast)	FY2012 (Results)	YoY Change
Lighting		2,968	2,851	4.1
Power		4,576	4,463	2.6
Total		7,544	7,314	3.1
Reference	Consumer Use	6,253	6,051	3.3
	Industrial Use	1,291	1,263	2.2
	Large Industrial Power (Restated)	855	830	3.0

(Lighting)
- The demand for Lighting is expected to increase Year-on-Year due to expectations of increase in number of customers, spread of all-electric houses, and a rebound of previous fiscal year's demand decrease. (4.1%)

(Power)
- The demand for Power is expected to increase Year-on-Year due to expectations of increase in number of customers, increase in demand from Large Industrial Power, and a rebound of previous fiscal year's demand decrease.(2.6%)

(Total)
- As a result, the figure totals at 7,544million kWh, which is projected to exceed the previous year's figure. (3.1%)

Electric Energy Demand (Long-term forecast)

Forecast for long-term Electric Energy demand

(Unit: million kWh, Thousand kW, %)

		2011 (Result)	2012 (Result)	2013 (Forecast)	2021 (Forecast)	2022 (Forecast)	Average growth rate per annum	
							2001 – 2011	2011 – 2022
No. 122EI forecast (2012)	Electric energy demand	(7,380) 7,440	(7,330) 7,314	7,544	8,324	8,421	(0.9) 0.8	(1.2) 1.1
	Peak load	(1,391) 1,341	(1,409) 1,373	1,428	1,552	1,568	(0.3) -0.4	(1.1) 1.4
	Annual load factor	(63.3) 66.0	(62.1) 63.6	63.1	64.0	64.1	–	–
No. 120EI forecast (2012)	Electric energy demand	(7,380) 7,440	7,541	7,631	8,597	–	(1.3) 1.3	(1.3) 1.2
	Peak load	(1,391) 1,341	1,430	1,445	1,608	–	(0.4) 0.4	(1.1) 1.4
	Annual load factor	(63.3) 66.0	63.0	63.1	63.9	–	–	–

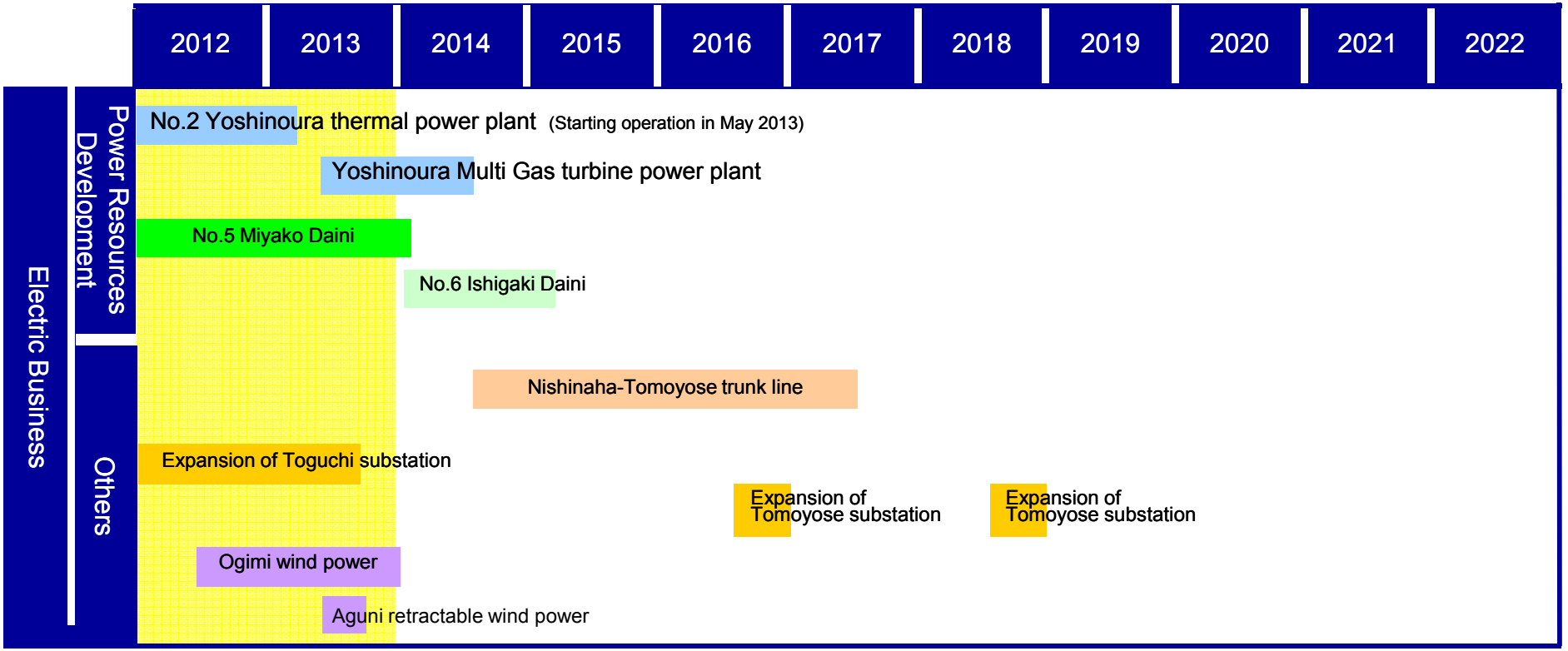
Note 1: Figures in parentheses are adjusted for the influence of temperature and leap year.
Note 2: The figures indicated for FY2012 of No. 120 EI are the estimate value.
Note 3: Average growth rate per annum for No. 120 EI are from 2000 to 2010 and 2010 to 2021.

The volume of electricity demand in FY2022 is expected to be 8,421 million kWh with the average annual growth rate from FY2011 of 1.1% (1.2% after correction of temperature).

[The background of growing demand]

- As for consumer use, the increase in number of customers at general households and commercial facilities (such as big supermarkets) based on population growth, and the increase in number of hotels based on boost in tourists.
- As for industrial use, the increase in demands related to daily living (such as food manufacturing and water utility industries) based on population growth.

Capital Expenditures Plan (Electric Business I)



Note: Power Resources 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 FY2013 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 FY2013.

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

- Approximately JPY100bn to be invested in Yoshinoura thermal power plant No1.and No2 plants.

Capital Expenditures Plan (Electric Business II)

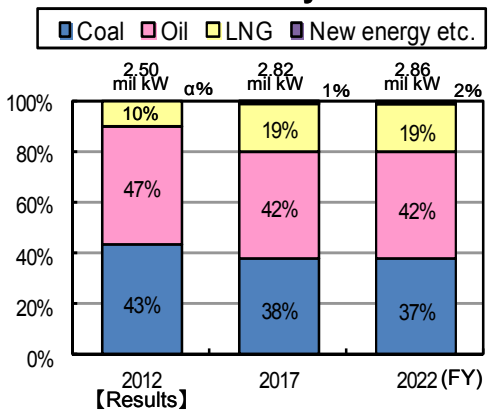
Demand-supply balance of maximum electric power (August)

(Unit : Thousand kW, %)

		2012 【Result】	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Demand-supply balance	Peak load	1,373	1,428	1,439	1,456	1,473	1,490	1,507	1,521	1,537	1,552	1,568
	Supply capacity	2,082	2,264	2,155	2,145	2,094	2,151	2,161	2,101	2,061	2,064	2,209
	Reserve supply capacity	709	836	716	689	621	661	654	580	524	512	641
	Reserve supply rate	51.6	58.5	49.8	47.3	42.2	44.4	43.4	38.1	34.1	33.0	40.9

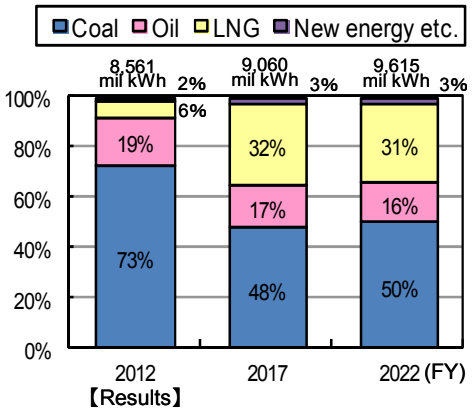
*Maximum electric power in FY2012 were generated in July.

Composition ratio of plant facilities for the year-end



※ Figures less than 1% are indicated as α.

Composition ratio of generated power energy



- Reserve supply rate will be 58.5% in FY 2013 with the start of operation of the Yoshinoura Thermal Power Station.
- Capital expenditure will peak out at 47.8 billion yen in FY2012, when No.1 Yoshinoura thermal power plant starts operation, and decrease to 34.7 billion yen in FY2013.

Capital expenditures

(Unit : billion yen)

		2012 (Result)	2013	2014
Power Resources		36.8	14.7	11.4
Supply Facilities	Transmission	2.4	5.7	4.5
	Transformation	2.4	4.9	4.2
	Distribution	4.8	7.0	8.0
	Subtotal	9.6	17.6	16.7
Others		1.5	2.4	1.2
Total		47.8	34.7	29.3

※ Figures in the table may not exactly match the total showed because of rounding.

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	Securing of long-term supply capacity , Improvement of energy security		・Steady operation of Yoshinoura Thermal Power Plant. ・Disaster countermeasures ・Stable fuel procurement, etc.
Raising the customer satisfaction levels	Ensuring electricity charge comparable with the level in the mainland		・Curtailing capital expenditures ・Further improving the operational efficiency, etc.
	Responding to revision of the energy policy		・Considering the way the electric power business in OEPC's service area should be, etc.
Harmonizing with the society and global environment	Addressing the global warming issue		・Steady operation of LNG thermal power (Yoshinoura Thermal Power Plant) with low CO2 emissions ・Efficient operation of existing thermal power plants ・Mixed combustion of biomass fuel ・Steady efforts in mega solar power plant verification studies ・Introduction of retractable wind-power generators, etc.
Ensuring proper profit levels	Building a robust earnings base		・Making company-wide efforts for cultivating demand, etc.
	Exhaustive cost reduction and operational efficiency improvement (taking action without sanctuary)	Improving the management of facilities	・ Reduction of the periodical inspection period by close examination of the inspection contents ・ Close investigation in design, quantity and unit price, etc.
		Reduction of fuel costs	・Stable procurement through diversification of procurement sources and Spot purchasing of C Heavy Oil ・Continuous use of sub-bituminous coal, etc.
		Improving income and expenditure of operation in remote islands	・Increasing the rate of utilization of the existing renewable energy facilities.
		Establishing a strong and flexible financial position	・Reasonable and efficient execution of operations, 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			・Strengthen the management base ・Establishing the OEPC Group brand, etc.

Outlook of Financial Position

Stage 1 and Stage 2 are divided at the point of starting operations in Yoshinoura Thermal Power Plant

	1st Stage(～2012)	2nd Stage(2013～)
Summary	■ Burden for capital expenditures have increased due to the construction work of the Yoshinoura thermal power plant. ■ The growth of electric demand was slowing down. ■ Supply and demand related cost increased along with a steep rise of fuel prices. ■ Environment related cost increased. (CO2 credit, PCB disposal cost) ■ Operating CF remains almost unchanged, and FCF is expected to result in minus.	■ Burden for capital expenditures will be reduced significantly. ■ Electricity demand is expected to increase on the background of population growth. ■ Depreciation costs and Fuel costs will increase and put pressure on profits. ■ Fuel prices are expected to hover at a high level. ■ Operating CF is expected to remain stable, and FCF is expected to recover.
Issues	■ Will control the increase of interest-bearing liabilities. ■ Enhancement of the financial stability by accumulating the interest. ■ Measures for the introduction of renewable energy and an increase in environmental costs.	■ Efforts for improving balance of income and expenditure. (Establishment of the task force) ■ Efforts for the improvement of capital efficiency. ■ Invest in improvements to profitability and efficiency. ■ Improvement of return to stockholders.
CF usage	■ Will prioritize the capital expenditures for the Yoshinoura thermal power plant. ■ Stably provided dividends.	■ Improvement of return to stakeholders. ■ Bolstering the foundation of the integrated energy business.

Summary of Mid-term Financial Targets

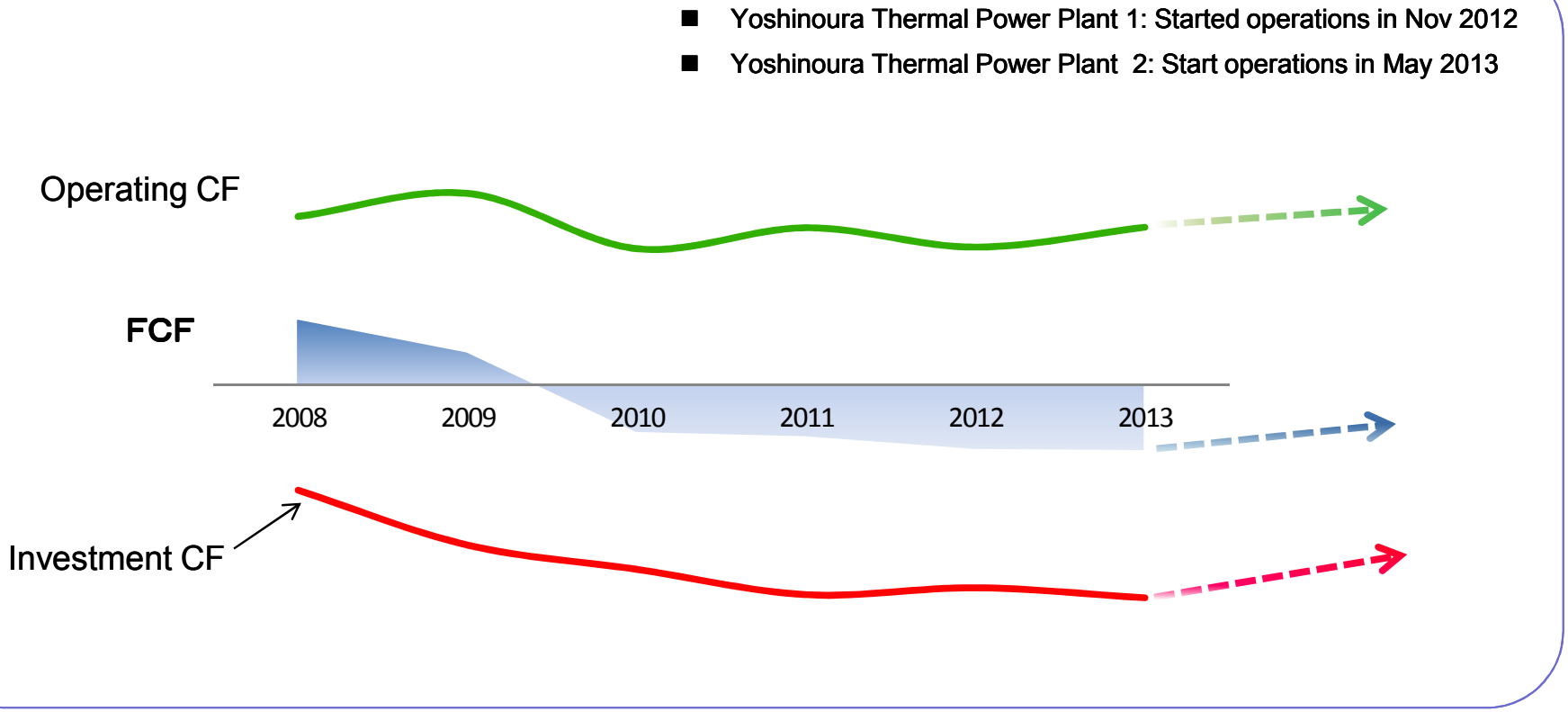
				FY2008 Result	FY2009 Result	FY2010 Result	FY2011 Result	FY2012 Result	Results of Financial Targets
Ordinary Income	Consolidated	Yearly average of at least 11 billion yen	FY2008 ~ FY2012	10.7 billion yen	13.6 billion yen	11.0 billion yen	10.2 billion yen	6.3 billion yen	10.4 billion yen
	Non-consolidated	Yearly average of at least 10 billion yen		8.8 billion yen	11.3 billion yen	9.2 billion yen	8.0 billion yen	4.3 billion yen	8.4 billion yen
ROA (operating Income / total assets)	Consolidated	Yearly average of at least 3.5%	FY2008 ~ FY2012	3.8%	4.8%	3.8%	3.2%	2.1%	3.5%
	Non-consolidated			3.5%	4.3%	3.5%	2.9%	1.8%	3.2%
Balance of interest bearing debt	Consolidated	Approx. 260 billion yen	End of FY2012	214.4 billion yen	200.8 billion yen	208.3 billion yen	219.7 billion yen	209.4 billion yen	209.4 billion yen
	Non-consolidated	Approx. 250 billion yen		206.0 billion yen	198.7 billion yen	206.7 billion yen	217.4 billion yen	207.2 billion yen	207.2 billion yen
Equity ratio	Consolidated	Approx. 30%	End of FY2012	30.2%	32.5%	32.6%	32.8%	31.1%	31.1%
	Non-consolidated			30.7%	32.1%	31.9%	31.9%	30.0%	30.0%

* Balance of interest-bearing debt does not include lease obligations (32.6 billion yen) of Yoshinoura Thermal Power Plant's LNG Base.

- In setting up new financial targets, a thorough assessment on the trend of energy policies including electricity system reform, future conditions of balance of income and expenditure, and other coming business environments will be made to decide appropriate targets items, levels, etc.

Outlook of Cash Flow

- Based on investment CF increase due to capital investment increase in Yoshinoura Thermal Power Plant construction, FCF from FY2010 remains negative.
- After Yoshinoura Thermal Power Plant starts operations, FCF is expected to head for recovery given that the capital investment amount will decrease.



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

	Mid-term prospects
Sales amount	Although actual electricity demand growth is slowing down, Sales are expected to move stably along with increase in demand, on the background of population growth.
Personnel costs	A personnel lineup of 1,500's employees will be maintained and the cost will generally continue to be flat.
Fuel costs	Fuel prices are expected to remain on high levels. There continues to be potential risk of rise in the fuel prices. Fuel costs are expected to increase due to change in fuel composition with the start of operation of Yoshinoura Thermal Power Plant.
Repair and Maintenance costs	Although increase factors are expected along with increase in facilities, thorough cost reduction efforts will be made through reducing cost and improving operational effectiveness.
Depreciation costs	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	Although Other expenses are expected to remain at approximately the same level, thorough cost reduction efforts will be made through reducing cost and improving operational effectiveness.

Mid-term Prospects of Consolidated Subsidiaries

	Mid-term prospects
Construction Business	▸ Performance of Okidenko is expected to remain stable mainly with work related to electricity transmission, distribution and transformation. ▸ Performance of Okisetsubi is expected to remain stable through proposal-making activities for plumbing and electrical equipment works and solar power generation facilities. ▸ Performance of Okinawa Enetech is expected to remain stable due to strengthening proposal-based business utilizing its energy supply technologies and new energy technologies.
Other Businesses	▸ Performance of Okiden Kigyo is expected to remain stable by striving to receive orders for expansion, improvement and maintenance of power generation plants on remote islands, as well as leasing business and non-life insurance agent business. ▸ Performance of Okinawa Plant Kogyo is expected to remain stable even after temporary surge in sales related to Yoshinoura Thermal Power Plant settles down. ▸ Performance of Okinawa Denki Kogyo is expected to remain stable due to sales of electricity meters and maintenance work. ▸ Sales of Okiden Global Systems (OGS) is expected to remain almost unchanged. ▸ Sales of First Riding Technology (FRT) is expected to be robust centering on its mainstay iDC business. ▸ Performance of Okiden Kaihatsu is expected to remain stable with the building lease business continuing to be robust. ▸ Both sales and profits of Okinawa New Energy Development are expected to increase significantly due to the effect of introduction of the feed-in tariff scheme for renewable energy. ▸ Both sales and profits of Progressive Energy Corporation (PEC) are expected to decline due to expiry of contract for the private electric power generation business.

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 fossil fuels
Fuel	◆ As fossil fuels 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 with a high environmental burden

OEPC's Concept of Electricity System Reform

○ In April 2013, the Cabinet decided to adopt the Policy on Electricity System Reform, which indicates the direction of full liberalization of electricity retailing and separation of the power transmission/distribution sector, etc.

Policy on electricity system reform

Purpose	Details of the reform	Reform program
1. Securing the stable supply of electricity 2. Suppressing electricity rates to the maximum extent 3. Providing consumers with choices	Expanding operations of the wide-area electrical grids Fully liberalizing the electricity retail market. Securing the neutrality of the power transmission/distribution sector	First stage (targeted for 2015): Establishing wide-area electrical grids operators Second stage (targeted for 2016): Fully liberalizing the electricity retail market (by eliminating entry barriers) Third stage (targeted for 2018 through 2020): Legal structural separation, full liberalization of the electricity retail market (by fully liberalizing electricity rates)

➢ In the Okinawa area, the electricity system that takes into account peculiarities of the region will be adopted.

Direction of electricity system reform in OEPC

○ Based on the purport of this reform, OEPC will take appropriate action as electric utility toward building an electricity system that will offer real benefits to customers.

○ As for separation of the power transmission/distribution, OEPC is aware that it is desirable to establish a system that takes into account the peculiarities of Okinawa such as difficulty of operating electricity system arising from structural disadvantage of small-scale independent electricity system.

<Reference> As for Okinawa, Electricity System Reform Committee's Report of February 2013 states that "Okinawa, as well as other regions, will fully liberalize the electricity retail market in principle" and "the electricity system will take into account the peculiarities of Okinawa in separation of the power transmission/distribution and other points."

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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