Management Overview

May 2014

The Okinawa Electric Power Company, Inc.

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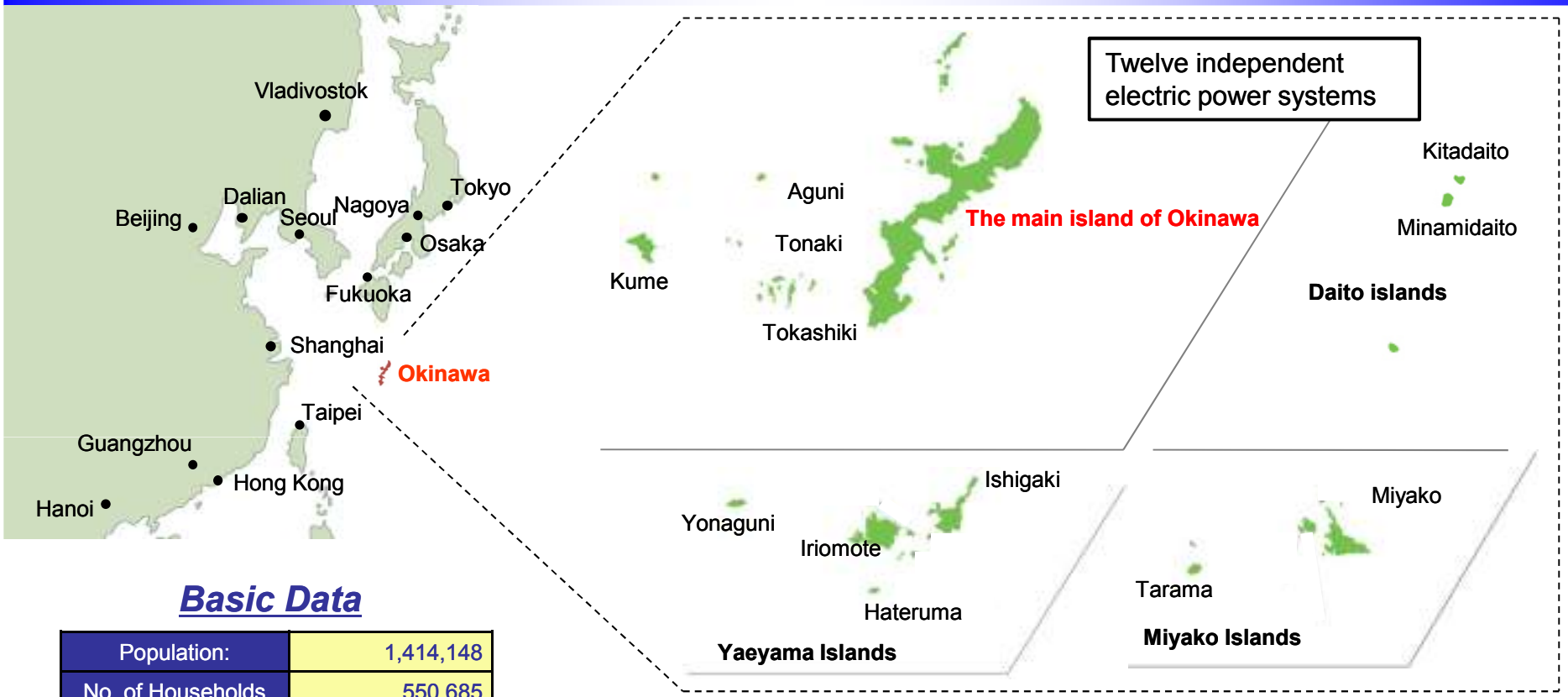
Overview of Okinawa Prefecture



Basic Data

Population:	1,414,148
No. of Households	550,685
Area	2,276㎢
Climate	Subtropical
Location	26°12N 127°41E
Prefectural GDP	¥4,321.0billion
Tourism Revenue	¥399.7billion

- **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 as of April 1, 2014
Area as of October 1, 2013
Prefectural GDP as of FY2012
Tourism Revenue as of FY 2012
(Source: Okinawa Prefecture, Geographical Survey Institute)

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. The OEPC electric line system divides into smaller systems for remote islands.

Established	May 15, 1972
Capital	¥7,586 million
Shareholders	7,994
Total assets	¥408.57 billion (Non-consolidated) ¥428.33 billion (Consolidated)
Sales (FY 2013)	¥172.05 billion (Non-consolidated) ¥179.26 billion (Consolidated)
Employees	1,531 (Non-consolidated) 2,562 (Consolidated)

Security code	9511
Service area	Okinawa Prefecture
Customers	Lighting 814 thousand units Power 60 thousand units Total 875 thousand units
Electricity sales (FY 2013)	Lighting 2,955 million kWh Power 4,601 million kWh (Deregulated demand 1,210 million kWh) Total 7,556 million kWh
Generating facilities	Steam-power generators 5 locations 1,674 thousand kW (Oil 2 locations 420 thousand kW) (Coal 2 locations 752 thousand kW) (LNG 1 locations 502 thousand kW) Gas turbine generators 4 locations 291 thousand kW Internal-combustion power generators 13 locations 174 thousand kW

(as of March 31, 2014)

Ratings

Rating agency	S&P	Moody's	R&I	JCR
Rating	AA−	Aa3	AA+	AAA
Outlook (direction)	Negative	Stable	Stable	Stable

Ratings on long-term preferred debts as of March 31, 2014

Financial Results for FY2013
(Year-on-Year Comparison)

(Unit: million yen, X)

	Consolidated (A)			Non-consolidated (B)			(A) / (B)	
	FY2012 (Results)	FY2013 (Results)	Rate of Change	FY2012 (Results)	FY2013 (Results)	Rate of change	FY2012 (Results)	FY2013 (Results)
Sales	166,439	179,266	+7.7%	158,911	172,059	+8.3%	1.05	1.04
Operating income	8,969	8,693	-3.1%	7,047	6,788	-3.7%	1.27	1.28
Ordinary income	6,307	6,936	+10.0%	4,309	5,207	+20.8%	1.46	1.33
Net income	4,318	4,731	+9.5%	3,098	3,917	+26.4%	1.39	1.21

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

【Revenue】

- Increase in income from Electricity sales volume and the Fuel cost adjustment system in Electric business.
- Decrease in Sales to outside customers in consolidated subsidiaries.

【Expenditure】

- Decrease in Repair and maintenance costs in Electric business.
- Increase in Fuel costs, Depreciation costs, Purchased power costs and Noncurrent assets retirement costs in Electric business.

Annual Outlook Summary

(Unit: million yen, X)

	Consolidated (A)				Non-consolidated (B)				(A)/(B)	
	FY2013 (Results)	FY2014 (Forecast)	Rate of Change	【Reference】 FY2014 1st half (Forecast)	FY2013 (Results)	FY2014 (Forecast)	Rate of Change	【Reference】 FY2014 1st half (Forecast)	FY2013 (Results)	FY2014 (Forecast)
Sales	179,266	186,800	+4.2%	99,300	172,059	179,300	+4.2%	95,900	1.04	1.04
Operating income	8,693	8,500	-2.2%	8,800	6,788	7,300	+7.5%	8,600	1.28	1.16
Ordinary income	6,936	6,300	-9.2%	7,700	5,207	5,000	-4.0%	7,600	1.33	1.26
Net income	4,731	4,700	-0.7%	5,800	3,917	3,900	-0.4%	5,800	1.21	1.21

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

【Revenue】

- Increase in Electricity sales and Grant under Act on Purchase of Renewable Energy Sourced Electricity in Electric business.

【Expenditure 】

- Increase in Fuel costs and Purchased power costs in Electric business.
- Decrease in Noncurrent assets retirement costs and Depreciation costs in Electric business.

Electric Energy Demand (FY2013 Results)

FY2013 Results

(Unit：Million kWh, %)

		FY2012 Results	FY 2013			YoY Change
			Plans	Results	Perform-ance Against Plans	
Lighting		2,851	2,968	2,955	99.6	3.6
Power		4,463	4,576	4,601	100.5	3.1
Total		7,314	7,544	7,556	100.2	3.3
Reference	Consumer Use	6,051	6,253	6,256	100.0	3.4
	Industrial Use	1,263	1,291	1,300	100.8	3.0
	Large Industrial Power (Restated)	830	855	856	100.0	3.0

Power Generation Infrastructure and Power Generated and Received

(Unit: thousand kW, million kWh)

		FY2012		FY2013			
		Electricity generated	Composition ratio	Electricity generated	Composition ratio	Maximum output	Composition ratio
OEPC	Coal	4,563	54.9%	4,448	52.3%	752	27.4%
	Oil	1,619	19.5%	1,255	14.8%	1,180	43.0%
	LNG	537	6.5%	1,051	12.3%	502	18.2%
	Total	6,719	80.9%	6,754	79.4%	2,434	88.6%
Other company (coal)		1,492	17.9%	1,578	18.5%	312	11.4%
Other		102	1.2%	174	2.1%	—	—
Total		8,313	100.0%	8,506	100.0%	2,746	100.0%

<Lighting>

The demand for Lighting increased Year-on-Year due to increased number of customers and high temperature in summer.

<Power>

The demand for Power increased Year-on-Year due to increased number of customers and high temperature in summer.

<Power Generation Infrastructure>

- The maximum electric power output Increased 251,700 kW
  Yoshinoura power plant No.2 : +251,000kW
  Yonaguni power plant No.9 : +1,000kW
  Tokashiki power plant No.4 : -300kW

<Power Generated and Received>

- Power generated and received was up 2.3% Year-on-Year.
- Ratio of LNG thermal power was up 5.8 points.
- Ratio of coal-fired thermal power generated by ourselves was down 2.6 points, and ratio of oil-fired thermal power generated by ourselves was down 4.7 points.
- Ratio of coal-fired thermal power generation including those purchased from other company was 70.8%.

Electric Energy Demand(FY2014 and Long-term Outlook)

FY2013 Outlook

(Unit: Million kWh, %)

		FY2013 Results	FY2014 Forecast	YoY Change
Lighting		2,955	2,963	0.3(1.4)
Power		4,601	4,601	0.0(1.2)
Total		7,556	7,564	0.1(1.3)
Reference	Consumer Use	6,256	6,256	0.0(1.5)
	Industrial Use	1,300	1,308	0.6(0.6)
	Large Industrial Power (Restated)	856	865	1.1(1.1)

Note : Figures in parentheses are adjusted for the influence of temperature and leap year.
(Provisional value)

(Lighting)

- The demand for lighting is expected to be greater than that in the previous year due to an increasing number of customers though demand caused by high temperature in summer is expected to be smaller than in the previous year (YoY growth: 0.3%).

(Power)

- The demand for power is expected to stay at the same level as in the previous year due to an increasing demand from new customers in commercial use electricity and a stronger demand for large industrial power though demand is expected to be smaller considering demand increase caused by high temperature in summer in the previous year (YoY growth: 0.0%).

(Total)

- As a result, the total demand is expected to be 7.564 billion kWh, about the same level as in the previous year (YoY growth: 0.1%).

Long-term Outlook

(Unit: Million kWh, %)

		FY2002 Results	FY2012 Results	FY2023 Forecast	2002-2012 Annual average growth rate	2012-2023 Annual average growth rate
Lighting		2,704	2,851	3,176	0.5 (0.6)	1.0 (1.0)
Power		4,179	4,463	4,980	0.7 (0.8)	1.0 (1.0)
Total		6,883	7,314	8,156	0.6 (0.7)	1.0 (1.0)
Reference	Consumer Use	5,659	6,051	6,814	0.7 (0.8)	1.1 (1.1)
	Industrial Use	1,224	1,263	1,342	0.3 (0.3)	0.6 (0.6)
	Large Industrial Power (Restated)	836	830	878	-0.1(-0.1)	0.5 (0.5)

Note : Figures in parentheses are adjusted for the influence of temperature and leap year.

(Lighting)

- The demand for lighting is expected to increase steadily due to an increasing number of customers along with population growth and the spread of all-electric houses (Annual average growth rate: 1.0%).

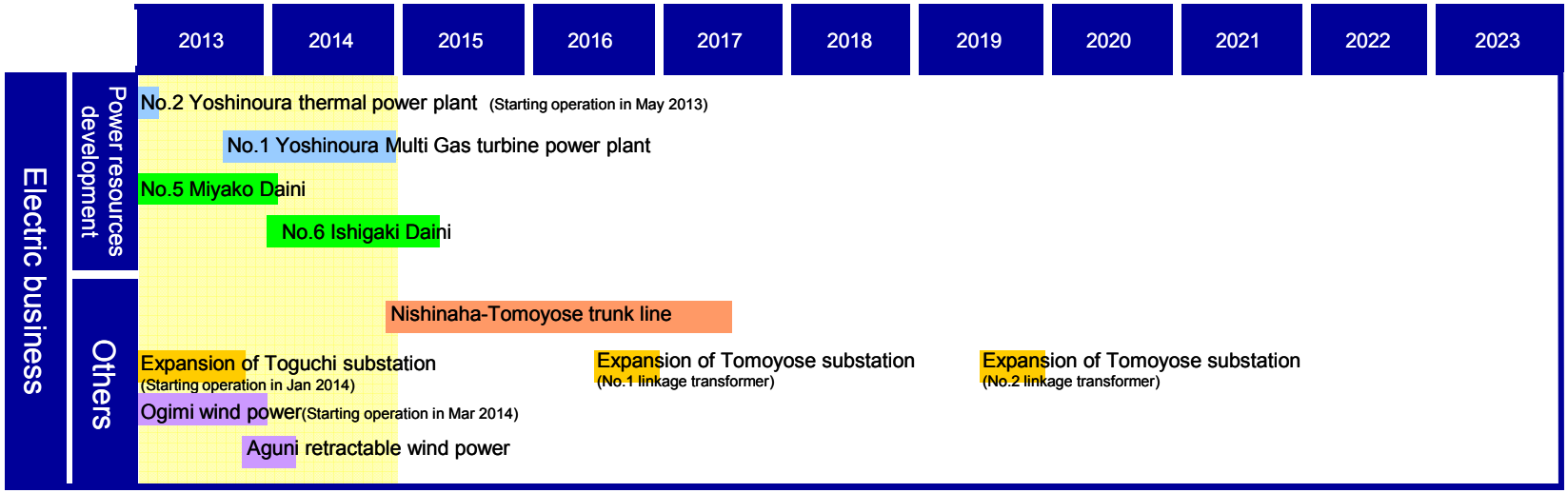
(Power)

- The demand for power is expected to increase steadily due to an increasing number of accommodation facilities and commercial/ entertainment facilities for growing tourists as well as due to an increasing demand for daily living for growing population (food manufacturing and water utility industries) (Annual average growth rate: 1.0%).

(Total)

- As a result, the total demand is expected to increase steadily to 8.156 billion kWh. (Annual average growth rate: 1.0%).

Capital Expenditures Plan (Electric Business I)



Note 1) Power resources development cases listed above are those plants that have more than 10,000 kW generating capacity and started operating in FY2013 or are expected to start operating within 10 years from FY2014 for the Main island, and five years for remote islands.
Note 2) Power distribution facilities listed above have more than 132kV working voltage, and started operating in FY2013 or are expected to start operating within 10 years from FY2014.

[Capital investment amount]

- When implementing a capital investment plan, OEPC ensures that cost reduction measures are put in place at each level of design, contract and construction with an aim to improve efficiency further.
- As a result, the FY2014 capital investment amount is expected to be 28.2 billion yen.
- No large-scale capital investments are planned for the foreseeable future.

(Unit : billion yen)

		2013 (Result)	2014	2015
Power Resources		12.6	10.5	4.1
Supply Facilities	Transmission	3.2	4.4	7.5
	Transformation	4.0	4.6	4.2
	Distribution	5.1	7.4	6.4
	Subtotal	12.4	16.4	18.1
Others		1.8	1.3	1.0
Total		26.8	28.2	23.2

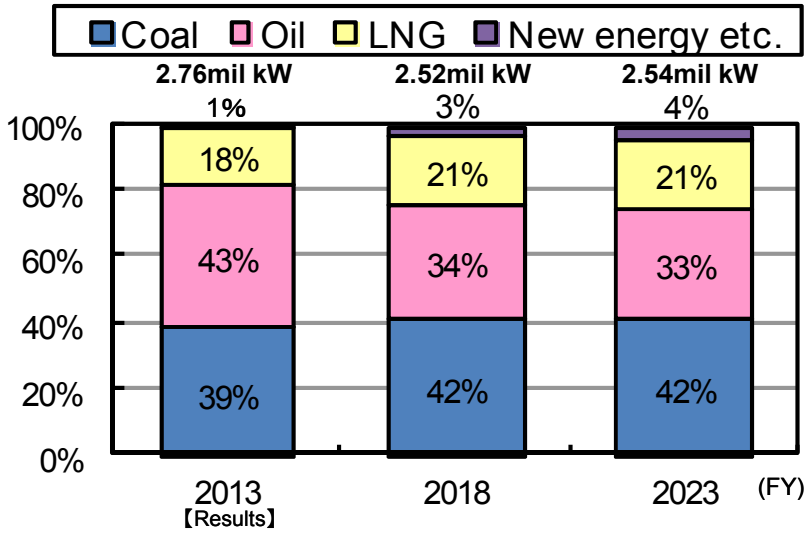
Capital Expenditures Plan (Electric Business II)

Demand-supply balance of maximum electric power (August)

(Unit : Thousand kW, %)

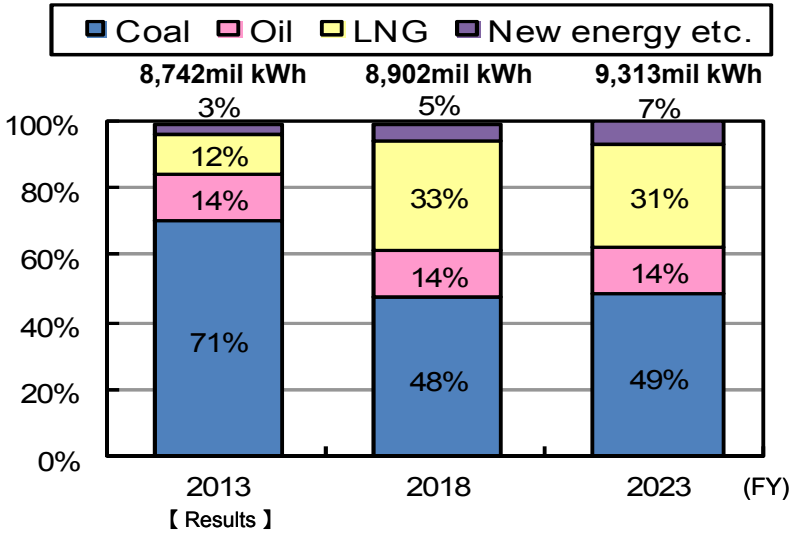
		2013 【Result】	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Demand-supply balance	Peak load	1,432	1,426	1,434	1,442	1,453	1,464	1,475	1,485	1,496	1,506	1,515
	Supply capacity	2,271	2,063	2,097	2,140	2,146	2,102	2,207	2,072	2,081	2,229	2,241
	Reserve supply capacity	839	637	663	698	693	638	732	587	585	723	726
	Reserve supply rate	58.6	44.7	46.2	48.4	47.7	43.6	49.6	39.5	39.1	48.0	47.9

Composition ratio of plant facilities for the year-end



Note 1: The above figures include plant facilities of other power companies.
Note 2: The above figures may not exactly match the total figures because of rounding.

Composition ratio of generated power energy



Note 1: The above figures include electric power generated by other power companies.
Note 2: The above figures may not exactly match the total figures because of rounding.

Mid-term Outlook

	Business environment so far (through to 2012)	New phase (from 2013)
Overview	■ On average, 10.4 billion yen (consolidated) and 8.4 billion yen (non-consolidated) were set aside each year (2008 - 2012 results). ■ Capital investment burdens increased due to the construction of the Yoshinoura Plant. ■ Free cash flow (FCF) remained negative due to capital investment burdens.	■ Depreciation expenses put downward pressure on the profit level for some time. ■ The composition ratio of fuels has changed as a result of the introduction of liquefied natural gas (LNG). ■ No large-scale capital investments are planned for the foreseeable future. ■ FCF recovered to a positive level in FY2013. ■ The equity capital ratio is expected to increase moderately.
Challenges	■ Hold down the increase in interest-bearing debts. ■ Accumulate profits to ensure an equity capital ratio of 30%.	■ Ensure cost reduction and efficiency improvement. ■ Ensure efficient use of LNG. ■ Take actions for an electricity system reform. ■ Roll out the integrated energy service business, including the gas business. ■ Return profits to stakeholders in a well-balanced manner.

■ The financial position of OEPC has changed significantly since the Yoshinoura LNG Thermal Power Plant started operations.
■ Concern about deteriorating balance sheets has receded, while falling profitability is a major challenge.
■ Through profitability recovery, OEPC will explore a well-balanced way to return profits to stakeholders.
■ Utilizing LNG, OEPC will evolve into an operator of integrated energy businesses, including the gas business.

Improving Operational Efficiency

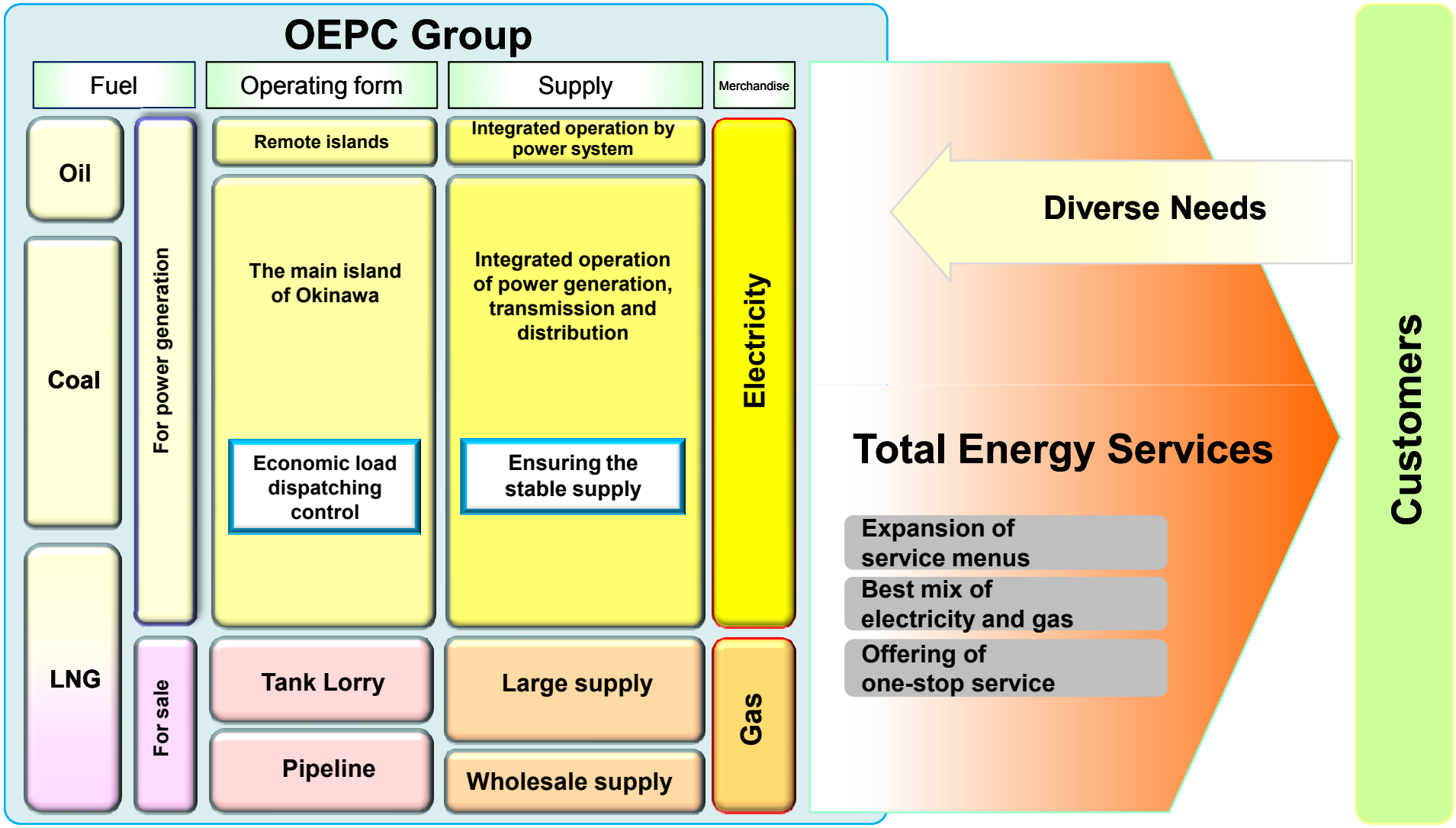
Initiatives for improving operational efficiency

- Given that a very severe income/expense condition is expected to continue in and after 2013, OEPC has been making efforts to reduce all costs to the maximum extent. Key cost reduction measures are as follows:
  - Reduce the initial burden of depreciation expenses by adopting finance lease for LNG base facilities (Leveling the expenses).
  - Reduce fuel costs through such measures as spot purchase (of C fuel oil, for example,) in light of fuel market conditions, continued use of sub-bituminous coal , and cutback in transportation cost.
- In FY2013, the internal operational measures task force was established to kick around drastic and continuing measures to improve operational efficiency from a medium to long- term perspective, and efficiency improvement measures with immediate effect and feasibility were implemented.
- Also in FY2014, OEPC steadily implements medium to long-term measures for efficiency improvement, examines all expenses without sanctuary, and carries out additional radical measures for cost reduction and operational streamlining.

key measures finalized by the operational measures task force

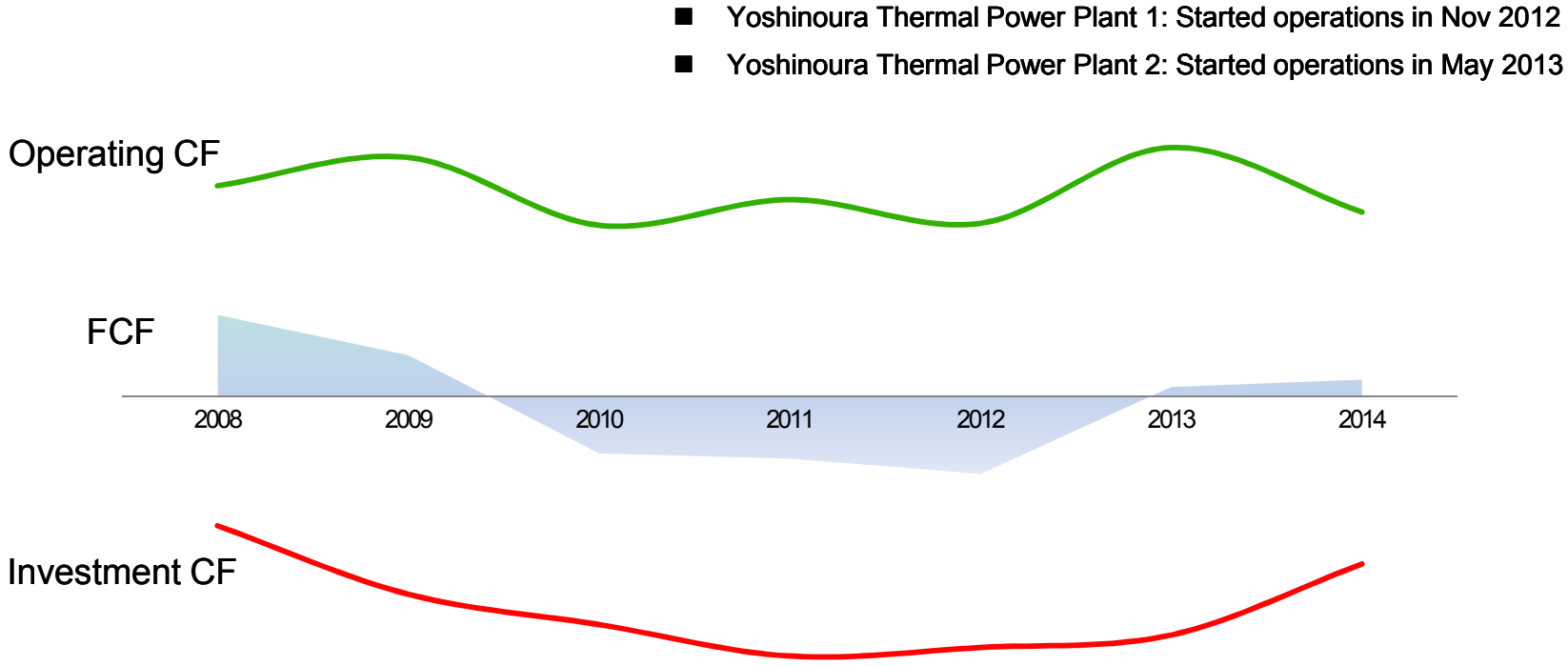
- Reduce fuel costs by shifting as much as possible the frequency control function, which was conducted by oil-fired power plants, to the Yoshinoura LNG Thermal Power Plant.
- Reduce costs, on the condition that stable supply is ensured, through planned renovations from the perspective of medium-term streamlining.
- Cultivate demand extensively through the electricity business, the gas supply business and the provision of integrated energy services.

Implementation of Total Energy Services



Outlook of Cash Flow

- Free cash flow (FCF) was negative from FY2010 to FY2012 due to the growing amount of capital expenditures for the construction of Yoshinoura Thermal Power Plant.
- From FY2013, the upward trend in the above capital expenditures is expected to swing to downward significantly, leading FCF to rebound upward.



Characteristics of the Business Bases

Demand for Electric Power	◆ Increasing demand due to population growth. ◆ As the proportion of energy for consumer use is high, effects of economic fluctuations are low. ◆ The prefectural economy has been growing sustainably thanks to the implementation of Okinawa promotion measures.
Competition	◆ OEPC is outside the framework of wide-area power interchange because it has an isolated system. ◆ Most of privately-generated power is for captive consumption, so no excess power resources are available. ◆ Demand sizes are small.
Electric Power Generation Facilities	◆ A high reserve supply capacity is required due to an isolated system ◆ Reliant on fossil fuels only due to difficulties to develop nuclear or hydraulic power generation.
Fuel	◆ As fossil fuels are the only fuels used, high commodity prices exert a great influence.
Remote Islands	◆ The fuel cost accounts for a large portion of the total cost. This high cost structure has led to constant loss recording.
The Environment	◆ Dependent on fossil fuels with a high environmental burden.

Electricity System Reform

- In April 2013, the Cabinet endorsed the “Policy on Electricity System Reform” that set the direction for the full-scale liberalization of the electricity retail market and the separation of power production from power distribution/transmission.
- Based on this policy, the “Act for Partial Revision of the Electricity Business Act” enacted in November 2013 sets forth that the reform will be implemented in three stages while in-depth review will be conducted in each stage to resolve issues and take necessary measures based on the results of such review. This act also sets forth that “measures based on the special nature of the electric power business in the Okinawa region” will be implemented for Okinawa.
- The fourth meeting of the System Planning Working Group was held on December 9, 2013 under the Electricity Systems Reform Subcommittee, the Strategic Policy Committee, the Advisory Committee for Natural Resources and Energy. Regarding the direction of the electricity system reform in the Okinawa region, the working group decided to implement the full-scale liberalization of the electricity retail market in the same manner as in the Japan’s mainland, and positioned legal separation as an issue to be addressed in the future. The working group also decided to discuss actions toward the diversification of buyers of electricity from wholesale power suppliers.

Purpose of electricity system reform

1. Securing stable supply
2. Keeping down electricity rates to the maximum extent
3. Providing consumers with more choices

Main system reforms

- **Expanding operations of wide-area electrical grids**
- **Fully liberalizing electricity retail market**
- **Securing neutrality of power transmission/ distribution sector**

Reform program

Details	Implementation date	Bill submission date
[First stage] Establishing a wide-area operation facilitation body	Targeted for 2015	Enacted on November 13, 2013
[Second stage] Fully liberalizing entry to electricity retail business	Targeted for 2016	Under deliberation in the ordinary Diet session in 2014
[Third stage] Implementing legal separation to further enhance neutrality of power transmission/distribution sector, and fully liberalizing retail electricity rates	Targeted for 2018 through 2020	To be submitted to the ordinary Diet session in 2015

- For full liberalization of the electricity retail market, OEPC will take an appropriate action as an electric utility company, taking it as given that more choices would offer benefits to customers.
- As for efforts to diversify buyers of electricity from wholesale power suppliers, OEPC takes seriously the direction toward having wholesalers play an active role in the Okinawa region, and will cooperate in discussing the development of competitive environments while ensuring stable electricity supply.
- In any event, OEPC will take an appropriate step to realize an electricity system that would be truly beneficial for customers, taking into consideration the special nature of the electricity business in the Okinawa region.

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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