Management Overview

November 2014

The Okinawa Electric Power Company, Inc.

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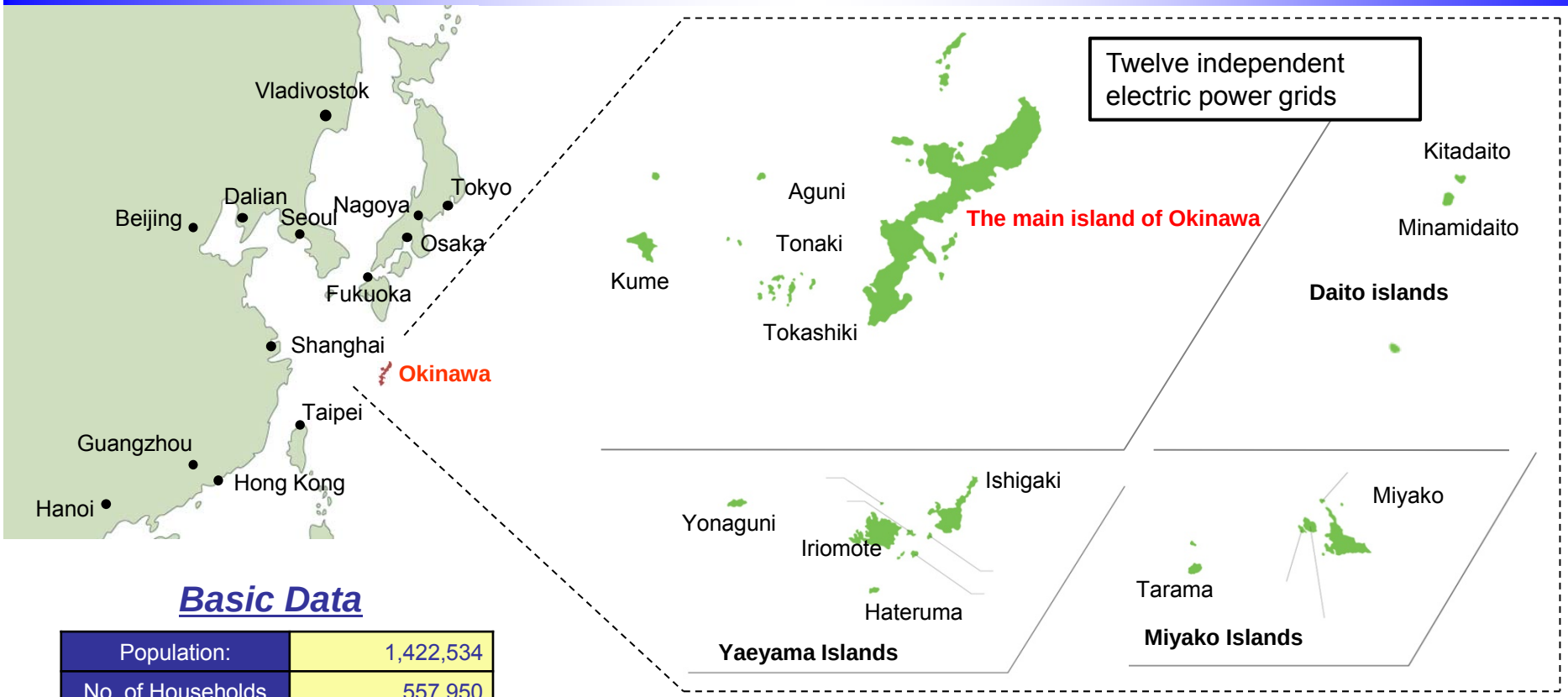
Overview of Okinawa Prefecture



Basic Data

Population:	1,422,534
No. of Households	557,950
Area	2,276㎢
Climate	Subtropical
Location	26°12N 127°41E
Prefectural GDP	¥4,437.4billion
Tourism Revenue	¥447.8billion

- The main island of Okinawa is the most populous with about 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 October 1, 2014
Area as of October 1, 2014
Prefectural GDP as of FY2013
Tourism Revenue as of FY 2013
(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

Ratings on long-term preferred debts as of September 30, 2014

Financial Results for FY2014 2Q YTD
(Year-on-Year Comparison)

(Unit: million yen, X)

	Consolidated (A)			Non-consolidated (B)			(A) / (B)	
	FY2013 2Q YTD (Results)	FY2014 2Q YTD (Results)	Rate of Change	FY2013 2Q YTD (Results)	FY2014 2Q YTD (Results)	Rate of change	FY2013 2Q YTD (Results)	FY2014 2Q YTD (Results)
Sales	94,573	98,131	+3.8%	91,922	95,000	+3.3%	1.03	1.03
Operating income	10,648	7,928	-25.5%	10,366	7,688	-25.8%	1.03	1.03
Ordinary income	9,411	6,974	-25.9%	9,444	6,807	-27.9%	1.00	1.02
Net income	6,851	5,262	-23.2%	7,025	5,235	-25.5%	0.98	1.01

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

【Revenue】

- Increase in income from the Fuel cost adjustment system in Electric business.
- Increase in Grant under Act on Purchase of Renewable Energy Sourced Electricity due to increase in purchased power volume of renewable energy sourced electricity in Electric business.
- Decrease in Electricity sales volume in Electric business.

【Expenditure】

- Increase in Fuel costs and Noncurrent assets retirement costs in Electric business.
- Increase in Purchased power costs due to increase in purchased power volume of renewable energy sourced electricity in Electric business.
- Decrease in Depreciation costs in Electric business.

Annual Outlook Summary FY2014

(Unit: million yen, X)

	Consolidated(A)				Non - Consolidated(B)				(A) / (B)	
	FY2013 (Results)	FY2014 (Forecast) Announced In Jul. 2014 ①	FY2014 (Forecast) Announced In Oct. 2014 ②	Change ②-①	FY2013 (Results)	FY2014 (Forecast) Announced in Jul. 2014 ③	FY2014 (Forecast) Announced in Oct. 2014 ④	Change ④-③	FY 2013 (Results)	FY 2014 (Forecast)
Sales	179,266	186,000	185,200	-800	172,059	178,500	177,700	-800	1.04	1.04
Operating income	8,693	8,500	7,500	-1,000	6,788	7,300	6,300	-1,000	1.28	1.19
Ordinary income	6,936	6,300	5,800	-500	5,207	5,000	4,500	-500	1.33	1.29
Net income	4,731	4,700	4,300	-400	3,917	3,900	3,500	-400	1.21	1.23

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

[Comparison with previous forecast (Jul.2014)]

【Revenue】

- Decrease electricity sales due to decrease in income from the Fuel cost adjustment system in electric business.
- Decrease in Grant under Act on Purchase of Renewable Energy Sourced Electricity due to decrease in purchased power volume of renewable energy sourced electricity in Electric business.

【Expenditure 】

- Increase in Fuel costs in Electric business.
- Decrease in Repair and maintenance costs in Electric business.

Electric Energy Demand (FY2014 1st half Results)

FY2014 1st half Results

(Unit：Million kWh, %)

		FY2014 1st half Results	FY2014 Plans	FY2013 1st half Results	Perform-ance Against Plans	YoY Rate of Change
Lighting		1,526	1,555	1,570	98.2	-2.8
Power		2,496	2,486	2,513	100.4	-0.7
Total		4,022	4,041	4,083	99.5	-1.5
Reference	Consumer Use	3,332	3,361	3,409	99.2	-2.2
	Industrial Use	690	680	674	101.4	2.2
	Large Industrial Power (Restated)	458	449	443	102.0	3.5

(Lighting)

- The demand for Lighting decreased Year-on-Year due to a decline in demand by lower temperature than the previous year and the impact from typhoons (change: -2.8%).

(Power)

- The demand for Power decreased Year-on-Year due to a decline in demand by lower temperature than the previous year and the impact from typhoons (change: -0.7%).

(Total)

- As above, the total demand was at kWh and decreased from the previous year (change: -1.5%).

Power Generation Infrastructure and Power Generated and Received

		FY2013 2Q YTD Electricity generated	FY2013 2Q YTD Com-position ratio	FY2014 2Q YTD Electricity generated	FY2014 2Q YTD Com-position ratio	FY2014 2Q YTD Maximum output	FY2014 2Q YTD Com-position ratio
OEPC	Coal	2,481	52.5%	2,208	47.1%	752	31.1%
	Oil	699	14.8%	625	13.3%	855	35.3%
	LNG	539	11.4%	815	17.4%	502	20.7%
	Total	3,719	78.7%	3,648	77.8%	2,109	87.1%
Other company (coal)		928	19.6%	887	18.9%	312	12.9%
Other		82	1.7%	154	3.3%	—	—
Total		4,729	100.0%	4,689	100.0%	2,421	100.0%

<Power Generation Infrastructure>

- The maximum electric power output decreased by 325,055 kW
  Makiminato power plant No.5-8 : -340,000kW
  Tokashiki power plant No.4 : -300kW
  Miyako Daini power plant No.5 : +15,000kW
  Aguni retractable wind power No.1 : +245kW

<Power Generated and Received>

- Power generated and received was down 0.8% Year-on-Year.
- Ratio of LNG thermal power was up 6.0 points.
- Ratio of coal-fired thermal power generated by ourselves was down 5.4 points, and ratio of oil-fired thermal power generated by ourselves was down 1.5 points.
- Ratio of coal-fired thermal power generation including those purchased from other company was 66.0%.

Electric Energy Demand(FY2014 and Long-term Outlook)

FY2014 Outlook

（Unit：Million kWh, %）

		FY2013 Results	FY2014 Forecast	YoY Rate of Change
Lighting		2,955	2,934	-0.7(1.4)
Power		4,601	4,611	0.2(1.2)
Total		7,556	7,545	-0.1(1.3)
Reference	Consumer Use	6,256	6,227	-0.4(1.4)
	Industrial Use	1,300	1,318	1.3(0.6)
	Large Industrial Power (Restated)	856	874	2.1(1.1)

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

(Lighting)

- Although demand is expected to grow due to an increase in the number of customers, demand for Lighting is expected to decrease from the previous year due to a reaction from a demand increase by high summer temperature in the previous year (change: -0.7%).

(Power)

- As demand is expected to grow due to an increase in the number of customers for commercial use, and a rise in demand in the steel and cement industries as big electricity users, demand for Power is expected to increase from the previous year (change: +0.2%).

(Total)

- As above, the total demand is expected to be kWh as a whole and decrease from the previous year (change: -0.1%).

Long-term Outlook

（Unit：Million kWh, %）

		FY2002 Results	FY2012 Results	FY2023 Forecast	2002-2012 Annual average Rate of Change	2012-2023 Annual average Rate of Change
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 change: 1.0%).

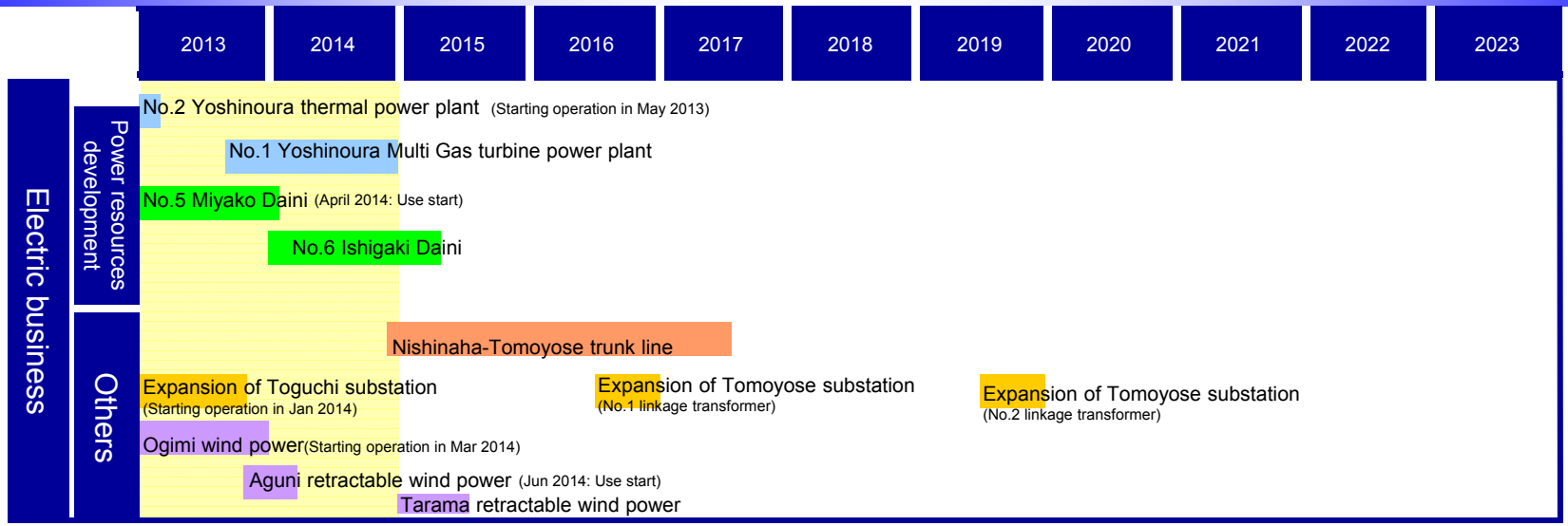
(Power)

- 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 change: 1.0%).

(Total)

- As a result, the total demand is expected to increase steadily to 8.156 billion kWh. (Annual average change: 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.

(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)

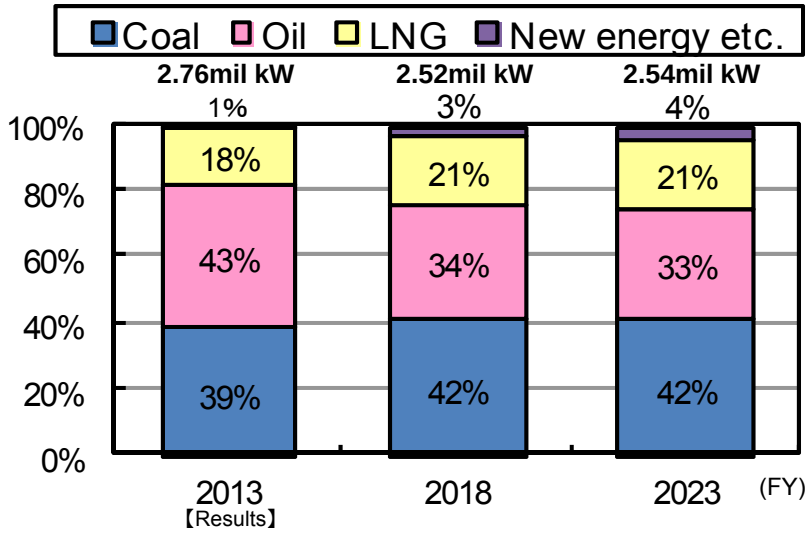
Demand-supply balance of maximum electric power (August)

(Unit : Thousand kW, %)

		2013 【Result】	2014 【Result】	2015	2016	2017	2018	2019	2020	2021	2022	2023
Demand-supply balance	Peak load	1,432	1,396	1,434	1,442	1,453	1,464	1,475	1,485	1,496	1,506	1,515
	Supply capacity	2,271	2,180	2,097	2,140	2,146	2,102	2,207	2,072	2,081	2,229	2,241
	Reserve supply capacity	839	784	663	698	693	638	732	587	585	723	726
	Reserve supply rate	58.6	56.2	46.2	48.4	47.7	43.6	49.6	39.5	39.1	48.0	47.9

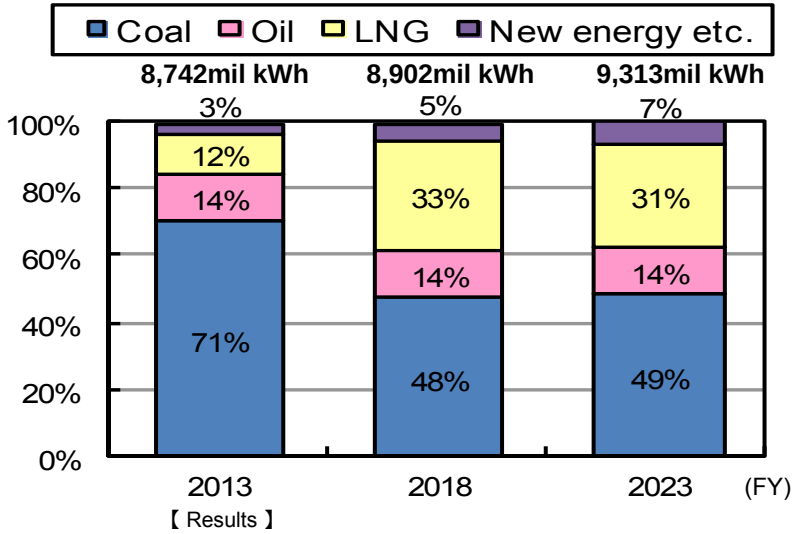
Note :As for 2014,the July was described above,when the maximum three-day average electricity took place.

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 total energy service businesses, 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 total energy service 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, OEPC has been making efforts to reduce all costs to the maximum extent. Key cost reduction measures are as follows:

- Reduce fuel costs by shifting as much as AFC operation*, which was conducted by oil-fired power plants, to the Yoshinoura LNG Thermal Power Plant.

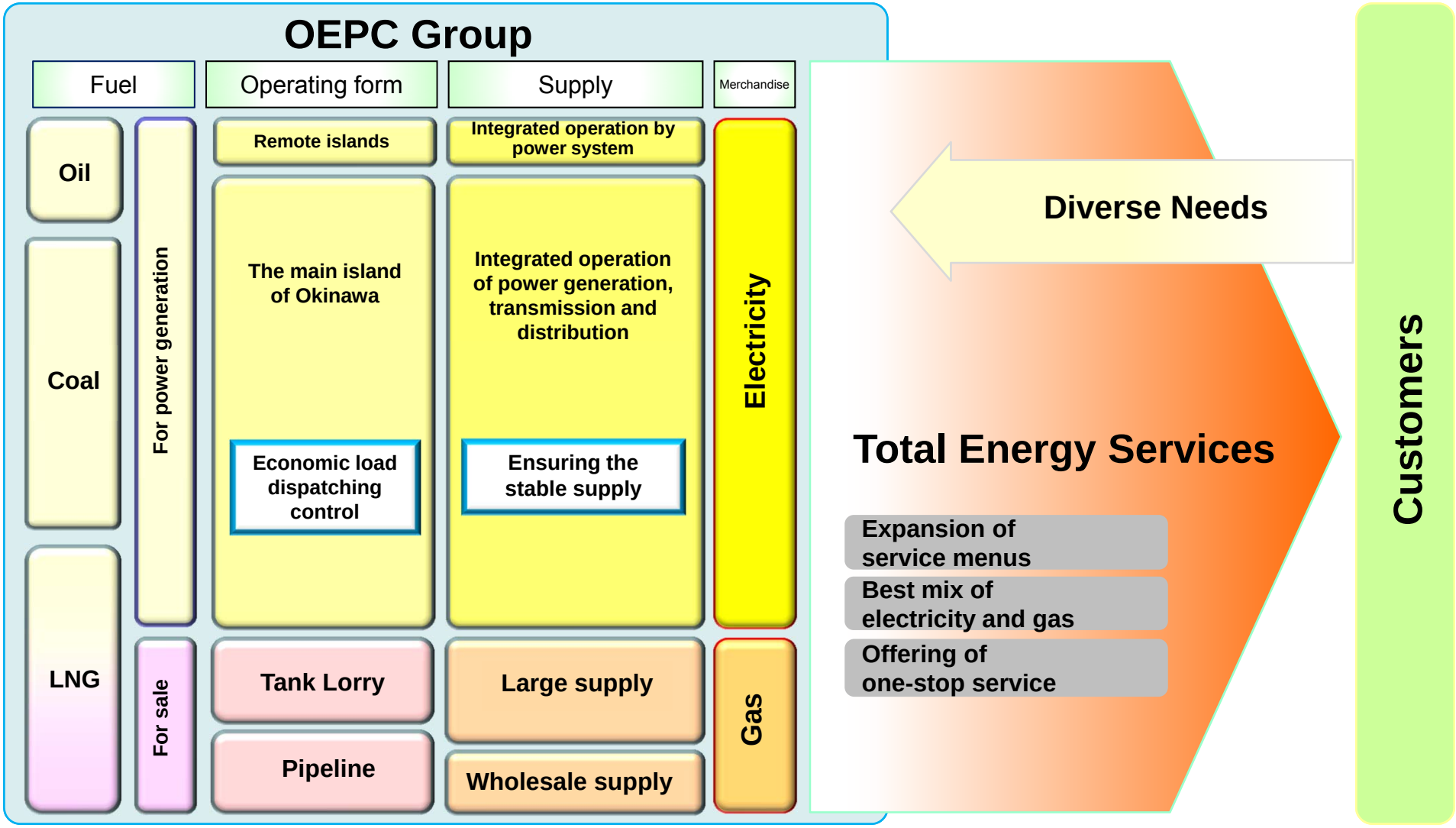
  * AFC operation “Automatic Frequency Control”

- Reduce fuel costs through such measures as spot purchase in light of fuel market conditions, continued use of sub-bituminous coal , and cutback in transportation cost.
- Reduce the initial burden of depreciation expenses by adopting finance lease for LNG base facilities (Leveling the expenses).
- 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 total energy services.

■ In addition to these existing measures, 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.

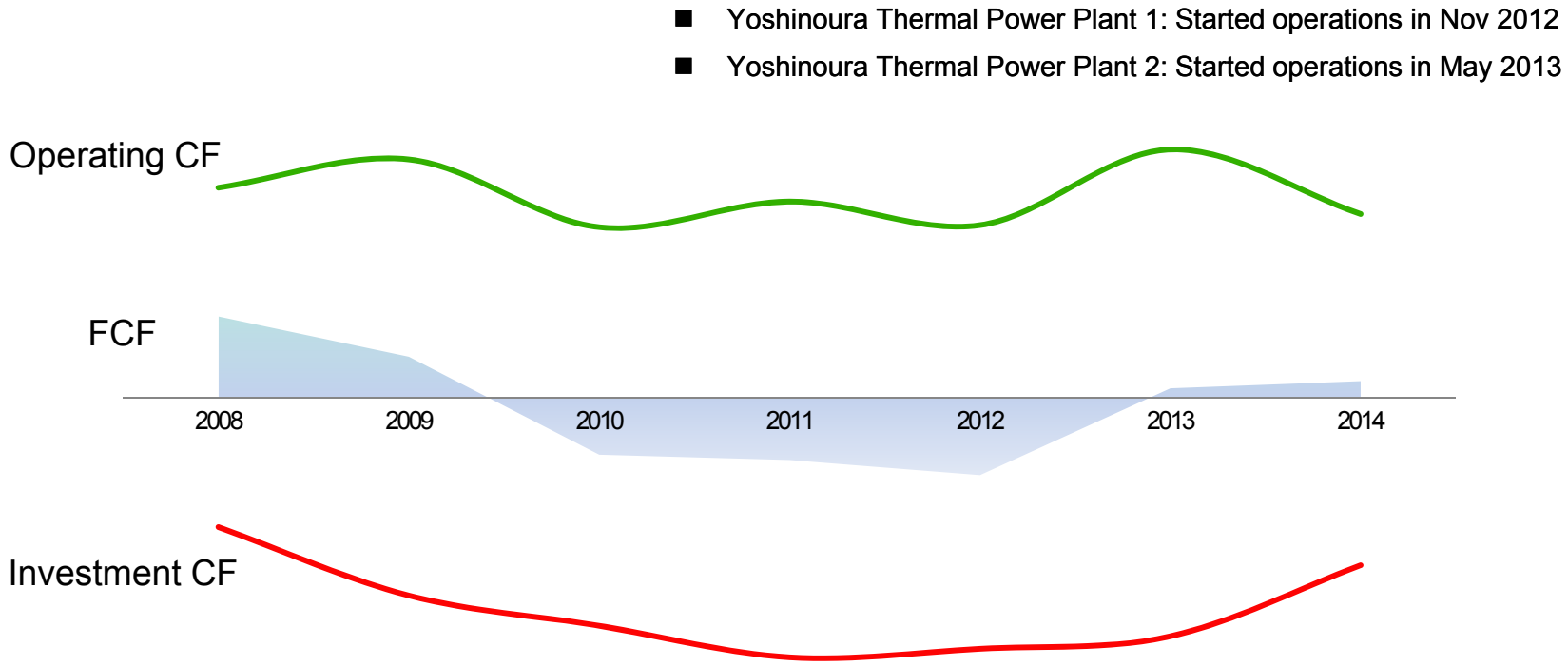
- Continued practice of AFC operation by Yoshinoura Thermal Power Plant.
- Study for achievement of the higher ratio of subbituminous coal use.

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	Enacted on June 11, 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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