

Management Overview

May 2016



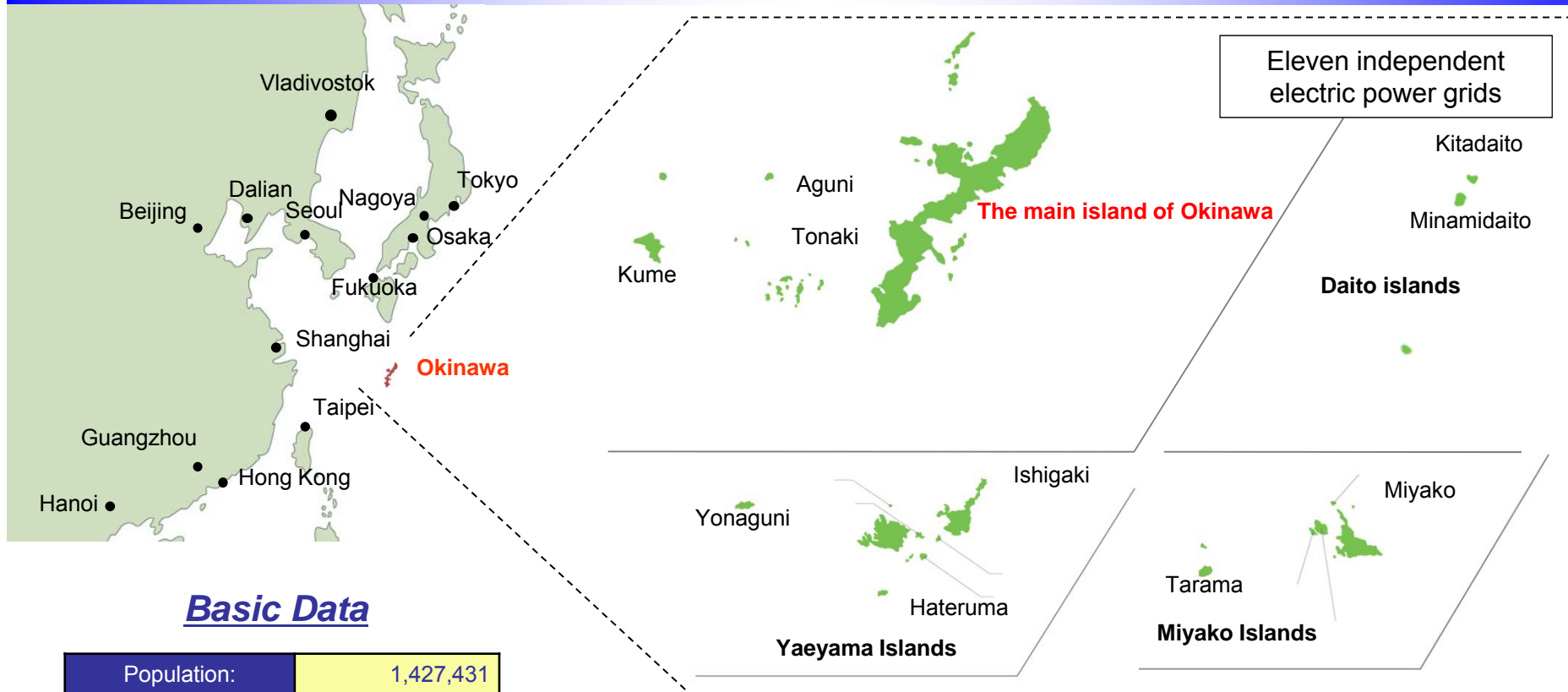
The Okinawa Electric Power Company, Inc.

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Overview of Okinawa Prefecture



Basic Data

Population:	1,427,431
No. of Households	572,075
Area	2,281km ²
Climate	Subtropical
Location	26° 12N 127° 41E
Prefectural GDP	¥4,351.7billion
Tourism Revenue	¥516.9billion

- ◆ 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 80% of the prefectural GDP.

Population, No. of Households as of April 1, 2016
 Area as of October 1, 2015
 Prefectural GDP as of Estimated results FY 2015
 Tourism Revenue as of FY 2014
 (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



The Okinawa Electric Power Company, Inc.

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	Security code	9511
Capital	¥7,586 million	Service area	Okinawa Prefecture
Shareholders	7,849	Customers	Lighting 845 thousand units Power 60 thousand units Total 906 thousand units
Total assets	¥384.459 billion (Non-consolidated) ¥409.860 billion (Consolidated)	Electricity sales (FY 2014)	Lighting 2,953 million kWh Power 4,696 million kWh (Deregulated demand 1,284million kWh) Total 7,649 million kWh
Sales (FY2015)	¥174.286 billion (Non-consolidated) ¥182.265 billion (Consolidated)	Generating facilities	Steam-power generators 5 locations 1,629 thousand kW (Oil 2 locations 375 thousand kW) (Coal 2 locations 752 thousand kW) (LNG 1 locations 502 thousand kW) Gas turbine generators 5 locations 326 thousand kW Internal-combustion power generators 13 locations 197 thousand kW
Employees	1,533 (Consolidated: 2,605)		

(as of March 31, 2016)

Ratings

Rating agency	S&P	Moody's	R&I	JCR
Rating	A+	A1	AA	AAA
Outlook (direction)	Stable	Stable	Stable	Stable



Financial Results for FY2015 (Year-on-Year Comparison)

(Unit: million yen, X)

	Consolidated (A)			Non-consolidated (B)			(A) / (B)	
	FY2014 (Results)	FY2015 (Results)	Rate of Change	FY2014 (Results)	FY2015 (Results)	Rate of Change	FY2014 (Results)	FY2015 (Results)
Sales	185,001	182,265	-1.5%	177,509	174,286	-1.8%	1.04	1.05
Operating income	9,479	7,239	-23.6%	7,525	5,597	-25.6%	1.26	1.29
Ordinary income	7,638	5,229	-31.5%	5,720	3,784	-33.8%	1.34	1.38
Net income	4,943*	3,647*	-26.2%	3,960	2,931	-26.0%	1.25	1.24

* Net income attributable to owners of parent.

Consolidated and Non-consolidated : Decrease in Sales, Decrease in Income (the first time in 5 years)

【Revenue】

- Decrease in Sales due to decrease in income from the Fuel cost adjustment system in Electric business.
- Increase in Sales due to increase in Electricity sales volume in Electric business.

【Expenditure】

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



Annual Outlook Summary FY2016

(Unit: million yen, X)

	Consolidated (A)				Non-consolidated (B)				(A)/(B)	
	FY2015 (Results)	FY2016 (Forecast)	Rate of Change	【Reference】 FY2016 1 st half (Forecast)	FY2015 (Results)	FY2016 (Forecast)	Rate of Change	【Reference】 FY2016 1 st half (Forecast)	FY2015 (Results)	FY2016 (Forecast)
Sales	182,265	174,500	-4.3%	92,300	174,286	166,200	-4.6%	88,800	1.05	1.05
Operating income	7,239	8,200	+13.3%	6,900	5,597	6,600	+17.9%	6,600	1.29	1.24
Ordinary income	5,229	6,600	+26.2%	6,000	3,784	5,000	+32.1%	5,900	1.38	1.32
Net income	3,647*	4,900*	+34.3%	4,700*	2,931	4,000	+36.5%	4,700	1.24	1.23

* Net income attributable to owners of parent.

Consolidated and Non-consolidated : Decrease in Sales, Increase in Income (the first time in 7 years)

【Revenue】

- Decrease in Electricity sales from the Fuel cost adjustment system in Electric business.
- Decrease in Electricity sales due to decrease in Electricity sales volume in Electric business.

【Expenditure】

- Decrease in Fuel costs and Depreciation costs in Electric business.



Trends in Electricity Sales Volume

Electricity Sales Volume

(Unit: million kWh %)

		FY2014 (Results)	FY2015 (Results)	Change	Rate of change
Lighting		2,917	2,953	+36	+1.2
Power *		4,614	4,696	+82	+1.8
Total		7,531	7,649	+118	+1.6
Reference	Consumer Use	6,207	6,340	+132	+2.1
	Industrial Use	1,324	1,309	-15	-1.1

* Figures for Power include demand in the de-regulated segment.

<Lighting>

The demand for Lighting increased Year-on-Year due to increase of new customers.

<Power>

The demand for Power increased Year-on-Year due to increase of demand of new customers in Commercial Power.

■ Power Generation Infrastructure and Power Generated and Received (Unit: thousand kW, million kWh)

		FY2014		FY2015			
		Electricity generated	Com- position ratio	Electricity generated	Com- position ratio	Maximum output	Com- position ratio
OEPC	Coal	4,078	48.2%	3,942	45.9%	752	30.5%
	Oil	1,121	13.2%	1,202	14.0%	864	35.0%
	LNG	1,562	18.5%	1,661	19.4%	537	21.8%
	Total	6,761	79.9%	6,805	79.3%	2,153	87.3%
Other company (coal)		1,406	16.6%	1,399	16.3%	312	12.7%
Other		293	3.5%	377	4.4%	-	-
Total		8,460	100.0%	8,581	100.0%	2,465	100.0%

<Power Generation Infrastructure>

- The maximum electric power output increased 18,900 kW

Ishigaki Daini power plant No.6 : +18,000kW
 Yonaguni wind-power No.1 : +600kW
 Hateruma retractable wind-power No.1,2 : +490kW
 Tarama retractable wind-power No.1,2 : +490kW
 Hateruma power plant No.10 : +300kW
 Minamidaito power plant No.1,4 : -600kW
 Aguni power plant No.3,5 : -300kW
 Shin tarama power plant No.1 : -80kW

<Power Generated and Received>

- Power generated and received was 8,581 million kWh, up 1.4% Year-on-Year.
- Ratio of OEPC's coal-fired thermal power was down 2.3 points Year-on-Year.
- Ratio of LNG-fired thermal power was up 0.9 points Year-on-Year.



Electric Energy Demand (FY2016 and Long-term Outlook)

Electricity sales volume (FY2016 Outlook)

(Unit: million kWh, %)

		FY2015 Results	FY2016 Forecast	YoY Rate of Change
Lighting		2,953	2,957	0.1 (1.4)
Power		4,696	4,532	Δ3.5 (Δ1.0)
Total		7,649	7,489	Δ2.1 (Δ0.0)
Reference	Consumer Use	6,340	6,180	Δ2.5 (Δ0.1)
	Industrial Use	1,309	1,309	0.0 (0.3)

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

(Lighting)

The demand for Lighting is expected to remain more or less the same as the previous year due to a reactionary drop in demand following the high demand in the previous year when the temperature was high than the average year, but an increase of demand resulting from population growth and a subsequent increase of customers (change: +0.1%).

(Power)

The demand for Power is expected to fall below the level marked in the previous year when the temperature was higher than the average year (change: -3.5%).

(Total)

As above, the total demand will be 7,489 million kWh, and is expected to decrease from the previous year (change: - 2.1%).

Electricity sales volume (Long-term Outlook)

(Unit: million kWh, %)

		FY2004 Results	FY2014 Results	FY2025 Forecast	2004-2014 Annual average growth rate	2014-2025 Annual average growth rate
Lighting		2,809	2,917	3,123	0.4 (0.4)	0.6 (0.7)
Power		4,384	4,614	4,863	0.5 (0.6)	0.5 (0.6)
Total		7,193	7,531	7,986	0.5 (0.5)	0.5 (0.6)
Reference	Consumer Use	5,885	6,207	6,662	0.5 (0.6)	0.6 (0.7)
	Industrial Use	1,308	1,324	1,324	0.1 (0.1)	0.0 (0.0)

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

(Lighting)

The demand is expected to increase firmly due to an increasing number of customers along with population growth and the spread of all-electric houses. (Annual average growth rate: 0.6%)

(Power)

The demand is expected to increase firmly due to an increasing number of accommodation facilities and commercial 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: 0.5%)

(Total)

As above, the total demand is expected to increase firmly to 7,986 million kWh. (Annual average growth rate: 0.5%)



Capital Expenditures Plan (Electric Business I)

Trends in the Capital Investment Amount

(Unit: 100million yen)

FY		2011	2012	2013	2014	2015	2016	2017
		(H23)	(H24)	(H25)	(H26)	(H27)	(H28)	(H29)
By facility		(Results)	(Results)	(Results)	(Results)	(Results)		
Power sources		280	367	126	109	40	40	61
Supply facilities	Transmission	34	24	32	37	51	80	60
	Transformation	28	23	40	37	22	39	24
	Distribution	46	48	51	58	51	67	70
	Subtotal	109	95	124	133	125	185	154
Others		19	14	18	2	17	14	13
Total		409	478	268	245	184	239	228

Note : The figures may not exactly match the total figures because of rounding.

Major projects for FY2016

Power resources: Ash silo installation work at Kin Thermal Power Plant

Supply facilities: General expansion and improvement work

Construction of Nishinaha-Tomoyose trunk line

Other: Construction of a backup power feeding command center



Capital Expenditures Plan (Electric Business II)

Demand-supply balance of maximum electric power (August)

(Unit: Thousand kW, %)

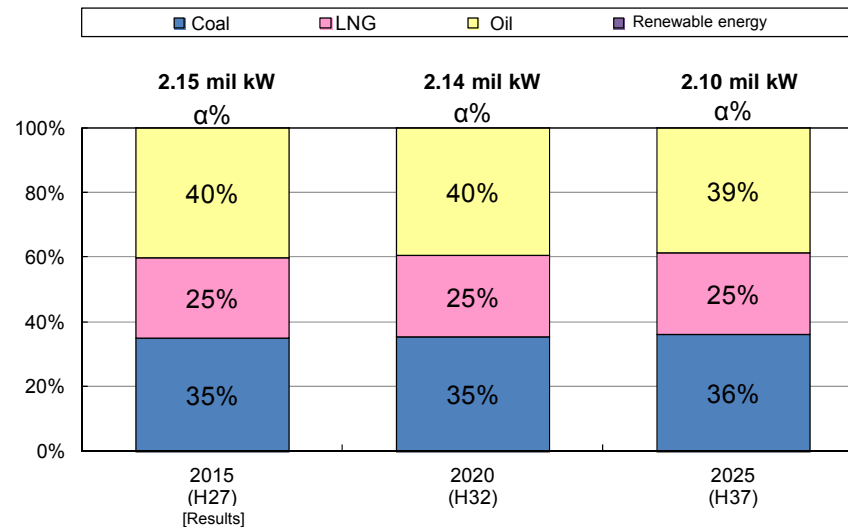
		2015 (Results)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Demand-supply balance	Supply capacity (including adjustment capacity)	2,075	2,139	2,103	2,165	2,229	2,043	2,104	2,109	2,114	2,254	2,103
	Peak load	1,395	1,418	1,421	1,428	1,432	1,441	1,447	1,456	1,462	1,471	1,477
	Reserve supply capacity	680	722	682	737	797	602	656	653	652	782	626
	Reserve supply rate	48.7	50.9	48.0	51.6	55.7	41.8	45.4	44.8	44.6	53.2	42.4

Note 1: The figures include electric power generated by other power companies.

Note 2: The figures include those on the main and remote islands.

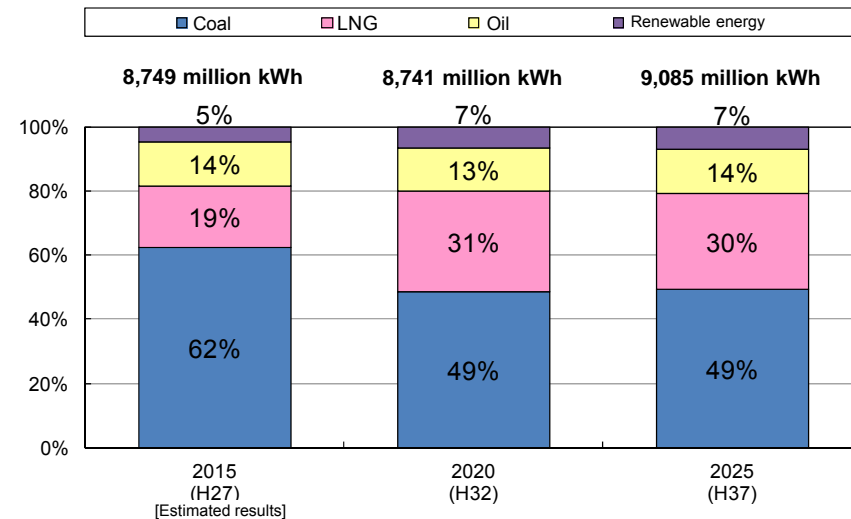
Note 3: The figures may not exactly match the total figures because of rounding.

Composition ratio of plant facilities for the year-end



Note 1: The figures are for facilities owned by OEPC.

Composition ratio of generated power energy



Note 1: The figures include electric power generated by other power companies but do not include energy generated by new power sources.

Note 2: The figures include those on the main and remote islands.

Note 3: The figures may not exactly match the total figures because of rounding.



Business environment and challenges

Item	Overview and Challenges
Sales	<ul style="list-style-type: none">■ The business environment including increase in population and tourists remains the same.■ However, the growth in power demand will slow down.■ Challenges will be sales expansion of electricity and gas.
Profitability	<ul style="list-style-type: none">■ Due to shift from coal to LNG, burden of fuel cost reduces profit.■ A challenge will be to improve profitability.■ The cost structure must be reviewed.
CF	<ul style="list-style-type: none">■ No large-scale electric power development is planned for the time being.■ A certain level of free cash flow will be secured.■ The Company has a certain capacity for additional investment.
Capital composition	<ul style="list-style-type: none">■ Interest-bearing debt is diminishing.■ Equity capital is secured at the level necessary for financial stability.■ A challenge is to improve capital efficiency.



The OEPC Group

Medium- to long-term growth strategy

1. What we at the OEPC Group aim to be

The OEPC Group Vision sets out our vision for the future, pledging to “design and propose new value through services to support both corporate and individual customers” through our core business as a total energy supplier and to “become a unified business group that grows and develops hand-in-hand with the community.”

2. Financial target (consolidated)

	2020	2025
Ordinary income	<u>9 billion yen</u> or more	<u>12 billion yen</u> or more
ROE	<u>4%</u> or greater	<u>5%</u> or greater
Capital adequacy ratio	Maintaining the <u>30%</u> mark	Maintaining the <u>30%</u> mark

3. Focused activities for “what we aim to be”

(1) Active development of total energy services (electricity and gas sales expansion)

- Launching new electricity rate choices and options that attract customers
- Strengthening electrification promotion activities that reflect customer needs
- Continuing promoting sales of natural gas, which is excellent in the environmental and safety perspectives
- Promoting ESP projects and actively participating in large-scale urban development projects

(2) Fundamental reform of the cost structure

- Examining and conducting a zero-based review on operations of individual business fields
- Considering the medium- and long-term power source composition, which can contribute to reduction in the power generation cost



Characteristics of the Business Bases

Demand for Electric power	<ul style="list-style-type: none"> ◆ Increasing demand due to population growth and increasing tourists. ◆ As the proportion of energy for consumer use is high, effects of economic fluctuations are low. ◆ Potential demand due to large-scale urban development projects
Competition	<ul style="list-style-type: none"> ◆ OEPC is outside the framework of wide-area power interchange because it has an isolated system. ◆ OEPC has voluntarily released power of 10,000kW supplied by J-Power. ◆ New power companies plan to supply electricity, but excess power resources are limited.
Electric Power Generation Facilities	<ul style="list-style-type: none"> ◆ 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 ◆ A sufficient supply capacity is secured after Yoshinoura Thermal Power Plant has started operations
Fuel	<ul style="list-style-type: none"> ◆ Having introduced LNG, OEPC now provides total energy services.
Remote Islands	<ul style="list-style-type: none"> ◆ OEPC supplies power to 11 isolated systems including those in the main island. ◆ The region has a high cost structure because it has small islands and also because the scale of the economy is small. This leads to constant loss recording.
Renewable Energy	<ul style="list-style-type: none"> ◆ Reducing fuel consumption and cost is highly effective on remote islands, where fuel unit price is high. ◆ Since the system in the main island of Okinawa is small and independent, the limit of connection volume is likely to occur when using renewable energy.



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】

Finance Section, Accounting & Finance Department
Okinawa Electric Power Company, Inc.

TEL : +81-98-877-2341 FAX : +81-98-879-1317

Email : ir@okiden.co.jp

