

# Management Overview

**November 2016**



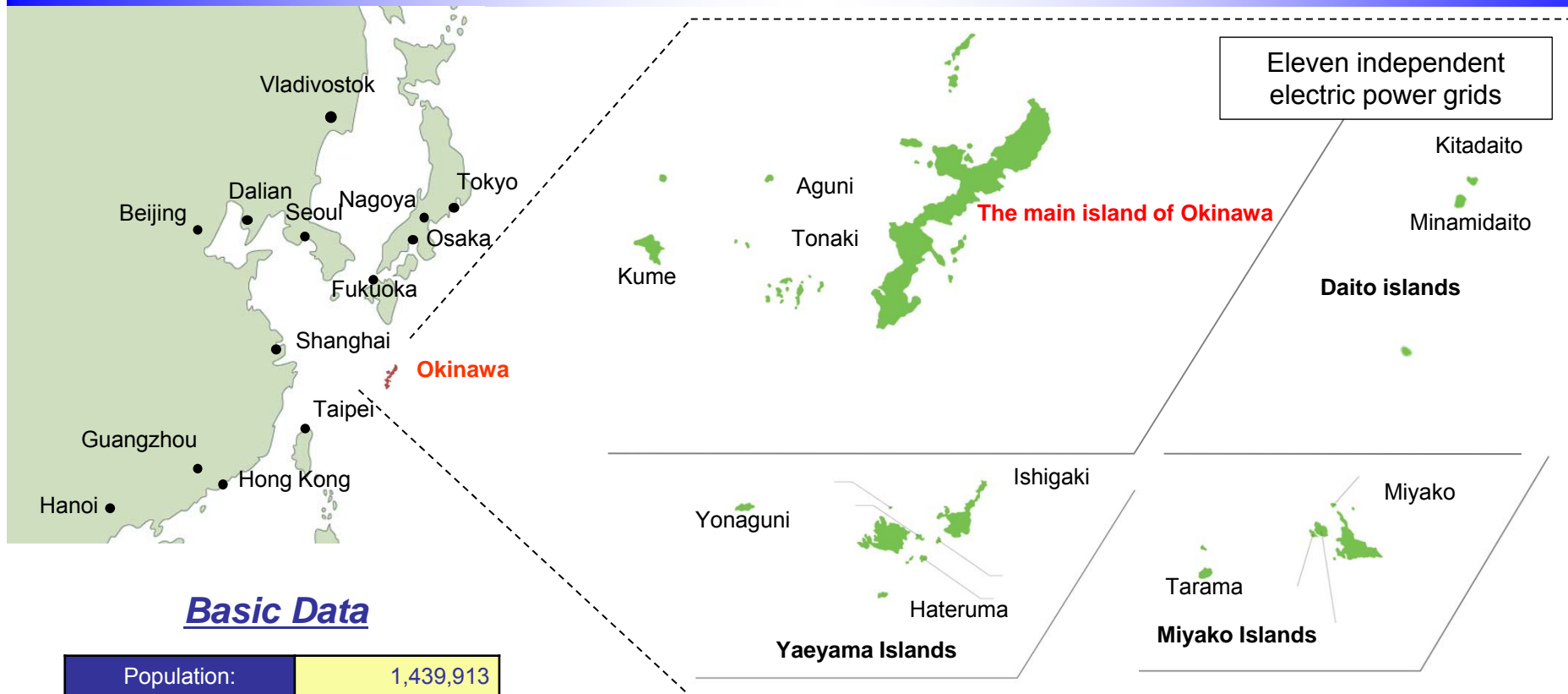
The Okinawa Electric Power Company, Inc.

# Table of Contents

Overview of Okinawa Prefecture	.....	1
Corporate Overview of OEPC	.....	2
Financial Results for FY2016 2Q YTD (Year-on-Year Comparison)	.....	3
Annual Outlook Summary FY2016	.....	4
Electric Energy Demand (Results)	.....	5
Electric Energy Demand (FY2016 and Long-term Outlook)	.....	7
Capital Expenditures Plan (Electric Business I)	.....	8
Capital Expenditures Plan (Electric Business II)	.....	9
Business environment and challenges	.....	10
The OEPC Group Medium- to long-term growth strategy	.....	11
Characteristics of the Business Bases	.....	12



# Overview of Okinawa Prefecture



## Basic Data

Population:	1,439,913
No. of Households	571,769
Area	2,281km <sup>2</sup>
Climate	Subtropical
Location	26° 12N 127° 41E
Prefectural GDP	¥4,351.7billion
Tourism Revenue	¥602.2billion

- ◆ 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 October 1, 2016

Area as of October 1, 2015

Prefectural GDP as of Estimated results FY 2015

Tourism Revenue as of FY 2015

(Source: Okinawa Prefecture, Geographical Survey Institute )



# 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	7,849
Total assets	¥384.459 billion (Non-consolidated) ¥409.860 billion (Consolidated)
Sales (FY2015)	¥174.286 billion (Non-consolidated) ¥182.265 billion (Consolidated)
Employees	1,533 (Consolidated : 2,605)

Security code	9511	
Service area	Okinawa Prefecture	
Customers	Lighting	845 thousand units
	Power	60 thousand units
	Total	906 thousand units
Electricity sales (FY 2015)	Lighting	2,953 million kWh
	Power	4,696 million kWh
	Total	7,649 million kWh
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	

(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	Negative



# Financial Results for FY2016 2Q YTD

## (Year-on-Year Comparison)

(Unit: million yen, X)

	Consolidated (A)			Non-consolidated (B)			(A) / (B)	
	FY2015 2Q YTD (Results)	FY2016 2Q YTD (Results)	Rate of Change	FY2015 2Q YTD (Results)	FY2016 2Q YTD (Results)	Rate of Change	FY2015 2Q YTD (Results)	FY2016 2Q YTD (Results)
Sales	96,679	95,680	-1.0%	93,821	93,292	-0.6%	1.03	1.03
Operating income	6,774	10,534	+55.5%	6,644	10,534	+58.6%	1.02	1.00
Ordinary income	5,858	9,719	+65.9%	5,935	9,887	+66.6%	0.99	0.98
Net income	4,587*	7,566*	+64.9%	4,732	7,802	+64.9%	0.97	0.97

\* 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 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 in Electric business.
- Increase in Repair and maintenance costs in Electric business.



# Annual Outlook Summary FY2016

(Unit: million yen, X)

	Consolidated(A)				Non - Consolidated(B)				(A) / (B)	
	FY2015 (Results)	FY2016 (Forecast)		Change (II) - (I)	FY2015 (Results)	FY2016 (Forecast)		Change (II) - (I)	FY 2015 (Results)	FY 2016 (Forecast)
		Announced In Jul. 2016 (I)	Announced In Oct. 2016 (II)			Announced In Jul. 2016 (I)	Announced In Oct. 2016 (II)			
Sales	182,265	176,100	178,100	+2,000	174,286	167,800	170,300	+2,500	1.05	1.05
Operating income	7,239	9,200	9,200	-	5,597	7,600	7,600	-	1.29	1.21
Ordinary income	5,229	7,600	7,600	-	3,784	6,000	6,000	-	1.38	1.27
Net income	3,647*	5,700*	5,700*	-	2,931	4,800	4,800	-	1.24	1.19

\* Net income attributable to owners of parent.

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

**[ Comparison with previous forecast (Jul.2016) ]**

**【Revenue】**

- Increase in Electricity sales due to increase in Electricity sales volume in Electric business.
- Decrease in Sales to outside customers in consolidated subsidiaries.

**【Expenditure】**

- Increase in Fuel costs and Repair and maintenance costs in Electric business.
- Increase in Purchased power costs due to increase in purchased power volume in Electric business.
- Decrease in Cost of sales due to decrease in Sales to outside customers in consolidated subsidiaries.



# Electric Energy Demand

## (FY2016 1<sup>st</sup> half Results) (1/2)

### Electricity Sales Volume

(Unit: million kWh %)

	FY2015 2Q YTD (Results)	FY2016 2Q YTD (Results)	Change	Rate of Change
Lighting	1,562	1,686	+124	+7.9
Power	2,551	2,562	+11	+0.4
Total	4,113	4,248	+135	+3.3

### <Lighting>

The demand for Lighting increased Year-on-Year due to increase of new customers and higher temperature compared with previous year.

### <Power>

Although demand of petroleum industry and steel industry decreased, the demand for Power remained almost unchanged from the same period of the previous year due to higher temperature compared with previous year.

### ■ Power Generation Infrastructure and Power Generated and Received

(Unit: thousand kW, million kWh)

		FY2015 2Q YTD		FY2016 2Q YTD			
		Electricity generated	Com- position ratio	Electricity generated	Com- position ratio	Maximum output	Com- position ratio
OEPC	Coal	1,784	40.3%	2,078	45.7%	752	30.5%
	Oil	584	13.2%	573	12.6%	864	35.0%
	LNG	915	20.7%	838	18.4%	537	21.8%
	Total	3,283	74.2%	3,489	76.7%	2,153	87.3%
Other company (coal)		930	21.0%	819	18.0%	312	12.7%
Other		210	4.8%	242	5.3%	-	-
Total		4,423	100.0%	4,550	100.0%	2,465	100.0%

### <Power Generation Infrastructure>

- The maximum electric power output decreased 1,090 kW

Tarama retractable wind-power No.1,2 : +490kW  
 Yonaguni wind-power No.2 : -600kW  
 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 4,550 million kWh, up 2.9% Year-on-Year.
- Ratio of OEPC's coal-fired thermal power was up 5.4 points Year-on-Year.
- Ratio of LNG-fired thermal power was down 2.3 points Year-on-Year.

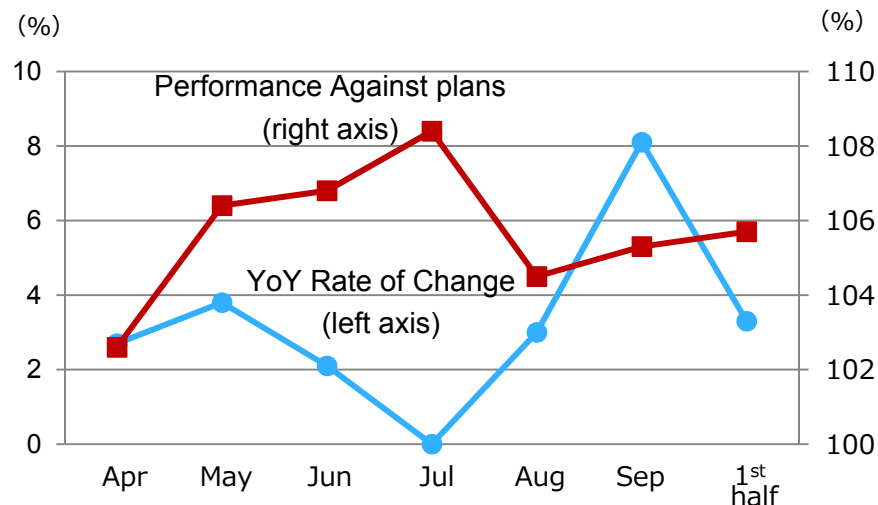
# Electric Energy Demand (FY2016 1<sup>st</sup> half Results) (2/2)

- Electricity sales volume for the first half of FY2016 stood at 4,248 million kWh, an increase of 3.3% year on year and 105.7% of the plan
- Average temperature for 2016 summer (from June to August 2016) was 1.1 °C higher than average year temperature, posting a record high

## Electricity sales volume

(Unit: million kWh)

	Apr	May	Jun	Jul	Aug	Sep	1st half
FY2016 results	555	594	673	786	836	804	4,248
FY2016 period-start plan	541	558	630	725	800	764	4,018
FY2015 results	540	572	659	786	812	744	4,113

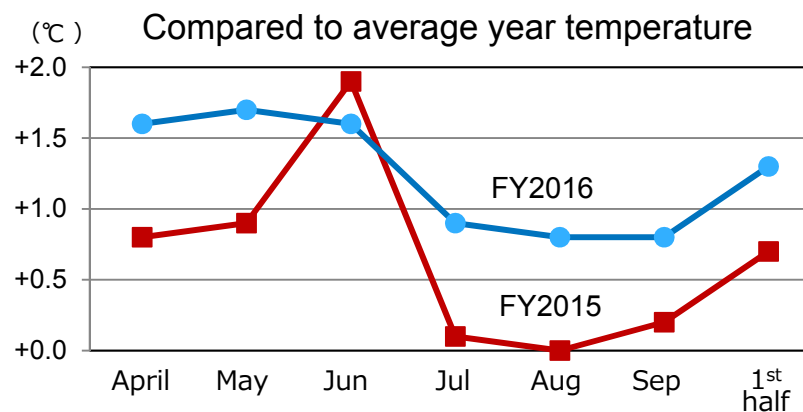


## Average temperature

(Unit: °C)

	Apr	May	Jun	Jul	Aug	Sep	1st half
FY2016	23.0	25.7	28.4	29.8	29.5	28.4	27.5
FY2015	22.2	24.9	28.7	29.0	28.7	27.8	26.9
Average year temperature	21.4	24.0	26.8	28.9	28.7	27.6	26.2

Note: Average year temperature denotes the average for the 1981-to-2010 period





# 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	3,087	4.5
Power	4,696	4,632	-1.4
Total	7,649	7,719	0.9

### (Lighting)

The demand for Lighting is expected to exceed the previous year due to an increase in the number of customers and high temperature in 2Q 2016 compared with previous year.

(YoY Rate of Change: 4.5%)

### (Power)

The demand for Power is expected to fall the previous year due to decrease of demand in Commercial Power.

(YoY Rate of Change: -1.4%)

### (Total)

As above, the total demand is expected to increase to 7,719 Million kWh, which is expected to exceed the previous year.

(YoY Rate of Change: 0.9%)

## 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)

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 facilities		(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, %)

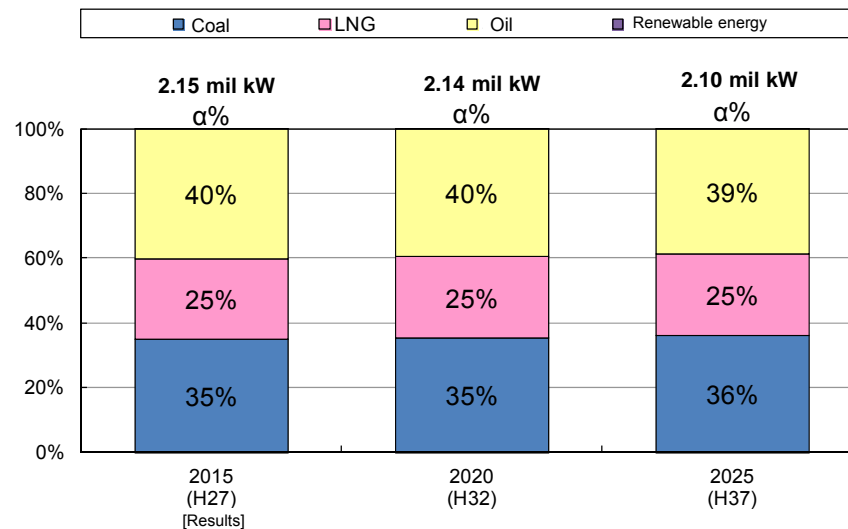
		2015 (Results)	2016 (Results)	2017	2018	2019	2020	2021	2022	2023	2024	2025
Demand-supply balance	Supply capacity (including adjustment capacity)	2,075	2,259	2,103	2,165	2,229	2,043	2,104	2,109	2,114	2,254	2,103
	Peak load	1,395	1,411	1,421	1,428	1,432	1,441	1,447	1,456	1,462	1,471	1,477
	Reserve supply capacity	680	848	682	737	797	602	656	653	652	782	626
	Reserve supply rate	48.7	60.1	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.

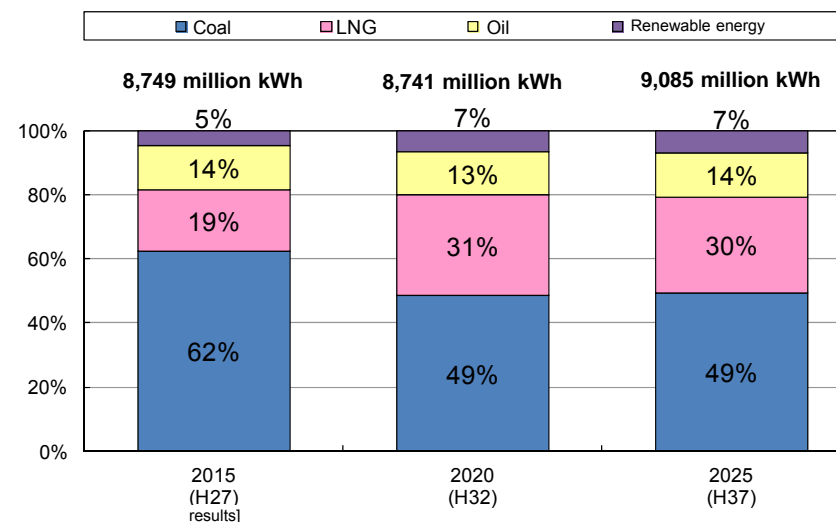
Note 3: The figures may not exactly match the total figures because of rounding.

## 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 are generator output.

Note 4: 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"> <li>■ The business environment including increase in population and tourists remains the same.</li> <li>■ However, the growth in power demand will slow down.</li> <li>■ Challenges will be sales expansion of electricity and gas.</li> </ul>
Profitability	<ul style="list-style-type: none"> <li>■ Due to shift from coal to LNG, burden of fuel cost reduces profit.</li> <li>■ A challenge will be to improve profitability.</li> <li>■ The cost structure must be reviewed.</li> </ul>
CF	<ul style="list-style-type: none"> <li>■ No large-scale electric power development is planned for the time being.</li> <li>■ A certain level of free cash flow will be secured.</li> <li>■ The Company has a certain capacity for additional investment.</li> </ul>
Capital composition	<ul style="list-style-type: none"> <li>■ Interest-bearing debt is diminishing.</li> <li>■ Equity capital is secured at the level necessary for financial stability.</li> <li>■ A challenge is to improve capital efficiency.</li> </ul>



# 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	<b>9 billion yen</b> or more	<b>12 billion yen</b> or more
ROE	<b>4%</b> or greater	<b>5%</b> or greater
Capital adequacy ratio	Maintaining the <b>30%</b> mark	Maintaining the <b>30%</b> 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"> <li>◆ Increasing demand due to population growth and increasing tourists.</li> <li>◆ As the proportion of energy for consumer use is high, effects of economic fluctuations are low.</li> <li>◆ Potential demand due to large-scale urban development projects</li> </ul>
Competition	<ul style="list-style-type: none"> <li>◆ OEPC is outside the framework of wide-area power interchange because it has an isolated system.</li> <li>◆ OEPC has voluntarily released power of 10,000kW supplied by J-Power.</li> <li>◆ New power companies plan to supply electricity, but excess power resources are limited.</li> </ul>
Electric Power Generation Facilities	<ul style="list-style-type: none"> <li>◆ A high reserve supply capacity is required due to an isolated system</li> <li>◆ Reliant on fossil fuels only due to difficulties to develop nuclear or hydraulic power generation</li> <li>◆ A sufficient supply capacity is secured after Yoshinoura Thermal Power Plant has started operations</li> </ul>
Fuel	<ul style="list-style-type: none"> <li>◆ Having introduced LNG, OEPC now provides total energy services.</li> </ul>
Remote Islands	<ul style="list-style-type: none"> <li>◆ OEPC supplies power to 11 isolated systems including those in the main island.</li> <li>◆ 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.</li> </ul>
Renewable Energy	<ul style="list-style-type: none"> <li>◆ Reducing fuel consumption and cost is highly effective on remote islands, where fuel unit price is high.</li> <li>◆ 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.</li> </ul>



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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