

# Management Overview

**May 2017**



The Okinawa Electric Power Company, Inc.

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# Overview of Okinawa Prefecture



## Basic Data

Population:	1,436,683
No. of Households	574,111
Area	2,281 km <sup>2</sup>
Climate	Subtropical
Location	26° 12N 127° 41E
Prefectural GDP	¥4621.1billion
Tourism Revenue	¥602.2billion

- ◇ 160 islands scattered over a sea area lying about 1,000 kilometers east and west and about 400 kilometers north and south.
  - ◇ Okinawa has attracted attention for its advantages and potentials.
    - Geographical characteristics as being located in the center of East Asia.
    - The highest birth rate in Japan.
    - Rich nature and mild climate.
  - ◇ Making good use of such advantages and potentials, initiatives are underway
    - Promotion of tourism.
    - Clustering of international logistics industry.
- Population, No. of Households as of April 1, 2017  
 Area as of October 1, 2016  
 Prefectural GDP as of Estimated results FY 2016  
 Tourism Revenue as of FY 2015

(Source: Okinawa Prefecture, Geographical Survey Institute )



# Corporate Overview of OEPC

- The Okinawa Electric Power Company (OEPC) supplies electricity to 38 inhabited islands including Okinawa mainisland.
- OEPC maintains 11 isolated systems that are not connected with the transmission lines of other power companies.
- OEPC has no nuclear and hydroelectric power plants and depends on fossil fuels for its power supply.

Established	May 15, 1972
Capital	¥7,586 million
Total assets	¥376.373 billion (Non-consolidated) ¥400.237 billion (Consolidated)
Employees	1,537 (Consolidated: 2,631)

Security code	9511
Service area	Okinawa Prefecture
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 195 thousand kW

(as of March 31, 2017)

## Ratings

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

\* Ratings on long-term preferred debts as of April 30, 2017



# Financial Results for FY2016 (Year-on-Year Comparison)

(Unit: million yen, X)

	Consolidated (A)			Non-consolidated (B)			(A) / (B)	
	FY2015 (Results)	FY2016 (Results)	Rate of Change	FY2015 (Results)	FY2016 (Results)	Rate of Change	FY2015 (Results)	FY2016 (Results)
Sales	182,265	179,997	-1.2%	174,286	172,340	-1.1%	1.05	1.04
Operating income	7,239	9,126	+26.1%	5,597	7,112	+27.1%	1.29	1.28
Ordinary income	5,229	7,521	+43.8%	3,784	5,622	+48.6%	1.38	1.34
Net income	3,647*	5,517*	+51.3%	2,931	4,486	+53.1%	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 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 FY2017

(Unit: million yen, X)

	Consolidated (A)				Non-consolidated (B)				(A)/(B)	
	FY2016 (Results)	FY2017 (Forecast)	Rate of Change	【Reference】 FY2017 1 <sup>st</sup> half (Forecast)	FY2016 (Results)	FY2017 (Forecast)	Rate of Change	【Reference】 FY2017 1 <sup>st</sup> half (Forecast)	FY2016 (Results)	FY2017 (Forecast)
Sales	179,997	194,200	+7.9%	103,000	172,340	184,800	+7.2%	98,800	1.04	1.05
Operating income	9,126	7,700	-15.6%	8,400	7,112	6,300	-11.4%	8,200	1.28	1.22
Ordinary income	7,521	6,200	-17.6%	7,700	5,622	5,000	-11.1%	7,700	1.34	1.24
Net income	5,517*	4,600*	-16.6%	6,000*	4,486	4,000	-10.9%	6,100	1.23	1.15

\* Net income attributable to owners of parent.

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

### 【Revenue】

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

### 【Expenditure】

- Increase in Fuel costs and Purchased power costs in Electric business.
- Increase in Operating expenses in consolidated subsidiaries.



# Electric Energy Demand (Results)(1/2)

## Electricity Sales Volume

(Unit: million kWh %)

	FY2015 (Results)	FY2016 (Results)	Change	Rate of Change
Lighting	2,953	3,115	+162	+5.5
Power	4,696	4,698	+2	+0.1
Total	7,649	7,813	+164	+2.1

### <Lighting>

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

### <Power>

Although the influence of switching to other suppliers, the demand for Power remained almost unchanged from previous year due to higher temperature compared with previous year.

## ■ Power Generation Infrastructure and Power Generated and Received

(Unit: thousand kW, million kWh)

	FY2015		FY2016				
	Electricity generated	Com- position ratio	Electricity generated	Com- position ratio	Maximum output	Com- position ratio	
OEPC	Coal	3,500	43.8%	3,672	45.3%	752	30.5%
	Oil	1,113	14.0%	1,060	13.0%	862	35.0%
	LNG	1,595	20.0%	1,758	21.7%	537	21.8%
	Total	6,208	77.8%	6,490	80.0%	2,151	87.3%
Other company (coal)	1,399	17.5%	1,190	14.7%	312	12.7%	
Other	377	4.7%	429	5.3%	-	-	
Total	7,984	100.0%	8,109	100.0%	2,463	100.0%	

### <Power Generation Infrastructure>

- The maximum electric power output decreased 1,765 kW
  - Tokashiki power plant No.5-8 : -1,690kW
  - Tonaki power plant No.4 : -75kW

### <Power Generated and Received>

- Power generated and received was 8,109 million kWh, up 1.6% Year-on-Year.
- Ratio of OEPC's coal-fired thermal power was up 1.5 points Year-on-Year.
- Ratio of Other company's coal-fired thermal power was down 2.8 points Year-on-Year.
- Ratio of LNG-fired thermal power was up 1.7 points Year-on-Year.
- Ratio of Oil-fired thermal power was down 1.0 points Year-on-Year.



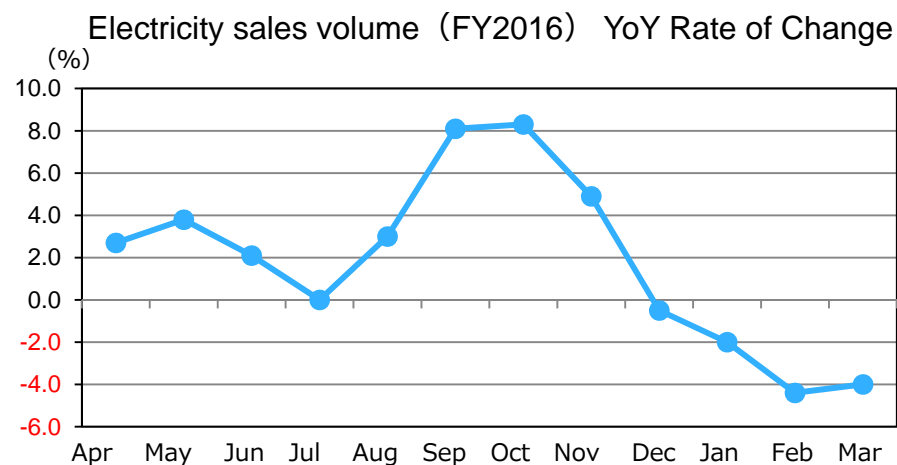
# Electric Energy Demand (Results) (2/2)

- Electricity sales volume for FY2016 stood at 7,813 million kWh, an increase of 2.1% year on year
- FY 2016's average temperature was 1.2°C higher than usual years. As a result, OEPC renewed its record of electricity sales volumes.

## Electricity sales volume

(Unit: million kWh,%)

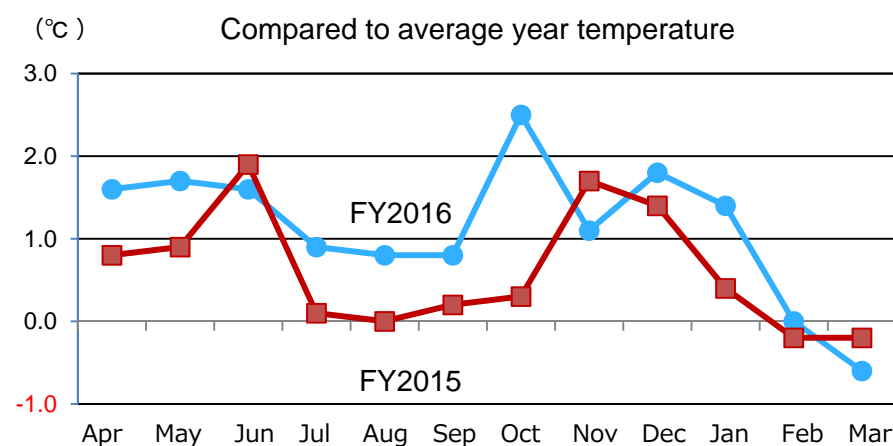
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	FY
FY2016 results	1,822	2,426	1,978	1,587	7,813
FY2015 results	1,772	2,341	1,893	1,643	7,649
Rate of Change	(+2.8)	(+3.6)	(+4.5)	(-3.4)	(+2.1)



## Average temperature

(Unit: °C)

	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	FY
FY2016	25.7	29.2	23.8	17.9	24.2
FY2015	25.3	28.5	23.1	17.7	23.6
Average year temperature	24.1	28.4	22.0	17.7	23.0



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





# Electric Energy Demand (FY2017 and Long-term Outlook)

## Electricity sales volume (FY2017 Outlook)

(Unit: million kWh, %)

	FY2016 Results	FY2017 Forecast	YoY Rate of Change
Lighting	3,115	3,001	-3.6
Power	4,698	4,523	-3.7
Total	7,813	7,525	-3.7

## Electricity sales volume (Long-term Outlook)

(Unit: million kWh, %)

	FY2005 Results	FY2015 Results	FY2026 Forecast	2005-2015 Annual average growth rate	2015-2026 Annual average growth rate
Lighting	2,901	2,953	3,157	0.2 (0.1)	0.6 (0.7)
Power	4,445	4,696	4,860	0.5 (0.5)	0.3 (0.5)
Total	7,346	7,649	8,017	0.4 (0.3)	0.4 (0.6)

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

### (Lighting)

The electricity sales volume for lighting is expected to decline from the previous year due to higher temperatures in the previous year although the number of customers is projected to increase. (Year-on-year growth: - 3.6%)

### (Power)

The electricity sales volume for power is expected to contract due to factors including higher temperatures in the previous year although an increase in commercial and other facilities is projected to add demand. (Year-on-year growth: - 3.7%)

### (Total)

As explained above, the total electricity sales volume is expected to be 7,525 million kWh, short of the previous year. (Year-on-year growth: - 3.7%)

### (Lighting)

The electricity sales volume for lighting is expected to increase moderately owing to an increase in the number of customers resulting from growth in the number of population and households. (Annual average growth: 0.6%)

### (Power)

The electricity sales volume for power is expected to grow modestly due to increases in the number of commercial and other facilities as well as larger livelihood-related demand (food manufacturing, water supply system business, etc.) in the background of increases in the population and tourists. (Annual average growth: 0.3%)

### (Total)

As explained above, the total electricity sales volume is expected to be 8,017 million kWh, marking a moderate increase. (Annual average growth: 0.4%)



# Capital Expenditures Plan (Electric Business)

- Capital investment is expected to remain in the range of 20 billion yen for the next few years without large-scale power source development planned.
- Although costs for responding to aging of supply facilities are expected to increase, efforts are made to level off investment amounts.

## Trends in the Capital Investment Amount

(Unit:100million yen)

By facilities		FY	2012	2013	2014	2015	2016	2017	2018
			(Results)	(Results)	(Results)	(Results)	(Results)		
Power sources			367	126	109	40	29	60	44
Supply facilities	Transmission		24	32	37	51	56	57	91
	Transformation		23	40	37	22	35	26	28
	Distribution		48	51	58	51	59	74	93
	Subtotal		95	124	133	125	151	157	211
Others			14	18	2	17	11	17	1
Total			478	268	245	184	193	235	257

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

### [Major Projects in Upcoming Capital Investments]

Supply facilities: Construction of Nishinaha-Tomoyose trunk line  
Improvement of 132 kV transmission facilities  
Expansion of Tomoyose Substation



# 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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