

Management Overview

May 2019



The Okinawa Electric Power Company, Inc.

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Overview of Okinawa Prefecture



Basic Data

Population:	1,445,013
No. of Households	596,089
Area	2,281 km ²
Climate	Subtropical
Location	26° 12N 127° 41E
Prefectural GDP	¥4313.0billion
Tourism Revenue	¥697.9billion

- ◇ 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, 2019
 Area as of October 1, 2018
 Prefectural GDP as of Estimated results FY 2017
 Tourism Revenue as of FY 2017

(Source: Okinawa Prefecture, Geographical Survey Institute)

Corporate Overview of OEPC

- The Okinawa Electric Power Company (OEPC) supplies electricity to 38 inhabited islands including Okinawa main island.
- 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	¥368.746 billion (Non-consolidated) ¥399.104 billion (Consolidated)
Employees	1,542 (Consolidated: 2,724)

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 190 thousand kW Wind power generators 5 locations 2 thousand kW Total 2,147 thousand kW

(as of March 31, 2019)

Ratings

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

* Ratings on long-term preferred debts as of April 26, 2019

Financial Results for FY2018

(Year-on-Year Comparison)

(Unit: million yen, X)

	Consolidated (A)			Non-consolidated (B)			(A) / (B)	
	FY2017 (Results)	FY2018 (Results)	Rate of Change	FY2017 (Results)	FY2018 (Results)	Rate of Change	FY2017 (Results)	FY2018 (Results)
Sales	196,134	205,481	+4.8%	188,075	195,960	+4.2%	1.04	1.05
Operating income	9,333	5,443	-41.7%	7,160	3,507	-51.0%	1.30	1.55
Ordinary income	8,381	5,220	-37.7%	6,322	3,694	-41.6%	1.33	1.41
Net income	6,273*	3,751*	-40.2%	5,106	3,034	-40.6%	1.23	1.24

* Net income attributable to owners of parent.

Consolidated and Non-consolidated : Increase in Sales, Decrease in Income (the first time in 6 years)

【Revenue】

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

【Expenditure】

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

Annual Outlook Summary FY2019

(Unit: million yen, X)

	Consolidated (A)			Non-consolidated (B)			(A) / (B)	
	FY2018 (Results)	FY2019 (Forecasts)	Rate of Change	FY2018 (Results)	FY2019 (Forecasts)	Rate of Change	FY2018 (Results)	FY2019 (Forecasts)
Sales	205,481	206,500	+0.5%	195,960	196,100	+0.1%	1.05	1.05
Operating income	5,443	7,900	+45.1%	3,507	6,600	+88.2%	1.55	1.20
Ordinary Income	5,220	7,200	+37.9%	3,694	6,000	+62.4%	1.41	1.20
Net income	3,751*	5,500*	+46.6%	3,034	4,800	+58.2%	1.24	1.15

* Net income attributable to owners of parent.

Consolidated and Non-consolidated : Increase in Sales, Increase in Income(the first time in 2 years)

【Revenue】

- Decrease in Electricity sales in Electric business.
- Increase in Sold power to other suppliers and Transmission revenue in Electric business.
- Increase in Sales to outside customers in consolidated subsidiaries.

【Expenditure】

- Decrease in Fuel costs in Electric business.
- Increase in Cost of sales in consolidated subsidiaries.

Electric Energy Demand (Results)(1/3)

Electricity Sales Volume

(Unit: million kWh, %)

	FY2017 (Results)	FY2018 (Results)	Change	Rate of Change
Lighting	3,140	2,960	-180	-5.7
Power	4,621	4,493	-128	-2.8
Total	7,761	7,453	-308	-4.0

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

	FY2017		FY2018				
	Electricity generated	Com- position ratio	Electricity generated	Com- position ratio	Maximum output	Com- position ratio	
OEPC	Coal	3,471	43.1%	3,093	40.0%	752	30.6%
	Oil	1,090	13.6%	1,111	14.3%	856	34.8%
	LNG	1,686	20.9%	1,608	20.8%	537	21.9%
	Total	6,247	77.6%	5,812	75.1%	2,145	87.3%
Other company (coal)	1,349	16.7%	1,511	19.5%	312	12.7%	
Other	459	5.7%	420	5.4%	-	-	
Total	8,055	100.0%	7,743	100.0%	2,457	100.0%	

<Lighting>

Although number of customers increased, the demand for Lighting decreased compared with Year-on-Year due to decrease in the demand from air conditioner and heater because temperature compared with previous year was low in summer and was high in winter.

<Power>

The demand for Power decreased compared with Year-on-Year due to switching to other suppliers and lower summer temperature compared with previous year.

<Power Generation Infrastructure>

- The maximum electric power output decreased 1,015 kW.*

Kumejima power plant No.9	: -2,000kW
Tonaki power plant No.6	: -200kW
Tonaki power plant No.7	: -200kW
Tonaki power plant No.1	: -75kW
Yonaguni power plant No.10	: +1,000kW
Shin tarama power plant No.8	: +300kW
Tonaki power plant No.9	: +160kW

<Power Generated and Received>

- Power generated and received was 7,743 million kWh, down 3.9%.*
- Ratio of OEPC's coal-fired thermal power was down 3.1 points.*
- Ratio of Other company's coal-fired thermal power was up 2.8 points.*

*Comparison with previous year.

Electric Energy Demand (Results)(2/3)

- Electricity sales volume for FY2018 stood at 7,453 million kWh, a decrease of 4.0% year on year.
- In fiscal 2018, the average temperature for summer (July-October) was 1.8°C lower and that for winter (December-March) was 1.6°C higher year-on-year.

Electricity sales volume

(Unit: million kWh,%)

	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	FY
FY2018 results	1,790	2,323	1,800	1,540	7,453
FY2017 results	1,722	2,475	1,956	1,608	7,761
(Rate of Change)	(+3.9)	(-6.1)	(-8.0)	(-4.3)	(-4.0)

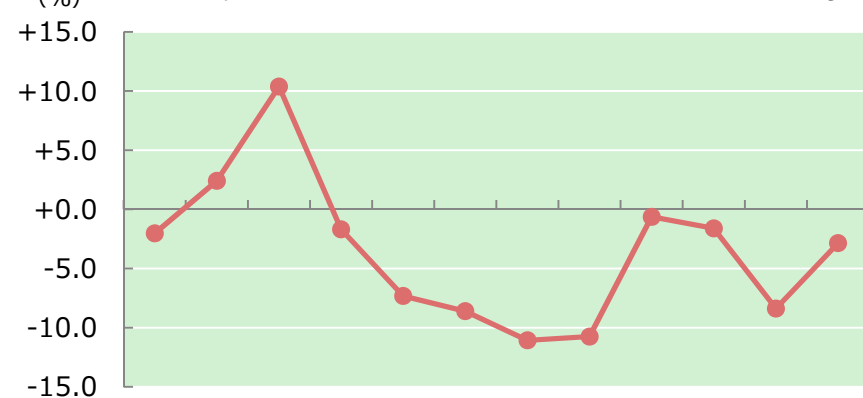
Average temperature

(Unit: °C)

	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	FY
FY2018	25.0	28.4	22.5	19.3	23.8
FY2017	24.1	29.7	22.6	18.0	23.6
Average year temperature	24.1	28.4	22.0	17.7	23.0
Compared to Previous year	+0.9	-1.3	-0.1	+1.3	+0.2
Compared to Average year temperature	+0.9	-	+0.5	+1.6	+0.8

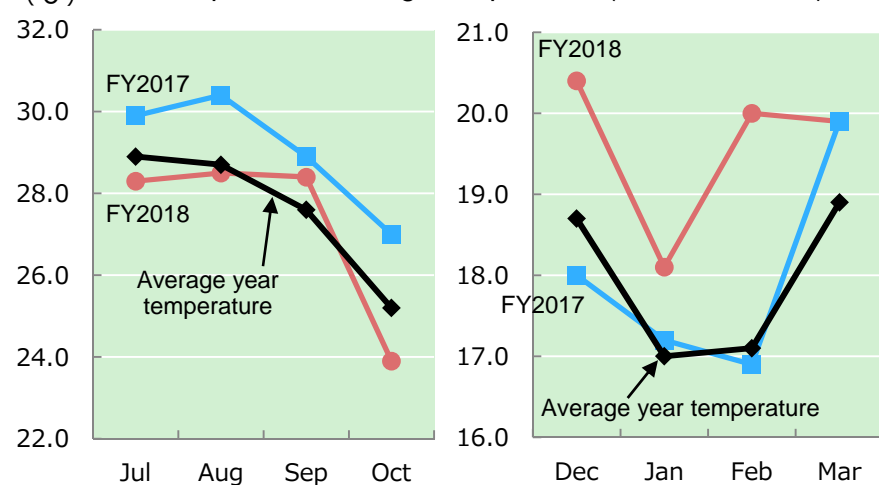
Note: Average year temperature denotes the average for the 1981-to-2010 period

(%) Electricity sales volume (FY2018) YoY Rate of Change

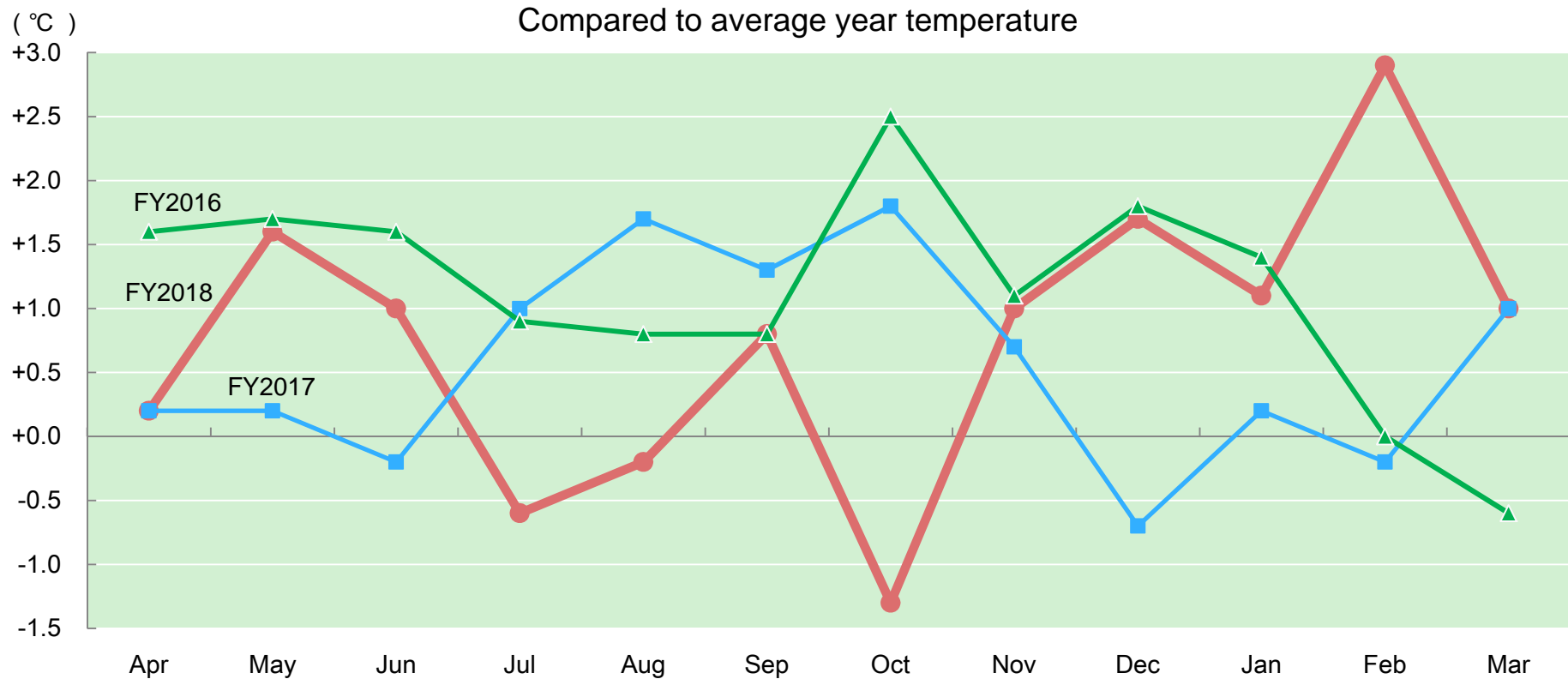


Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar

(°C) Compared of average temperature (summer, winter)



Electric Energy Demand (Results)(3/3)



Average temperature

(Unit:°C)

	Apr	May	Jun	Apr-Jun	Jul	Aug	Sep	Jul-Sep	1st half	Oct	Nov	Dec	Oct-Dec	Jan	Feb	Mar	Jan-Mar	2nd half	FY
FY2018	21.6	25.6	27.8	25.0	28.3	28.5	28.4	28.4	26.7	23.9	23.1	20.4	22.5	18.1	20.0	19.9	19.3	20.9	23.8
FY2017	21.6	24.2	26.6	24.1	29.9	30.4	28.9	29.7	26.9	27.0	22.8	18.0	22.6	17.2	16.9	19.9	18.0	20.3	23.6
FY2016	23.0	25.7	28.4	25.7	29.8	29.5	28.4	29.2	27.5	27.7	23.2	20.5	23.8	18.4	17.1	18.3	17.9	20.9	24.2
Average year temperature	21.4	24.0	26.8	24.1	28.9	28.7	27.6	28.4	26.2	25.2	22.1	18.7	22.0	17.0	17.1	18.9	17.7	19.8	23.0

Electric Energy Demand (FY2019 and Long-term Outlook)

Electricity sales volume (FY2019 Outlook)

(Unit: million kWh, %)

	FY2018 Results	FY2019 Forecasts	YoY Rate of Change
Lighting	2,960	3,019	2.0
Power	4,493	4,335	-3.5
Total	7,453	7,354	-1.3

(Lighting)

Demand for lighting is expected to increase year-on-year due to the increase in demand due to the increase in the number of customers, in addition to the reactionary increase from the decrease in heating demand due to high temperature last winter. (YoY growth:2.0%)

(Power)

Demand for power is expected to be lower year-on-year due to the impact to customers switching to other suppliers, despite an increased demand due to new commercial and accommodation facilities being built. (YoY growth:-3.5%)

(Total)

As explained above, the total electricity sales volume is expected to be 7,354 million kWh, short of the previous year. (YoY growth:-1.3%)

Electricity sales volume (Long-term Outlook)

(Unit: million kWh, %)

	FY2007 Results	FY2017 Results	FY2028 Forecasts	2007-2017 Annual average growth rate	2017-2028 Annual average growth rate
Lighting	2,945	3,140	3,014	0.6 (0.4*)	-0.4 (-0.1*)
Power	4,546	4,621	4,172	0.2 (-0.1*)	-0.9 (-0.6*)
Total	7,491	7,761	7,186	0.4 (0.1*)	-0.7 (-0.4*)

* Adjusted for the influence of temperature.

(Lighting)

Demand for lighting is expected to decrease due to the impact of customers switching to other suppliers, despite an increased demand resulting from growth in the number of population and households.(Annual average growth:-0.1%*)

(Power)

Demand for power is expected to decrease due to the impact of customers switching to other suppliers, despite an increase in commercial and accommodation facilities and food manufacturers due to growth in the number of population and tourists. (Annual average growth:-0.6%*)

(Total)

As explained above, the total electricity sales volume is expected to be 7,186 million kWh, marking a moderate increase. (Annual average growth:-0.4%*)

Capital Expenditures Plan (Electric Business)

- Capital investment in FY 2019 is expected to be around 30 billion yen.
- Large-scale power source development is not planned for the next few years.
- 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	2014	2015	2016	2017	2018	2019
			【Results】	【Results】	【Results】	【Results】	【Results】	
Power sources			109	40	29	34	26	67
Supply facilities	Transmission		37	51	56	39	57	87
	Transformation		37	22	35	21	23	59
	Distribution		58	51	59	59	61	77
	Subtotal		133	125	151	120	141	224
Others			2	17	11	14	5	6
Total			245	184	193	168	173	297

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

[Major Projects in Upcoming Capital Investments]

Supply facilities: Expansion of Tomoyose Substation

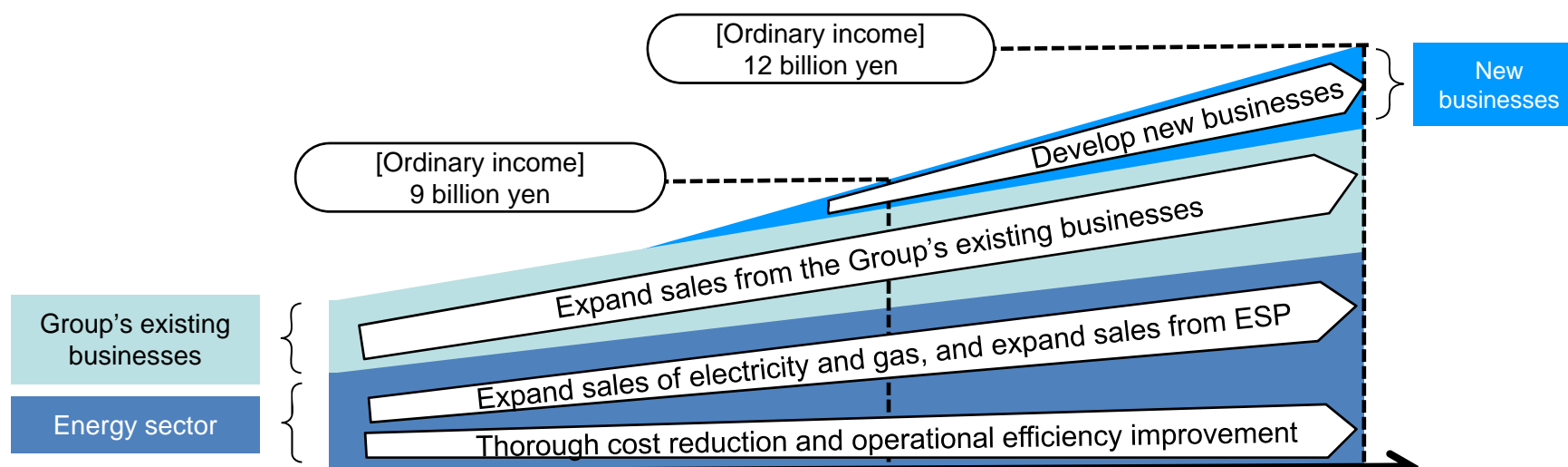
Business environment and challenges

Item	Overview and Challenges
Sales	<ul style="list-style-type: none"> ■ The business environment including increase in population and tourists remains the same. ■ The demand for Electric Power in Okinawa area will increase, but the rate of its increase has been slowing down. ■ The entry of power producer and supplier has advanced competition. ■ 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.

Mid-Term Management Plan (2019-2021)

What we 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.”



		2018 (Results)	2019 (Forecast)	2020 Mid-term Management Targets	2025
Consolidated	Ordinary income	5.2billion yen	7.2billion yen	9 billion yen or more	12 billion yen or more
	ROE	2.5%	3.6%	4% or greater	5% or greater
	Capital adequacy ratio	37.8%	37.7%	Maintaining the 30% mark	Maintaining the 30% mark
Amount of sales *1	Electricity	Approx. 90GWh	Approx. 120GWh	155GWh	330GWh
	Gas *2	Approx. 11,000t	Approx. 12,000t	13,500t	30,000t
Sales from outside the Group *3		Approx. 12billion yen	Approx. 13billion yen	14 billion yen	20 billion yen or more

*1. Cumulative total from FY2016 *2. Exclude the amount of wholesale supplies provided to former general gas utilities *3. Sales other than electricity business

Mid-Term Management Plan (2019-2021)

[Priority Measures] We will implement the following measures for realizing “what we aim to be” and achieving mid-term management objectives.

(1) Expand Group’s revenue

Enhancement of the menu of electricity rates, provide better service	Develop human resources for strengthening sales force
Proactively promote gas supply business	Strongly promote ESP business
Participate in large projects (e.g. urban development projects)	etc.

(2) Thorough cost reduction and operational efficiency improvement

Total cost reduction through strategic capital investment	Reduce fuel cost for the main island and remote islands
Reviewing operations on a zero basis	Improving operational efficiency with new technology (e.g. IoT, AI and RPA)
Further reduce cost of procuring materials and equipment	etc.


(3) Further strengthening the stable supply of energies

Strengthen a autonomous maintenance capability through IoT platforms*, etc	Correspond for power system stabilization
Initiatives for securing electrical engineers	Build facilities and promote measures for ensuring early restoration from typhoon disasters
Initiatives to improve the reliability of gas supply facilities	etc.

* A system that integrates, visualizes and stores long-term data of dispersed power plants.

Characteristics of the Business Bases

Demand for Energy	<ul style="list-style-type: none"> ◆ Increasing demand for energy due to population growth and increasing tourists. ◆ As the proportion of energy for consumer use is high, effects of economic fluctuations are low for demand for Electric power. ◆ 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. ◆ Competition is advancing due to the entry of energy suppliers. ◆ Power producer and supplier is currently implementing plans to construct power plants.
Total Energy Services	<ul style="list-style-type: none"> ◆ Started selling gas with the introduction of LNG. ◆ Developing Total Energy Service by taken advantage of our ability to sell electricity and gas.
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.
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.

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