

# Management Overview

**November 2013**



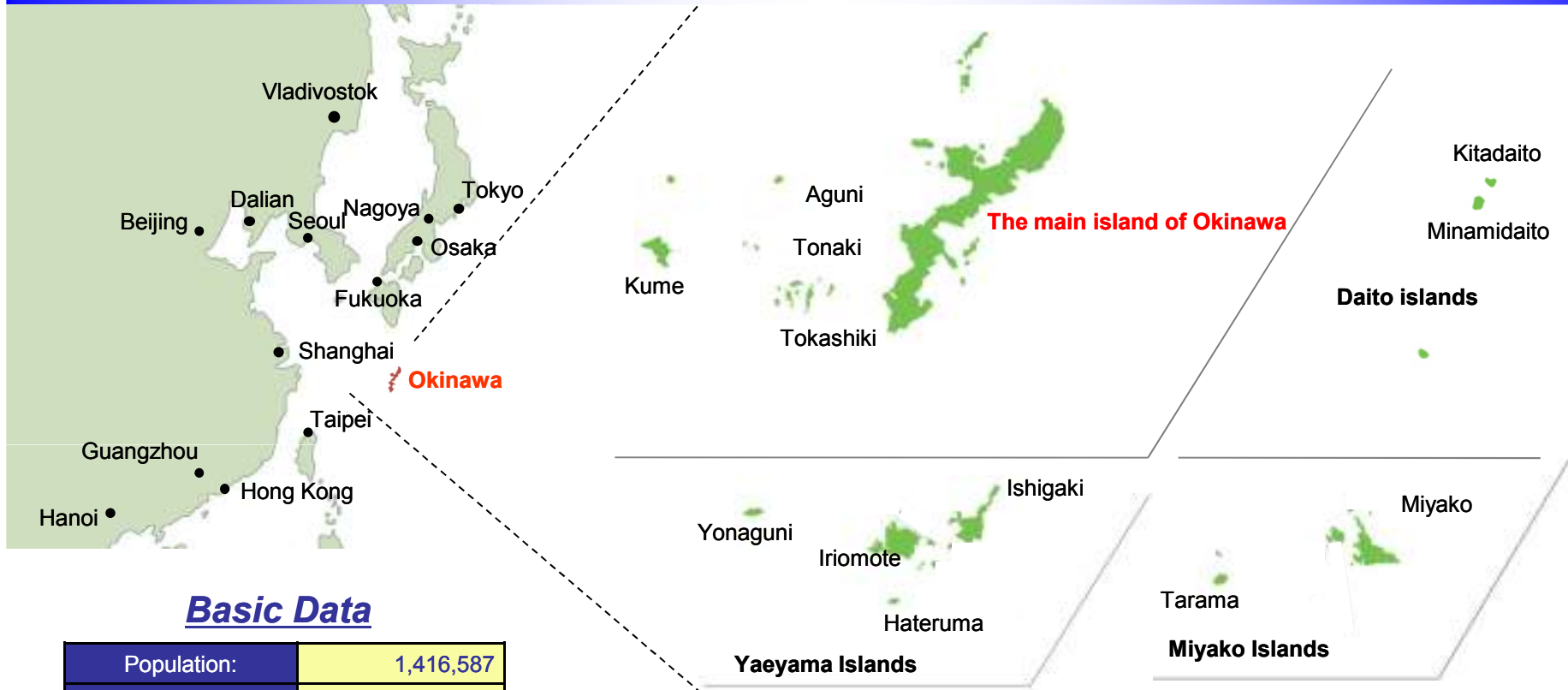
The Okinawa Electric Power Company, Inc.

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# Overview of Okinawa Prefecture



## Basic Data

Population:	1,416,587
No. of Households	548,603
Area	2,276km <sup>2</sup>
Climate	Subtropical
Location	26° 12N 127° 41E
Prefectural GDP	¥4,203.2billion
Tourism Revenue	¥399.7billion

- ◆ The main island of Okinawa is the most populous with 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, 2013  
 Area as of October 1, 2013  
 Prefectural GDP as of FY2012  
 Tourism Revenue as of FY 2012  
 (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.

Established	May 15, 1972	Security code	9511
Capital	¥7,586 million	Service area	Okinawa Prefecture
Shareholders	8,254	Customers	Lighting 798 thousand units Power 60 thousand units Total 859 thousand units
Total assets	¥415.08 billion (Non-consolidated) ¥435.51 billion (Consolidated)	Electricity sales (FY 2011)	Lighting 2,851 million kWh Power 4,463 million kWh (Deregulated demand 1,156 million kWh) Total 7,314 million kWh
Sales (FY 2011)	¥158.91 billion (Non-consolidated) ¥166.43 billion (Consolidated)	Generating facilities	Steam-power generators 5 locations 1,718 thousand kW (Oil 2 locations 715 thousand kW) (Coal 2 locations 752 thousand kW) (LNG 1 locations 251 thousand kW)
Employees	1,540 (Non-consolidated) 2,550 (Consolidated)		Gas turbine generators 4 locations 291 thousand kW Internal-combustion power generators 13 locations 174 thousand kW

(as of March 31, 2013)

## Ratings

Rating agency	S&P	Moody's	R&I	JCR
Rating	AA-	Aa3	AA+	AAA

Ratings on long-term preferred debts as of September 30, 2013



# Financial Results for FY2013 2Q YTD

## (Year-on-Year Comparison)

(Unit: million yen, X)

	Consolidated (A)			Non-consolidated (B)			(A) / (B)	
	FY2012 2Q YTD (Results)	FY2013 2Q YTD (Results)	Rate of Change	FY2012 2Q YTD (Results)	FY2013 2Q YTD (Results)	Rate of change	FY2012 2Q YTD (Results)	FY2013 2Q YTD (Results)
Sales	90,176	94,573	+4.9%	87,074	91,922	+5.6%	1.04	1.03
Operating income	11,399	10,648	-6.6%	10,990	10,366	-5.7%	1.04	1.03
Ordinary income	10,094	9,411	-6.8%	9,696	9,444	-2.6%	1.04	1.00
Net income	7,438	6,851	-7.9%	7,201	7,025	-2.4%	1.03	0.98

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

#### 【Revenue】

- Increase in income from Electricity sales volume and the Fuel cost adjustment system in Electric business.
- Decrease in Sales in consolidated subsidiaries.

#### 【Expenditure】

- Increase in Fuel costs, Depreciation costs and Purchased power costs in Electric business.



# Annual Outlook Summary

(Unit: million yen, X)

	Consolidated(A)				Non - Consolidated(B)				(A) / (B)	
	FY2012 (Results)	FY2013 (Forecast)		Change ②-①	FY2012 (Results)	FY2013 (Forecast)		Change ④-③	FY 2012 (Results)	FY 2013 (Forecast)
		Announced In Jul.2013 ①	Announced In Oct.2013 ②			Announced in Jul.2013 ③	Announced in Oct.2013 ④			
Sales	166,439	180,700	181,200	+500	158,911	172,400	173,100	+700	1.05	1.05
Operating income	8,969	9,400	9,200	-200	7,047	7,800	7,600	-200	1.27	1.21
Ordinary income	6,307	6,500	6,300	-200	4,309	5,000	5,000	—	1.46	1.26
Net income	4,318	4,600	4,400	-200	3,098	3,800	3,800	—	1.39	1.16

## Increase in Sales, Decrease in Income (Consolidated)

## Increase in Sales, Increase in Income (Non-consolidated)

[ Comparison with previous forecast (Jul.2013) ]

### 【Revenue】

- Increase in income from Electricity sales volume in Electric business.
- Decrease in Sales in consolidated subsidiaries.

### 【Expenditure】

- Increase in Fuel costs in Electric business.
- Impairment loss in consolidated subsidiary.



# Electric Energy Demand

## (FY2013 1st half and FY2013 Outlook)

### FY2013 1<sup>st</sup> half Results

(Unit: Million kWh, %)

		FY 2013 1 <sup>st</sup> half		FY2012 1 <sup>st</sup> half Results	Performance Against Plans	YoY Change
		Results	Plans			
Lighting		1,570	1,547	1,540	101.5	2.0
Power		2,513	2,472	2,448	101.7	2.7
Total		4,083	4,019	3,988	101.6	2.4
Reference	Consumer Use	3,409	3,349	3,326	101.8	2.5
	Industrial Use	674	670	662	100.8	1.9
	Large Industrial Power (Restated)	443	443	436	99.9	1.5

#### (Lighting)

- The demand for Lighting increased Year-on-Year due to an increase in the number of customers and high temperature in summer compared with previous year.(2.0%)

#### (Power)

- The demand for Power increased Year-on-Year due to increased demand of new customers and high temperature in summer compared with previous year.(2.7%)

#### (Total)

- As a result, the figure totals at 4,083million kWh, which exceeded the previous fiscal year.(2.4%)

### FY2013 Outlook

(Unit: Million kWh, %)

		FY2013 (Forecast)	FY2012 (Results)	YoY Change
Lighting		2,991	2,851	4.9
Power		4,617	4,463	3.5
Total		7,608	7,314	4.0
Reference	Consumer Use	6,313	6,051	4.3
	Industrial Use	1,295	1,263	2.6
	Large Industrial Power (Restated)	855	830	2.9

#### (Lighting)

- The demand for Lighting is expected to increase Year-on-Year due to expectations of increase in number of customers, spread of all-electric houses, and a rebound of previous fiscal year's demand decrease caused by typhoons and temperature variations.(4.9%)

#### (Power)

- The demand for Power is expected to increase Year-on-Year due to expectations of increase in number of customers, increase in demand from Large Industrial Power, and a rebound of previous fiscal year's demand decrease .(3.5%)

#### (Total)

- As a result, the figure totals at 7,608million kWh, which is projected to exceed the previous year's figure.(4.0%)



# Electric Energy Demand (Long-term forecast)

## Forecast for long-term Electric Energy demand

(Unit: million kWh, Thousand kW, %)

		2011 (Result)	2012 (Result)	2013 (Forecast)	2021 (Forecast)	2022 (Forecast)	Average growth rate per annum	
							2001 – 2011	2011 – 2022
No. 122EI forecast (2012)	Electric energy demand	(7,380) 7,440	(7,330) 7,314	7,544	8,324	8,421	(0.9) 0.8	(1.2) 1.1
	Peak load	(1,391) 1,341	(1,409) 1,373	1,428	1,552	1,568	(0.3) -0.4	(1.1) 1.4
	Annual load factor	(63.3) 66.0	(62.1) 63.6	63.1	64.0	64.1	—	—
No. 120EI forecast (2012)	Electric energy demand	(7,380) 7,440	7,541	7,631	8,597	—	(1.3) 1.3	(1.3) 1.2
	Peak load	(1,391) 1,341	1,430	1,445	1,608	—	(0.4) 0.4	(1.1) 1.4
	Annual load factor	(63.3) 66.0	63.0	63.1	63.9	—	—	—

Note 1: Figures in parentheses are adjusted for the influence of temperature and leap year.

Note 2: The figures indicated for FY2012 of No. 120 EI are the estimate value.

Note 3: Average growth rate per annum for No. 120 EI are from 2000 to 2010 and 2010 to 2021.

The volume of electricity demand in FY2022 is expected to be 8,421 million kWh with the average annual growth rate from FY2011 of 1.1% (1.2% after correction of temperature).

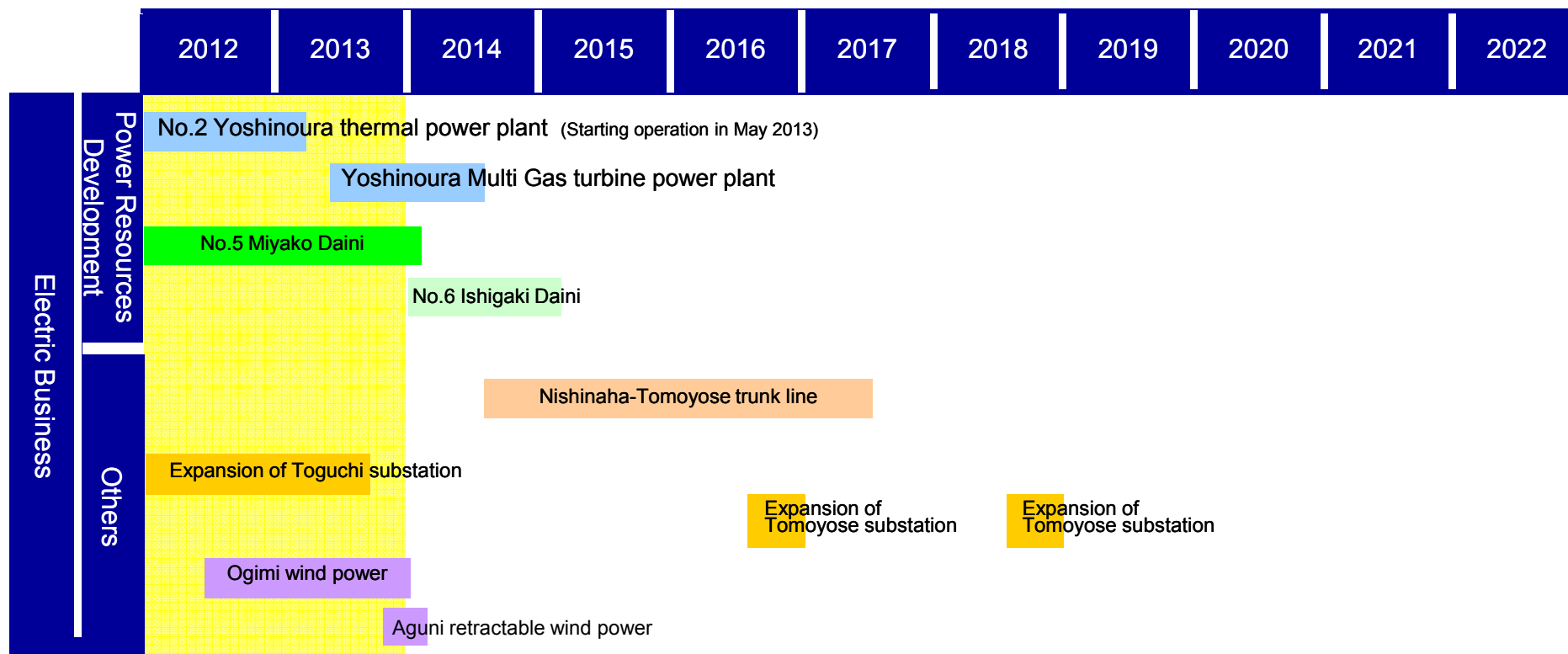
[The background of growing demand]

- As for consumer use, the increase in number of customers at general households and commercial facilities (such as big supermarkets) based on population growth, and the increase in number of hotels based on boost in tourists.
- As for industrial use, the increase in demands related to daily living (such as food manufacturing and water utility industries) based on population growth.





# Capital Expenditures Plan (Electric Business I)



Note: Power Resources development cases listed above are those plants which have more than 10,000 kW generating capacity and are expected to initiate operations within 10 years from FY2013 for the Main island, and 5 years for remote islands.

Note: Power distribution facilities cases listed above have more than 132kV working voltage, and are under construction or expected to begin construction within 10 years from FY2013.

## ■ Capital expenditures for the Yoshinoura thermal power plant (Power resources development section)

- Approximately JPY100bn is invested in Yoshinoura thermal power plant No1.and No2 plants.



# Capital Expenditures Plan (Electric Business II)

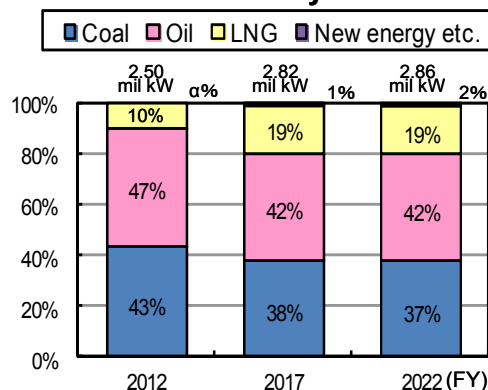
## Demand-supply balance of maximum electric power (August)

(Unit : Thousand kW, %)

		2012 【Result】	2013 【Result】	2014	2015	2016	2017	2018	2019	2020	2021	2022
Demand- supply balance	Peak load	1,373	1,432	1,439	1,456	1,473	1,490	1,507	1,521	1,537	1,552	1,568
	Supply capacity	2,082	2,264	2,155	2,145	2,094	2,151	2,161	2,101	2,061	2,064	2,209
	Reserve supply capacity	709	832	716	689	621	661	654	580	524	512	641
	Reserve supply rate	51.6	58.1	49.8	47.3	42.2	44.4	43.4	38.1	34.1	33.0	40.9

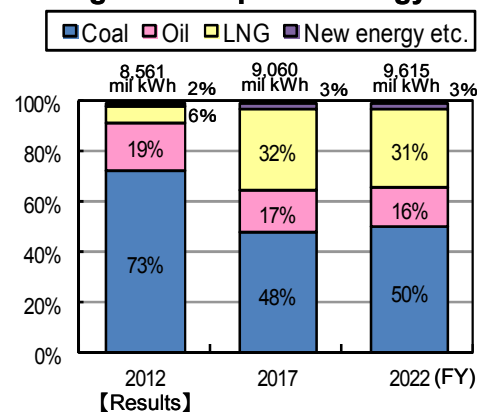
\*Maximum electric power in FY2012 was generated in July.

### Composition ratio of plant facilities for the year-end



※ Figures less than 1% are indicated as α.

### Composition ratio of generated power energy



### Capital expenditures

(Unit : billion yen)

		2012 (Result)	2013	2014
Power Resources		36.8	14.7	11.4
Supply Facilities	Transmission	2.4	5.7	4.5
	Transformation	2.4	4.9	4.2
	Distribution	4.8	7.0	8.0
	Subtotal	9.6	17.6	16.7
Others		1.5	2.4	1.2
Total		47.8	34.7	29.3

※ Figures in the table may not exactly match the total showed because of rounding.

- Reserve supply rate will be 58.1% in FY 2013 with the start of operation of the Yoshinoura Thermal Power Station.
- Capital expenditure was 47.8 billion yen in FY2012, when No.1 Yoshinoura thermal power plant started operation, and is expected to be the peak.(34.7 billion yen in FY2013)



# Issues and Measures for Resolving Them

Medium and long-term management policy	Management Issues		Measures for resolving the issues
<b>Stable supply of high quality electricity</b>	Securing of long-term supply capacity , Improvement of energy security		<ul style="list-style-type: none"> <li>• Steady operation of Yoshinoura Thermal Power Plant.</li> <li>• Disaster countermeasures</li> <li>• Stable fuel procurement, etc.</li> </ul>
<b>Raising the customer satisfaction levels</b>	Ensuring electricity charge comparable with the level in the mainland		<ul style="list-style-type: none"> <li>• Curtailing capital expenditures</li> <li>• Further improving the operational efficiency, etc.</li> </ul>
	Responding to revision of the energy policy		<ul style="list-style-type: none"> <li>• Considering the way the electric power business in OEPC's service area should be, etc.</li> </ul>
<b>Harmonizing with the society and global environment</b>	Addressing the global warming issue		<ul style="list-style-type: none"> <li>• Steady operation of LNG thermal power (Yoshinoura Thermal Power Plant) with low CO2 emissions</li> <li>• Efficient operation of existing thermal power plants</li> <li>• Mixed combustion of biomass fuel</li> <li>• Steady efforts in mega solar power plant verification studies</li> <li>• Introduction of retractable wind-power generators, etc.</li> </ul>
<b>Ensuring proper profit levels</b>	Building a robust earnings base		<ul style="list-style-type: none"> <li>• Making company-wide efforts for cultivating demand, etc.</li> </ul>
	Exhaustive cost reduction and operational efficiency improvement (taking action without sanctuary)	Improving the management of facilities	<ul style="list-style-type: none"> <li>• Reduction of the periodical inspection period by close examination of the inspection contents</li> <li>• Close investigation in design, quantity and unit price, etc.</li> </ul>
		Reduction of fuel costs	<ul style="list-style-type: none"> <li>• Stable procurement through diversification of procurement sources and Spot purchasing of C Heavy Oil</li> <li>• Continuous use of sub-bituminous coal, etc.</li> </ul>
		Improving income and expenditure of operation in remote islands	<ul style="list-style-type: none"> <li>• Increasing the rate of utilization of the existing renewable energy facilities.</li> </ul>
	Establishing a strong and flexible financial position		<ul style="list-style-type: none"> <li>• Reasonable and efficient execution of operations, etc.</li> </ul>
<b>Effectively utilizing management results</b>	Dividend policy / return to stockholders		<ul style="list-style-type: none"> <li>• Well-balanced allocation of Free Cash Flow among "Dividend policy", "Electricity charge policy", "Improvement of financial position", and "Investment in growth fields".</li> </ul>
<b>Enhancing the group management</b>			<ul style="list-style-type: none"> <li>• Strengthen the management base</li> <li>• Establishing the OEPC Group brand, etc.</li> </ul>



# Mid-term Outlook

## Mid-term Outlook

Balance of Income and Expenditure	<ul style="list-style-type: none"><li>➤ With respect to income, growth of electricity demand supported by increase in population is expected to contribute to stable earnings, while there is a concern for impacts of development of energy-saving technology, dissemination of renewable energy, etc.</li><li>➤ With respect to expenditure, depreciation temporarily increased along with the start of Yoshinoura Thermal Power Plant's operation and fuel costs are also expected to increase due to change in the fuel structure.</li></ul>
Cash Flow	<ul style="list-style-type: none"><li>➤ Given that funds for equipment pertaining to construction of power plants remain at a high level till the end of FY2013, free cash flow (FCF) is expected to be negative.</li><li>➤ Although depreciation suppresses the profit levels, a certain level of EBITDA will be secured.</li><li>➤ From FY2014 onward, FCF is expected to head for recovery since a drastic decrease is planned in the capital expenditure amount.</li></ul>

## Efforts for Improving Balance of Income and Expenditure

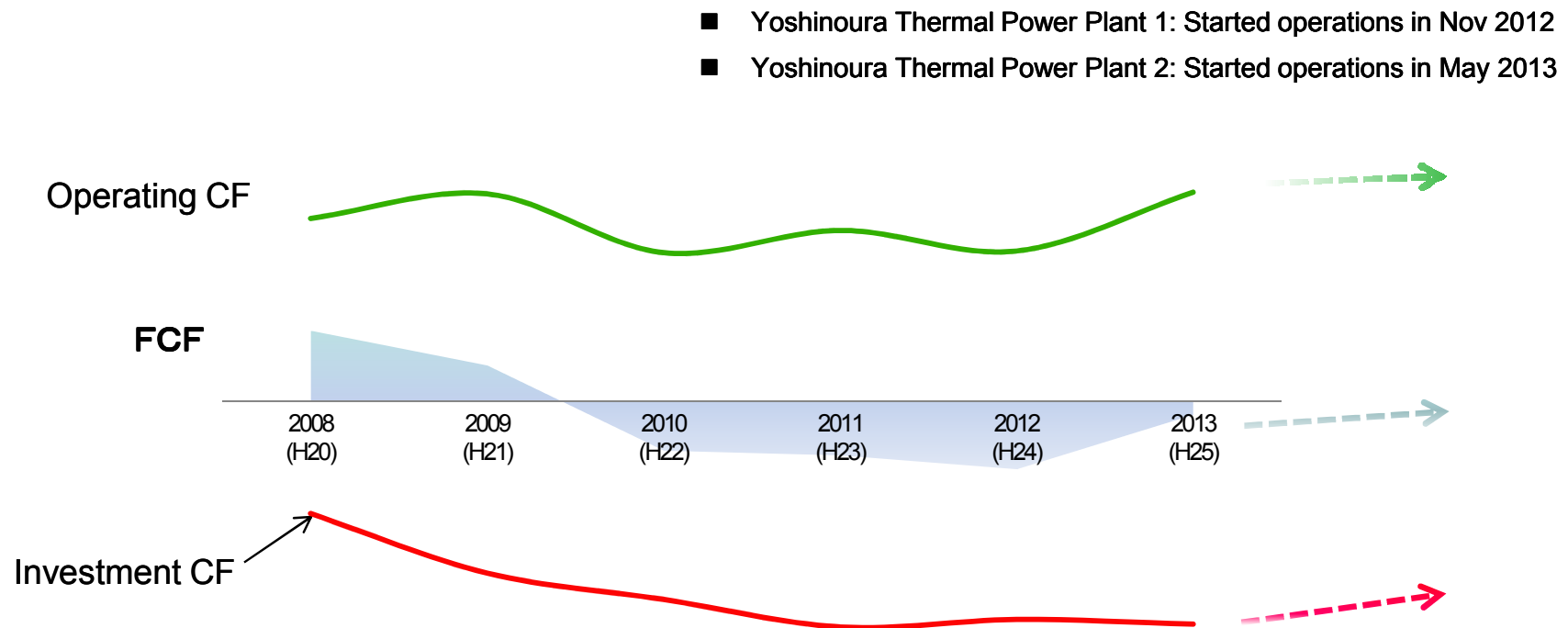
- By establishing a taskforce in April to discuss measures for drastically and continuously improving the balance of income and expenditure including supply and demand related expenses, together with the existing Cost Surveillance Committee and Business Management Response Conference.
- In the 1st half of FY2013, we strived to reduce fuel costs by restraining the operating hours of oil-fired thermal power, based on the efficient operation of power generation facilities.
- By adopting finance lease for the LNG base, depreciation burdens which are imposed in the early stage of operational start will be reduced.
- In all areas with no sanctuaries, intensive cost reduction efforts will be made even further.
- As for efforts for expanding earnings, new and potential supply and demand opportunities will be further cultivated.

## Return to Stakeholders

- Based on the mid-term improvement status in the balance of income and expenditure, well-balanced return to stakeholders will be considered.

# Outlook of Cash Flow

- Based on investment CF increase due to capital investment increase in Yoshinoura Thermal Power Plant construction, FCF from FY2010 remains negative.
- After Yoshinoura Thermal Power Plant starts operations, FCF is expected to head for recovery given that the capital expenditure amount will decrease.



# Mid-term Prospects for Each Item of Expenses (Non-consolidated)

	Mid-term prospects
<b>Sales</b>	Although actual electricity demand growth is slowing down, Sales are expected to move stably along with increase in demand, on the background of population growth.
<b>Personnel costs</b>	A personnel lineup of 1,500's employees will be maintained and the cost will generally continue to be flat.
<b>Fuel costs</b>	Fuel prices are expected to remain on high levels. There continues to be potential risk of rise in the fuel prices. Fuel costs are expected to increase due to change in fuel composition with the start of operation of Yoshinoura Thermal Power Plant.
<b>Repair and Maintenance costs</b>	Although increase factors are expected along with increase in facilities, thorough cost reduction efforts will be made through reducing cost and improving operational effectiveness.
<b>Depreciation costs</b>	A significant increase is temporarily expected with the start of operation of the Yoshinoura Thermal Power Plant. It will be at its peak when the Unit No. 2 starts its operation, but it is expected to be in decreasing trend in and after FY 2014.
<b>Purchased power costs</b>	Expenditure for power purchase will change mainly with the coal price. The purchase of new energy such as wind power and solar power will increase.
<b>Tax and other public charges</b>	Assuming the special measure continues, it is expected to remain almost constant.
<b>Other expenses</b>	Although Other expenses are expected to remain at approximately the same level, thorough cost reduction efforts will be made through reducing cost and improving operational effectiveness.



# Mid-term Prospects of Consolidated Subsidiaries

	Mid-term prospects
<b>Construction Business</b>	<ul style="list-style-type: none"> <li>▶ Performance of Okidenko is expected to remain stable mainly with work related to electricity transmission, distribution and transformation.</li> <li>▶ Performance of Okisetsubi is expected to remain stable through proposal-making activities for plumbing and electrical equipment works and solar power generation facilities.</li> <li>▶ Performance of Okinawa Enetech is expected to remain stable due to strengthening proposal-based business utilizing its energy supply technologies and new energy technologies.</li> </ul>
<b>Other Businesses</b>	<ul style="list-style-type: none"> <li>▶ Performance of Okiden Kigyo is expected to remain stable by striving to receive orders for expansion, improvement and maintenance of power generation plants on remote islands, as well as leasing business and car maintenance business.</li> <li>▶ Performance of Okinawa Plant Kogyo is expected to remain stable even after temporary surge in sales related to Yoshinoura Thermal Power Plant settles down.</li> <li>▶ Performance of Okinawa Denki Kogyo is expected to remain stable due to sales of electricity meters and maintenance work. However, a close watch on the movement of introducing smart meters is needed.</li> <li>▶ Sales of Okiden Global Systems (OGS) is expected to remain almost unchanged.</li> <li>▶ Sales of First Riding Technology (FRT) is expected to be robust centering on its mainstay iDC business.</li> <li>▶ Performance of Okiden Kaihatsu is expected to remain stable with the building lease business continuing to be robust.</li> <li>▶ Performance of Okinawa New Energy Development is expected to be robust due to the electric power selling business of wind power generating facilities.</li> <li>▶ Both sales and profits of Progressive Energy Corporation (PEC) are expected to decline due to expiry of contract for the private electric power generation business.</li> </ul>



# Characteristics of the Business Bases

## Advantages

Demand for Electric Power	<ul style="list-style-type: none"> <li>◆ Increasing demand as population increasing</li> <li>◆ As the proportion of energy for consumer use is high, the effects of business fluctuations are low</li> </ul>
Competition	<ul style="list-style-type: none"> <li>◆ Severance from competition among electric power companies on account of its isolated system</li> <li>◆ No competition with PPS (Power Producers and Suppliers)</li> <li>◆ The advance of private power generation operations is limited (Prevention of demand withdrawals through Progressive Energy Corp , a subsidiary of OEPC.)</li> </ul>

## Disadvantages

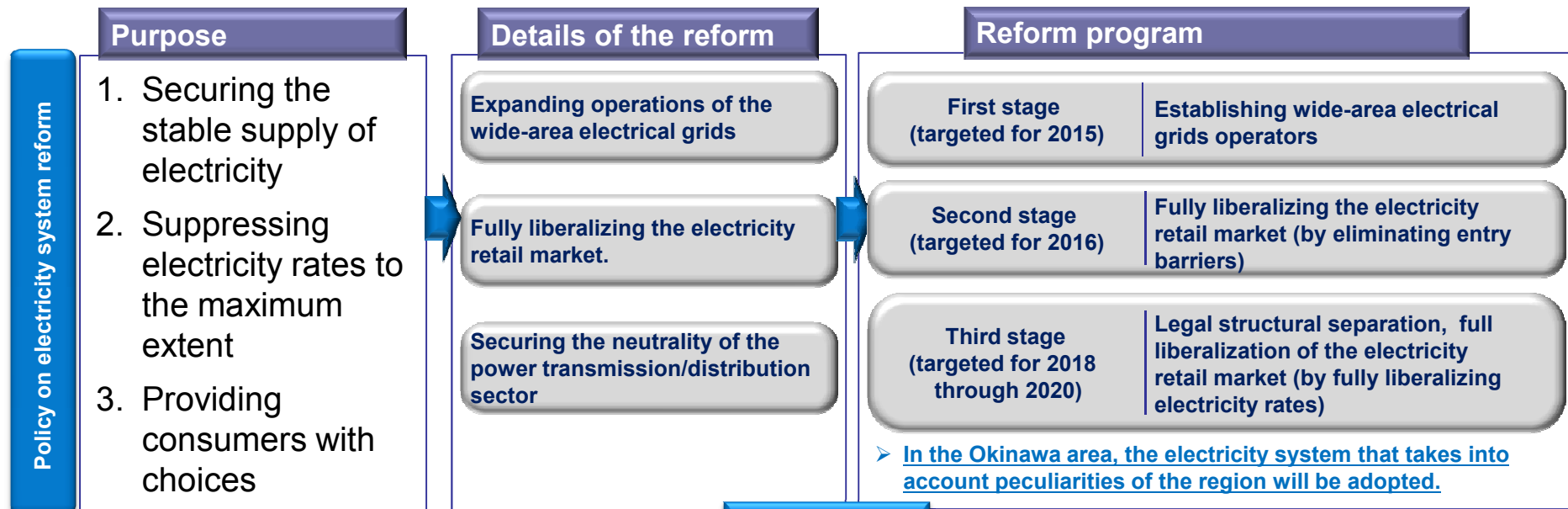
Electric Power Generation Facilities	<ul style="list-style-type: none"> <li>◆ Due to having an isolated system, it is necessary to have a high margin of power generation reserves</li> <li>◆ Electrical power source composition reliant only on fossil fuels</li> </ul>
Fuel	<ul style="list-style-type: none"> <li>◆ As fossil fuels are the only fuels used, high commodity prices exert a great influence</li> </ul>
Remote Islands	<ul style="list-style-type: none"> <li>◆ With remote islands where cost efficiency is low, the Remote Islands Company constantly records losses</li> </ul>
The Environment	<ul style="list-style-type: none"> <li>◆ Dependent on fossil fuels with a high environmental burden</li> </ul>





# OEPC's Concept of Electricity System Reform

- In April 2013, "Policy on Electricity System Reform" was endorsed by the Cabinet which shows the direction for full-scale liberalization of the electricity retail market and separation of power production from power distribution/transmission.
- Based on this Policy, as a first stage of the electricity system reform, the Bill for Establishment of the Organization for Nationwide Coordination of Transmission Operators (Bill for Partial Amendments to the Electricity Business Act), which was repealed in the previous ordinary Diet session, was endorsed by the Cabinet on October 15, 2013 and submitted to an extraordinary Diet session on the same day.
- In this Bill, the reform will be implemented in three stages while in-depth review is conducted in each stage to resolve issues and necessary measures are taken based on the results of such review.



Direction of electricity system reform in OEPC

- Based on the purport of this reform, OEPC will take appropriate action as electric utility toward building an electricity system that will offer real benefits to customers.
- As for separation of the power transmission/distribution, OEPC is aware that it is desirable to establish a system that takes into account the peculiarities of Okinawa such as difficulty of operating electricity system arising from structural disadvantage of small-scale independent electricity system.



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](mailto:ir@okiden.co.jp)

