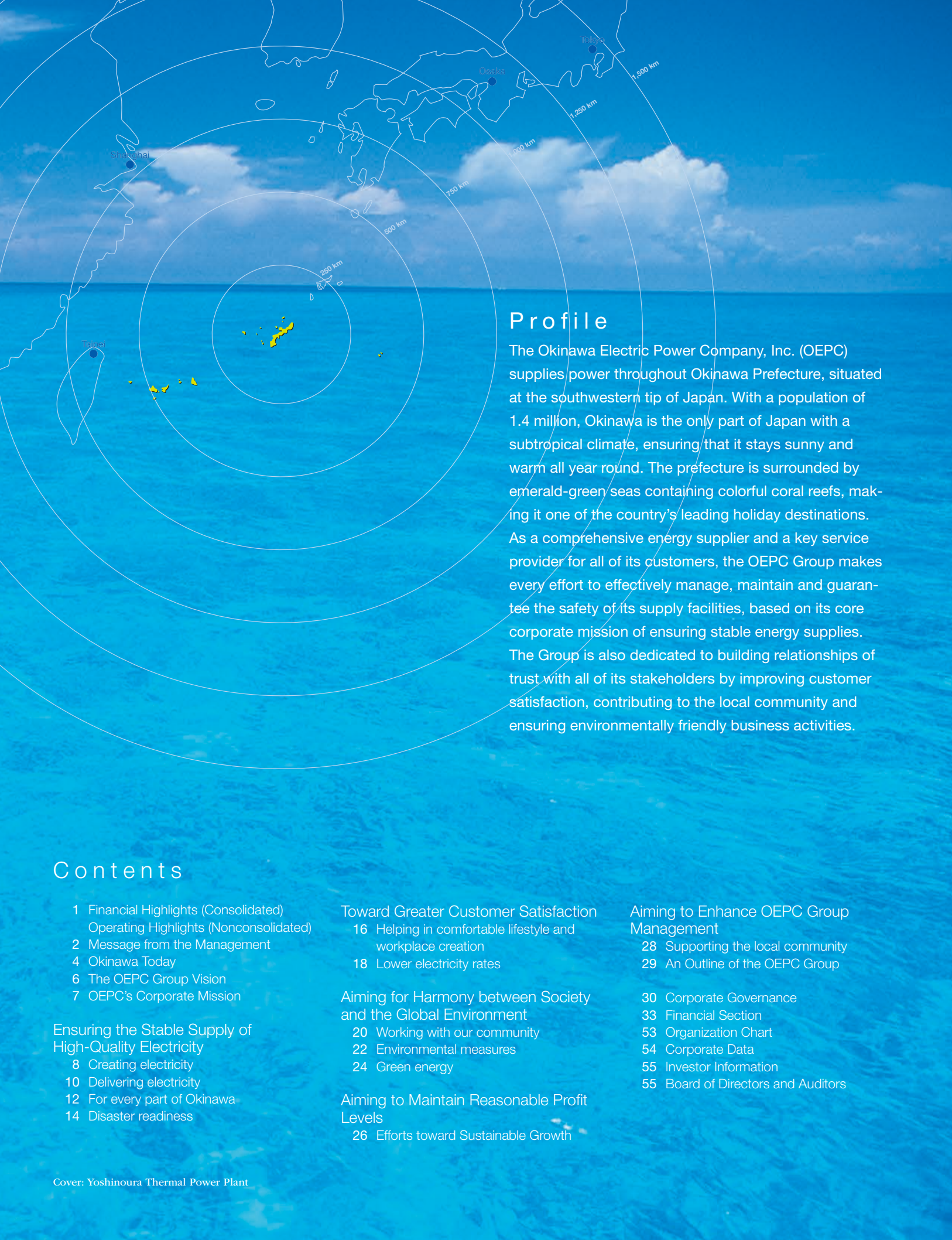


# The Okinawa Electric Power Company, Incorporated (OEPC)

Annual Report 2016





## Profile

The Okinawa Electric Power Company, Inc. (OEPC) supplies power throughout Okinawa Prefecture, situated at the southwestern tip of Japan. With a population of 1.4 million, Okinawa is the only part of Japan with a subtropical climate, ensuring that it stays sunny and warm all year round. The prefecture is surrounded by emerald-green seas containing colorful coral reefs, making it one of the country's leading holiday destinations. As a comprehensive energy supplier and a key service provider for all of its customers, the OEPC Group makes every effort to effectively manage, maintain and guarantee the safety of its supply facilities, based on its core corporate mission of ensuring stable energy supplies. The Group is also dedicated to building relationships of trust with all of its stakeholders by improving customer satisfaction, contributing to the local community and ensuring environmentally friendly business activities.

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# Financial Highlights (Consolidated)

The Okinawa Electric Power Company, Incorporated and its consolidated subsidiaries

Years ended March 31, 2016 and 2015	Millions of yen		Thousands of U.S. dollars*
	2016	2015	2016
<b>For the year:</b>			
Operating revenues .....	<b>¥182,265</b>	¥185,001	<b>\$1,617,549</b>
Operating income .....	<b>7,239</b>	9,479	<b>64,250</b>
Net income attributable to owners of the parent .....	<b>3,647</b>	4,943	<b>32,372</b>
Per share of common stock (yen and U.S. dollars):			
Basic net income** .....	<b>¥92.81</b>	¥125.77	<b>\$0.82</b>
Cash dividends applicable to the year*** .....	<b>60.00</b>	60.00	<b>0.53</b>

## At year-end:

Total assets .....	<b>¥409,860</b>	¥421,824	<b>\$3,637,388</b>
Total equity .....	<b>148,111</b>	147,973	<b>1,314,445</b>

Notes: \* The U.S. dollar amounts represent translations of Japanese yen for convenience only at the approximate exchange rate on March 31, 2016, of ¥112.68 to \$1.

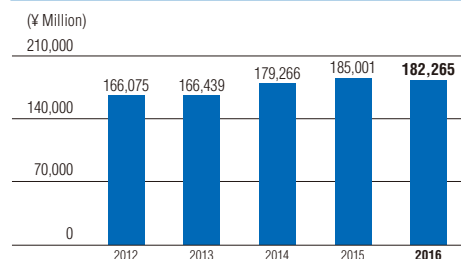
\*\* A 1.5-for-1 stock split was effected on June 1, 2016. It is calculated on the assumption that this stock split was conducted at the beginning of FY 2015 (April 1, 2014).

\*\*\* A 1.5-for-1 stock split was effected on June 1, 2016. However, the cash dividends per share information has not been restated to reflect this stock split.

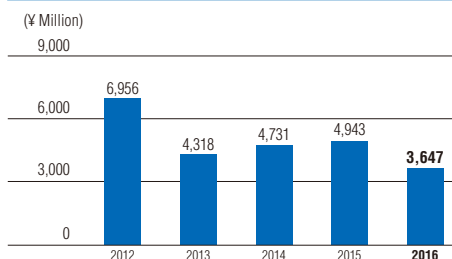
# Operating Highlights (Nonconsolidated)

Years ended March 31, 2016, 2015, and 2014	2016	2015	2014
<b>For the year:</b>			
Electric energy sales (Millions of kWh)			
Lighting .....	<b>2,953</b>	2,917	2,955
Power .....	<b>4,696</b>	4,614	4,601
Peak load (Thousands of kW) .....	<b>1,428</b>	1,396	1,432
<b>At year-end:</b>			
Number of customers:			
Lighting .....	<b>845,661</b>	830,663	814,398
Power .....	<b>60,553</b>	60,523	60,643
Generating capacity (Thousands of kW) .....	<b>2,155</b>	2,136	2,435
Route length of transmission lines (km):			
Overhead .....	<b>816</b>	805	794
Underground .....	<b>343</b>	297	289

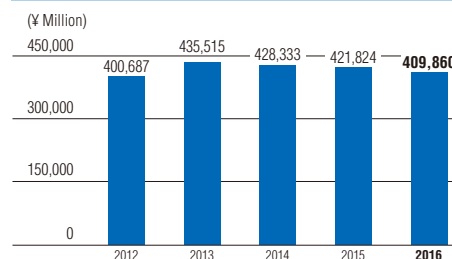
## Consolidated Operating Revenues



## Consolidated Net Income attributable to owners of the parent



## Consolidated Total Assets



The Okinawa Electric Power Company, Inc. (OEPC) Group aims to design and propose new value through services to support both corporate and individual customers through its core business as a comprehensive energy supplier and to become a unified business group that grows and develops hand-in-hand with the community.

In the electric power business that forms the mainstay of the Group's operations, the full liberalization of the electricity retail market was implemented in the Okinawa region, in the same way as on mainland Japan, in April 2016. With regard to the legal separation designed to neutralize the power/distribution sector planned for April 2020, the Group will continue to maintain its integrated power transmission system by being positioned as an approved general power transmission and distribution business operator able to engage in the retail electricity business and power transmission business.

From an income and expenditure perspective, amid forecasts that harsh conditions would continue through fiscal 2016 and beyond—attributable to a slowing trend in electric power demand growth, changed fuel composition and greater levels of depreciation and amortization expenses—improvements in profitability and capital efficiency are recognized as business challenges. In addition to examining and implementing initiatives, such as drastic cost reduction measures and business streamlining measures, without loosening the reins on the streamlining measures adopted so far, we will redouble our efforts in sales promotion to secure electric power demand and build a robust earnings base.

With regard to measures to curb global warming, we will engage with the electric power industry as a whole to achieve CO<sub>2</sub> emission reduction targets based on national energy mix decisions. We will also engage in efforts toward the realization of a low-carbon society by the steady operation of the Yoshinoura Thermal Power Plant, which for fuel burns liquefied natural gas (LNG), the most potent means. Concerning sources of renewable energy, OEPC will clarify medium- to long-term issues on the basis of policies adopted elsewhere in Japan and continue to respond appropriately on the assumption of stable supply.

In addition, OEPC will implement measures to ensure a more timely recovery in the event of a typhoon, put in place facilities that are resilient to natural disasters, including earthquakes and tsunamis, and engage in the building of a resilient system for rapid recovery in the aftermath of a disaster.



Engaging in activities that ensure the elimination of all accidents and disasters is an absolute priority and responsibility of any corporate entity. In this context, OEPC recognizes the paramount importance of maintaining safety throughout every facet of its business activities. Working in unison with partner companies, the OEPC Group will adhere strictly to a policy of safety management and work diligently to foster a safety culture while gradually and conscientiously building on its experience of standard procedures in fulfilling its mission of the stable supply of electricity.

Since the formulation of the OEPC Group Medium- to Long-Term Business Plan in July 2009, the business environment in which the Group operates has been undergoing significant change, including the entry into an era of full-scale competition following the full liberalization of the electricity retail market.

Under these circumstances, focused activities for what we aim to be as a “corporate Group that will continue to be chosen by its customers irrespective of the business environment” are cited in the OEPC Group Medium- to Long-Term Growth Strategies formulated in April 2016. Mentioned together with the focused activities of active development of total energy services (electricity and gas sales expansion) and fundamental reform of the cost structure are financial targets set toward improvements in profitability and capital efficiency.

We will continue to engage in a unified manner to resolve a variety of business issues to enable the OEPC Group to grow and develop sustainably in the years to come.



*D. Ishimine*

Denichiro Ishimine  
Chairman



*Mitsuru Omine*

Mitsuru Omine  
President

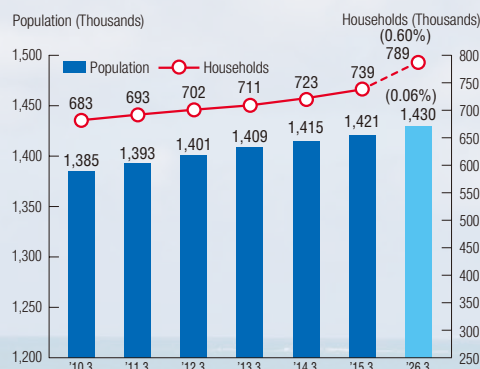


# Okinawa

## Population Growth

Whereas the national population is declining, the population of Okinawa is trending toward an increase and expected to reach its peak sometime between 2020 and 2025. It is estimated that the average annual growth rate over the period from fiscal 2014 to fiscal 2025 will be 0.06% in Okinawa, compared to -0.48% for the country as a whole. As Okinawa's growing population will mean an increase in the number of accounts, residential demand for electric power is also expected to increase.

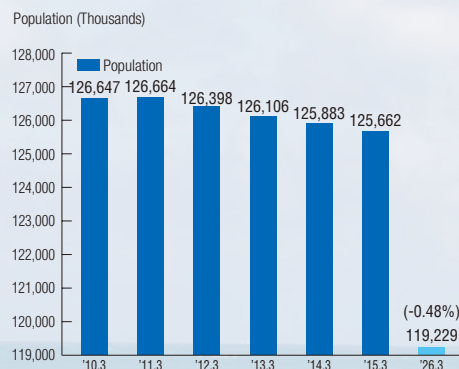
Growth in Population and Number of Households in Okinawa



Source: Population records are from the Ministry of Internal Affairs and Communications, the figures for fiscal 2025 being based on OEPC assumptions  
Number of households is the result and forecast for the accounts of OEPC's residential electric power

Note: Population figures in parentheses show annual average growth between fiscal 2014 and fiscal 2025

Growth in Population in Japan (Excluding Okinawa)



Source: (Population) Ministry of Internal Affairs and Communications, National Institute of Population and Social Security Research

Note: Population figures in parentheses show annual average growth between fiscal 2014 and fiscal 2025

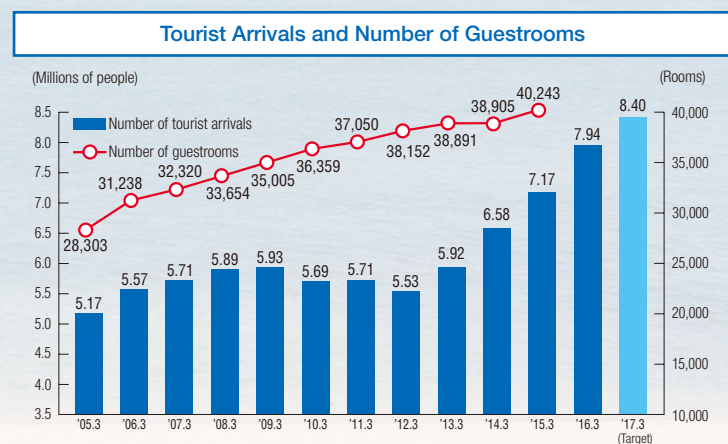


# Today



## Number of Tourist Arrivals

In fiscal 2015, the number of tourists visiting Okinawa increased due to the expansion of both domestic and international air routes as well as the increase in the number of cruise ships from overseas calling into Okinawa. As a result, the number of visitors increased by 10.7% compared with the previous year to 7.94 million, setting a new record for the third consecutive year. In fiscal 2016, Okinawa Prefecture is targeting a total of 8.4 million tourist arrivals.



Sources: "Okinawa Tourism Guidebook," "Outline of Measures to Revitalize the Economy of Okinawa," and the "Visit Okinawa Plan," all published by the Okinawa Prefectural Government



# The OEPC Group Vision

(Drawn up in July 2009)

Each member of the Okinawa Electric Power Company (OEPC) Group is working diligently to realize the Group's overarching vision.

## 1. 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 comprehensive energy supplier and to “become a unified business group that grows and develops hand-in-hand with the community.”

## 2. Basic Management Stance

- Discover customers' needs, and do our best to provide greater satisfaction
- Act as a responsible corporate citizen
- Value our staff and help them grow
- Achieve sustainable growth through efficient business operations and a far-sighted capital investment strategy

## 3. Our business fields

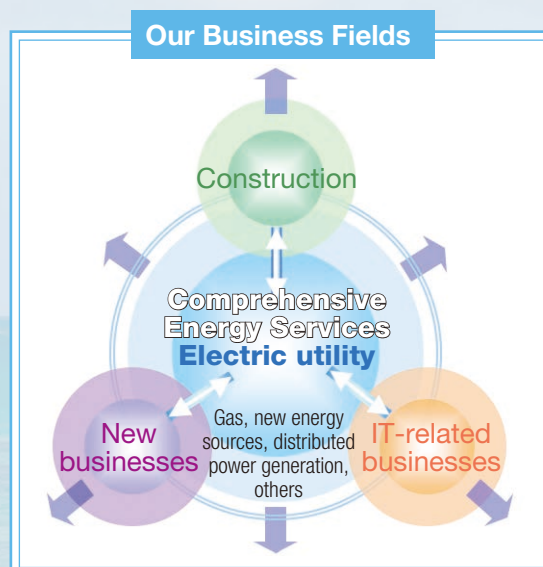
The core of the OEPC Group's business development will continue to be the provision of comprehensive energy services, centered on the supply of electric power. In addition, the Group will seek to leverage its strength as a comprehensive energy services provider and the advantages of its existing businesses — such as IT-related services, construction, and real estate operations — to steadily develop and grow new businesses, with particular focus on expanding earnings from customers outside the Group. We will seek to create an optimal business portfolio for the Group, characterized by collaboration among business units and realization of self-sustainability for each unit.

### Comprehensive energy services provider

The core business field of the OEPC Group consists of the electric utilities business, the gas supply business, renewable energy services, and the distributed power generation business. The combined operation of these businesses makes OEPC a comprehensive provider of energy services. In this core business field, the OEPC Group aims to respond to the calls on it from society with respect to both economic and environmental issues through the provision of optimal energy services.

### New business fields

The OEPC Group aims to efficiently leverage its strengths to develop and grow new businesses.



### Construction and real estate businesses

Providing a high value-added service that precisely matches our customers' needs

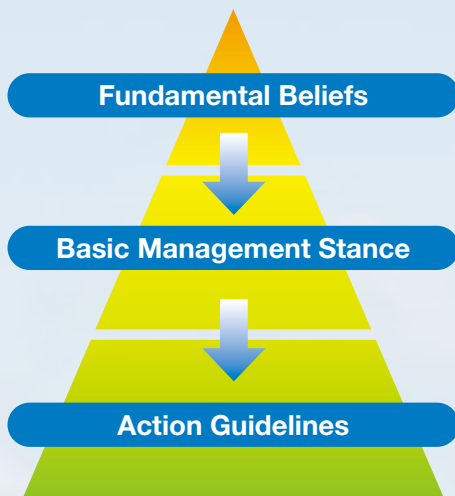
### IT-related businesses

Expanding our earnings base through the provision of solutions in the information technology field

# OEPC's Corporate Mission

(Drawn up in July 2009)

The corporate mission of Okinawa Electric Power Company (OEPC) is spelled out in three documents: our Fundamental Beliefs, in which we state the ways that we seek to provide value to the community as a whole; our Basic Management Stance, in which we define the fundamental goals we must aim for in order to realize our Fundamental Beliefs; and the Action Guidelines, in which we explain the ways to conduct the work that each employee of the Company is expected to follow.



## 1. Fundamental Beliefs

**Become a major driving force behind the growth of the Okinawan economy through the supply of energy (slogan: Energise Okinawa)**

At OEPC, we are motivated by a strong sense of mission and pride in the capabilities of the Company to work to support the livelihoods of our individual customers and the economy of Okinawa Prefecture as a whole. We intend to harness our passion and creativity to help build a dynamic and forward-looking community in Okinawa.

## 2. Basic Management Stance

- Discover customers' needs, and do our best to provide greater satisfaction
- Act as a responsible corporate citizen
- Value our staff and help them grow
- Achieve sustainable growth through efficient business operations and a far-sighted capital investment strategy

## 3. Action Guidelines

- Follow work procedures faithfully and swiftly
- Be proactively inventive, plan ideas carefully, and execute them thoroughly
- Boldly take on difficult challenges
- Support one another to reach our common goals
- Always keep profitability in mind, and work daily to achieve cost reductions
- Insatiably seek and acquire knowledge and skills, and pass them on to others
- Uphold high ethical standards at all times



## Creating electricity

OEPC recognizes that its core mission and the fundamental driving force behind any electric utility is the stable supply of the power necessary to support people's lives and economic activity. On the premise of maintaining the supply of electric power on a stable basis to meet future demand, the Company strikes a balance between energy security, economic viability, and environmental concerns. With these in mind, we are taking steps to upgrade and expand our power generation and distribution facilities in an efficient and integrated manner.



## Power consumption in Okinawa Prefecture

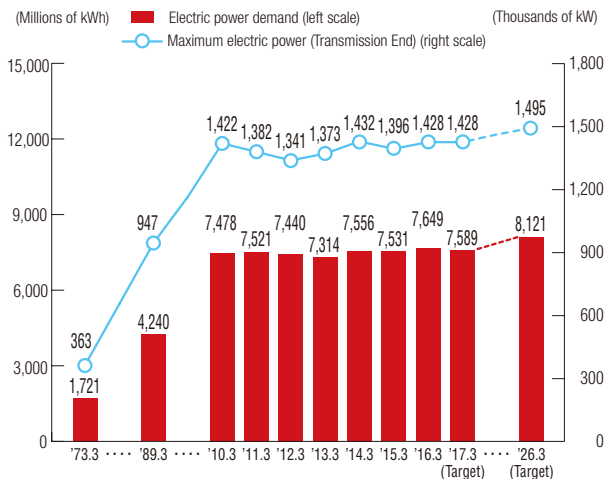
Electric power consumption in Okinawa Prefecture during fiscal 2015 totaled approximately 7.65 billion kWh. Peak load was 1,428,000 kilowatts (transmission end) or approximately four times the figure for 1972, our initial year of operations as OEPC.

In terms of long-term electric power consumption, an increase in the number of customers—fueled by the growth in Okinawa's population—and the steady growth of the prefecture's economy are expected to push up demand by an annual average of 0.7% between fiscal 2014 and fiscal 2025.



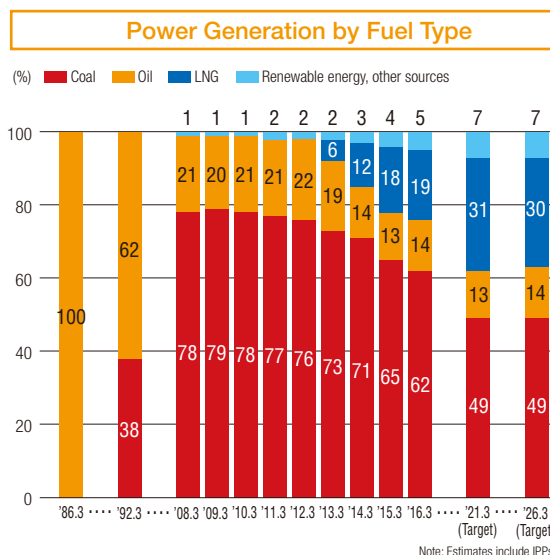
Kin Thermal Power Plant control room

### Maximum Electric Power and Electric Power Demand



## Expansion of power generation capacity

In Okinawa Prefecture, to which OEPC supplies electric power, the development of hydroelectric and nuclear power is beset with difficulties, including the constraints caused by geography, topography and the scale of electric power demand. Consequently, Okinawa has to rely on fossil fuels as its electric power energy source. Previously, OEPC had been sustaining the demand for electricity mainly by using oil- and coal-fired thermal power, but added to these by commencing operations of the LNG-fueled No. 1 and No. 2 generators at the Yoshinoura Thermal Power Plant in 2012 and 2013, respectively. This has diversified the fuels used to three types—oil, coal, and LNG—and brought about an improvement in energy security. Furthermore, OEPC has enhanced its efforts to combat global warming by using LNG, which emits less CO<sub>2</sub> than oil and coal.



Notes: Including portion from other companies  
 Estimated composition ratio taking as upper limits then published sustainable output of solar power generation facilities  
 Some total values do not add up due to rounding

## Yoshinoura Thermal Power Plant

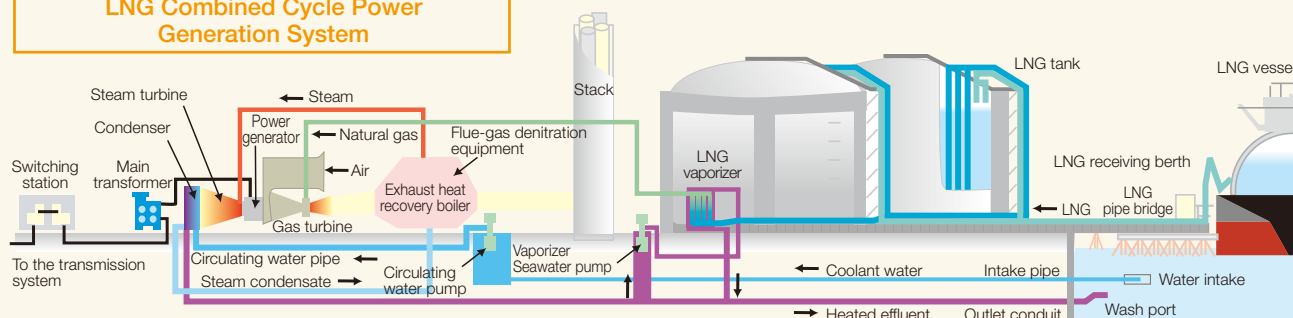
The Company has positioned the Yoshinoura Thermal Power Plant, which first came online in 2012, as an important source of electric power while taking into consideration three key aspects: power supply capacity, energy security, and the environment.

By employing LNG as its principal source of fuel, Yoshinoura Thermal Power Plant does not release sulfur oxide or produce dust and soot. At the same time, emissions of CO<sub>2</sub> are less than for fossil fuel-fired facilities. Moreover, the Plant has adopted an LNG combined cycle power generation system, which is recognized as a highly efficient power generation method. Taking these features into consideration, Yoshinoura Thermal Power Plant can be expected to help inhibit global warming and remain friendly to the environment.



Yoshinoura Thermal Power Plant

### LNG Combined Cycle Power Generation System



The LNG combined cycle power generation system is an integrated combined cycle method that offers high heat efficiency by combining gas turbines that apply the power of liquefied natural gas (LNG) combustion gas with steam turbines that utilize steam generated by the resulting exhaust heat. As a fuel, a defining feature of LNG is that it does not generate sulfur oxide or dust during combustion.

- **Output:** 251,000 kW x 2 units
- **Commercial operations commenced:** Unit 1: November 2012; Unit 2: May 2013

## Delivering electricity

It is not enough simply to generate electric power—it must be delivered to the consumers—and to do this OEPC has built, and constantly maintains, an extensive network of high-voltage power transmission lines, substations, and low-voltage local distribution networks. Taking fully into account demand trends in the prefecture and the overriding need to ensure a reliable supply into the indefinite future, the Company is directing its planning and investment in the construction and installation of generating facilities and its transmission network from an integrated perspective.

## Our comprehensive network

At present, the Company's network of power transmission lines connecting its power plants with its substations across the main and remote islands, including overhead and underground cables, measures a total of 1,159 kilometers (line length). We operate 136 substations, and the length of our distribution line network connecting these substations with customers (again, both overhead and underground), totals 10,819 kilometers (line length). Moving ahead, we are continuing to build and develop transmission and distribution networks that can cope with the region's growing demand and ensure reliable supply.



Transmission and distribution facility



Load dispatching center

## Load dispatching center

At OEPC we draw up demand and supply operational plans based on estimates of customers' power needs, and the amount of power generated is carefully controlled around the clock to ensure an uninterrupted supply of high quality. Because the electric power cannot be stored, we have established a remote control system for power load adjustment at power plants and current adjustments at transformers and over transmission lines, to precisely match power demand.

## Trunk lines for power supply

Electrical power demand on the main island of Okinawa is concentrated in the cities of the central and southern areas, centered on Naha, but large-scale generation facilities are located north of the central area of Okinawa Prefecture, far away from demand centers. For this reason, the Company is expanding and strengthening facilities in line with expanding electrical demand. Even if a natural disaster cuts our power supplies, we aim to ensure resumption by structuring lines so as to enable us to use a secondary route. We supply power in high volumes using underground conduits and tunnels for areas where construction of pylons is difficult.



Naha trunk line tunnel



Distribution line maintenance

## Construction, operation and maintenance of distribution facilities

Okinawa is constantly struck by typhoons. Therefore, it is not uncommon for transmission and distribution facilities to incur significant damage due to strong winds and flying debris. Taking these regional characteristics into consideration, OEPC's transmission and distribution operations draw on past data regarding damage and blackouts to build robust facilities that are resilient to natural disasters. In this manner, the Company strives to ensure stable supply across its broad prefecture-wide transmission and distribution network. Through regular power line patrols and inspections, we ensure that any irregularities in our distribution facilities are discovered at an early stage and are swiftly repaired. In this manner, we work to prevent any recurrence of incidents. Even in cases where incidents lead to power cuts, use of computers installed at each branch and an automated distribution system enables us to minimize the area of outage and quickly restore supply.

## Progress in laying distribution lines underground

Since 1986, urban redevelopment projects, led by the Ministry of Land, Infrastructure, Transport and Tourism, have been carried out in cities all over Japan as part of an overall concept of improving the appearance of social infrastructure.

Okinawa Prefecture has participated in nationwide plans to promote the laying of underground cables since 1991. Approximately 89 kilometers of distribution lines have been laid underground as of fiscal 2015. Work is currently underway or planned to eliminate power poles from the islands over an area of around 70 kilometers.



Kokusai Street with underground power distribution lines

# Ensuring the Stable Supply of High-Quality Electricity

## For every part of Okinawa

Consisting of approximately 160 large and small islands, Okinawa Prefecture forms the southernmost and westernmost point of Japan, extending approximately 400km from north to south and 1,000km from east to west. The Company regards the whole of Okinawa Prefecture as its service area. However small an island may be, or however far away, as long as people are living there, our mission is to deliver electricity to them.

## Power supply facilities for remote islands

A vast distance from mainland Japan, and composed of multiple islands, Okinawa's geographical conditions form a major handicap to the supply of electricity, the foundation of modern society. We are committed to setting up a generation and distribution network that overcomes the difficulties presented by supplies to remote islands.

In addition to the main island of Okinawa, we have established independent internal combustion power-generating facilities in 10 remote islands including Ishigaki and Miyako islands. From these facilities, electricity is supplied to neighboring smaller islands round-the-clock using submarine cables.

During emergencies such as the failure of regular supplies to remote islands, we use transportable generator equipment to ensure a stable supply of electricity.



Ishigaki No. 2 Power Plant (diesel generator)



Power distribution line continuing through to Yubu Island



Submarine power cables



Ishigaki No. 2 Power Plant

## Reducing the costs of supplying remote islands

Since demand is so small in scale and the islands themselves are so far away from the main island of Okinawa, the remote islands present structural issues in terms of supply costs in every category, notably fuel and maintenance expenses. Those costs are more expensive than those on the main island.

To alleviate the imbalance in revenues and expenses with regard to remote island supplies, the Company set up a Remote Islands Company in fiscal 2002, which successfully increased efficiency on various fronts.

In December 2009, as a measure to reduce our CO<sub>2</sub> emissions and bring down fuel costs, we installed Japan's first retractable wind turbines (two 245kW turbines) on Hateruma Island and put them into operation.

We then installed two units on Minami-Daito Island in 2011, a single unit on Aguni Island in 2014, and two units on Tarama Island in 2015 and 2016.

Despite a discouraging environment of soaring fuel prices, we intend to persist with these efforts and bring down costs of supplying remote islands.



The transportation of fuel to Minami-Daito Island



Retractable wind turbines at Hateruma Island

## 総合防災訓練

### Disaster readiness

As a provider of vital services in Okinawa Prefecture, the Company had already taken measures to mitigate the damages to the power facilities. We had rooted out causes of incidents and worked to make our operating environment “disaster-proof,” so we could quickly restore operations when disasters occur. However, the Great East Japan Earthquake has raised our awareness of the importance of ensuring a stable supply of power come what may. We now need to further beef up our readiness.

The Company is updating emergency procedures for its facilities to cope with major natural disasters, and carrying out practical and organizational re-inspections in anticipation of every possible scenario, assuming various types of disaster.

### Readiness for disasters and service restoration

In addition to routine facility inspections, we deploy mobile power generators, have established disaster prevention frameworks on a Company-wide basis, regularly update guidelines and manuals for dealing with the aftermath of disasters, and carry out comprehensive training to ensure a smoother response to disaster situations. In particular, our general disaster training programs are based on hazard maps specific to Okinawa Prefecture, and we conduct drills on a Group-wide basis including partner companies.

In cases where a disaster has occurred or is expected, we have measures for setting up emergency response centers. Simultaneously, all of our branches have established their own emergency units, and customer offices, power plants and operational bases have emergency task forces. Affiliated and partner companies join in restoration work after disasters under the control of emergency units and branches. We take every measure to ensure that power supplies can be restored by ensuring that affiliated and partner companies work together with the Company in an integrated manner.

#### Daily facility patrols, reducing flying debris, tree cutting

In addition to bolstering its facility patrols in a bid to prevent blackouts from arising, the Company is considering measures aimed at improving facility patrol methods as a part of efforts to quickly identify the causes of each blackout.

Working to complement these initiatives, OEPC is coordinating with local government and other authorities to cut and remove trees and strengthen activities aimed at reducing the impact of flying debris.

#### Emergency unit organization and function

##### Emergency response center

Coordination and direction of emergency response activities

##### Emergency units (Departments and branches)

Emergency response activities at each business unit  
Coordination and direction of emergency response activities at sub-units

##### Emergency task forces (Power plants, customer offices)

Emergency response activities at sub-units



Tree cutting

### Major causes of blackouts and countermeasures

Blackouts are largely attributable to the damage caused by flying debris to utility poles and electric power lines. Interruptions to the supply of electric power can also occur when electric power lines come in contact with trees. In order to minimize the inconvenience created by power cuts, OEPC undertakes a variety of measures including the reinforcement of its electric power lines by progressively replacing its existing network with stronger, anti-wear cables, low wind pressure electric wires, and drop cables. Moreover, the Company is working to install auxiliary poles and support power lines as a part of efforts to prevent any cascading collapse and to better strengthen utility poles. Building on these endeavors, OEPC is promoting the installation of handy remote controlled time limiting switches in combination with automated distribution systems with the aim of minimizing the areas affected by power cuts when a typhoon strikes.



Damage due to flying debris



Electric power restoration operations

### Providing information to customers

OEPC provides updates on blackout areas and projected schedules regarding power recovery to the mass media and broadcasting organizations on an hourly basis from the time high-voltage power distribution lines are cut to power recovery. This information also appears on the Company's official website.

### Collaboration with outside disaster relief-related organizations

During the disaster recovery operations following Typhoon No. 21, which struck in September 2015, OEPC transported personnel and relief supplies to the hardest hit Yonaguni Island with the cooperation of the Japan Ground Self-Defense Force and the Japan Coast Guard headquarters in Ishigaki while working to restore power as quickly as possible.



A view of the recovery operations in the aftermath of Typhoon No. 21 in 2015

## Emergency measures in light of the Great East Japan Earthquake

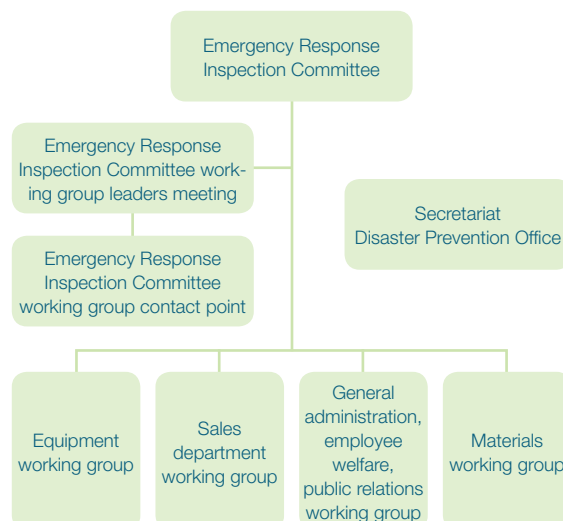
### Establishment of the Emergency Response Inspection Committee

On March 29, 2011, the Company set up the Emergency Response Inspection Committee chaired by the President. A working group was set up as a subordinate organization, comprising representatives of each business department. This group handles specific inspection tasks for disaster prevention purposes and takes whatever actions are necessary.

#### Principal areas needing verification

- General inspection and upgrading of power generation, transmission and substations, distribution and other facilities; measures for the general restoration of operations.
- Measures to ensure mobile power generators can be used in disaster-hit areas
- Information-sharing systems, command and control structures, partnership frameworks for affiliates and public institutions
- Measures needed for major disasters

### Emergency Response Inspection Committee Organizational Chart



## Helping in comfortable lifestyle and workplace creation

By acutely sensing customer feedback, occasionally providing customers with advisory notices, accurately and rapidly responding to diverse customer needs, and working to provide services that satisfy our customers, the Company helps in the creation of abundant and comfortable lifestyles and workplaces for its customers.

### Deployment of finely tuned services

To respond to our customers' need for reduced costs and greater peace of mind and comfort in their daily lives, we offer electric equipment and systems with contract options optimized for customers' particular lifestyles and patterns of electricity usage. Looking ahead, we plan to remain the power supplier of choice in Okinawa through services that satisfy, by establishing what customers really need by visiting customers' factories and offices and through questionnaire surveys. We conduct our businesses from the customer's perspective.



A consulting session

### Promoting growth in popularity of all-electric homes

Equipped with technology such as highly efficient IH (induction heating) cookers, which produce heat magnetically rather than by using an open flame, and EcoCute water heaters, which use heat in the air to heat water, the number of all-electric homes continues to increase every year.

In its efforts to convey how the power of electricity can enrich customers' lives and make them more comfortable, OEPC offers a range of affordable charge plans to suit customers' lifestyles and works to increase the popularity of all-electric homes through various events and marketing campaigns. These include displaying electric equipment and enabling customers to experience induction heaters (IH) at our Kaerupia all-electric showroom in Naha and all-electric demonstration vehicles.

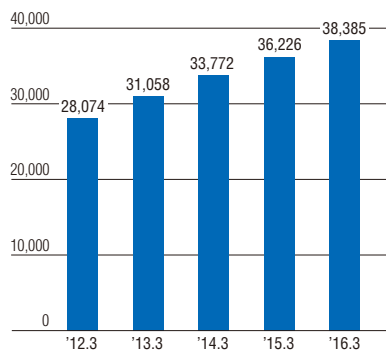


All-electric home demonstration vehicle; hands-on experience in the use of IH cooking heaters



All-electric home demonstration vehicle

### The Growth in Popularity of All-Electric Homes (Cumulative)



## For our corporate customers

### All-electric kitchens — safe and easy to clean

OEPC is working to spread the word about the advantages of all-electric kitchens for restaurants, bakeries, and other commercial facilities. Conforming to the principles used in the Hazard Analysis and Critical Control Points (HACCP) method, these commercial kitchens make possible 3C (cool, controllable and clean) kitchen environments that are also safe, hygienic, and highly productive. What is more, customers who sign the “Commercial Electric Kitchen Power Service Contract” can take advantage of lower electricity rates. To encourage the increased use of commercial all-electric kitchens, we hold regular seminars such as the “Commercial Electric Kitchen Seminar” in collaboration with kitchen manufacturers and each company to make the features of electric kitchens more well-known to potential users.



A welfare facility kitchen that has introduced commercial electrical equipment



Commercial electric kitchen seminar

### Proposals for air-conditioning systems tailored to customer needs

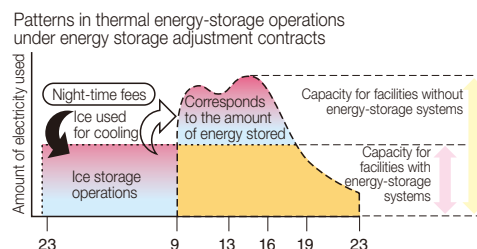
We propose optimal air-conditioning systems tailored to customer needs. These include highly efficient air-conditioning systems that enable extensive compatibility with the scale of customer facilities, regardless of whether they are large or small, and heat storage air-conditioning systems that store cold as ice and chilled water at night for use as a coolant during the day.



Ice-storage air conditioning systems

### Proposals for heat pump hot water systems that are highly effective in conserving energy

To utilize the heat in the atmosphere heat pump hot water systems are highly energy efficient compared with conventional hot water systems and enable a significant reduction in CO<sub>2</sub> emissions. In the case of storing hot water at night, the signing of an energy storage adjustment contract enables the receipt of a discount in accordance with the amount of electricity used.



## Lower electricity rates

Okinawa Electric Power Company labors under a number of structural handicaps that include serving a large number of islands scattered across a wide area, operating outside of the electric power-sharing system operated among Japan's other nine electric power utilities, and an operational scale that makes it difficult for OEPC to enjoy much in the way of economy of scale. Since the establishment of OEPC, however, we have set ourselves the fundamental management target of supplying electricity to our customers at rates comparable with those on the Japanese mainland and have done our best to lower our power supply costs. In the years to come, we will continue offering lower electricity rates by adopting more efficient operational processes.



## Aiming for lower electricity rates

To enable its customers to share in the profits gained through greater operational efficiency, OEPC has reduced its average electricity rates charge 12 times since 1988, including temporary reductions. In the years ahead, the Company will aim to bring down costs further to keep electricity rates at approximately the same level as they are on the Japanese mainland by increasing the efficiency of its operations.

### Efficiency Initiatives



Efficient capital investment



Operating and maintaining facilities efficiently



Ensuring stable fuel procurement and reducing fuel costs



Reducing costs on remote islands



Increasing operational efficiency



Kin Thermal Power Plant

## The deregulation of the electric power utility business

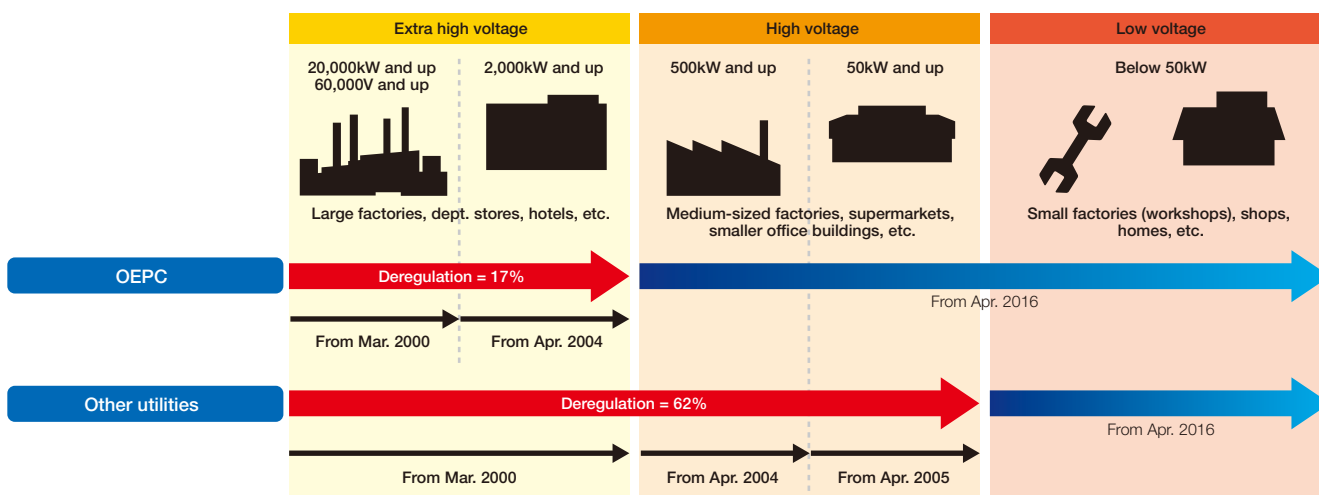
With regard to the deregulation of power supply within OEPC's service area, up to March 2016 those customers who had contracted to receive special high-voltage supplies (a minimum of 2,000 kilowatts) came within the scope of the deregulation. From April 2016, all customers, including general households, were included in the deregulation, and the full retail deregulation of the electricity market commenced. Following the full retail deregulation, we will redouble our efforts so that customers continue to select OEPC as their power supplier.



### The Scope of Electric Power Supply Deregulation

#### Retail market

OEPC has to date adopted a cautious approach compared with other utilities.



\* Percentage figures represent electricity sales within the scope of deregulation as a percentage of total electricity sales (year ended March 2016).



## Working with our community

OEPC has grown to its present status in parallel with the development of Okinawa Prefecture with the invaluable support and cooperation of numerous local community members. Under the corporate slogan “With the community, for the community,” OEPC will continue its efforts to contribute to the development of the local community by utilizing all its management resources, with the aim of being a company that continuously grows in tandem with the people in Okinawa.



## Regional community services development

OEPC pursues a number of initiatives aimed at assisting the local economy, building the foundation for a thriving industry, and promoting technological development in Okinawa. Among these initiatives include making proposals and providing support for industrial promotion by liaising with business organizations inside and outside of Okinawa, conducting collaborative research with industry, government, academia, and the private sector, providing support to strengthen the capabilities of these organizations and dispatching Company staff to them.

OEPC also provides financial support to various organizations such as social welfare organizations, government and non-governmental bodies, local government authorities that promote social welfare, cultural activities, and sports.

In addition, the OKIDEN Group Volunteerism Mutual Aid Organization, which is composed of employees of OEPC and its affiliate companies, conducts community cleanups, makes donations, and collects used stamps and cards for charity.



OEPC donated funds for construction of Family House, for accommodation of parents and other relatives visiting patients at Nanbu Prefectural Medical Center, a children's care facility.



General view of a community cleanup activity



Informal meeting



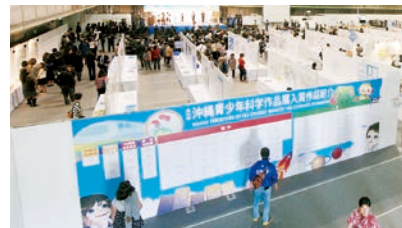
Inspection of household electric equipment and devices conducted free-of-charge.

## “Get-to-Know OEPC” events

Every November since 1978, OEPC has held Company-wide “Get-to-Know OEPC” events to express its appreciation to the local community and customers for their support through spirited interaction with them. Held at all OEPC branch offices and power plants, these events include volunteer activities, sports competitions, and open dialogue with community members to enable communication with OEPC customers.

## Exhibition of Science Work by Students

With the aims of stimulating interest in and fascination for science among students as well as promoting science tuition and nurturing human resources in Okinawa Prefecture, the Company has been held the Exhibition of Science Work by Students since 1979. The event held in fiscal 2014 marked the 37th exhibition. Besides awards for and displays of all the entries at the venue, including those for the Okinawa Governor's Prize, the Company holds poster sessions by the winners and provides booths and areas where visitors can gain hands-on experience of science. The exhibition has become an event that enables visitors to have fun while coming into close contact with science. Every year, the exhibition is highly acclaimed by the many OEPC customers who visit.



General view of the venue for the exhibition of science work by Okinawa students



Award ceremony at the Okiden Sugarhall Audition for Debut Concert



An entry in the "Okiden 'Landscape with Light' Digital Photo Contest"

A "Make it Together with Mom and Dad" handicraft class



## Arts and cultural events

OEPC has been contributing to the promotion of the arts and cultural activities in Okinawa. The Company supports a variety of arts and cultural events held in the prefecture, such as those related to Ryukyu dance and traditional "Eisa" dance. In addition, the Company organizes the "Okiden Sugarhall Audition for Debut Concert" and the "Okiden 'Landscape with Light' Digital Photo Contest."

## Sports

OEPC sponsors numerous events including the Okiden Pennant Baseball Tournament, the Okiden Pennant Naginata Tournament, and the OEPC Autumn Open Team Table Tennis Competition. The Company also supports and sends voluntary workers to a variety of sporting events for people of all generations, such as the NAHA Marathon.



Okiden Pennant Elementary School Baseball Tournament



Okiden Pennant Naginata Tournament

Baseball workshop for children conducted by the Okiden baseball team



An OEPC staff member gives a talk on environmental and energy topics to elementary school children

## Support activities for environmental education

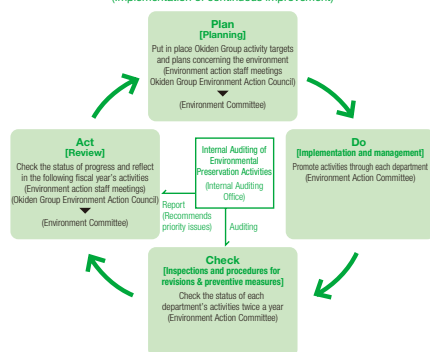
To provide more information about energy in Okinawa Prefecture to local residents and to improve awareness of our environmental initiatives, we dispatch experts to give lectures on environmental and energy-related topics at the behest of local educational institutions and government authorities. In addition, to raise awareness of the importance of energy and the way power is generated, we arrange power plant study visits and have prepared a range of attractions at the Electrical Science Museum at Gushikawa Thermal Power Plant.



## Environmental measures

The Company carries out a range of activities to enable us to leave the heritage of a beautiful, unspoiled natural environment to future generations. We work to create an effective system of environmental management, and always place the highest priority on minimizing the environmental burden of our business operations. To help realize the sustainable development of our society, every one of our employees is working proactively to contribute to our environmental aims in the full understanding of their overriding importance.

### The PDCA Cycle in Our Environmental Preservation Activities (Implementation of continuous improvement)



## Improving our environmental management

The Company has established the OEPC Group Environmental Policy under our Environment Committee, chaired by the President, and is engaged in environmental activities across the entire Group. Continuous improvement activities are being carried out, utilizing the PDCA ("Plan-Do-Check-Act") problem-solving process.

Meanwhile, the Power Generation Department of the Electric Power Engineering Division is integrating quality management systems with environmental management systems.



Joint meeting encompassing environment action staff meetings and the Okiden Group Environment Action Council

## Promoting preservation of the regional environment

To ensure that the islands of Okinawa retain their beautiful natural environment for the enjoyment of generations yet unborn, we make a special effort to protect the countryside and shore lands in the vicinity of our power plants, giving consideration to biodiversity.

When constructing power plants, we will conduct environmental assessments in accordance with laws and ordinances and, while continuing to take into consideration the views of local residents as well as the local government as a part of the process, will create a new power plant that will harmonize smoothly with the natural surroundings cherished by the community for many years to come.

We undertake a range of environment protection measures, targeting atmospheric pollution, water pollution, warm wastewater pollution, and noise and vibration issues, to ensure that our activities do not impact the surrounding environment. We also make reports to relevant local authorities based on environment protection agreements, after carrying out source measurements such as smoke, noise, and vibration control measurements and environmental monitoring studies of the air quality, marine phenomenon, and marine organisms around our power plants.

In addition, we are taking the following measures to improve the local environment: rigorous management of chemical substances, such as PCBs and dioxins; greening power plant sites to achieve more harmony with the natural environment and areas of scenic beauty in the area; and trailing the "greening of the sea" by planting coral and seaweed around our power generation facilities.



Green power plant (Ishigaki No. 2 Power Plant)

## Promoting initiatives aimed at protecting the global environment

Said to be the principal cause of global warming, CO<sub>2</sub> emissions are a major issue which electric power utilities have to address. For OEPC, measures against global warming are an extremely pressing issue, because factors such as geographical and topographical restrictions and limits on the scale of electric power demand in Okinawa Prefecture make it difficult to develop hydroelectric and nuclear power, leaving the Company no choice but to rely on fossil fuels such as oil and coal as its primary source of energy.

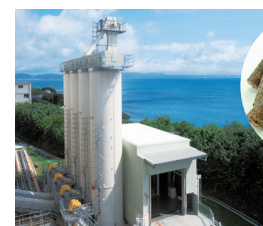
Under such conditions, the Company participates in the Electric Power Council for a Low Carbon Society that was established in February 2016 and implements Company measures against global warming toward achieving the Council's targets.

As our most effective measure against global warming, we operate Yoshinoura Thermal Power Plant, which burns LNG, a fuel with lower CO<sub>2</sub> emissions than coal or oil, in a stable manner. As supplementary measures, we are launching Group-wide wind power generation initiatives, including the introduction of retractable wind turbines in remote islands, conducting verification tests for the stable operation of solar and wind power generation, mixing some of the coal in coal-fired power plants with biomass, operating a small hydroelectric power generator in Miyako Island, and promoting more efficient energy use. We are also making contributions to the World Bank's Community Development Carbon Fund, which takes advantage of the clean development mechanisms provided under the Kyoto Protocol to assist in the reduction of greenhouse gas emissions on a global scale.

In addition, we are promoting efforts to conserve energy and reduce CO<sub>2</sub> through by, for example, raising employee awareness and the services we provide our customers.



Wearing of Kariyushi shirts by our employees  
(April to December)



Wood-based biomass distribution facility



Yoshinoura Thermal Power Plant



Recycling of confidential documents



Damaged ceramic insulators are recycled into material for tiles.

## Creation of a sustainable resource-oriented society

OEPC is committed to building a sustainable resource-oriented system, promoting the use of a three-pronged system for handling the waste products generated by its operations. The system incorporates the concepts of "reduce, reuse, and recycle" as a way of optimally utilizing the Earth's limited natural resources.

The coal ash and gypsum created by the combustion process at our coal-fired power plants have been recycled as an alternative to cement, earth, and sand, and we are thus promoting the efficient reuse of these materials. Also, in our offices, we are trying to reduce the amount of rubbish we generate by encouraging staff to use less paper and to bring in their own personal cup and handkerchief to cut down on paper cup and tissue use. We are also working to recycle waste and scrap paper by separately collecting, recycling and reusing them.

## Environmental communication

To deepen understanding of our various environmental activities, OEPC has made public a report on its environmental activities annually since 1996, and used exhibition panels to publicize its environmental commitment.

Other environmental activities to raise environmental awareness include beach and side walk cleaning, tree-planting, and coral farming.

In addition, at the behest of local educational institutions, we deliver lectures at elementary schools or arrange hands-on study tours of our power generation facilities and Electrical Science Museum, to support energy- and environment-related education.



Environmental Activities Panel Exhibition

Clean-up activities (area surrounding main branch)

## Green energy

OEPC is working effectively to use green energy including environment-friendly LNG as fuel at the Yoshinoura Thermal Power Plant, woody biomass combustion fuel at its coal-fired thermal power plant, as well as wind power generation in cooperation with a subsidiary company.

In order to contribute to the creation of a vibrant Okinawa future, OEPC conducts research on sustainable growth while pursuing research and development aimed at the creation of new value. OEPC is working to expand the use of renewable energy through a number of measures such as the performance of demonstration research for the stable operation of solar power generation.

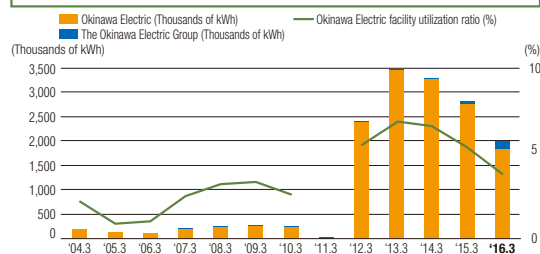


## Utilizing renewable energy sources

Social expectations and needs are growing for renewable energy sources, such as wind and solar power that do not emit the CO<sub>2</sub> that is a contributory factor in global warming, as forms of clean energy that will assist in the response to environmental issues. On the other hand, such energy sources have problems including low energy density, they are significantly affected by changes in weather conditions, their energy output is unstable, and power generation cost is high.

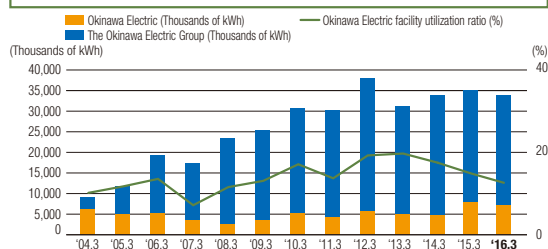
The OEPC Group is committed to introducing renewable forms of energy such as solar and wind power. As of March 31, 2016, the Company had a total capacity of 27,105kW (including small hydroelectric generators) of wind, solar, and other types of renewable energy throughout the prefecture including remote islands.

Volume of Electricity from Solar Power Generation (Transmission End)  
(Company and Group Company Performance)



Note: The amount of electricity consumption by incidental testing equipment at research facilities exceeded the volume of electricity from solar power generation in 2010. As a result, graph details for the Company have not been provided.

Volume of Electricity from Wind Power Generation (Transmission End)  
(Company and Group Company Performance)



Solar power generation system on Tarama Island



Retractable wind turbine (Minami-Daito Island)

### Remote island micro-grid verification tests

Utilizing a verification process carried out under the “fiscal 2009 verification of stand-alone new energy systems on remote islands,” supported by the Agency for Natural Resources and Energy of Japan’s Ministry of Economy, Trade and Industry, steps are being taken to gauge the impact of a large-scale adoption of solar power generation systems on the four existing isolated power systems of Miyako, Yonaguni, Kita-Daito, and Tarama islands. As each system differs from island to island, energies are also being channeled toward the demonstration research of isolated power system stabilization while analyzing the operating data of solar power generation and storage systems.

Recognizing that the stabilization of isolated systems is vital to expanding the use of renewable energy, every effort is being made to uncover technologies and countermeasures. This includes the charge and discharge of storage systems to overcome fluctuations in frequency, a major cause of power variations in solar power systems.



Miyako Island Mega Solar Power Experimental Research Facility



Abu Mega Solar Power Experimental Research Facility

### Abu Mega Solar Power Demonstration Research Facility

Taking full advantage of Okinawa Prefecture’s Smart Energy Island Foundation Project, OEPC built this 1,000kW solar power generation facility in Abu, Nago City. The Company is conducting experimental studies into the output characteristics of the solar photovoltaic system and output stabilization technologies with the aim of assessing the impact that the introduction of large-scale solar power systems to the main island of Okinawa would have on the electric power grid.

### Ogimi Wind Power Generation Demonstration Research Facility

In another bid to make full use of Okinawa Prefecture’s Smart Energy Island Foundation Project, a demonstration research facility that combines a twin turbine (2,000kW each) wind power generation facility and 4,500kWh capacity storage battery facility was established in Ogimi Village. The Company is verifying output stabilization technologies, which include the mitigation of output fluctuations by the charging and discharging of storage batteries. The aim is to ascertain the impact that the introduction of large-scale wind power generation systems to the main island of Okinawa would have on the electric power grid.



Ogimi Wind Power Generation Demonstration Research Facility



Biomass co-firing system

### Mixed burning of woody biomass at coal-fired thermal power plant

Since September 2005, OEPC has conducted research on the use of woody biomass made out of construction and demolition waste, which, in Okinawa Prefecture, was mostly incinerated without being used effectively.

Having confirmed that the biomass was perfectly usable based on the result of field tests conducted from June 2007 to October 2008 at the coal-fired Gushikawa Thermal Power Plant, we built a biomass distribution facility at the plant, and on March 2010, we started burning the biomass pellet mixed with coal by three percent in weight.

The successful utilization of the “carbon neutral” biomass fuel has enabled us to reduce CO<sub>2</sub> emissions, curb our coal consumption, and make effective use of an untapped energy source.

# Aiming to Maintain Reasonable Profit Levels

## Efforts toward Sustainable Growth

Fulfilling its specified mission of supplying electricity in a stable manner requires that the Company works for robust and sustainable growth by maintaining a reasonable levels of profit. In addition to enhancing its financial standing by examining and putting into effect thorough cost reductions and business efficiencies, the Company will promote efforts in comprehensive energy services that meet customers' needs toward the building of a robust earnings foundation and the capturing of further demand.

## Improving operational efficiency

### Efficient capital investment

On the premise of ensuring a stable supply of electricity, the Company additionally undertakes capital investment to ensure strong facility formation for natural disasters while working to achieve economic efficiency and environmental measures at the same time.

With regard to the fiscal year under review, the Company continued to execute a raft of efficiency measures that had been previously been implemented. Amid expectations of capital investment such as that geared toward earlier recovery following a typhoon, the Company is also working to firmly establish cost reduction measures at each design, contract, and construction stage while further reducing its capital expenditures.

### More efficient plant operation and maintenance

Promoting thorough cost reductions on the premise of maintaining the stable supply of electricity, the Company works on the efficient operation of its facilities and on making its maintenance operations more efficient. In fiscal 2015, we will work to hold down repair and maintenance costs by reviewing expenses from a long-term perspective and implementing measures aimed at minimizing total costs.

### Stable procurement and lower costs for fuels

In fiscal 2015, the Company worked to lower costs for fuels by, for example, lowering the procurement costs of fuel oil through spot purchases and by lowering the procurement costs of coal by the utilization of sub-bituminous coal, the total cost of which is inexpensive when compared with bituminous coal and includes the costs of environmental measures. Furthermore, the Company is working to lower the costs for fuels by shifting from coal- and oil-fired automatic frequency control (AFC) operations to liquefied natural gas (LNG) thermal power.

Also in fiscal 2015, we will continue to implement measures aimed at procuring stable supplies of oil, coal, and LNG and to reduce fuel costs.



Unloading coal for the Kin Thermal Power Plant

### Reducing the cost of powering remote islands

Due to such wide-ranging factors as remote location and narrowing scale, electric power operations across remote islands remain in a constant state of revenue and expenditure imbalance. Under these circumstances, OEPC has been working to raise efficiency in remote island power supplies by rapidly implementing a range of cost-cutting measures, including the reduction of construction costs through the diversion of materials and equipment, waste oil fuel conversion using a waste oil regeneration system, and the reduction of fuel consumption by expanding the introduction of new energy facilities.

While pressing on with these endeavors, the Company will consider a raft of new initiatives while working to further reduce costs.

### Streamlining business operations

In fiscal 2015, besides planning the Company-wide collective management of business-use communications equipment and contract reviews, OEPC worked to reduce all costs to the fullest extent when procuring equipment by, for example, actively taking advantage of reverse auctions and joint procurement.

In fiscal 2016, in addition to these cost reductions and streamlining measures, we will steadily implement medium- to long-term streamlining measures covering overall costs in conjunction with, without exceptions, reviews and implementations of further cost reduction and streamlining measures.

## Toward the enhancement of OEPC's earnings foundation

### Deploy comprehensive energy services that meet customers' needs

At a time when regional environmental conservation and management efficiency are being demanded, particularly in the fields of industrial and commercial energy use, efforts to save energy and reduce CO<sub>2</sub> and the lowering of energy costs have become important issues for management. Furthermore customer needs with regard to energy utilization are becoming more sophisticated and diverse.

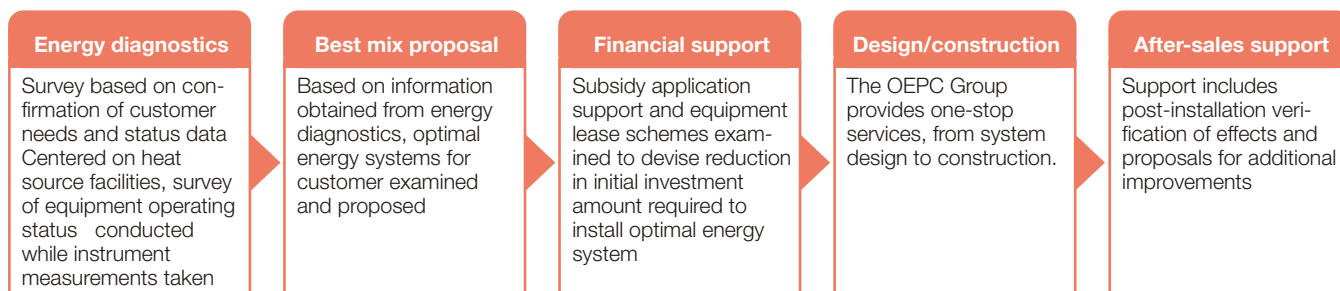
From the standpoint of electricity and gas sales promotions, the OEPC Group will leverage the expertise and management resources accumulated in its electricity business and promote comprehensive energy service efforts to meet customers' needs.

### Comprehensive energy services of the OEPC Group

On the basis of needs that are becoming more sophisticated and diverse, the OEPC Group will provide its customers with total energy support, best mix proposals, and one-stop services.



### • Flow of services



### • Gas supply business commenced in May 2015

Enables the proposal of energy systems that include gas with conventional electricity, expands the extent of comprehensive energy service provision

- |   |   |
|---|---|
| 1. <b>LNG supply business by truck</b>  | Supplies LNG from Yoshinoura Thermal Power Plant by tanker truck to customers located in remote locations |
| 2. <b>Wholesale gas supply business</b> | Wholesale supply of LNG and gas to other energy business operators  |
| 3. <b>Piped gas supply business</b>     | Supplies gas by pipeline to, for example, factories in the vicinity of the Yoshinoura Thermal Power Plant |



LNG shipment by tanker truck

## Supporting the local community

While continuing to deploy its comprehensive energy services that supply electricity and gas, the OEPC Group has been engaged in a wide range of business activities by making use of its resources, including facilities, technologies and human resources, with the Okinawa Electric Power Company at the core.

The OEPC Group intends to continue utilizing its collective strengths for economic and community development of Okinawa so as to retain the support and trust of the community.

## Group companies serve as invaluable partners in our provision of a reliable energy service

Underpinning the provision of energy, Group companies undertake the construction and maintenance of power plants, transmission and distribution facilities as well as of gas supply-related facilities, while carrying out regular inspection work. Group companies also conduct sales of electrical equipment, such as transformers, power switch boards, electric cables, and meters. Drawing on the expertise and technological capabilities gained up to now, we are expanding our role in private and public works projects, in order to help local industries and communities.



Turbine check at Kin Thermal Power Plant  
(Okinawa Plant Kogyo Co., Inc.)



Naha Municipal Tsunami Evacuation Building  
(Okidenko Company, Incorporated)



Gas supply facility  
(Progressive Energy Corporation)

# An Outline of the OEPC Group

## OEPC Group Companies (As of March 31, 2016)

Company Name	Established/Capital	Business Areas
<b>Construction</b>		
Okidenko Company, Incorporated	June 12, 1968 ¥130 million	Civil engineering, construction, electrical work, piping, electric telecommunications work, electric power system construction work, inspection and maintenance
Okinawa Enetech Company, Incorporated	May 10, 1994 ¥40 million	Sales of new energy electric power; Feasibility studies and design of electric power facilities, and supervision of construction; environmental surveys, odor measurement, soil quality examination and land surveys
Okisetsubi Company, Limited	September 18, 1995 ¥20 million	Installation of air conditioning, sanitation, electric water-heating equipment, EcoCute and induction heaters (IH); sales and installation of LED light fixtures
<b>Electric power supply and peripheral businesses</b>		
Okiden Kigyo Company, Incorporated	October 15, 1975 ¥43 million	Construction of internal combustion power generation equipment, repair and consignment operations Sales and maintenance of electrical equipment; full-service advertising agency, lease of vehicles and property; maintenance of vehicles; agency business for non-life insurance companies
Okinawa Plant Kogyo Company, Incorporated	June 2, 1981 ¥32 million	Operation of electrical machinery and facilities, etc. on commission; installation of electrical machinery and equipment
Okinawa Denki Kogyo Company, Incorporated	December 23, 1971 ¥23 million	Repair of electrical measuring equipment and inspection agency work; sale of components for electrical facilities
<b>Information and telecommunication business</b>		
The Okiden Global Systems Company, Incorporated	April 12, 1991 ¥20 million	Computer systems design, construction, operation, and sales; sales, leasing, etc. of computers and peripheral equipment
First Riding Technology, Inc.	July 11, 2001 ¥450 million	Internet data center business Internet solutions; call center business
<b>Real estate business</b>		
Okiden Kaihatsu Company, Incorporated	April 26, 1989 ¥50 million	Management, buying and selling, and leasing of real estate, aquaculture business
<b>Renewable development business</b>		
Okinawa New Energy Development Company, Incorporated	October 14, 1996 ¥49 million	Sales of electricity from renewable energy sources Planning, survey and design of renewable energy systems Construction and maintenance of renewable energy facilities
<b>Other businesses</b>		
Progressive Energy Corporation (PEC)	August 23, 2001 ¥100 million	Sales of natural gas and LNG Construction and maintenance of retractable wind turbine facilities Installation, operation, and maintenance of private power generation systems, and support services for energy saving
Quetech Co., Ltd.	March 30, 2001 ¥3 million	Management consultant services, ISO certification support training

## Basic Approach

Conducting its business in conformity with relevant laws and in an ethical manner, the Company will deepen its relationships of trust with shareholders, investors and customers through prompt and appropriate disclosure to ensure that it remains the business group of choice for its community.

To this end, we are vigorously strengthening corporate governance throughout the Group.

## 1. Corporate Governance Structure

### Outline of the corporate governance structure

The Board of Directors, which generally meets twice a month, decides on important matters as part of day-to-day operations, receives operational reports from individual directors and oversees the performance of their duties.

The Board of Executive Directors, which is made up of all of the Company's full-time directors and generally meets two or three times every month, discusses essential issues relating to the management of operations under the President's supervision and takes steps to ensure that operations run smoothly. It also discusses important business matters, including items to be submitted to the Board of Directors. Full-time Auditors are entitled to attend meetings of the Board of Executive Directors and express their opinions.

Auditors are responsible for auditing the performance of duties by individual directors, which they do by attending board meetings and other important meetings. The Board of Corporate Auditors, which generally meets once every two months, receives reports and discusses and decides on important audit-related matters.

With regard to internal auditing, an Internal Auditing Office has been set up as an entity under the direct control of the President to assess whether the internal control systems stipulated on the basis of Japan's Companies Act and the Financial Instruments and Exchange Act are functioning effectively.

### Thinking behind the corporate governance structure

Appointing three independent outside directors ensures that the workings of the Board of Directors are fair and transparent and improves supervisory capabilities, in terms of overseeing the performance of duties by individual directors. Operating a team of five auditors that includes three independent external auditors similarly improves management supervisory capabilities. The current structure was introduced on the basis that it ensures effective corporate governance, in combination with the supervisory capabilities of the outside directors and the Group's internal auditing structure.

### Establishing internal control systems

Internal control systems are established in accordance with the Group's Basic Policy for a System to Ensure Appropriate Business Processes.

### Risk management

Having compiled a variety of manuals for each of its offices and departments dealing with hypothetical risk, the Company is taking measures to forestall risk and deal quickly with it when it occurs. The Company has fully prepared itself for the occurrence of risk events by compiling procedures for rapid implementation of the guidance contained in two handbooks, one covering crisis management measures and the other emergency and disaster measures. It has in place a framework for responding rapidly to major disasters and accidents.

### Compliance

We aim to raise and uphold compliance awareness by establishing in-house regulations for legal and regulatory compliance and corporate ethics (Basic Code of Corporate Conduct, and Ethical Code for Employees), and by holding regular lectures on legal observance and corporate ethics.

We have established a Corporate Ethics Committee chaired by the President and ensure rigorous standards of corporate conduct based on observation of the law and corporate ethics standards. In addition to deliberating and deciding on frameworks and internal regulations relating to legal observance and corporate ethics, the committee works to prevent wrongful behavior and, failing that, ensure early remedial measures are taken, after discussion of specific instances as reported to the corporate ethics consultation counter.

## 2. Internal Audits and Auditor's Audits

With regard to internal auditing, OEPC set up the 16-member Internal Auditing Office under the direct control of the President to assess whether the internal control systems stipulated on the basis of the Companies Act and the Financial Instruments and Exchange Act are functioning effectively. The Internal Auditing Office confirms the maintenance and operational status of the internal control systems at every organization, verifies that appropriate and effective business operations are being conducted to achieve management targets, and endeavors to conduct audits that add value to management. In addition to reporting to the Board of Directors, the Internal Auditing Office submits reports to auditors and exchanges opinions regarding audit plans and results, while also coordinating information with accounting auditors.

With regard to auditors' audits, the Board of Corporate Auditors, which consists of five auditors, including three external auditors, and generally meets once every two months, receives reports, discusses and decides on important audit-related matters while working in conjunction with accounting auditors and internal auditing departments. On the basis of audit policy and audit plans, auditors conduct audits of the business execution of directors, such as by attending important meetings, including Board of Directors' meetings, by regularly exchanging opinions with representative directors, performing on-site audits of each department, and through communications with the directors and auditors of subsidiaries. To serve as an organization to assist auditors in their professional duties, OEPC established an Auditors' Office, the seven full-time staff members of which are responsible for assisting the tasks of the auditors and in charge of the secretariat for meetings of the Board of Corporate Auditors.

The three external auditors have considerable expertise in their respective fields. One has extensive experience as a general manager of corporate finance and accounting, one as the Dean of the Faculty of Economics of a university and one as a qualified lawyer. As a result, all external auditors are well versed in finance and accounting.

## 3. Outside Directors and External Auditors

OEPC has three outside directors and three external auditors.

In 2015, the Company increased the number of its outside directors from one to three and brought about improvements to the system for supervising and monitoring management functions with the aim of enhancing corporate governance.

Outside director Kunio Oroku, who has extensive expertise and experience in corporate management, is of good character and offers superior insight. He can be relied upon to provide a long-term outlook on the Company's business based on common values held throughout the corporate community and to offer advice and opinions from a different perspective to OEPC.

Having also held important positions in other companies, outside director Hiroshi Kitagawa possesses knowledge of the communications field, is of good character and offers superior insight. With regard to OEPC, he can be expected to offer advice and opinions from a global perspective that draw on his wealth of experience.

Outside director Akira Okada is of good character and offers superior insight. Having held important positions in corporations that are moving in the same direction as the Company in such areas as contributing to local communities and the fostering of a culture of safety in companies, he can be expected to offer advice and opinions from a global perspective that draw on his wealth of experience.

External auditor Masateru Higa has held key positions at other companies and therefore has extensive expertise and experience in corporate management. He is also of good character, offers superior insight and can be relied upon to audit OEPC's operations effectively from an objective perspective.

External auditor Shiro Nozaki is an academic expert who is once again of good character and offers superior insight. His outstanding level of expertise and experience mean that he can be relied upon to audit operations effectively from an objective perspective.

External auditor Hikaru Aharen is also of good character and offers superior insight. Thanks to his legal expertise, he can be expected to make an invaluable contribution to auditing activities in terms of ensuring the legitimacy of OEPC's operations.

Outside director Kunio Oroku was formerly representative director of and is currently supreme advisor to Ryukyu Broadcasting Corporation, a company in which OEPC possesses a share holding of less than 3%.

External auditor Hiroshi Kitagawa was representative director and president of Okinawa Cellular Telephone Company, a company with which OEPC has a trading relationship relating to communications rates and in which OEPC possesses a share holding of less than 2%. Mr. Kitagawa was an outside director of Okinawa Telecommunication Network Co., Inc., an OEPC affiliate. Furthermore, he was a director of that company during the previous five years.

No special relationships exist between OEPC and outside director Akira Okada.

External auditor Masateru Higa is representative director of Ryubu Holdings Co., Ltd., a company in which OEPC possesses a share holding of less than 4%.

No special relationships exist between OEPC and external auditor Shiro Nozaki and Hikaru Aharen.

Normal power supply relationships exist between the Company and each outside director and external auditor.

The Company has criteria in place with respect to the independence of outside directors and external auditors. For there to be no likelihood of any conflicts of interest arising, all outside directors and external auditors are designated and reported as independent directors, thereby fulfilling the criteria.

#### (Criteria in Respect of Independence of Outside Directors)

Determining that the Company's outside directors and external auditors are independent requires that they do not fall into any of the following categories:

1. A business operator or business executive of that business operator of whom the Company is a major client
2. A major client of the Company or business executive of that client
3. A consultant, accounting expert or legal expert who is receiving large amounts of money or other assets other than director remuneration from the Company (if the recipient of those assets is an organization, such as a corporation or association, also means a person belonging to that organization)
4. Someone to whom any of (1) to (3) was applicable in the past year

#### 4. Overview of Limited Liability Agreement Details

Pursuant to the provision stipulated under Article 427, Section 1 of Japan's Companies Act and its articles of incorporation, the Company has entered into agreements with its outside directors and external auditors that limit liability for compensation for damages under Article 423, Section 1 of Japan's Companies Act. The maximum amount of liability under such agreements is the amount specified in Article 425, Section 1 of Japan's Companies Act.

#### 5. Accounting Auditors

Accounts for the fiscal year 2014 have been audited by three certified public accountants, Kappel Isomata, Akira Nozawa and Akihiro Kido, who are under contract from accounting firm Deloitte Touche Tohmatsu LLC. They were assisted by five other certified public accountants and five additional members of staff.

#### 6. Compensation for Directors and Auditors

- Total compensation paid to directors and auditors by position, total compensation by type, and number of persons

Position	Total (¥ million)	Total Compensation by Type (¥ million)		Number of Persons
		Basic Compensation	Bonuses	
Directors (excluding Outside Directors)	245	200	44	13
Auditors (excluding External Auditors)	30	30	—	2
Outside Directors and External Auditors	27	26	1	6

- Significant portion of salary paid to directors who concurrently serve as employees

Total (¥ million)	Number of Persons	Details
41	7	Salary (including bonuses) as employees

- Policy regarding the calculation of executive remuneration and method of determination

Taking into comprehensive consideration such factors as the Company's performance and operating information as well as the business environment, the Company determines the amounts of director remuneration to be paid within the scope of the remuneration limits approved by resolution of a general meeting of shareholders and in line with each director's responsibilities. Director's bonuses are determined on a case-by-case basis in line with individual responsibilities, pending approval by a general meeting of shareholders, taking into account factors such as the Company's performance.

From the transparency and fairness standpoints, remuneration is explained in advance to outside directors and the Board of Directors' approval given on the basis of the outside directors' opinions.

#### 7. Shareholdings

- The Company currently holds shares of a total of 43 companies, for purposes other than pure investment, with a balance sheet value of ¥7,247 million.
- Shares held for purposes other than pure investment (companies, number of shares, balance sheet value and purpose)

(Previous fiscal year)

Company Name	Number of Shares	Balance Sheet Amounts (¥ million)	Holding Purpose
The Bank of Okinawa, Ltd.	494,000	2,489	Stabilization of electricity business, contribution to development of Okinawa's economy
Okinawa Cellular Telephone Company	472,000	1,649	Contribution to development of Okinawa's economy
Bank of the Ryukyus	689,660	1,189	Stabilization of electricity business, contribution to development of Okinawa's economy
San-A Co., Ltd.	86,400	393	Contribution to development of Okinawa's economy
Mizuho Financial Group, Inc	1,768,490	373	Stabilization of electricity business
KDDI Corporation	6,600	53	Stabilization of electricity business

(Fiscal year under review)

Company Name	Number of Shares	Balance Sheet Amounts (¥ million)	Holding Purpose
The Bank of Okinawa, Ltd.	494,000	1,825	Stabilization of electricity business, contribution to development of Okinawa's economy
Okinawa Cellular Telephone Company	472,000	1,484	Contribution to development of Okinawa's economy
Bank of the Ryukyus	689,660	871	Stabilization of electricity business, contribution to development of Okinawa's economy
San-A Co., Ltd.	86,400	459	Contribution to development of Okinawa's economy
Mizuho Financial Group, Inc	1,768,490	297	Stabilization of electricity business
KDDI Corporation	19,800	59	Stabilization of electricity business

- There are no totals available for the balance sheet value of shares held for the purpose of pure investment during the previous and current fiscal years, dividends received during the current year or profit and loss on the sale or valuation of shares.

#### 8. Number of Directors

Under the Company's articles of incorporation, the maximum number of directors is 15.

#### 9. Conditions for Approval of the Appointment of Directors

The Company's articles of incorporation stipulate to the effect that the appointment of any director requires approval from a simple majority at a general meeting of shareholders attended by at least one third of eligible shareholders with voting rights.

The articles of incorporation also state to the effect that a director may not be appointed via cumulative voting.

#### 10. Resolutions of the Board of Directors That Do not Need Approval of a General Meeting of Shareholders

##### (1) Purchase of own shares

Pursuant to Section 2 of Article 165 of the Companies Act, the Company's articles of incorporation allow for purchase of own shares through market transactions by resolution of the Board of Directors. Such purchases ensure flexibility in Company policies to maintain the number of shares outstanding at an appropriate level.

##### (2) Approval for exemption of directors from liability

The Company's articles of incorporation stipulate that, in accordance with the provisions of Section 1 of Article 426 of the Companies Act, the Company may, by a resolution of the Board of Directors, exempt directors and auditors (including former directors and auditors) from the payment of compensation for damages as stipulated under Section 1 of Article 423 of the Companies Act, within relevant statutory and regulatory parameters.

These provisions are designed to ensure that directors' and auditors' liability does not exceed reasonable bounds.

##### (3) Interim dividend

Based on Section 5 of Article 454 of the Companies Act, the articles of incorporation of the Company provide for payment of an interim dividend by resolution of the Board of Directors, with September 30 each year as the base date, as a measure to ensure greater flexibility in distribution of profits to shareholders.

#### 11. Special Resolutions by the General Meeting of Shareholders

Based on Section 2, Article 309 of the Companies Act, the Company's

articles of incorporation allow for special resolutions to be adopted by a two-thirds majority at a general meeting of shareholders at which one-third of voting rights of eligible shareholders are represented.

This relaxation of quorum requirements for approval of special resolutions ensures smoother running of the general meeting of shareholders.

**(Basic Policy Relating to System to Ensure Appropriate Business Processes)**

1. System to ensure that the execution of business by directors complies with laws and the Company's articles of incorporation
  - (1) In addition to thoroughly stating legal compliance and the upholding of corporate ethics in management policy and setting out internal rules and regulations relating to legal compliance and the upholding of corporate ethics (Standard Regulations on Corporate Behavior, Legal Compliance and Ethics Rules for Directors, etc.), directors work to improve the levels of their compliance awareness.
  - (2) Meeting in principle twice a month, the Board of Directors decides on important matters as part of day-to-day operations and oversees directors in the performance of their duties. At the times when Board of Directors' meetings are held, plans are devised to activate deliberation by, for example, providing the annual meeting schedule and meeting materials in advance as well as ensuring an appropriate length of time for deliberation.
  - (3) The supervisory functions of meetings is enhanced by the receipt of appropriate advice and suggestions from outside directors from standpoints that are independent from that of the Company. As they are able to provide appropriate advice, outside directors work to ensure that information is exchanged, understanding shared and collaboration maintained by exchanging opinions with directors and auditors.
  - (4) The Company has established a Corporate Ethics Committee chaired by the President to work to thoroughly instill corporate behavior on the basis of legal compliance and the upholding of corporate ethics. The Company has also set up a corporate ethics consultation counter, which offers advice on corporate ethics and receives reports on any violations of the law, and works to deter malpractice.
  - (5) The Company has stipulated internal rules (Basic Code of Corporate Conduct, Guidelines for Responses to Anti-Social Forces) with regard to the rejection of approaches by anti-social forces and, maintaining no relationships at all with anti-social forces, thoroughly ensures compliance by taking a resolute attitude.
2. System for storing and managing information relating to directors' business execution
 

Information such as documents relating to directors' business execution is appropriately stored and managed on the basis of internal rules (guidelines covering document management, record management, the handling of electronic information, and the management of important documents).
3. Rules and other systems regarding loss-related risk management
  - (1) Having established "Basic Guidelines on Risk Management" to manage risk in an appropriate manner, the Company regularly undertakes the identification, analysis, and assessment of the risk in each department, maintains response manuals, and works on risk prevention and to respond rapidly on the occasions risk does arise.
  - (2) Having established "Crisis Management Guidelines" and "Natural Disaster Guidelines" to respond rapidly and appropriately to major disasters and accidents, the Company maintains systems and response procedures in preparation for any occurrence of risk.
4. System to ensure that the execution of directors' business duties is efficiently conducted
  - (1) Having established rules on administrative authority and office organization, the directors decide on the clarification of each department's authority and on the authority of those responsible.
  - (2) For directors to conduct the execution of their duties in an efficient manner, the Company established the Board of Executive Directors made up of the full-time directors and an Executive Board comprising full-time directors, senior management and department heads where directors regularly consult on essential matters relating to business operations.
  - (3) Defining quality as "quality of management," directors work on effective business management and continuous improvement based on quality management systems that leverage techniques from ISO 9001, the international quality management standard.
  - (4) Directors work to steadily achieve the fiscal year targets developed from fiscal year management policies and a variety of plans by causing the fiscal year's management policies to become ingrained across the entire organization and by each department and rank of human resource steadily fulfilling its respective role.
5. System to ensure that the execution of business duties by employees complies with laws and the Company's articles of incorporation
  - (1) The Company works to maintain and improve awareness of compliance by stipulating internal rules (Standard Regulations on Corporate Behavior, Ethics Rules for Employees) relating to legal compliance and the upholding of corporate ethics as well as by regularly holding lectures on legal compliance and corporate ethics.

- (2) The Internal Audit Department works to collaborate with auditors and implement audits to ensure legal compliance and the upholding of corporate ethics.
  - (3) The Company works to deter malpractice and planned for early rectification by setting up a corporate ethics consultation counter, which offers advice on corporate ethics and receives reports on any violations of the law. Cases heard by the corporate ethics consultation counter are deliberated by the Corporate Ethics Committee and responded to in an appropriate manner.
6. System to ensure appropriateness of business in the corporate group
    - (1) The Company stipulates Group management policy and promotes Group management on a Groupwide basis.
    - (2) In addition to setting the OEPC Group Standards on Corporate Behavior, the Company promotes the formulation of codes of ethics for each Group company and thoroughly undertakes legal compliance for the Group as a whole.
    - (3) The Company works to ensure Groupwide legal compliance by offering advice on corporate ethics and receiving reports on any violations of the law at Group companies at the corporate ethics consultation counter.
    - (4) As regards the management of affiliate companies, the Company has set up management divisions, stipulated affiliate company management guidelines for important matters that will have a bearing on Group management, and receives prior consultation or reports from affiliated companies.
    - (5) The gathering of information on business risk is undertaken by the holding of regular meetings of the OEPC Group Chief Executive Conference that comprises the presidents of the Company and each Group company.
    - (6) The Company and each Group company ensure the trustworthiness of their financial reporting by maintaining and operating the essential and appropriate internal control systems relating to financial reporting.
    - (7) The Internal Audit Department conducts internal audits of Group companies on an as required basis.
  7. In the event that auditors have requested that employees be assigned to assist in their duties, the Company will assign full-time staff members and set up an Auditors' Office, independent from the directors, to act as an organization that will assist the auditors in matters relating to such employees.
  8. Matters regarding the independence of the employees in the preceding clause from directors and ensuring the effectiveness of directions given to said employees from auditors
    - (1) The Auditors' Office staff perform their duties under the supervision of the auditors.
    - (2) Directors and auditors will exchange opinions on personnel matters pertaining to the Auditors' Office staff.
  9. System for directors and employees to report to the auditors and system for reports to other auditors
    - (1) Directors and employees will submit major approval documents as well as other important documents relating to business execution for perusal by the auditors and offer explanations as required.
    - (2) In the event that auditors have requested reports, directors respond to those requests at important meetings, such as of the Board of Directors or of the Board of Executive Directors.
    - (3) In the event that auditors have requested reports, the directors and auditors of the Company and all Group companies respond to those requests at OEPC Group Chief Executive Conference and OEPC Group Auditors Liaison Committee.
    - (4) Directors provide the auditors with information on important matters relating to legal compliance and corporate ethics by having auditors attend Corporate Ethics Committee meetings as observers and establishing in the Audit Office the corporate ethics consultation counter, which can be used by all Company and Group company personnel for matters relating to directors.
    - (5) Stipulating in the Rules Governing the Management of the Corporate Ethics Consultation Counter that there must be no disadvantageous treatment for anyone on the grounds of having submitted a report, directors work to protect the identity of the said informant.
  10. System to ensure that audits conducted by other auditors are conducted effectively
    - (1) Having regular meetings with auditors, the representative director exchanges views and deepens mutual understanding.
    - (2) Maintaining close cooperation with the auditors, the Internal Audit Department works to effectively perform auditors' audits.
    - (3) When an auditor has requested a prepayment or reimbursement of expenses generated by the performance of those business duties, a director will respond to the request, excluding cases in which the tasks performed by the said auditor are regarded as not having been necessary.

# FINANCIAL SECTION

## Consolidated Five-Year Summary

The Okinawa Electric Power Company, Incorporated and its consolidated subsidiaries

Years ended March 31	Millions of yen				
Financial Statistics	2016	2015	2014	2013	2012
<b>For the year:</b>					
Operating revenues .....	¥182,265	¥185,001	¥179,266	¥166,439	¥166,075
Electric.....	173,046	177,184	171,735	158,597	157,563
Other .....	9,218	7,816	7,530	7,842	8,511
Operating expenses .....	175,025	175,522	170,572	157,470	153,305
Electric.....	166,232	168,273	163,600	150,247	145,453
Other .....	8,793	7,248	6,972	7,223	7,852
Interest expense .....	2,406	2,583	2,775	2,915	2,917
Income before income taxes and noncontrolling interests.....	5,229	7,638	6,936	6,307	10,273
Income taxes.....	1,521	2,610	2,095	1,889	3,118
Net income attributable to owners of the parent .....	3,647	4,943	4,731	4,318	6,956
<b>Per share of common stock (Yen):</b>					
Basic net income* ** .....	¥ 92.81	¥ 125.77	¥ 180.53	¥ 247.20	¥ 398.15
Cash dividends applicable to the year*** .....	60.00	60.00	60.00	60.00	60.00
<b>At year-end:</b>					
Total assets.....	¥409,860	¥421,824	¥428,333	¥435,515	¥400,687
Net property, plant and equipment .....	345,579	354,197	360,691	366,028	346,784
Long-term debt, less current maturities .....	157,364	170,524	178,717	190,993	189,076
Total equity.....	148,111	147,973	141,103	136,056	132,289

Years ended March 31	2016	2015	2014	2013	2012
<b>Operating Statistics</b>					
<b>For the year:</b>					
Electric energy sales (Millions of kWh) .....	7,649	7,531	7,556	7,314	7,440
Peak load (Thousands of kW) .....	1,428	1,396	1,432	1,373	1,341
<b>At year-end:</b>					
Generating capacity (Thousands of kW).....	2,155	2,136	2,435	2,013	1,933
Transmission lines (km).....	1,159	1,102	1,083	1,053	1,049
Distribution lines (km).....	10,828	10,744	10,664	10,590	10,894

Notes: \* A 1.5-for-1 stock split was effected on June 1, 2016. It is calculated on the assumption that this stock split was conducted at the beginning of FY 2015 (April 1, 2014).

\*\* A 1.5-for-1 stock split was effected on June 1, 2015. It is calculated on the assumption that this stock split was conducted at the beginning of FY 2014 (April 1, 2013).

\*\*\* A 1.5-for-1 stock split was effected on June 1, 2016 and 2015. However, the cash dividends per share information has not been restated to reflect these stock splits.

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# Financial Review (Consolidated Basis)

## Business Performance

In fiscal 2015, the fiscal year ended March 31, 2016, the Okinawa economy experienced overall growth. This was largely attributable to substantial growth in personal consumption, tourism, and public investment in construction.

Under these circumstances, the Okinawa Electric Power Company, Inc. (OEPC) recorded operating revenues (sales) of ¥182,265 million (U.S.\$1,617 million) on a consolidated basis, down ¥2,735 million (1.5%) compared with the previous fiscal year.

Operating expenses down by ¥496 million (0.3%) year on year to ¥175,025 million (U.S.\$1,553 million). As a result, operating income decreased by ¥2,239 million (23.6%) compared with the previous fiscal year to ¥7,239 million (U.S.\$64 million).

Income before income taxes and noncontrolling interests, which includes other income and expenses, was ¥5,229 million (U.S.\$46 million), a decrease of ¥2,408 million (31.5%) year on year. Net income attributable to owners of the parent for the period under review amounted to ¥3,647 million (U.S.\$32 million), a decrease of ¥1,296 million (26.2%) compared with fiscal 2014.

As the OEPC Group is applying the Accounting Standard for Business Combinations (ASBJ Statement No. 21, dated September 13, 2013), effective the fiscal year under review, “net income” is now disclosed as “net income attributable to owners of the parent.”

Details of business performance by segment are as follows:

## 1. Electric Power Business

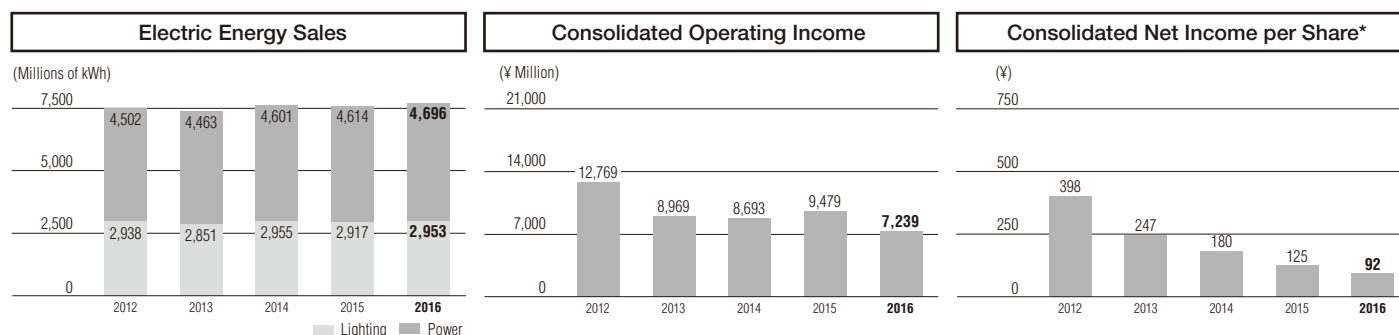
The total volume of electric power sold in the private sector over the course of the fiscal year increased year on year. This is because of an upswing in demand from new customers for residential and commercial power. Moreover, the volume of electric power sold for industrial use was down compared with the previous fiscal year due mainly to the decreased demand from the petroleum industry.

By use (residential and business), residential power sales were up 1.2% year on year to 2,953 million kWh, while higher voltage industrial and commercial power sales climbed 1.8% to 4,696 million kWh. As a result, the total volume of electric power sold increasing by 1.6% compared with the previous fiscal year to 7,649 million kWh.

Despite the increases in power sales, operating revenues from the Electric Power Business decreased by ¥3,223 million (1.8%) to ¥174,286 million (U.S.\$1,546 million) year on year, due to the impact of the fuel cost adjustment system.

At the same time, operating expenses down by ¥1,295 million (0.8%) to ¥168,689 million (U.S.\$1,497 million), due to a reduction in fuel costs and depreciation, despite the increase in purchased power costs resulting from the higher volume of renewable energy-sourced electricity.

Based on the aforementioned factors, operating income decreased by ¥1,928 million (25.6%) compared with the previous fiscal year to ¥5,597 million (U.S.\$49 million).



Note: \* A 1.5-for-1 stock split was effected on June 1, 2015. It is calculated on the assumption that this stock split was conducted at the beginning of FY 2014 (April 1, 2013).  
A 1.5-for-1 stock split was effected on June 1, 2016. It is calculated on the assumption that this stock split was conducted at the beginning of FY 2015 (April 1, 2014).

## 2. Other Operations

In other revenue and expenses, sales increased by ¥2,987 million (7.6%) compared with the previous fiscal year to ¥42,360 million (U.S.\$375 million) owing mainly to the gas supply business that was launched in the fiscal year under review. Operating expenses increased by ¥3,062 million (8.2%) year on year to ¥40,479 million (U.S.\$359 million).

As a result of the foregoing, operating income decreased by ¥74 million (3.8%) compared with the previous fiscal year to ¥1,880 million (U.S.\$16 million).

(Note) The above amounts do not include consumption and other taxes.

## Cash Flows

### Cash flows from operating activities

Net cash provided by operating activities increased by ¥5,157 million (18.0%) to ¥33,875 million (U.S.\$300 million). Major cash inflows included increases in amortization as well as the increase in trade notes and accounts payable.

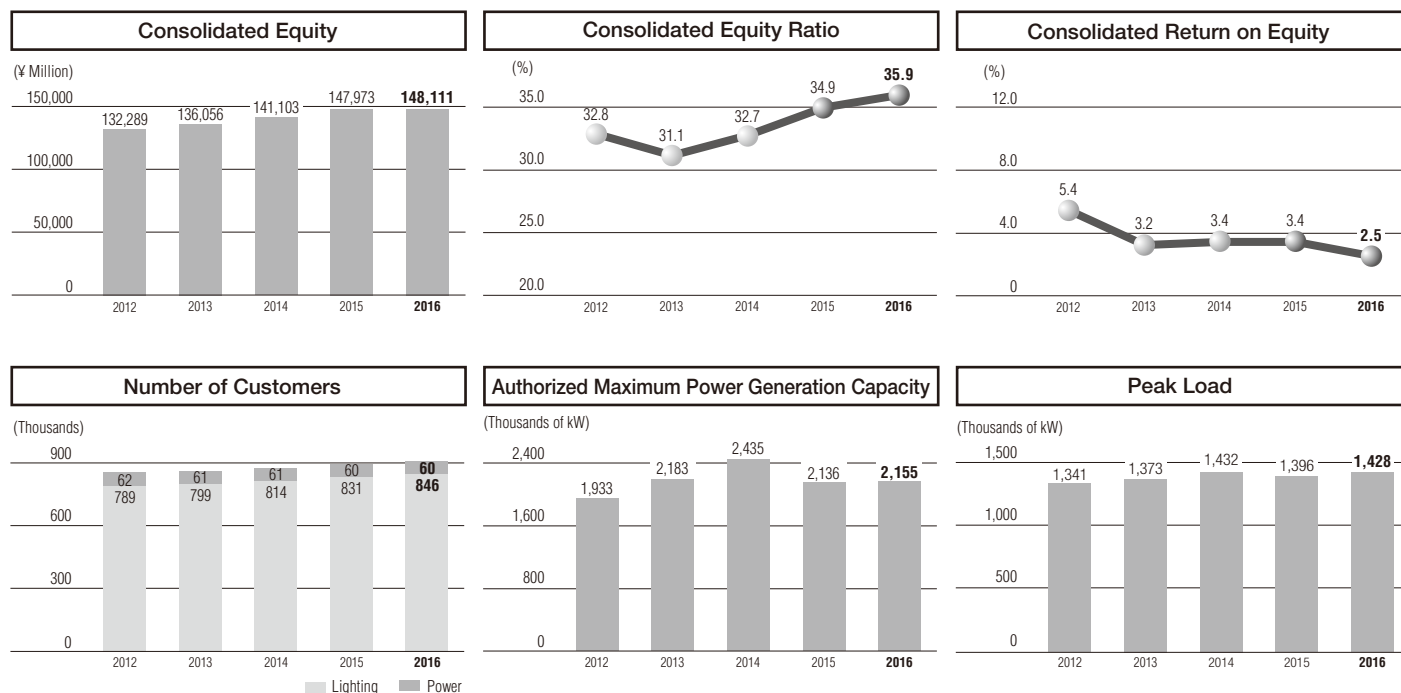
### Cash flows from investing activities

Net cash used in investing activities decreased by ¥3,868 million (18.5%) to ¥17,096 million (U.S.\$151 million) due in part to a decrease in the purchase of property, plant and equipment, as well as an inflow increase from the collection of investments and loans receivable.

### Cash flows from financing activities

Net cash used in financing activities amounted to ¥15,395 million (U.S.\$136 million) due to repayments of interest-bearing debt.

As a result, cash and cash equivalents as of the end of the year under review totaled ¥12,640 million (U.S.\$112 million), up by ¥1,384 million (12.3%) compared with the end of the previous fiscal year.



# Business and Other Risks

The following is a description of the various risks that could have an impact on the OEPC Group's business performance and financial position. Statements of a forward-looking nature contained in this report are based on the Group's evaluations as of the end of the fiscal year under review (consolidated basis).

## 1. Deregulation in the electric power business

In the same way as in mainland Japan, the full liberalization of the electricity retail market was implemented in the Okinawa region in April 2016. The legal separation designed to neutralize the power/distribution sector is planned for April 2020, but the Group will continue to maintain its integrated power transmission system by being positioned as an approved general power transmission and distribution business operator able to engage in the retail electricity business and power generation business.

In this context, and depending on trends in electric power system reform, the potential exists for the Group's business performance to be affected.

## 2. Environmental countermeasures

The management of OEPC has positioned countermeasures against environmental issues as a priority matter and has already taken numerous measures. The Group will continue to work towards the realization of a low carbon society in the years to come.

In view of the imposition by the authorities of stricter environmental regulations and other trends, the potential exists for the Group's business performance to be affected.

## 3. Businesses other than electricity business

To improve its enterprise value, the Group is leveraging its management resources to expand its scope of operations and develop new businesses. The Group currently engages in the construction business, IT-related business and real estate business as well as in gas supply and renewable energy businesses.

Unfavorable competitive developments, or a change in the operating environment surrounding these businesses, could have an adverse effect on the business performance of the Group.

## 4. Economic and climatic conditions

In its core Electric Power Business, the volumes of electricity sold by the Group can be affected by economic trends, climatic factors (temperatures, typhoons, and other conditions), and changes in such initiatives as energy conservation. The potential, therefore, exists for the Group's business performance to be affected by these and related factors.

## 5. Fuel price fluctuations

In our Group operations, we primarily use coal, oil, and LNG as our thermal fuel sources. Fuel costs fluctuate in tandem with changes in fuel prices and foreign exchange rates.

We can minimize these impacts on our earnings through fuel cost adjustment system to ensure that changes in fuel prices and foreign exchange rates are reflected in electricity charges. Nevertheless, particularly large changes in fuel prices could adversely affect our business and financial performance.

## 6. Financial market trends

The balance of the Group's interest-bearing liabilities totaled ¥188.7 billion as of March 31, 2016. Future changes in interest rates on fund procurement brought about by such factors as movements in market interest rates or changes in credit ratings have the potential to impact the Group's earnings performance.

However, as the interest rates are fixed for the major portion of our interest-bearing debt, the impact of interest rates on the Group's earnings performance is expected to be limited.

The Group's retirement benefit costs and obligations are calculated on the basis of actuarial prerequisites, such as discount rates, and the long-term rate of return of pension assets. Fluctuations in discount rates and investment yields have the potential to affect the Group's performance.

## 7. Special legal measures

To ensure a stable and adequate supply of electric power to Okinawa, in accordance with the Law for Special Measures to Promote Okinawa, we benefit from special measures and provisions that enable us to secure funds and facilitate other aspects of our operations. Under the Okinawa Development Finance Corporation (ODFC) Law, we receive preferential interest rates from the ODFC, in line with the stipulations of the ODFC's business and service manual.

OEPC also benefits from various tax advantages (such as reduced fixed property taxes and exemption from coal tariffs in connection with coal and LNG). However, the savings achieved through these special benefits are passed on to electricity customers.

Any abolition of these measures and provisions could have a significant impact on the Group's business performance.

## 8. Natural disasters and accidents

OEPC is committed to efficient facility construction, operation, and maintenance to ensure that it can cope with natural disasters. In addition to a review of its facility and other large-scale disaster countermeasures, OEPC is taking steps to again verify its disaster recovery capabilities from both practical and organizational perspectives taking into consideration a wide range of scenarios.

However, Group performance may be adversely affected by typhoons, earthquakes, and other major natural disasters, as well as accidents.

## 9. Personal information leakage

The Group's performance may be adversely affected by problems arising from leakage of customers' personal information acquired or managed for operation of Group business, despite our best efforts to prevent such an occurrence.

# Consolidated Balance Sheet

The Okinawa Electric Power Company, Incorporated and its consolidated subsidiaries

March 31, 2016	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Assets</b>			
<b>Property, plant and equipment (Note 4):</b>			
Utility plants (Note 6) .....	¥935,835	¥925,096	\$8,305,252
Other plant and equipment .....	34,460	32,772	305,830
Construction in progress .....	11,481	11,833	101,895
Total .....	981,778	969,701	8,712,978
Less:			
Contributions in aid of construction (Note 2(b)) .....	(32,975)	(31,688)	(292,643)
Accumulated depreciation .....	(603,224)	(583,816)	(5,353,426)
Total .....	(636,199)	(615,504)	(5,646,070)
Net property, plant and equipment .....	345,579	354,197	3,066,908
<b>Investments and other assets:</b>			
Investment securities (Notes 5 and 12) .....	7,948	11,283	70,541
Investments in and advances to unconsolidated subsidiaries and affiliates .....	1,390	1,256	12,336
Deferred tax assets (Note 9) .....	8,996	8,535	79,837
Other assets .....	2,613	2,806	23,197
Allowance for doubtful accounts .....	(72)	(72)	(643)
Total investments and other assets .....	20,876	23,810	185,270
<b>Current assets:</b>			
Cash and cash equivalents (Note 12) .....	12,640	11,256	112,177
Notes and accounts receivable (Note 12) .....	11,987	10,481	106,381
Inventories .....	11,665	15,163	103,527
Deferred tax assets (Note 9) .....	2,150	1,691	19,081
Other current assets .....	5,068	5,352	44,984
Allowance for doubtful accounts .....	(106)	(127)	(943)
Total current assets .....	43,405	43,817	385,209
Total .....	¥409,860	¥421,824	\$3,637,388
<b>Liabilities and equity</b>			
<b>Long-term liabilities:</b>			
Long-term debt, less current maturities (Notes 6 and 12) .....	¥157,364	¥170,524	\$1,396,557
Lease obligations (Note 6) .....	27,111	28,411	240,609
Liabilities for employees' retirement benefits (Note 8) .....	10,983	9,658	97,477
Other long-term liabilities .....	4,353	4,116	38,639
Total long-term liabilities .....	199,813	212,712	1,773,284
<b>Current liabilities:</b>			
Current maturities of long-term debt (Notes 6 and 12) .....	25,995	27,098	230,702
Short-term bank loans (Notes 7 and 12) .....	5,000	5,172	44,373
Commercial paper (Note 12) .....	2,000		17,749
Notes and accounts payable (Note 12) .....	13,401	14,550	118,931
Income taxes payable (Note 12) .....	850	486	7,547
Accrued expenses .....	9,942	9,457	88,239
Other current liabilities .....	4,745	4,375	42,115
Total current liabilities .....	61,935	61,139	549,658
<b>Equity (Note 10):* **</b>			
Common stock,			
Authorized — 45,000,000 shares			
Issued — 26,287,084 shares in 2016 and 2015 .....	7,586	7,586	67,327
Capital surplus .....	7,156	7,141	63,510
Retained earnings .....	131,780	129,442	1,169,507
Treasury stock, at cost — 86,871 shares in 2016 and 82,555 shares in 2015 .....	(292)	(278)	(2,594)
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities .....	1,762	2,642	15,642
Deferred loss on derivatives under hedge accounting .....	(24)	(9)	(218)
Defined retirement benefit plans .....	(857)	483	(7,606)
Total .....	147,111	147,008	1,305,567
Noncontrolling interests .....	1,000	964	8,878
Total equity .....	148,111	147,973	1,314,445
Total .....	¥409,860	¥421,824	\$3,637,388

See notes to consolidated financial statements.

Note: \* A 1.5-for-1 stock split was effected on June 1, 2015. It is calculated on the assumption that this stock split was conducted at the beginning of FY 2014 (April 1, 2013).

\*\* A 1.5-for-1 stock split was effected on June 1, 2016. However, the number of shares presented above has not been restated to reflect this stock split.

The number of the shares after the stock split is as follows:

Authorized shares - 67,500,000 shares

Issued - 39,430,626 shares in 2016 and 2015

Treasury stock, at cost - 130,306 shares in 2016 and 123,832 shares in 2015

# Consolidated Statement of Income

The Okinawa Electric Power Company, Incorporated and its consolidated subsidiaries

Year ended March 31, 2016	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Operating revenues:</b>			
Electric.....	¥173,046	¥177,184	\$1,535,734
Other .....	9,218	7,816	81,814
Total operating revenues .....	182,265	185,001	1,617,549
<b>Operating expenses (Notes 8 and 11):</b>			
Electric.....	166,232	168,273	1,475,260
Other .....	8,793	7,248	78,038
Total operating expenses .....	175,025	175,522	1,553,298
<b>Operating income</b> .....	7,239	9,479	64,250
<b>Other expenses:</b>			
Interest expense (Notes 6, 7, and 13).....	2,406	2,583	21,361
Other — net.....	(397)	(743)	(3,523)
Net other expenses .....	2,009	1,840	17,837
<b>Income before income taxes</b> .....	5,229	7,638	46,413
<b>Income taxes (Note 9):</b>			
Current .....	1,579	1,584	14,021
Deferred.....	(58)	1,026	(517)
Total .....	1,521	2,610	13,504
<b>Net income</b> .....	3,708	5,027	32,908
<b>Net income attributable to noncontrolling interests</b> .....	60	83	536
<b>Net income attributable to owners of the parent</b> .....	¥ 3,647	¥ 4,943	\$ 32,372
	Yen		U.S. dollars
<b>Per share of common stock (Note 2(k)):</b>			
Basic net income* .....	¥92.81	¥125.77	\$0.82
Cash dividends applicable to the year** .....	60.00	60.00	0.53

See notes to consolidated financial statements.

Notes: \* A 1.5-for-1 stock split was effected on June 1, 2016. It is calculated on the assumption that this stock split was conducted at the beginning of FY 2015 (April 1, 2014).

\*\* A 1.5-for-1 stock split was effected on June 1, 2016. However, the cash dividends per share information has not been restated to reflect this stock split.

# Consolidated Statement of Comprehensive Income

The Okinawa Electric Power Company, Incorporated and its consolidated subsidiaries

Year ended March 31, 2016	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Net income</b> .....	¥3,708	¥5,027	\$32,908
<b>Other comprehensive income (Note 14)</b>			
Unrealized (loss) gain on available-for-sale securities .....	(883)	1,047	(7,838)
Deferred loss on derivatives under hedge accounting.....	(15)	(9)	(133)
Defined retirement benefit plans .....	(1,340)	(470)	(11,896)
Share of other comprehensive (loss) income in an affiliate accounted for under the equity method .....	(1)	0	(12)
Total other comprehensive income.....	(2,240)	568	(19,881)
<b>Comprehensive income</b> .....	¥1,467	¥5,595	\$13,027
<b>Total comprehensive income attributable to:</b>			
Owners of the parent .....	¥1,412	¥5,506	\$12,535
Noncontrolling interests.....	55	88	491

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

The Okinawa Electric Power Company, Incorporated and its consolidated subsidiaries

	Shares / Millions of yen					
	Common stock			Retained earnings	Treasury stock	
Year ended March 31, 2016	Shares* **	Amount	Capital surplus		Shares* **	Amount
<b>Balance, April 1, 2014</b> .....	<b>17,524,723</b>	<b>¥7,586</b>	<b>¥7,141</b>	<b>¥123,216</b>	<b>¥54,117</b>	<b>¥(275)</b>
Cumulative effects of change in accounting policies.....				2,330		
<b>Balance, April 1, 2014 (as restated)</b> .....	<b>17,524,723</b>	<b>7,586</b>	<b>7,141</b>	<b>125,547</b>	<b>54,117</b>	<b>(275)</b>
Net income attributable to owners of the parent .....				4,943		
Cash dividends .....				(1,048)		
Purchase of treasury stock .....					1,183	(4)
Disposal of treasury stock.....				(0)	(263)	1
Net change in the year.....						
<b>Balance, March 31, 2015</b> .....	<b>17,524,723</b>	<b>¥7,586</b>	<b>¥7,141</b>	<b>¥129,442</b>	<b>¥55,037</b>	<b>¥(278)</b>
Stock split.....	8,762,361				27,620	
Net income attributable to owners of the parent .....				3,647		
Cash dividends .....				(1,310)		
Purchase of treasury stock .....					4,709	(15)
Disposal of treasury stock.....				(0)	(495)	1
Change in parent's ownership interest due to transactions with noncontrolling interests....			14			
Net change in the year.....						
<b>Balance, March 31, 2016</b> .....	<b>26,287,084</b>	<b>¥7,586</b>	<b>¥7,156</b>	<b>¥131,780</b>	<b>¥86,871</b>	<b>¥(292)</b>

	Shares / Millions of yen					
	Accumulated other comprehensive income			Total	Noncontrolling interests	Total equity
Year ended March 31, 2016	Unrealized (loss) gain on available-for-sale securities	Deferred loss on derivatives under hedge accounting	Defined retirement benefit plans			
<b>Balance, April 1, 2014</b> .....	<b>¥1,599</b>		<b>¥ 953</b>	<b>¥140,222</b>	<b>¥ 881</b>	<b>¥141,103</b>
Cumulative effects of change in accounting policies.....				2,330		2,330
<b>Balance, April 1, 2014 (as restated)</b> .....	<b>1,599</b>		<b>953</b>	<b>142,552</b>	<b>881</b>	<b>143,433</b>
Net income attributable to owners of the parent .....				4,943		4,943
Cash dividends .....				(1,048)		(1,048)
Purchase of treasury stock .....				(4)		(4)
Disposal of treasury stock.....				0		0
Net change in the year.....	<b>1,042</b>	<b>(9)</b>	<b>(470)</b>	<b>562</b>	<b>83</b>	<b>646</b>
<b>Balance, March 31, 2015</b> .....	<b>¥2,642</b>	<b>¥ (9)</b>	<b>¥ 483</b>	<b>¥147,008</b>	<b>¥ 964</b>	<b>¥147,973</b>
Stock split.....						
Net income attributable to owners of the parent .....				3,647		3,647
Cash dividends .....				(1,310)		(1,310)
Purchase of treasury stock .....				(15)		(15)
Disposal of treasury stock.....				1		1
Change in parent's ownership interest due to transactions with noncontrolling interests....				14		14
Net change in the year.....	<b>(879)</b>	<b>(15)</b>	<b>(1,340)</b>	<b>(2,235)</b>	<b>35</b>	<b>(2,199)</b>
<b>Balance, March 31, 2016</b> .....	<b>¥1,762</b>	<b>¥(24)</b>	<b>¥ (857)</b>	<b>¥147,111</b>	<b>¥1,000</b>	<b>¥148,111</b>

	Thousands of U.S. dollars (Note 1)									
				Accumulated other comprehensive income			Total	Noncontrolling interests	Total equity	
Year ended March 31, 2016	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized loss on available-for-sale securities	Deferred loss on derivatives under hedge accounting	Defined retirement benefit plans			
<b>Balance, March 31, 2015</b> .....	<b>\$67,327</b>	<b>\$63,380</b>	<b>\$1,148,763</b>	<b>\$(2,473)</b>	<b>\$23,449</b>	<b>\$( 84)</b>	<b>\$ 4,289</b>	<b>\$1,304,651</b>	<b>\$8,563</b>	<b>\$1,313,214</b>
Net income attributable to owners of the parent.....			32,372					32,372		32,372
Cash dividends .....			(11,626)					(11,626)		(11,626)
Purchase of treasury stock ...				(135)				(135)		(135)
Disposal of treasury stock.....			(1)	14				13		13
Change in parent's ownership interest due to transactions with noncontrolling interests....		130						130		130
Net change in the year.....					(7,807)	\$(133)	(11,896)	(19,837)	314	(19,522)
<b>Balance, March 31, 2016</b> .....	<b>\$67,327</b>	<b>\$63,510</b>	<b>\$1,169,507</b>	<b>\$(2,594)</b>	<b>\$15,642</b>	<b>\$(218)</b>	<b>\$ 7,606</b>	<b>\$1,305,567</b>	<b>\$8,878</b>	<b>\$1,314,445</b>

See notes to consolidated financial statements.

Note: \* A 1.5-for-1 stock split was effected on June 1, 2015.

\*\* A 1.5-for-1 stock split was effected on June 1, 2016. However, the number of shares presented above has not been restated to reflect this stock split.

# Consolidated Statement of Cash Flows

The Okinawa Electric Power Company, Incorporated and its consolidated subsidiaries

Year ended March 31, 2016	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Operating activities:</b>			
Income before income taxes .....	¥ 5,229	¥ 7,638	\$ 46,413
Adjustments for:			
Income taxes paid .....	(1,227)	(3,563)	(10,890)
Income taxes refund .....	180	137	1,603
Depreciation and amortization .....	26,583	27,428	235,919
Liability for employees' retirement benefits .....	(280)	(474)	(2,487)
Loss on disposal of property, plant and equipment .....	684	1,981	6,078
Changes in operating assets and liabilities:			
(Increase) Decrease in notes and accounts receivable .....	(1,675)	397	(14,865)
Decrease in inventories .....	3,725	2,006	33,058
Decrease in notes and accounts payable .....	(6)	(6,801)	(56)
Decrease in interest payable .....	(41)	(28)	(370)
Other — net .....	702	(4)	6,231
Total adjustments .....	28,645	21,079	254,221
Net cash provided by operating activities .....	33,875	28,717	300,634
<b>Investing activities:</b>			
Purchase of property, plant and equipment .....	(20,921)	(23,023)	(185,673)
Proceeds from sale of property, plant and equipment .....	252	731	2,240
Payments for investments and advances .....	(32)	(21)	(285)
Proceeds from sales of investment securities and collections of advances .....	2,115	451	18,775
Other — net .....	1,489	896	13,220
Net cash used in investing activities .....	(17,096)	(20,964)	(151,723)
<b>Financing activities:</b>			
Proceeds from issuance of bonds .....		4,982	
Repayments of bonds .....	(10,000)	(5,000)	(88,746)
Proceeds from long-term debt .....	11,322	11,795	100,479
Repayments of long-term debt .....	(15,284)	(19,055)	(135,642)
Net (Decrease) increase in short-term bank loans .....	(172)	5,247	(1,526)
Net Increase in commercial paper .....	2,000		17,749
Cash dividends paid .....	(1,310)	(1,047)	(11,626)
Other — net .....	(1,950)	(1,960)	(17,314)
Net cash used in financing activities .....	(15,395)	(5,039)	(136,627)
<b>Net increase in cash and cash equivalents .....</b>	<b>1,384</b>	<b>2,714</b>	<b>12,283</b>
<b>Cash and cash equivalents, beginning of year .....</b>	<b>11,256</b>	<b>8,541</b>	<b>99,894</b>
<b>Cash and cash equivalents, end of year .....</b>	<b>¥12,640</b>	<b>¥11,256</b>	<b>\$112,177</b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

The Okinawa Electric Power Company, Incorporated and its consolidated subsidiaries

Year ended March 31, 2016

## 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements that are issued for domestic reporting purposes in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act, the Electricity Business Act, and their related accounting regulations. The Okinawa Electric Power Company, Incorporated (the "Company") and its consolidated subsidiaries (collectively, the "Companies") maintain their accounts and records in accordance with the provisions set forth in the Companies Act of Japan (the "Companies Act") and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the financial statements for the year ended March 31, 2015, to conform to the classifications used in the consolidated financial statements for the year ended March 31, 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts included herein are provided solely for the convenience of readers outside Japan and are stated at the rate of ¥112.68 to \$1, the approximate rate of exchange on March 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts of less than one million yen have been rounded down except for per share data. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

## 2. Summary of significant accounting policies

### (a) Consolidation

The consolidated financial statements as of March 31, 2016, include the accounts of the Company and its 11 significant subsidiaries (11 in 2015). Investment in one affiliated company (one in 2015) is accounted for by the equity method. Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All unrealized profits included in assets resulting from transactions within the Companies are eliminated.

Consolidation of the remaining subsidiaries and the application of the equity method to the remaining affiliates would not have a material effect on the accompanying consolidated financial statements.

Investments in such unconsolidated subsidiaries and affiliates are stated at cost.

### (b) Property, plant and equipment

Property, plant and equipment are stated at cost. Contributions in aid of construction are deducted from the cost of the related assets. Such accounting treatment is required by the regulations described in Note 1.

Depreciation is principally computed using the declining-balance method based on the estimated useful lives of the assets. Depreciation

of easements is computed using the straight-line method based on the estimated useful lives of the transmission lines.

### (c) Long-lived assets

The Companies review their long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

### (d) Investment securities

Investment securities are classified and accounted for, depending upon management's intent, as follows:

i) marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity and ii) nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

### (e) Cash and cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits that mature or become due within three months of the date of acquisition.

### (f) Inventories

Inventories are stated at cost, based principally on the monthly average method (book values in the consolidated balance sheet are written down on the basis of decline in profitability).

### (g) Derivatives and hedging activities

The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign currency forward contracts and interest rate swaps are utilized to reduce foreign currency exchange and interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

For derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge foreign currency exposures. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

### (h) Retirement and pension plans

The Company has a defined contribution pension plan, a funded defined benefit pension plan, and an unfunded retirement benefit plan for employees. Certain consolidated subsidiaries have funded defined benefit pension plans. Other consolidated subsidiaries have unfunded retirement benefit plans for employees.

The liability for retirement benefits is accounted for based on the projected benefit obligations and plan assets at the balance sheet date. The

projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses are amortized on a declining-balance basis over five years within the average remaining service period.

**(i) Income taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

**(j) Stock and bond issuance costs**

Stock and bond issuance costs are charged to income when paid or incurred.

**(k) Per share information**

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net income per share is not disclosed because no latent shares were outstanding.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

The Company effected a 1.5-for-1 stock split on June 1, 2016 (see Note 16).

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### 3. Change of accounting policy

#### Business combination

Major requirements under Accounting Standards Board of Japan (the "ASBJ") Statement No. 21, "Accounting Standard for Business Combinations", are as follows: (1) The standard requires accounting for business combinations only by the purchase method. (2) Under the standard, in-process research and development acquired in the business combination are capitalized as an intangible asset. (3) Under the standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation.

In September, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements."

Major accounting changes are as follows:

**(a) Transactions with noncontrolling interest**

A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

**(b) Presentation of the consolidated balance sheet**

In the consolidated balance sheet, "minority interest" under the previous

accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

**(c) Presentation of the consolidated statement of income**

In the consolidated statement of income, "income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

**(d) Provisional accounting treatments for a business combination**

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed.

Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

**(e) Acquisition-related costs**

Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance. The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015.

The Companies applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied prospectively.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

In the consolidated statement of cash flows for the year ended March 31, 2016, cash flows for purchases or sales of ownership interests in a subsidiary without a change in consolidation scope are presented under financing activities, and cash flows for acquisition-related costs are presented under operating activities.

The effect from these accounting changes on the consolidated financial statements and the per share information for the year ended March 31, 2016, was immaterial.

#### 4. Property, plant and equipment

The major classes of property, plant and equipment as of March 31, 2016 and 2015, consisted of the following:

As of March 31, 2016	Millions of yen			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
Thermal power-generating facilities.....	¥466,670	¥(16,923)	¥(302,803)	¥146,944
Transmission facilities.....	151,965	(3,687)	(100,846)	47,432
Transformation facilities.....	104,387	(1,459)	(68,842)	34,085
Distribution facilities.....	165,933	(2,886)	(88,059)	74,986
General facilities.....	33,888	(6,199)	(14,754)	12,935
Other electricity-related facilities.....	12,989	(538)	(10,993)	1,457
Utility plants.....	935,835	(31,695)	(586,299)	317,840
Other plant and equipment....	34,460	(1,101)	(16,924)	16,435
Construction in progress.....	11,481	(178)		11,303
Total.....	¥981,778	¥(32,975)	¥(603,224)	¥345,579

As of March 31, 2015	Millions of yen			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
Thermal power-generating facilities.....	¥468,316	¥(16,832)	¥(295,180)	¥156,303
Transmission facilities.....	149,213	(3,041)	(97,708)	48,463
Transformation facilities.....	103,330	(1,628)	(67,282)	34,419
Distribution facilities.....	161,894	(2,623)	(85,443)	73,827
General facilities.....	35,128	(6,475)	(15,437)	13,215
Other electricity-related facilities.....	7,211	(82)	(6,025)	1,103
Utility plants.....	925,096	(30,685)	(567,077)	327,333
Other plant and equipment....	32,772	(1,002)	(16,738)	15,030
Construction in progress.....	11,833			11,833
Total.....	¥969,701	¥(31,688)	¥(583,816)	¥354,197

As of March 31, 2016	Thousands of U.S. dollars			
	Original cost	Contributions in aid of construction	Accumulated depreciation	Carrying value
Thermal power-generating facilities.....	\$4,141,558	\$(150,188)	\$(2,687,284)	\$1,304,085
Transmission facilities.....	1,348,647	(32,723)	(894,977)	420,945
Transformation facilities.....	926,408	(12,952)	(610,960)	302,495
Distribution facilities.....	1,472,603	(25,620)	(781,504)	665,478
General facilities.....	300,753	(55,019)	(130,938)	114,795
Other electricity-related facilities.....	115,280	(4,782)	(97,562)	12,935
Utility plants.....	8,305,252	(281,288)	(5,203,226)	2,820,736
Other plant and equipment....	305,830	(9,772)	(150,199)	145,858
Construction in progress.....	101,895	(1,582)		100,313
Total.....	\$8,712,978	\$(292,643)	\$(5,353,426)	\$3,066,908

#### 5. Investment securities

The costs and aggregate fair values of investment securities at March 31, 2016 and 2015, were as follows:

As of March 31, 2016	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥2,738	¥2,777	¥258	¥5,257
Other.....	445		107	338
Total.....	¥3,184	¥2,777	¥365	¥5,596

As of March 31, 2015	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥2,738	¥3,766		¥6,504
Other.....	500		¥128	372
Total.....	¥3,239	¥3,766	¥128	¥6,877

As of March 31, 2016	Thousands of U.S. dollars			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities.....	\$24,304	\$24,647	\$2,289	\$46,662
Other.....	3,952		950	3,002
Total.....	\$28,257	\$24,647	\$3,240	\$49,664

The investment securities whose fair value cannot be reliably determined at March 31, 2016, are excluded from the above tables. The carrying amounts of such investment securities were ¥2,352 million (\$ 20,876 thousand) in 2016 and ¥4,406 million in 2015.

## 6. Long-term debt

Long-term debt as of March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Domestic bonds, 0.469% to 2.020% in 2016 and 0.469% to 2.020% in 2015, due serially through 2025 .....	¥ 69,999	¥ 79,999	\$ 621,227
Loans from Okinawa Development Finance Corporation, 0.450% to 2.100% in 2016 and 0.550% to 2.100% in 2015, due serially through 2030 .....	104,949	108,428	931,392
Loans from banks, insurance companies and other sources, 0.310% to 1.950% in 2016 and 0.310% to 1.950% in 2015, due serially through 2030 .....	6,798	7,282	60,336
Obligations under finance leases.....	28,723	30,324	254,912
Total .....	210,471	226,034	1,867,869
Less current maturities.....	(25,995)	(27,098)	(230,702)
Long-term debt, less current maturities* .....	¥184,475	¥198,936	\$1,637,166

\* Long-term debt, less current maturities are including lease obligations for the years ended March 31, 2016 and 2015, were ¥27,111 million (\$240,609 thousand) and ¥28,411 million, respectively.

All of the Company's assets are subject to certain statutory preferential rights as collateral for bonds and loans from the Okinawa Development Finance Corporation.

Certain assets of the consolidated subsidiaries, amounting to ¥3,810 million (\$33,820 thousand), are pledged as collateral for a portion of the long-term debt as of March 31, 2016.

The aggregate annual maturities of long-term debt outstanding as of March 31, 2016, were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2017.....	¥ 25,995	\$ 230,702
2018.....	28,883	256,335
2019.....	23,708	210,403
2020.....	13,230	117,415
2021.....	22,434	199,100
2022 and thereafter.....	96,218	853,911
Total .....	¥210,471	\$1,867,869

## 7. Short-term borrowings

The weighted-average interest rates applicable to short-term bank loans were 0.212% and 0.246% as of March 31, 2016 and 2015, respectively.

## 8. Retirement and pension plans

(a) The Company's retirement benefit plans are as follows:

- A cash balance pension plan based on the Defined-Benefit Corporate Pension Law
- A lump-sum retirement benefit plan
- A defined contribution pension plan

In certain cases, the Company pays additional retirement benefits for employees.

Consolidated subsidiaries have the plans of either i) or ii) above and calculate liabilities for retirement benefits by the simplified method.

(1) The changes in defined benefit obligation, excluding plans applying the simplified method shown below, for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year.....	¥15,835	¥18,568	\$140,538
Cumulative effects of changes in accounting policies .....		(3,334)	
Restated balance .....	15,835	15,233	140,538
Current service cost.....	970	927	8,615
Interest cost.....	153	193	1,364
Actuarial losses .....	1,373	594	12,188
Benefits paid .....	(929)	(1,113)	(8,251)
Balance at end of year.....	¥17,403	¥15,835	\$154,454

(2) The changes in the net carrying amount of liabilities and assets for the retirement benefits of plans applying the simplified method for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year.....	¥3,429	¥3,606	\$30,436
Periodic benefit costs.....	454	349	4,031
Benefits paid .....	(220)	(177)	(1,959)
Contributions from the employer.....	(248)	(348)	(2,208)
Balance at end of year.....	¥3,414	¥3,429	\$30,300

(3) The changes in plan assets for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year.....	¥12,301	¥11,256	\$109,173
Expected return on plan assets.....	192	177	1,705
Actuarial (losses) gains .....	(231)	407	(2,058)
Contributions from the employer.....	932	929	8,277
Benefits paid .....	(665)	(802)	(5,903)
Others .....	96	333	855
Balance at end of year.....	¥12,625	¥12,301	\$112,050

\* Others above comprises changes in plans applying the simplified method.

(4) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets, including plans applying the simplified method, as of March 31, 2016 and 2015, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded defined benefit obligation.....	¥16,458	¥15,660	\$146,061
Plan assets.....	(12,625)	(12,301)	(112,050)
	3,832	3,358	34,011
Unfunded defined benefit obligation .....	7,151	6,299	63,466
Net liability for defined benefit obligation.....	¥10,983	¥ 9,658	\$ 97,477

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Liability for retirement benefits.....	<b>¥10,983</b>	¥9,658	<b>\$97,477</b>
Net liability for defined benefit obligation.....	<b>¥10,983</b>	¥9,658	<b>\$97,477</b>

(5) The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current service cost.....	<b>¥ 970</b>	¥927	<b>\$ 8,615</b>
Interest cost.....	<b>153</b>	193	<b>1,364</b>
Expected return on plan assets.....	<b>(192)</b>	(177)	<b>(1,705)</b>
Recognized actuarial gains.....	<b>(248)</b>	(503)	<b>(2,204)</b>
Others.....	<b>454</b>	349	<b>4,031</b>
Net periodic benefit costs.....	<b>¥1,138</b>	¥788	<b>\$10,101</b>

\* Others above comprises costs in plans applying the simplified method.

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial losses.....	<b>¥(1,853)</b>	¥(690)	<b>\$(16,451)</b>
Total.....	<b>¥(1,853)</b>	¥(690)	<b>\$(16,451)</b>

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized actuarial (losses) gains.....	<b>¥(1,180)</b>	¥673	<b>\$(10,476)</b>
Total.....	<b>¥(1,180)</b>	¥673	<b>\$(10,476)</b>

(8) Plan assets as of March 31, 2016 and 2015

**a. Components of plan assets**

Plan assets consisted of the following:

	Millions of yen	
	2016	2015
Debt investments.....	<b>30%</b>	37%
Equity investments.....	<b>14</b>	18
General account.....	<b>46</b>	36
Others.....	<b>10</b>	9
Total.....	<b>100%</b>	100%

**b. Method of determining the expected rate of return on plan assets**

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(9) Assumptions used for the years ended March 31, 2016 and 2015, are set forth as follows:

	Millions of yen	
	2016	2015
Discount rate.....	<b>Mainly 0.3%</b>	Mainly 0.9%
Expected rate of return on plan assets.....	<b>2.5%</b>	2.0%

(b) The required contribution to defined contribution plans by the Company for the years ended March 31, 2016 and 2015, was ¥195 million (\$1,735 thousand) and ¥194 million, respectively.

## 9. Income taxes

The Companies are subject to several taxes based on income and revenue. For the years ended March 31, 2016 and 2015, the aggregate normal effective statutory tax rates approximated 28.2% and 30.1%, respectively.

The significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Unrealized profit.....	<b>¥ 3,859</b>	¥ 3,870	<b>\$ 34,252</b>
Liability for employees' retirement benefits...	<b>3,204</b>	2,923	<b>28,434</b>
Depreciation and amortization.....	<b>1,767</b>	1,899	<b>15,684</b>
Accrued expenses.....	<b>1,503</b>	1,616	<b>13,341</b>
Business consignment expenses.....	<b>808</b>	227	<b>7,175</b>
Other.....	<b>1,481</b>	1,537	<b>13,150</b>
Subtotal.....	<b>12,624</b>	12,075	<b>112,040</b>
Less: valuation allowance.....	<b>(399)</b>	(419)	<b>(3,542)</b>
Total deferred tax assets.....	<b>¥12,225</b>	¥11,656	<b>\$108,497</b>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities.....	<b>(674)</b>	(1,015)	<b>(5,986)</b>
Unrealized gain on land revaluation.....	<b>(282)</b>	(290)	<b>(2,506)</b>
Other.....	<b>(122)</b>	(123)	<b>(1,084)</b>
Total deferred tax liabilities.....	<b>¥ (1,079)</b>	¥ (1,429)	<b>\$ (9,578)</b>
Net deferred tax assets.....	<b>¥11,146</b>	¥10,226	<b>\$ 98,919</b>

As the difference between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2016 is not more than 5% of the normal effective statutory tax rate, a reconciliation has not been disclosed.

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2015 and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2015
Normal effective statutory tax rate.....	<b>30.1%</b>
Adjustment of deferred tax assets at year-end resulting from tax rate changes.....	<b>6.5</b>
Tax credit.....	<b>(4.3)</b>
Difference in subsidiaries' tax rate.....	<b>1.4</b>
Elimination of unrealized gains.....	<b>0.9</b>
Other-net.....	<b>(0.4)</b>
Actual effective tax rate.....	<b>34.2%</b>

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2016, by ¥199 million (\$1,771 thousand), and to increase income taxes-deferred in the consolidated statement of income for the year then ended by ¥204 million (\$1,813 thousand). The effect of this change on accumulated other comprehensive income in the consolidated balance sheet was immaterial.

## 10. Equity

Japanese companies are subject to the Companies Act. The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

## 11. Research and development costs

Research and development costs charged to income were ¥990 million (\$8,788 thousand) and ¥1,426 million for the years ended March 31, 2016 and 2015, respectively.

## 12. Financial instruments and related disclosures

### (a) The Companies' policy for financial instruments

The Companies use financial instruments, mainly long-term debt, including loans and bonds, to raise funds required for capital investments and repayments of liabilities. Short-term bank loans and commercial paper are used to fund their ongoing operations.

### (b) Nature and extent of risks arising from financial instruments

Investment securities, mainly equity securities issued by companies related through business, are exposed to the risk of market price fluctuations.

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk.

Loans at variable interest rates are exposed to market risks from changes in variable interest rates. However, related interest rate fluctuations have a minimal impact because most funds are raised at fixed interest rates.

Payment terms of payables, such as trade notes and trade accounts, generally are less than one year.

The Companies use foreign currency forward contracts and interest rate swaps to manage their exposures to fluctuations in foreign exchange and interest rates.

### (c) Risk management for financial instruments

#### (1) Credit risk management

In accordance with electric power supply agreements and the like, the Companies continuously manage the credit risk from receivables by monitoring the payment terms and balances of each customer and identifying the default risk of customers at an early stage.

#### (2) Market risk management (stock price, interest rate and foreign exchange risks)

The market risk of investment securities is managed by monitoring market values and the financial position of issuers on a regular basis.

Derivative transactions have been made in accordance with internal policies that regulate their authorization. Risk management policies are set forth at the beginning of the fiscal year. Each derivative transaction is reported to a financial and accounting officer monthly and reported to the Board of Directors semiannually.

#### (3) Liquidity risk management for fund-raising

The Companies prepare and update their financial plans on a timely basis and manage liquidity risk through the use of an overdraft line and by acquiring a commitment line.

#### (d) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Please see Note 13 for details related to fair values for derivatives.

#### (1) Fair values of financial instruments

The carrying amounts and aggregate fair values of financial instruments as of March 31, 2016 and 2015, were as follows:

March 31, 2016	Millions of yen		
	Carrying amount	Fair value	Unrecognized loss
Investment securities:			
Available-for-sale .....	¥ 5,596	¥ 5,596	
Cash and cash equivalents .....	12,640	12,640	
Notes and accounts receivable.....	11,987	11,987	
Total .....	¥ 30,223	¥ 30,223	

Long-term debt:			
Bonds .....	¥ 69,999	¥ 72,661	¥2,661
Loans .....	111,748	117,946	6,198
Short-term bank loans.....	5,000	5,000	
Commercial paper.....	2,000	2,000	
Notes and accounts payable.....	13,401	13,401	
Income taxes payable.....	850	850	
Total .....	¥202,999	¥211,859	¥8,860
Derivatives .....	¥ (34)	¥ (34)	

March 31, 2015	Millions of yen		
	Carrying amount	Fair value	Unrecognized loss
Investment securities:			
Available-for-sale .....	¥ 6,877	¥ 6,877	
Cash and cash equivalents .....	11,256	11,256	
Notes and accounts receivable.....	10,481	10,481	
Total .....	¥ 28,614	¥ 28,614	

Long-term debt:			
Bonds .....	¥ 79,999	¥ 82,716	¥2,716
Loans .....	115,710	120,838	5,128
Short-term bank loans.....	5,172	5,172	
Notes and accounts payable.....	14,550	14,550	
Income taxes payable.....	486	486	
Total .....	¥215,918	¥223,764	¥7,845
Derivatives .....	¥ (13)	¥ (13)	

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrecognized loss
<b>March 31, 2016</b>			
Investment securities:			
Available-for-sale .....	\$ 49,664	\$ 49,664	
Cash and cash equivalents .....	112,177	112,177	
Notes and accounts receivable.....	106,381	106,381	
Total .....	\$ 268,224	\$ 268,224	
Long-term debt:			
Bonds .....	\$ 621,227	\$ 644,847	\$23,619
Loans .....	991,729	1,046,742	55,013
Short-term bank loans.....	44,373	44,373	
Commercial paper.....	17,749	17,749	
Notes and accounts payable .....	118,931	118,931	
Income taxes payable.....	7,547	7,547	
Total .....	\$1,801,557	\$1,880,191	\$78,633
Derivatives .....	\$ (301)	\$ (301)	

Investment securities whose fair value cannot be reliably determined are excluded from the above tables.

Derivatives are stated at the net amount.

#### Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity securities. Fair value information for investment securities by classification is included in Note 5.

#### Cash and cash equivalents and notes and accounts receivable

The carrying values of cash and cash equivalents and notes and accounts receivable approximate fair value because of their short maturities.

#### Bonds

The fair values of bonds are mainly measured at the quoted market price.

#### Long-term loans

Because long-term loans at variable interest rates reflect short-term movements in market interest rates, the carrying amounts approximate fair value.

The fair values of loans at fixed interest rates are determined by discounting the cash flows related to the loans at the Company's assumed corporate borrowing rate.

Because a part of loans at fixed interest rates are subjected to interest rate swaps that qualify for hedge accounting and meet specific matching criteria, the carrying amounts of the loans together with the interest rate swaps approximate fair value.

#### Short-term bank loans, commercial paper, notes and accounts payable, and income taxes payable

The carrying values of short-term bank loans, commercial paper, notes and accounts payable, and income taxes payable approximate fair value because of their short maturities.

#### Derivatives

Fair value information for derivatives is included in Note 13.

(2) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investment securities:			
Available-for-sale:			
Unlisted equity securities .....	¥2,316	¥4,335	\$20,561
Other.....	35	70	315
Total .....	¥2,352	¥4,406	\$20,876

#### (e) Maturity analysis for financial assets with contractual maturities

March 31, 2016	Millions of yen	Thousands of U.S. dollars
	Due in one year or less	Due in one year or less
Cash and cash equivalents .....	¥12,640	\$112,117
Notes and accounts receivable.....	11,987	106,381
Total .....	¥24,627	\$218,559

## 13. Derivatives

The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign currency forward contracts and interest swaps are utilized to reduce foreign currency exchange and interest rate risks. The Company does not hold or issue derivatives for trading or speculative purposes.

Derivatives are subject to market risk, which is the exposure created by potential fluctuations in market conditions, including foreign exchange and interest rates. Because the counterparties to those derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company have been made in accordance with internal policies.

#### Derivative transactions to which hedge accounting is applied

As of March 31, 2016	Millions of yen				Thousands of U.S. dollars			
	Hedged item	Contract amount	Contract amount due after one year	Fair value	Hedged item	Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contracts:								
Buying EURO .....	Foreign currency transaction (forecasted transactions)	¥1,204	¥644	¥(34)	Foreign currency transaction (forecasted transactions)	\$10,690	\$5,716	\$(301)
Interest rate swaps:								
(floating rate payment, fixed rate receipt) .....	Long-term debt	¥ 999	¥333		Long-term debt	\$ 8,865	\$2,955	

	Millions of yen			
As of March 31, 2015	Hedged item	Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contracts:				
Buying EURO .....	Foreign currency transaction (forecasted transactions)	¥ 984	¥433	¥(13)
Interest rate swaps:				
(floating rate payment, fixed rate receipt) .....	Long-term debt	¥1,665	¥999	

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The above interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expense. As a result, the fair value of such interest rate swaps is included in that of hedged items (i.e., long-term debt) in Note 12.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Company exposure to credit or market risk.

## 14. Other comprehensive income

The components of other comprehensive income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Other comprehensive income:			
Unrealized (loss) gain on available-for-sale securities			
(Losses) gains arising during the year .....	¥(1,280)	¥1,352	\$(11,367)
Reclassification adjustments to profit or loss .....	¥ 55		\$ 490
Amount before income tax effect .....	(1,225)	1,352	(10,876)
Income tax effect .....	342	(305)	3,037
Total .....	¥ (883)	¥1,047	\$ (7,838)
Deferred loss on derivatives under hedge accounting			
Losses arising during the year .....	¥ (20)	¥ (13)	\$ (183)
Amount before income tax effect .....	(20)	(13)	(183)
Income tax effect .....	5	3	49
Total .....	¥ (15)	¥ (9)	\$ (133)
Defined retirement benefit plans			
Losses arising during the year .....	¥(1,605)	¥ (187)	\$(14,247)
Reclassification adjustments to profit or loss .....	(248)	(503)	(2,204)
Amount before income tax effect .....	(1,853)	(690)	(16,451)
Income tax effect .....	513	220	4,555
Total .....	¥(1,340)	¥ (470)	\$(11,896)
Share of other comprehensive (loss) income in an affiliate accounted for under the equity method			
(Losses) gains arising during the year .....	¥ (1)	¥ 0	\$ (12)
Total other comprehensive income .....	¥(2,240)	¥ 568	\$(19,881)

## 15. Segment information

### (a) Description of reportable segments

The Companies' reportable segments are those for which financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Companies. The Company and its consolidated subsidiaries compose their own business segment, respectively, and the industry "Electric" holding most of their business is treated as a reportable segment. Industry "Electric" supplies electricity throughout Okinawa Prefecture.

### (b) Methods of measurement for the amounts of sales, profit, assets, and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies." Segment profit is based on operating income. The same or similar general business conditions are applied to "Sales to external customers" and "Intersegment sales or transfers."

(c) Information about sales, profit, assets, and other items is as follows:

	Millions of yen					Thousands of U.S. dollars				
	Reportable segment					Reportable segment				
2016	Electric	Other	Total	Reconciliations	Consolidated	Electric	Other	Total	Reconciliations	Consolidated
Sales										
Sales to external customers .....	¥173,205	¥ 9,060	¥182,265		¥182,265	\$1,537,143	\$ 80,406	\$1,617,549		\$1,617,549
Intersegment sales or transfers .....	1,081	33,299	34,381	¥(34,381)		9,595	295,527	305,122	\$(305,122)	
Total.....	¥174,286	¥42,360	¥216,646	¥(34,381)	¥182,265	\$1,546,738	\$375,933	\$1,922,671	\$(305,122)	\$1,617,549
Segment profit.....	¥ 5,597	¥ 1,880	¥ 7,477	¥ (238)	¥ 7,239	\$ 49,672	\$ 16,690	\$ 66,363	\$ (2,112)	\$ 64,250
Segment assets.....	384,459	45,945	430,405	(20,544)	409,860	3,411,958	407,755	3,819,714	(182,325)	3,637,388
Other:										
Depreciation.....	26,415	1,058	27,474	(890)	26,583	234,431	9,393	243,824	(7,905)	235,919
Increase in property, plant and equipment and intangible assets .....	18,466	2,257	20,723	(455)	20,267	163,881	20,031	183,913	(4,043)	179,869

	Millions of yen				
	Reportable segment				
2015	Electric	Other	Total	Reconciliations	Consolidated
Sales					
Sales to external customers .....	¥177,343	¥ 7,657	¥185,001		¥185,001
Intersegment sales or transfers .....	166	31,714	31,880	¥(31,880)	
Total.....	¥177,509	¥39,372	¥216,882	¥(31,880)	¥185,001
Segment profit.....	¥ 7,525	¥ 1,954	¥ 9,480	¥ (1)	¥ 9,479
Segment assets.....	400,934	43,371	444,305	(22,480)	421,824
Other:					
Depreciation.....	27,363	986	28,350	(921)	27,428
Increase in property, plant and equipment and intangible assets .....	24,569	1,184	25,753	(1,471)	24,281

Notes: 1. "Other" consists of construction, operation of electrical machinery and facilities on commission and others. The Companies do not have foreign operations. No sales to foreign customers were made during the years ended March 31, 2016 and 2015.

2. Reconciliations of the segment profit and the segment assets are intersegment transaction eliminations.

3. Segment profit is adjusted to reflect operating income in the consolidated statements of income.

## 16. Subsequent event

The following appropriation of retained earnings at March 31, 2016, was approved at the Company's shareholders' meeting held on June 29, 2016:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥30 (27¢) per share.....	¥786	\$6,975

On June 1, 2016, the Company effected a 1.5-for-1 stock split for each outstanding share and 13,143,542 shares were consequently issued to shareholders of record on May 31, 2016.

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of The Okinawa Electric Power Company, Incorporated:

We have audited the accompanying consolidated balance sheet of The Okinawa Electric Power Company, Incorporated and its consolidated subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Okinawa Electric Power Company, Incorporated and its consolidated subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*

June 30, 2016

Member of  
Deloitte Touche Tohmatsu Limited

# Nonconsolidated Balance Sheet

The Okinawa Electric Power Company, Incorporated

March 31, 2016 (Unaudited)	Millions of yen		Thousands of U.S. dollars*
	2016	2015	2016
<b>Assets</b>			
<b>Property, plant and equipment:</b>			
Utility plant and equipment .....	¥969,148	¥956,592	\$8,600,887
Construction in progress .....	10,117	11,331	89,792
Total .....	979,265	967,923	8,690,679
Less:			
Contributions in aid of construction .....	(31,948)	(30,759)	(283,530)
Accumulated depreciation .....	(607,348)	(587,133)	(5,390,025)
Total .....	(639,296)	(617,893)	(5,673,555)
Net property, plant and equipment.....	339,969	350,030	3,017,124
<b>Investments and other assets:</b>			
Investment securities.....	7,282	10,484	64,633
Investments in and advances to subsidiaries and affiliates.....	3,939	4,303	34,958
Deferred tax assets .....	3,634	3,665	32,252
Other assets .....	2,452	2,694	21,761
Allowance for doubtful accounts .....	(43)	(45)	(385)
Total investments and other assets.....	17,264	21,102	153,220
<b>Current assets:</b>			
Cash and cash equivalents .....	5,042	4,594	44,752
Accounts receivable.....	8,615	8,326	76,458
Fuel and supplies .....	10,704	14,386	95,002
Deferred tax assets .....	1,871	1,411	16,604
Other current assets .....	1,079	1,195	9,582
Allowance for doubtful accounts .....	(88)	(113)	(785)
Total current assets .....	27,225	29,801	241,614
Total.....	¥384,459	¥400,934	\$3,411,959
<b>Liabilities and equity</b>			
<b>Long-term liabilities:</b>			
Long-term debt, less current maturities.....	¥154,139	¥168,153	\$1,367,941
Lease obligations .....	26,761	28,239	237,499
Liabilities for employees' retirement benefits.....	6,389	6,902	56,700
Other long-term liabilities.....	4,299	4,270	38,153
Total long-term liabilities.....	191,589	207,566	1,700,295
<b>Current liabilities:</b>			
Current maturities of long-term debt .....	25,569	26,526	226,918
Commercial paper .....	2,000		17,749
Short-term borrowings .....	7,000	7,000	62,122
Accounts payable .....	8,780	11,974	77,923
Income taxes payable .....	456		4,046
Accrued expenses .....	11,106	10,696	98,568
Other current liabilities .....	3,348	3,317	29,715
Total current liabilities.....	58,260	59,516	517,045
<b>Equity:** ***</b>			
Common stock,			
Authorized — 45,000,000 shares			
Issued — 26,287,084 shares in 2016 and 2015 .....	7,586	7,586	67,327
Capital surplus:			
Additional paid-in capital.....	7,141	7,141	63,380
Retained earnings:			
Legal reserve.....	964	964	8,563
Unappropriated .....	117,461	115,839	1,042,430
Unrealized gain on available-for-sale securities.....	1,772	2,606	15,729
Deferred loss on derivatives under hedge accounting.....	(24)	(9)	(218)
Treasury stock, at cost 86,871 shares in 2016 and 82,555 shares in 2015 .....	(292)	(278)	(2,594)
Total equity .....	134,609	133,851	1,194,618
Total.....	¥384,459	¥400,934	\$3,411,959

Notes: \* The translations of Japanese yen amounts into U.S. dollar amounts have been made at the rate of ¥112.68 to \$1, the approximate rate of exchange as of March 31, 2016.

\*\* A 1.5-for-1 stock split was effected on June 1, 2015. It is calculated on the assumption that this stock split was conducted at the beginning of FY 2014 (April 1, 2013).

\*\*\* A 1.5-for-1 stock split was effected on June 1, 2016. However, the number of shares presented above has not been restated to reflect this stock split.

The number of the shares after the stock split is as follows:

Authorized shares - 67,500,000 shares

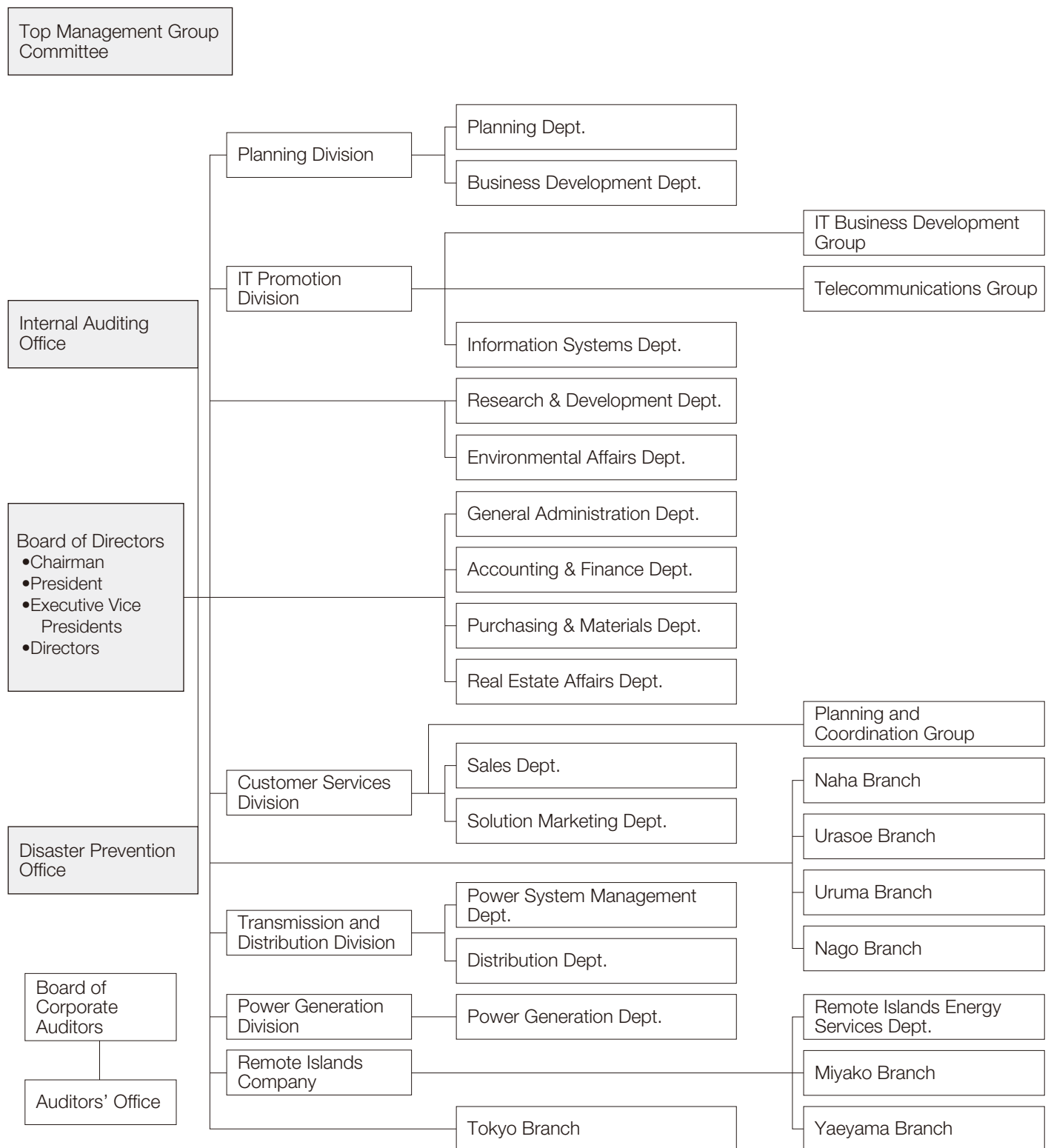
Issued - 39,430,626 shares in 2016 and 2015

Treasury stock, at cost - 130,306 shares in 2016 and 123,832 shares in 2015

## The Okinawa Electric Power Company, Incorporated

Notes: \* The translations of Japanese yen amounts into U.S. dollar amounts have been made at the rate of ¥112.68 to \$1, the approximate rate of exchange at March 31, 2016.  
 \*\* A 1.5-for-1 stock split was effected on June 1, 2016. Per share of common stock is calculated on the assumption that this stock split was conducted at the beginning of FY 2015 (April 1, 2014).  
 \*\*\* A 1.5-for-1 stock split was effected on June 1, 2016. However, the cash dividends per share information has not been restated to reflect this stock splits.

# Organization Chart



(As of July 1, 2016)

# Corporate Data

## Head Office

2-1, Makiminato 5-chome, Urasoe, Okinawa 901-2602, Japan

Tel: +81 (0)98-877-2341

Fax: +81 (0)98-877-6017

URL: [www.okiden.co.jp/english/index.html](http://www.okiden.co.jp/english/index.html)

## Tokyo Branch

No. 45 Kowa Bldg. 6F, 15-9, Minami-Aoyama 1-chome,

Minato-ku, Tokyo 107-0062, Japan

Tel: +81 (0)3-3796-7768

## Established

May 15, 1972

## Capital

¥7,586 million

## Total Assets

¥384,459 million

## Number of Customers

906,214 (Includes users of both lighting and power)

## Number of Employees

1,533

## Power Generation Facilities (As of March 31, 2016)

Type of Station	Number of Facilities	Generating Capacity [kW]
Steam	9	1,629,000
Gas Turbine	9	326,000
Internal Combustion	64	197,570
Renewable	8	2,315
Total	90	2,154,885

## Independent Certified Public Accountants

Deloitte Touche Tohmatsu LLC

## Consolidated Subsidiaries

Name	Capital	Main Business Lines	Equity Ownership
Okidenko Company, Incorporated	¥130 million	Construction	80.0%
Okiden Kigyo Company, Incorporated	¥43 million	Peripheral operations related to electric power business	91.8%
Okinawa Plant Kogyo Company, Incorporated	¥32 million	Peripheral operations related to electric power business	95.8%
Okinawa Denki Kogyo Company, Incorporated	¥23 million	Peripheral operations related to electric power business	99.4%
Okiden Kaihatsu Company, Incorporated	¥50 million	Real estate	100.0%
The Okiden Global Systems Company, Incorporated	¥20 million	Information and telecommunications	100.0%
Okinawa Enetech Company, Incorporated	¥40 million	Construction	98.3%
Okinawa New Energy Development Company, Incorporated	¥49 million	New energy business	96.8%
Okisetsubi Company, Limited	¥20 million	Construction	80.0%
First Riding Technology, Inc.	¥450 million	Information and telecommunications	95.8%
Progressive Energy Corporation (PEC)	¥100 million	Dispersed generating plant business	99.1%

## Affiliates Accounted for Under the Equity Method

Name	Capital	Main Business Lines	Equity Ownership
Okinawa Telecommunication Network Co., Inc.	¥1,184 million	Information and telecommunications	31.0%

# Investor Information

## Transfer Agent and Registrar

Mitsubishi UFJ Trust & Banking Corporation  
4-5, Marunouchi 1-chome, Chiyoda-ku,  
Tokyo 100-8212, Japan

## Securities Traded

Tokyo Stock Exchange,  
Fukuoka Stock Exchange

## Common Stock Issued

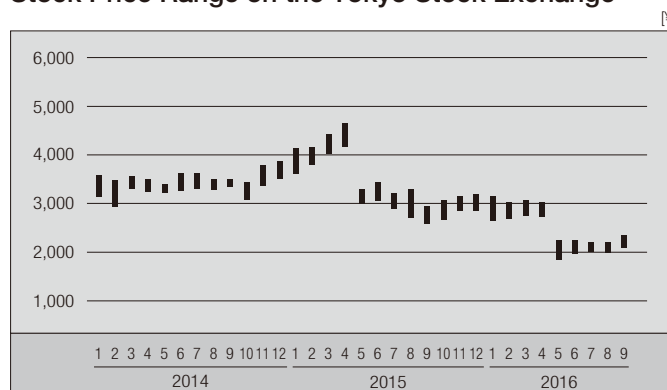
26,287,084 shares

## Number of Shareholders

7,849

(As of March 31, 2016)

## Stock Price Range on the Tokyo Stock Exchange



## Credit Ratings (As of August 31, 2016)

	Long-Term	Short-Term
S&P	A+	A-1
Moody's	A1	—
R&I	AA	a-1+
JCR	AAA	J-1+

A credit rating may be subject to withdrawal or revision at any time

# Board of Directors and Auditors



Denichiro Ishimine  
Chairman



Mitsuru Omine  
President



Hiroyuki Motonaga  
Executive Vice President



Kiyohito Shimabukuro  
Executive Vice President

**Managing Directors:** Takeshi Nakazato  
Hideki Onkawa

**Directors:** Noboru Kuwae  
Manabu Miyazato  
Hitoshi Nakasone  
Hayato Narisoko  
Tetsu Yokoda

**Outside Directors\*:** Kunio Oroku  
Hiroshi Kitagawa  
Akira Okada

**Standing Auditor:** Katsumi Yamashiro

**External Auditors:** Masateru Higa  
Shiro Nozaki  
Hikaru Aharen

\* Outside directors are as defined under the Companies Act of Japan

(As of June 29, 2016)



**The Okinawa Electric Power Company, Incorporated**