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August 2018  
President and Director

*H. Saeki*

# Profitability Innovation

## Accelerating Efforts to Transform Profitability

**Shikoku Electric Power Group Medium-Term Management Plan 2020**

**Multi-Utility Corporate Group Supporting Work and Life**

**Fiscal 2016–2020**

**Aiming for Sustainable Growth with Profitability Innovation**

**Further Strengthen the Earnings Base of the Electric Power Business**

- Strengthen Our Electric Supply Base
- Strengthen Our Customer Base

**Create and Develop Future Growth Engines**

- Expand Our Market Areas
- Extend Our Business Domains
- Combination Services

**Bring out the diverse capabilities and organizational strengths of our employees**

**Fulfill public mission and social responsibilities as an electric power supplier**

<b>Targets (Consolidated)</b>	• ROA	Fiscal 2020	Approximately <b>3%</b>
	• Shareholders' Equity Ratio	Fiscal 2020 year-end	More than <b>25%</b>
	• Cash Flows from Operating Activities	Five-Year Cumulative Total	Over ¥ <b>520.0</b> billion

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# Steadily Implementing Medium-Term Management Plan 2020 for Profitability Innovation

Our Group directs its reforms and growth toward becoming a multi-utility corporate group that provides one-stop access to a full range of energy, telecommunications, and business and lifestyle support services based in Shikoku.

One target of our Medium-Term Management Plan 2020, established for the period from fiscal 2016 to fiscal 2020, is profitability innovation. To meet this target, we strive to further strengthen the earnings base of the electric power business and to create and develop future growth engines. Through these initiatives, we aim to achieve return on assets (ROA) of 3%, a shareholders' equity ratio of over 25%, and reach a five-year cumulative total of over ¥520.0 billion in cash flows from operating activities.

Amid this process, the electric power business, the core business of our Group, is experiencing intensifying competition in conjunction with the liberalization of the retail electricity market. In addition, legal separation of the power transmission sector from the distribution sector is scheduled for 2020, and plans to introduce new markets and systems, such as setting up a baseload market, are also underway. At the same time, factors such as the contraction of populations; the proliferation of energy-saving equipment; the expanded use of renewable energy; the advancement of AI, IoT, and other technologies; and the evolution of energy storage technology point to a rapidly changing concept of energy use.

The need to respond to this changing environment is urgent, and it is no exaggeration to say that the coming years comprise a critical period of branching out for our Group. As I stated upon assuming the position of president, by taking an “offensive approach” and maintaining a “sense of promptness”—two key concepts to meeting the coming challenges—I aim to develop a style of management that is “planned by all employees,” meaning that we will listen to employee ideas and factor in their expertise when identifying the best course of action for us to take. Based on the recognition that outcomes of such efforts are tested right now, our Group will work as a whole to steadily implement its medium-term management plan toward further sustainable growth.

Ikata Nuclear Power Station Unit No. 3, a core power source for our electric power business has halted operations following a provisional injunction handed down by the Hiroshima High Court in December 2017 to cease operations until September 30, 2018. In addition to making every effort to further improve the safety and reliability of the Ikata Power Plant, we will make a full effort to substantiate all of our claims to safety with proper evidence in court. By ensuring the resumption and subsequent regular operation of the plant, we are working toward stabilizing our management base.

### Key Movement in the Electrical Power Business in Recent Years

Fiscal 2016	Fiscal 2020
	<b>Liberalization of the Retail Electricity Market</b> Wholesale deregulation and introduction of licenses for generation, transmission, and sale of electricity
	<b>Legal Separation of the Power Transmission / Distribution Sector</b> Incorporation-type company split

### Timeline of Introducing of New Markets

	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021 -
Baseload Market (Forward Market)			☆ Open Market	☆ Start Delivery	
Transmission Usage		☆ Implicit Action	☆ Transmission Congestion Right		
Capacity Market				☆ Open Market	☆ Put Capacity into Effect
Be Lancing Market				☆ Open Market	☆ Start Delivery
Zero Emission (Non-Fossil) Credits Market		☆ Open Market (FIT Only)	☆ Open Market (Every Power Source)		

Create from report of Agency for Natural Resources and Energy



#### Shikoku Electric Power Group Vision (in Japanese only)

<http://www.yonden.co.jp/corporate/ir/policy/vision/index.html>

#### Shikoku Electric Power Group Medium-Term Management Plan (in Japanese only)

[http://www.yonden.co.jp/corporate/ir/policy/medium-term\\_management\\_plan/pdf/medium-term\\_management\\_plan\\_all.pdf](http://www.yonden.co.jp/corporate/ir/policy/medium-term_management_plan/pdf/medium-term_management_plan_all.pdf)

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## Further Strengthening the Electric Power Business and Creating Future Sources of Profit by Creating and Expanding Business Domains

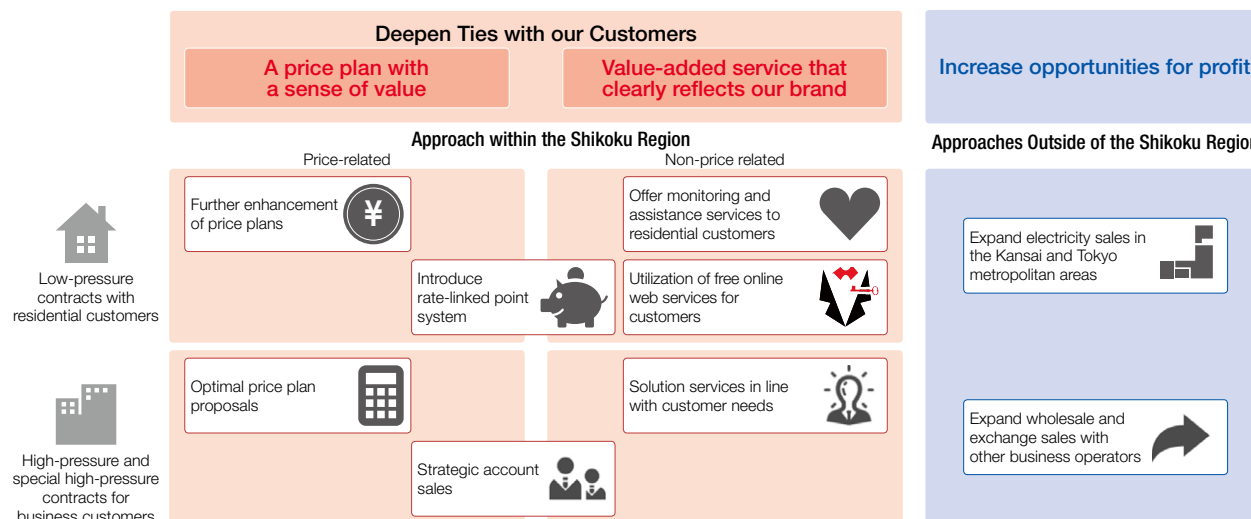
As stated, the business environment is rapidly changing. In response to this, we will focus our business management efforts on three priority measures in fiscal 2018: expansion of electricity sales, exhaustive improvement of business efficiency, and creation and growth of profit sources outside of the electric power business.

In terms of the first measure, the expansion of electricity sales, endeavors regarding price plans—such as an upgraded plan for residential customers, as well as optimum pricing plan proposals tailored to specific business customers\*—are a given, but we will also develop a diverse set of services while utilizing our strengths as a power company closely tied to regions where we operate.

To be more specific, we are offering services to household users such as the Everyday Trouble Dispatch Service and have upgraded contents for our web service, the Yonden Concierge, a free membership service with more opportunities to use Yonden Points, a rate-linked loyalty point system. For our corporate clients, we provide energy solution services that make use of our technical ability and expertise. Through these initiatives we are strengthening our non-price-related approaches, and in doing so, improving our relationships with customers and encouraging more people to opt for electric power. Furthermore, we aim to increase opportunities for profit through expanding wholesale and exchange sales with other business operators in addition to growing a new customer base through the retail sale of electricity centered on the Tokyo metropolitan area.

\* Sales activities developed by representatives on a customer-by-customer basis

### Further Strengthening Electricity Sales



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Regarding the second measure, exhaustive improvement of business efficiency, our plans involve:

- Safe and stable operation of power supply facilities, particularly involving Ikata Unit No. 3,
- Responses to aging facilities, including replacing Saijo Unit No.1 with ultra-supercritical (USC) generation equipment, and the abolition of aging oil thermal power plants
- Maximizing use of renewable energy by boosting output of hydropower stations and introducing solar and wind power generation facilities on a Groupwide basis

By promoting these actions in a systematic manner, we aim to optimize supply capacity. At the same time, we will redouble our efforts to reduce procurement costs and improve labor productivity, and in doing so we will promote the exhaustive improvement of business efficiency.

### Exhaustive Improvement of Business Efficiency

#### Optimization of Supply Capacity

##### Safe and stable operation of supply facilities

Safe and stable operation of Ikata Unit No. 3

Steady execution of medium- and long-term safety measures at Ikata Unit No. 3

Early detection and restoration of equipment trouble

##### Responses to aged facilities

Replacing Unit No. 1 and No. 2 at the Sakaide Thermal Power Station with LNG combined cycle systems.

Replacing Unit No. 1 at Saijo Thermal Power Station with ultra-supercritical (USC) equipment

Decommissioning of Ikata Unit No. 1 and No. 2

Halt and Abolition of aged oil thermal power facilities

##### Maximum utilization of renewable energy

Increase output at hydropower stations

Expand introduction of solar and wind power facilities Groupwide

#### Comprehensive Improvement of Business Efficiency

##### Decrease procurement costs

Decrease procurement costs for equipment and materials

Decrease procurement costs for fuel

##### Strengthen organizational base

Further improve productivity of labor

Install an organizational system adaptable to environmental change

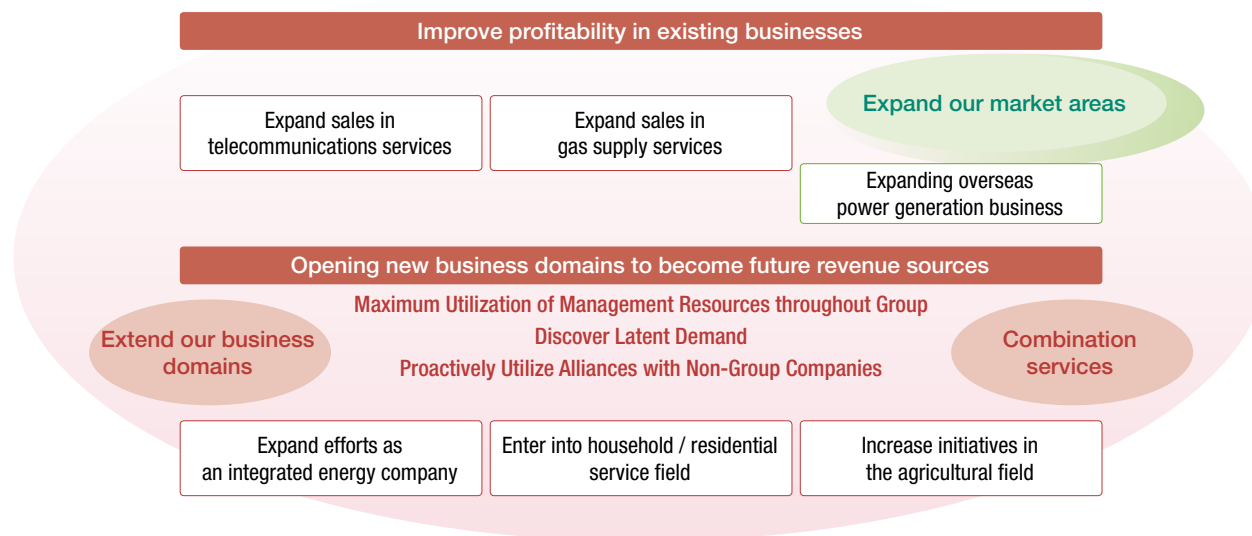
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As for the third measure, creation and growth of profit sources outside of the electric power business, we are working to achieve greater profitability in existing businesses, including telecommunications, gas supply services, and the overseas power generation business. In addition, we are proactively developing new business fields, such as the LNG terminal business, through joint operation of the LNG terminal inside Sumitomo Chemical's Ehime Works, as well as lifestyle support services and agricultural businesses.

As of April 2018, we restructured our company organization by making various changes, such as restructuring of the sales division and strengthened sales structure outside Shikoku, in addition to creating the Renewable Energy Department, the International Business & Cooperation Department, and the New Technology Application Project Team. Through these changes, we aim to strengthen our approach to the issues I have stated.

### Creation and Growth of Profit Sources Outside of the Electric Power Business





## Fulfilling Social Responsibilities While Supporting Sustainable Value Creation

Our Group is committed to living in the community, moving forward with the community, and prospering with the community. Guided by this basic stance, we believe that focusing on social issues and creating business opportunities linked to resolving these issues are key to our sustainable growth as a group. To this end, we are utilizing the management resources in our possession to their maximum, such as our competitive power sources, our highly trusted power and communication network, human resources, technical capabilities, the credibility and brand power that we have cultivated in Shikoku, and our healthy financial structure. At the same time, we are developing various businesses within three business domains rooted in the energy business: integrated energy centered on electric power, telecommunications, and business and lifestyle support. The result is not only continued value creation for our stakeholders, but also further strengthening of said management resources. By utilizing our management resources to strengthen those same resources, we aim to achieve a sustainable cycle for value creation.

The foundation for this value creation cycle is the 7 CSR Pillars, a set of priority issues for our Group to target in its efforts. In line with these seven pillars, our Group has promoted CSR activities as part of business management. Moving forward, we are working to constantly improve our activities to meet changing social needs and risk factors in terms of environmental, social, and governance (ESG) issues.

Specifically, we are steadily optimizing supply capabilities, one of our environmental initiatives, by methods such as maximizing the use of renewable energy and improving efficiency in power generation. Furthermore, to improve our adaptability in the face of changes to the business environment, we are securing human resources that will support the next generation of business operations and enhancing employee education. At the same time, we are working to raise employee motivation by improving business efficiency and creating work-life balance via the “Yonden e-work” workstyle reform.

From June 2017, we adopted the Company with Audit and Supervisory Committee system described in the Companies Act of Japan. In doing so, we are promoting enhanced management supervision as well as strengthened business execution.

We have established a set of basic policies that provide the grounds for these efforts, including the Yonden Group Action Charter, the Yonden Group Environmental Policies, and the Yonden Basic Policy on Corporate Governance. We welcome you to learn more about these Yonden Group initiatives.



**Yonden Group Action Charter (in Japanese only)**

Please refer to P. 39 for more details

<http://www.yonden.co.jp/corporate/csr/policy/index.html>

**Yonden Group Environmental Policies (in Japanese only)**

Please refer to P. 45 for more details

[http://www.yonden.co.jp/energy/environ/policy\\_02/index.html](http://www.yonden.co.jp/energy/environ/policy_02/index.html)

**Basic Approach to Corporate Governance (in Japanese only)**

Please refer to P. 69 for more details

<http://www.yonden.co.jp/corporate/ir/policy/governance/index.html>

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### Reaching the Goals of the Medium-Term Management Plan

In fiscal 2017, we experienced sales and profit growth compared to the previous fiscal year, securing ¥29.2 billion in operating income, ¥28.0 billion in ordinary income, and ¥19.6 billion in net income. These results, coupled with ROA of 2.7%, a shareholders' equity ratio of 23.5%, and cash flows from operating activities of ¥123.5 billion reflect a favorable move toward achieving the goals of our medium-term management plan.

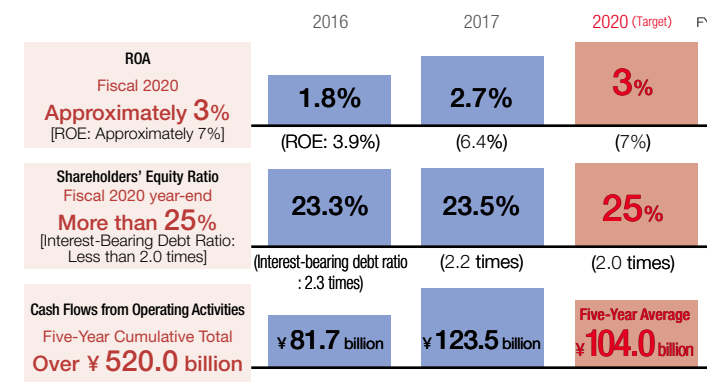
We set interim and year-end dividend payments at ¥15 per share, for a total of ¥30 per share, a ¥10 increase from the previous fiscal year.

Due to the difficulty in forecasting a start date for resumed operations of Ikata Unit No. 3, we have not determined earnings forecasts or dividends for fiscal 2018. However, in accordance with our basic policy for shareholder returns of issuing stable dividends, we will make a judgment concerning dividend levels after comprehensive examination of various factors, including business performance levels, the financial situation, and the business environment in the medium to long term.

In addition, we will work toward dividend payments of ¥50 per share, assuming the safe and stable operation of Ikata Unit No.3 leads to such outcomes as normalized business operations and the securing of stable profits.

We would like to ask our shareholders and other investors to focus on our business activities from a medium- to long-term perspective. We hope that we will receive your continued support and understanding into the future.

#### Progress toward Management Targets (Consolidated)



#### Earnings and Dividend per Share

