May 12, 2022

Shikoku Electric Power Company, Incorporated.

Main questions and answers at FY2021 Financial Results Briefing

Q. I guess that current conditions in the fuel market and other factors will have a significant impact on profitability, given that most retail contracts have an ceiling on the fuel cost adjustment. I would like to ask about the Company's understanding of this issue, including any countermeasures.

A. Depending on the level of coal prices, we may face fairly a difficult situations related to profitability, so we recognize that the problem of the ceiling on the fuel cost adjustment is the biggest management issue for this fiscal year. For extra-high and high-voltage customers, at present, we are only accepting new installation contracts, and are not accepting contracts switching from other companies, because we cannot promise to supply power at an appropriate price over the full year. On the other hand, with regard to existing contracts, which are the biggest issue, we are considering whether there are any measures we can take to have customers switch to contracts without a fuel cost adjustment ceiling, even during the period, etc. In line with the removal of the ceiling on fuel cost adjustments, we are also considering taking action as soon as possible, because the key will be the details of our proposals, such as what kind of conditions we can offer.

At the same time, as a measure for profitability in the current fiscal year, we are making efforts to defer large projects and carefully selecting new projects, in order to control maintenance and consignment costs, and have issued a company-wide order to thoroughly enforce measures to reduce expenses.

Q. Depending on fuel prices, there is likely to be a significant impact on profitability, but will there be any change in the dividend policy?

A. With stable dividends as basic principle, we will make decisions concerning the dividend after comprehensively considering such factors as business performance levels in the current fiscal year and the medium- to long-term business environment. As such, there is no change to our existing dividend policy.

Q. Does the JEPX price hike have more of a positive or negative impact on your profitability?

A. In FY2022, we will be unable to use 156MW of coal-fired power over the full year due to the replacement work of Saijo Unit 1, but Ikata Unit 3 has been in operation for 10 months and we have a relative spare supply capacity. Accordingly, we are generally able to maintain a good balance, including in terms of price levels, between our FIT retail purchases plus a small amount of market procurement and the volume we sell wholesale on the market.

From FY2023 onward, we will start operating the new 500MW Saijo Unit 1 following its replacement, which will increase our excess supply capacity. Therefore, we expect that higher JEPX prices will mean we are in a better position.

In addition, from a medium-term perspective, we have secured price competitiveness by streamlining our power sources amid the spread of low-priced sales in the retail sector. However, as JEPX prices have soared owing to lower supply capacity across Japan, the importance of maintaining a balanced set of power sources has been recognized once again. At the same time, we are moving into an environment that enables us to optimize retail prices, and we therefore believe that there is room to improve profitability, which has deteriorated.

End of document