November 9, 2023

Shikoku Electric Power Company, Incorporated

# Main Questions and Answers at Financial Results Briefing

Q. What is roughly your actual profit excluding one-offs and extraordinary items?

A. We expect actual profit of approximately 35 billion yen. To derive this, from the forecasted ordinary profit of 58 billion yen for FY2023, we deduct 22 billion yen as a one-time factor due to the impacts of the time lag effect of fuel cost adjustment system and an abundance of water, and 5 billion yen as an upward swing in the transmission and distribution business. We also take into account the two-month delay in the revision of regulated rates.

The ordinary profit target of 35 billion yen presented in the Medium-Term Management Plan 2025 was set as the level required to achieve an ROA of around 3%. However, since the announcement at end-FY2020, total assets have increased more than initially projected, owing to a change in the accounting method for depreciation to straight-line and the increased holdings of fuel storage and cash and deposits as risk mitigation strategies. With this in mind, we need to be aware that ordinary profit of approximately 40 billion yen is needed to achieve an ROA of approximately 3%.

Q. What is your dividend policy going forward? Can you achieve it together with improvement in the shareholders' equity ratio?

A. We are aiming to achieve an ROA of approximately 3% set forth in the Medium-Term Management Plan 2025 by improving the profitability of the electric power business. However, we have not yet reached our targets for the shareholders' equity ratio and interest-bearing debt ratio due to the confluence of various events over the past few years. Although the situation is improving, we expect to fall behind a little as to the year we hit the targets. Under these circumstances, we consider the goal of a 50 yen/share dividend set forth in the Medium-Term Management Plan 2025 to be important. We intend to make incremental steps toward the 50 yen dividend while improving our financial position in due course.

Q. What was the thinking behind setting the current shareholders' equity targets of 25% and 30%?

A. The Electric Power Business has managed to maintain a certain level of credit ratings even with a relatively low shareholders' equity ratio compared to general industries. We also recognize that a shareholders' equity ratio of 25% is the minimum level required to ensure a certain level of financial stability, as the risk buffer becomes thin when the shareholders' equity is below 20%. That said, we believe there is room for debate regarding a level above 30%. We would like to consider this issue in the next medium-term plan, taking into account the business portfolio we are aiming for, the perceptions of the equity market, and changes in the financing environment.

Q. Are you taking any measures to reduce earnings volatility?

A. The largest volatility risk is the shutdown of the Ikata Unit No. 3, which has been significantly mitigated since the trial for provisional disposition has been completed and the specialized safety facilities have been installed. Regarding the risk of capping fuel cost adjustment rates, deregulated rates have been eliminated with the abolishment of the cap last fiscal year, and regulated rates have had their caps reset with rate revisions. Looking at the risk of fluctuations in wholesale transaction prices, we work under the most economical operation in which wholesale supply is made to its own retailers by replacing its own power supplies while monitoring market prices. In addition, we combine relational contracts and market sales in wholesale sales and makes adept use of market sales to reduce the impact of volatility in wholesale transaction prices. We would add that we are striving to mitigate risk in fuel procurement by diversifying its suppliers and procuring fuel under long-term contracts.

Q. It seems that your non-electric power businesses is doing well. What are your thoughts on further growth potential, future investment, and restarting your International Business?

A. As for the International Business, although we had a challenging experience with the Yunlin Offshore Wind Farm last year, we are projecting a profit of nearly 3 billion yen in FY2023. Besides Yunlin, other projects are progressing well, and we will continue to make investments after carefully scrutinizing the attendant risks. The IT/Communication business is also performing well. This is largely due to the contribution of the FTTH business. Our group is currently working to expand its operations so that it can secure solid profits in businesses other than FTTH in the future. In the Construction & Engineering Business, the Company is expanding outside of Shikoku and is also undertaking M&A in the Kanto and Kansai regions from the perspective of securing talent and enhancing its ability to win orders.