May 9, 2024

Shikoku Electric Power Company, Incorporated

Main Questions and Answers at the Financial Results Briefing

Q. What is the reason for setting the annual dividend for FY2024 at 40 yen? What is required to reach the target dividend of 50 yen for FY2025?

A. If we subtract the gain due to the time lag effect of the fuel cost adjustment system and the one-off increase in profit from the transmission and distribution business from the FY2023 ordinary profit of 80.0 billion yen, the adjusted ordinary profit becomes approximately 37.5 billion yen. If we subtract the loss due to the time lag effect of the fuel cost adjustment system and the one-off factors in the transmission and distribution business from the FY2024 forecast of 48.0 billion yen, the adjusted ordinary profit becomes 39.0 billion yen. Although actual profit has been steadily improving, it still falls slightly short of the target in the Medium-Term Management Plan 2025 of more than 40.0 billion yen in ordinary profit, which is equivalent to a business profit of about 3% ROA. Taking this level of profitability into account, we have decided to pay a dividend of 40 yen for FY2024. While achieving a dividend of 50 yen for FY2025 is a challenging target, we will make every effort to achieve it in light of the progress in profit growth toward the target and the improvement in the equity ratio.

Q. While the amount of wholesale electricity sold in FY2024 will increase by 7.0 billion kWh compared to the previous year, why the effect of increased profits is only 4.0 billion yen ?

A. There are two reasons for the projected increase in wholesale electricity sales. First, wholesale sales outside the Group are expected to increase by approximately 3.0 billion kWh compared to the previous year due to the equal treatment between subsidiary retailers and third-party retailers . The second is the impact of an increase of 3.5 billion kWh in the amount of extra-regional transmission procured from outside the region by Shikoku Electric Power's retailers and then consigned within Shikoku, etc., as well as an increase in FIT (Feed-in Tariff) transmission and distribution purchases, which are accounted for as a wholesale sales category under accounting principles.

Of this, only about 3.0 billion kWh in the first item contributes to an increase in revenue, so the impact of increased revenue is less than the increase in the volume of wholesale electricity sales.

Q. What do you think about future opportunities for profit generation while the demand is expected to growthroughout Japan?

A. We see that future demand within Shikoku is on a downward trend, which is challenging for the retail business. Meanwhile, there are moves to build data centers in Shikoku, albeit on a small scale. We aim to be proactive in creating demand because increased demand for electricity will revitalize the region and positively impact the Company. In the wholesale business, sales opportunities will expand in line with the increased demand for electricity in western Japan due to the location of data centers and other facilities. We intend to meet this growing demand primarily through coal-fired thermal power plants with spare operating capacity. We will take the initiative to increase revenues by taking advantage of both retail and wholesale.

However, if total sales volume is excessive relative to broad demand growth, the risk of large losses increases when market prices rise. We have measures in place to control earnings volatility by considering not only our power supply but also the relative purchase volume of other companies when setting aside supply capacity.

Also, in recent years, due to intensified competition resulting from full retail liberalization, the decline in unit prices has significantly impacted the revenue and expenses in the power generation and sales sectors. With the introduction of the capacity market, all retail operators are now required to bear a certain fixed cost for power generation, which, we believe, will lead to more appropriate sales prices. We will strive to improve profitability in light of these trends.

Q. What are your thoughts about your company's future business management policies and business areas for the IT/Communications Business, such as pursuing growth through M&A and capital investment and expanding into areas outside Shikoku?

A. The IT/Communications Business as a whole has grown to the point that we can expect to generate 10.0 billion yen in profits. FTTH (Fiber To The Home) generates the most revenue. However, due to the Group's brand power and reputation being primarily associated with the Shikoku area, expanding this business significantly beyond Shikoku could prove challenging. On the other hand, the majority of data center customers are from outside the region, and as such, we believe there is much room for our business to grow. In addition, there is also room to consider M&A of software development companies as a solution to the labor shortage in the IT business.

Q. Looking ahead to the next Mid-Term Management Plan, do you keep your ROE target at 8%, or do you set the bar higher? Please tell us your thoughts at this point as to whether you will increase both profits and shareholders' equity, or whether you will aim to increase shareholder value by increasing profits and raising the efficiency of shareholders' equity as well.

A. The ROE level is exactly what we are discussing along with our capital policy. We are fully aware that 8% ROE is a level that the capital markets demand. We are very conscious of that number.