May 9, 2025

Shikoku Electric Power Company, Incorporated

Main Questions and Answers at FY2024 Financial Results Briefing

Q. I have the impression that going forward ROE of 8% is a level that can be maintained not only through profit growth but also by increasing the shareholder return ratio. I would like to ask if you are thinking that ROE of 8% can be sustained through profit growth alone?

A. At the very least, we must consider how to grow while placing importance on ROE of 8%, which is the level expected by the stock market as a whole.

Regarding the Electric Power Business, at the time of formulating the current Medium-Term Management Plan (MTMP), demand nationwide was expected to trend downward due to the declining population. However, due to factors such as increased demand associated with digitalization, the outlook has shifted to an increase in demand nationwide. We aim to seize this opportunity to pursue new revenue opportunities in the Electric Power Business while continuing to grow our core IT/Communication Business and International Business, among others, to achieve profit growth sufficient to deliver an ROE of 8%.

Q. I understand that you are focusing on the Electric Power Business as a growth area more than before, but if the electric power business and related energy businesses are to be the drivers of growth, how do you view the revenue opportunities in the electric power? While demand is expected to decline within the region, there are expectations for increased demand throughout western Japan. Is Shikoku Electric Power focusing on growth with an eye toward expanding retail sales, or is it focusing on growth in the profitability of its power generation business, including wholesale sales? When considering growth in the electric power business, I would like to ask whether you are focusing more on quantitative expansion or on improving profitability.

A. In the Shikoku area, small-scale projects are emerging, but there are no concrete plans at this point for projects that would increase demand in the area, such as large-scale data centers, so it is difficult to expect a dramatic boost in demand within the region in the near term. Meanwhile, retail sales outside the area are gradually expanding. Although we anticipate changes in the competitive landscape and do not expect growth to continue indefinitely, we aim to maintain an appropriate level of demand within and outside the area over the next five years by covering the decline in demand due to the departure of businesses from the area and population decline through activities outside the area.

As power generation has been our core profit source, we intend to engage seriously with the market and secure profits, including through relative transactions.

In addition, under the current MTMP, given that the electric power business is not expected to grow significantly, we have been working to achieve a 50-50 split in profits between the electric power and other businesses by steadily increasing profits in other businesses. However, given the business changes mentioned earlier, we believe a major theme of the next MTMP will be to increase overall profits by expanding the electric power while continuing to grow newer businesses.

Q. I believe Shikoku Electric Power in particular makes its money from power generation, and when you say you want to expand that business, it seems that this will depend on the operating rate of your power sources. Do you believe there is still leeway for increasing the operating rate of your competitive power sources? Or is it your view that an increase in demand across western Japan will lift market prices, leading to higher sales prices and increased profits for the power generation business?

A. Although market prices are difficult to predict due as they also reflect the operating status of rivals' power supplies, we believe that there is room to increase the operating rate of our competitive power supplies even at current market prices.

Q. In FY2024, profits overshot company forecasts and the balance sheet improved faster than expected, but the dividend remains unchanged from the plan at 40 yen per share. Please share what discussions were held regarding dividends for FY2024.

On the other hand, is the forecast of 50 yen for FY2025 considered to be the goal or merely the starting line? Also, are you aiming for a level above 50 yen, such as the 60 yen level? I would like to know what your thoughts are at this juncture with respect to future dividends after FY2025.

A. For FY2024, due to factors such as a one-off increase in supply-demand adjustment income in the transmission and distribution business, ordinary profit reached a record high of 91.6 billion yen, exceeding the target set in the current MTMP. Based on this, there was discussion about achieving the current MTMP dividend target of 50 yen as soon as possible. However, considering the relationship with the 25% shareholders equity ratio target set in the current MTMP and the concept of setting dividend levels commensurate with business performance, we decided to keep with initial plan of a 40 yen dividend for FY2024 and to plan for a 50 yen dividend for FY2025, despite a decline in profits. Going forward, if we are able to achieve the target dividend of 50 yen set in the current MTMP, we believe it will be necessary to consider an appropriate future dividend policy for the next MTMP, with a view to exceeding that level.

Q. What is your current view on the competitive landscape within the region? If competition is intensifying, how will you respond to it, and to what extent have you factored competition into your earnings forecast for FY2025?

A. The competitive environment is expected to become increasingly challenging from around the latter half of FY2024, and our earnings forecast for FY2025 incorporates demand assumptions that factor a more intensely competitive environment to a certain degree.

Q. The shareholders equity ratio for FY2024 was 26%, exceeding the current MTMP target of 25%. At the previous company briefing (for 2Q of FY2024), I recall that the target shareholders equity ratio was mentioned as being between 25%-30%. Is there any intention to aim for 30% or more in the next MTMP? Also, for example, other electric power companies are increasingly introducing DOE as a dividend metric. Do you have any plans to incorporate such quantitative metrics in your shareholder return policy?

A. In response to the question at the last company briefing about how much further we would aim to go beyond the 25% target for the shareholders equity ratio set in the current MTMP, I believe I explained that while we are conscious of the 30% mark, we do not intend to continue raising it beyond that level. As for the target level of our shareholders equity ratio going forward, we are in discussions right now as we prepare for the MTMP. That said, my fundamental approach remains largely unchanged from the previous briefing. We will seek to find an appropriate level while keeping in mind leverage and ROE levels and ensuring necessary risk buffers are in place amid growing volatility in our income and expenses.

With regard to dividends, we recognize that it is important not only to continue stable dividends, but also to consider the approach to dividends. We are now discussing whether this should be based on the dividend payout ratio, the total return ratio, or a metric such as DOE.

Q. Regarding investment cash flow, excluding periods when safety measures accounted for a large portion of investment, I believe the current level is approximately 90 to 100 billion yen. Looking ahead, as you focus on growth investments, do you anticipate investments expanding beyond this range, or will it remain within it?

A. In our case, investments in nuclear safety measures have largely been completed ahead of other companies, which is why our current investment cash flow is at the 90 billion yen level. Investment in growth areas will become even more critical in the future, and we will continue to invest targeting areas such as IT/Communications, International Business, and renewable energy. In addition to this, investments for decarbonization in thermal power generation are projected to begin. Taking these factors into consideration, we anticipate that investments will increase from the current 90 billion yen, resulting in a tighter free cash flow than at present.

Q. As you formulate the next MTMP, I'm hoping to see a unified and quantitative explanation that ties together the targeted levels of ROE, shareholder return, and the balance sheet. At this point, do you expect to be able to present such an integrated quantitative explanation, or is it more likely be a step before that and targets will be set separately for each of these elements? I'd appreciate hearing your sense of where things stand at the moment.

A. At this stage, we have not yet finalized which metrics or at what levels to present in the next MTMP. However, we fully understand your point, and we will work to ensure that we can provide a coherent, story-driven explanation across all elements.

Q. Comparing the FY2025 plan to the FY2024 results, is the margin per kWh going up or down? Given the competitive environment, I would expect margins excluding one-off factors to come under pressure. That said, I believe many electric power companies, including yours, are working to maximize earnings through optimizing operations on a customer-by-customer basis. Could you share how you're factoring in the impact of those efforts?

A. We are considering strategies for power generation and retail as interconnected businesses, but when it comes to profitability, we view each business segment separately. Ultimately, however, our assessment is from an integrated perspective. In that context, particularly with regard to retail, it is generally expected that margins will contract as the competitive environment intensifies. That said, business conditions differ within and outside the region, so we recognize the need to undertake initiatives to maintain overall profit levels in the retail sector.

As for power generation, although it is difficult to predict the margin per kWh, including relative transactions, due to market conditions such as the operating status of other companies' power sources, we are committed to generating solid profits in this segment.

Q. How important do you consider the construction and engineering business to be for Shikoku Electric? Also, in this connection, please provide your opinion your stake in Yondenko Corp.

A. The companies that form the core of our construction and engineering business are Yondenko Corporation and Yonden Engineering. Yondenko Corporation specializes in electrical and plumbing construction for buildings and structures, while Yonden Engineering focuses on construction related to power plants, including renewable energy. Both markets are currently robust and are expected to continue growing for time being. Furthermore, renewable energy construction projects sway from year to year, so profits may decline when compared on a single year basis, but viewed holistically, this is a field can be consistently profitable that we would like to continue to focus on as part of our Group business portfolio.

With regard to Yondenko Corporation, making it a subsidiary of the Company would be difficult due to regulatory restrictions. In addition, given its strong business earnings and rising share price, we are not considering increasing our shareholding. Yondenko is a key company in the operation of our electric power business. We believe that the current shareholding ratio and the percentage of business we outsource to Yondenko are roughly comparable, and that the current relationship is reasonably balanced.

Q. On page 16 of the briefing materials, segment forecasts are disclosed, and here it says that the FY2025 ordinary profit forecast for the Transmission & Distribution segment is -1.5 billion yen. How should we interpret this level? In other words, when considering the profit outlook for the Transmission & Distribution business from FY2025 onward, should we understand that the forecasted profit would normally be around the average level projected for the first regulatory period under the revenue cap system, but that FY2025 will show a loss due to one-off factors? Or should we interpret it as a downward revision from the originally expected profit level, due to factors such as inflation?

A. The Transmission & Distribution business sets electricity rates uniformly for five years under the revenue cap system. However, transmission revenue is expected to decrease on to the assumption that demand will decline in later years. Additionally, expenses in later years are projected to rise due to spending related to next-generation smart meters and other factors. As a result, we anticipated that profit levels would be lower in later years from the outset. To add, the impact of recent increases in personnel expenses costs and prices, which have not been factored into the revenue cap system, has contributed to an overall trend toward losses. If the current system remains unchanged, we expect that the FY2026 and FY2027 will be at levels similar to those of FY2025.

Q. Page 19 of the briefing materials show cash flows over time. Could you provide examples of projects as a breakdown of the strategic investment of 142.8 billion yen? Also, please describe how much return is currently being generated from this strategic investment, and provide an update on its progress and outlook.

A. Strategic investment was incorporated into the current MTMP at a level of 200 billion yen for the 10-year period from FY2021 to FY2030, but we have already invested more than half of that amount. Specifically, investments in International Business, renewable energy, and other new businesses such as hotel development and nursing care services are growing.

The return on investment varies depending on the business. First, the main strategic investment project was the replacement of Saijo Power Plant Unit No. 1, which is already in operation as a high-efficiency coal-fired power plant and is generating sufficient returns. Investments in international projects include additional investments in existing IPPs that are already generating returns, and these projects are also expected to yield a certain level of return. On the other hand, hotel developments currently under construction and renewable energy projects, which tend to have long payback periods, have yet to generate returns. Overall, we believe over half of the 142.8 billion yen investment is currently generating solid returns.

Q. Finally, what is your opinion on the next MTMP? In recent years, improving PBR has been a major theme in the equity markets, and I would encourage you to pursue initiatives in the next MTMP that contribute to enhancing your

PBR. What concerns me in this regard is that the ROE of 8% may already have been virtually achieved at this point. Assuming that the current ROE is 8%, if the target for 3-5 years from now is also 8%, this could be taken to mean there is no intention to grow. Therefore, I would strongly recommend aiming for a target of around 9%.

Personally, I think it would be better to increase shareholders equity a little more, but if to do so, there will be a need to raise the ROA target above 3%. For this reason, I would like to ask you to raise your outlook for investment returns and ROA levels. I believe that streamlining alone will not be sufficient to achieve this, so I would like you to consider measures such as aggressive strategies for existing businesses, achieving returns from new businesses, and initiatives to raise profit targets during the next revenue cap period for Power Transmission & Distribution. I am hoping that the next MTMP will include such measures that will lead to growth and an increase in both PBR and PER.

A. I take this as encouragement.

As you say, it is important to aim for a PBR of 1x or more. It will be exceptionally challenging to exceed ROE of 8% and reach 9%, but we will work toward this goal in our existing businesses, new businesses, and Power Transmission & Distribution business. What concerns me most is Power Transmission & Distribution. I don't think it's healthy for this business to be in the red.

In addition, I believe it is necessary to increase the PER, so I intend to explain what we are trying to do in an appropriate manner and endeavor to ensure that this is reflected in our share price.