May 19, 2026

Shikoku Electric Power Company, Incorporated

Main Questions and Answers at FY2025 Company Briefing

Q. The forecast for FY2026 shows a YoY increase of 16.1 billion yen in various expenses. How much of this increase is due to inflation? In addition, given that costs are rising due to these inflationary pressures, could you please explain your policy regarding rate measures in the Retail and Transmission & Distribution businesses? With regard to the Transmission & Distribution business in particular, based on the current discussions within the expert panel, I understand that an interim revision to transmission tariffs under the revenue cap system is possible if an application is submitted. It may be difficult to answer questions about the Transmission & Distribution business, but I would appreciate it if you could respond to the best of your ability.

A. First, let me start with the direction of the rate policy. Wheeling rates are set uniformly over the five-year regulatory period based on average costs during that period. However, the plan assumes the incurrence of expenses in the latter half of the five-year period, including costs for smart meter system upgrades, alongside declining demand in the Shikoku area. Coupled with inflationary pressures in recent years, profitability has been coming under increasing strain. Although we were able to turn the initially projected loss for FY2025 into profit, partly due to increased demand during the summer, we anticipate that profitability will become more challenging in FY2026 and FY2027. Under these circumstances, we understand that the government is moving toward permitting annual rate settings in the second regulatory period under the revenue cap system, replacing the uniform rate structure in place throughout the first regulatory period. Accordingly, we expect more stable profitability in the second regulatory period compared with the current period. That said, the outlook for FY2026 and FY2027 remains severe, and we are aware that Shikoku Electric Power Transmission & Distribution Co., Inc. is examining its response policy, taking into account the pros and cons of pursuing an interim rate revision. Looking at the timeframe of the Medium-Term Management Plan 2030, we expect our profitability to normalize, with expenses and revenues balancing out, at least from FY2028 onward.

As for retail electricity rates, it will not be easy to immediately pass through inflationary impacts to regulated rates. Nevertheless, for extra-high-voltage and high-voltage contracts subject to unregulated pricing, we intend to pursue sales activities at appropriate rate levels that incorporate the impact of inflation impacts, while continuing negotiations with customers.

Next, while we do not yet have a specific breakdown of how much of the 16.1 billion yen YoY increase in various expenses for FY2026 is attributable to inflation, purely based on my own intuition, it accounts for about 20%–30%. Miscellaneous expenses fluctuate significantly from year to year depending on the scale and timing of periodic inspections at power stations, which makes comparisons difficult. As a result, we have not been able to accurately determine the percentage attributable to inflationary impacts at this juncture.

Q. Your forecast for ordinary profit in FY2026 is 40.0 billion yen; based on that assumption, ROE would be around 6%. But excluding one-off factors, one could estimate ordinary profit to be in the 60.0 billion yen range. Given that profit levels in the Transmission & Distribution business are expected to normalize, do you believe that the targets set in the Medium-Term Management Plan 2030 of 65.0 billion yen in ordinary profit and an 8% ROE are fully achievable?

A. Factoring in the one-time items indicated in parentheses at the bottom right of page 19 of the company briefing materials, ordinary profit would come to 64.0 billion yen on a simple calculation basis. That said, this should not be interpreted as meaning that number represents the Company's true earnings capacity and that the 65.0 billion yen level is within easy reach. In particular, for FY2026, with fuel and market prices assumed to remain high, profits from wholesale sales are projected to be higher than usual; furthermore, the high nuclear power station capacity factor of 91% is also expected to contribute to the increase in profits. Excluding these factors, we estimate that the figure will be in the 50.0 billion yen range, and we do not believe we can achieve our target simply by continuing to operate as usual. Assuming that the Transmission & Distribution business returns to profitability and generates profits at the expected level, we believe it is necessary to increase profits by approx. 10.0 billion yen in the Power Generation & Sales business and approx. 5.0 billion yen in Businesses Other than Electric Power. We intend to make steady progress on these initiatives from FY2026, the start of the Medium-Term Management Plan 2030.

Q. On page 57 of the company briefing materials, plant and equipment expenditures remain at a high level from FY2025 through FY2026, and I assume that, in terms of the overall amount, this is largely attributable to the construction of new power stations and similar projects. I also see that spending in "Businesses Other than Electric Power" also appears to be higher than historical levels. What is included in "Other"? Please explain this in conjunction with an overview of the capital allocation and your assumptions regarding when investment returns are expected to materialize.

A. As you are aware, expenditures are high in the Power Generation & Sales business due in part to new construction of Sakaide LNG Power Station Unit 5, while expenditures in the "Other" category is primarily driven by our international, real estate, and hotel businesses. In the real estate business, we are considering further business development in the Shikoku area and beyond, and in the hotel business, preparations are underway for an opening in FY2027. In Businesses Other than Electric Power, we have set ROIC targets higher than those for the Electric Power business, and we believe that certain operations, including the hotel business, could contribute to the earnings targets under the Medium-Term Management Plan 2030.

Q. Given the forecast for FY2026 projects a decline in retail electricity sales, how do you view the competitive landscape in that segment? Amid the current situation, some PPS have begun suspending sales to corporate customers. Please include that in your response if that is a factor. Also, I understand that market prices in the Shikoku area remained low in FY2025 due to the disruption of interconnected lines. Please explain the assumptions underlying the outlook for FY2026?

A. The retail sales power share of PPS is shown on pages 45–46 of the company briefing materials. These slides show that the Shikoku area continues to have a low share of PPS compared to all over Japan. In FY2025, market prices in the Shikoku area remained low due in part to market fragmentation caused by maintenance work on interconnected lines, and a highly competitive environment persisted in which PPS could procure electricity at low costs. However, we were able to maintain a certain market share even in this environment. In FY2026, we anticipate that market prices will rise due to higher fuel costs. Additionally, as the transmission capacity of interconnected lines improves, market fragmentation is expected to decrease. As a result, we believe the price differential between the Shikoku and Western Japan areas, which stood at approx. 1.4 yen in FY2025, will narrow. Given these circumstances, we anticipate that the Shikoku area price will rise to over 10 yen in FY2026, and based on this assumption, we have estimated ordinary profit at the 40.0 billion yen level. In addition, we expect the competitive environment to ease as market prices rise, and we intend to seize this opportunity to negotiate with our customers to achieve sales activities at appropriate rate levels.

Q. Given the escalating tensions in the Middle East, nuclear energy has been attracting a great deal of attention. What are your views on extending the intervals between periodic inspections of nuclear power stations? I understand that other companies are taking steps such as increasing output when replacing equipment. What is Shikoku Electric Power's stance on this?

A. Since the Company operates only one nuclear energy station, Ikata Power Station Unit No. 3, one of our top management priorities is to maximize its utilization while placing the utmost priority on safety. To maximize kWh output, it is necessary to shorten downtime and increase electrical output. Meanwhile, our primary focus is on ensuring safe and stable operation, so we are planning to minimize the duration of periodic inspections as much as possible. While online maintenance is intended to improve safety by leveling the workload, we believe it may also lead to shorter duration of periodic inspections going forward. In addition, improving electrical output requires enhancing the efficiency of the equipment, so we intend to consider that as well.

Q. Regarding the reasons for the difference between the FY2026 earnings forecast on page 19 of the company briefing materials and FY2025's figures, the fact that the supply-demand balance has improved by 2.5 billion yen, even after accounting for the time lag loss of fuel cost adjustment system, seems quite robust. However, aside from the increases in nuclear power and hydropower mentioned in the materials, what other positive factors are driving this improvement?

A. The factors listed in the materials under "Increase in income unit price" include the impact of higher wholesale unit prices, which are offsetting the negative impact of time lag loss of fuel cost adjustment system.

Q. On page 52 of the company briefing materials, you have listed the forecasted DOE at 2.3%, which is short of the 2.5% target. Could you explain the rationale behind the decision regarding the dividend amount for FY2026 given that some might assume the Company is aiming to meet its targets by the end of the fiscal year or through share buybacks?

A. This may overlap with what I mentioned when we announced the Medium-Term Management Plan 2030, but I believe I explained that rather than paying dividends in strict 1-yen increments to achieve a 2.5% DOE every year, we seek to maintain a level of around 2.5% as a benchmark for the period. Although there are many uncertainties this year and our earnings could fluctuate significantly depending on fuel prices, we have set the dividend amount with the aim of ensuring it exceeds the level achieved in FY2025 while bringing DOE as close as we can to 2.5%. We would like to consider the final level of shareholder returns by taking into account future fuel price trends and their impact on the profitability, but for now we have presented a dividend forecast of an increase of 5 yen per share from FY2025.

Q. Please explain your approach to achieving an 8% ROE during the Medium-Term Management Plan 2030. I am aware that 8% was set as a goal to be consistently achieved throughout the plan period, but looking at the current figures, it could also be taken that a goal is to be achieved over the five-year period. I realize there may be some negative impact from one-off factors, but do you have a goal of achieving 8% every year, including through measures such as share buybacks to manage shareholders' equity?

A. Regarding the management targets outlined in the Medium-Term Management Plan 2030, some are intended to be achieved by the final year, while others are intended to be achieved consistently throughout the plan period. We aim to achieve 8% ROE every fiscal year. Based on the current earnings outlook, ROE for FY2026 is expected to be approx. 6.2%. We acknowledge the feedback that missing the target in the first year of the plan is far from ideal. However, the shortfall reflects special factors this year, including the substantial decline in profitability in the Transmission & Distribution business discussed earlier.

Q. Last year, Kyushu Electric Power Company, Incorporated rebalanced its standard rates for high-voltage and extra-high-voltage retail electricity. Additionally, companies such as TEPCO Energy Partner and Chubu Electric Power Miraiz are working to shrink the time lag in the fuel cost adjustment system. Please share your views on Shikoku Electric Power's rate policy in light of these developments at your industry peers.

A. Since we revised our standard rate plan ahead of Kyushu Electric Power and have been offering individual discounts and other benefits based on those rates, our initial goal in negotiations is to bring our rates as close as possible to the standard plan.

Furthermore, while reducing lag in the fuel cost adjustment system would help stabilize short-term profitability, it would result in significant fluctuations in rates over a short period for customers and reduce rate predictability. We therefore must carefully consider how well customers would accept such a change. For now, we believe that, from a business strategy perspective, it would be better for the Company to absorb the impact of fuel price fluctuations for the time being. On the other hand, since we also sell electricity outside the area, there is the question of how customers in the Tokyo area will view the fact that we have implemented a different fuel cost adjustment system than their local electric power company. For this reason, I believe we will need to start by considering how to handle fuel cost adjustment system in the Tokyo area. During the previous surge in fuel prices caused by the situation in Ukraine, we had implemented fuel cost adjustment caps on all our rate plans. That said, since we have now either removed or adjusted those caps, we do not anticipate a repeat of that situation. We intend to continue with our current fuel cost adjustment system for the time being, but we will also monitor how customers respond to other companies' fuel cost adjustment policies as we consider adjustments to our own rate system.

Q. Are the rising costs of power generation resulting from increased operating expenses due to inflation and other factors being covered by price hikes in the power generation business? Discussions inevitably tend to center on retail rates, where pricing information is publicly available. Nonetheless, based on the premise of non-discrimination between internal and external transactions, I would like to know whether higher fixed costs in the power generation business are being adequately recovered through wholesale pricing, and whether the power generation business on a standalone basis is capable of appropriately recovering costs without depending on the retail business.

A. At the very least, our retail division does not purchase electricity at higher prices than other retailers to cover the fixed costs of our in-house power generation division; rather, in accordance with the concept of non-discrimination between internal and external transactions, our rates are on par with those of other operators. Since power generation business revenues fluctuate on market prices, it is difficult to price them far from the Japan Electric Power Exchange's market prices. However in FY2026, when market prices are expected to trend upward, I believe that we are in a situation where we can aim for appropriate cost recovery and, even securing profits. However, if the power generation business profitability continues to face a situation in which costs cannot be recovered due to market price conditions, it would become difficult to sustain the business. We therefore understand that the government has been advancing institutional measures aimed at enabling cost recovery, including those arising from inflation. It should be noted that while the system is designed so that fixed costs for power generation are primarily covered by the capacity market, it remains insufficient in practice. Although measures such as raising the price cap are under consideration, there is a time lag of about four years between the recognition of revenue and the actual receipt of funds due to the timing of bidding. Consequently, inflation over the past few years has not yet been reflected in revenue, and I would like to add this point.

With regard to recovering fixed costs in our power generation business, while regulatory measures are certainly important, we also believe that we cannot afford to operate power sources that are not competitive. Therefore, we are working to phase out aging oil-fired power stations and build new LNG facilities.

Q. Is the ROIC target for the Transmission & Distribution business aligned with the consolidated ROIC target? In the Transmission & Distribution business, while I believe the government-set business profitability rate serves as a minimum target, if one simply says, "the business profitability rate is 1.5%, and that is the target," then I wonder if there would be any point in operating a Transmission & Distribution business at all. From the shareholders' perspective, while I understand that conduct regulations are in place, I have concerns from a governance standpoint if, within a structure where governance extends from shareholders to the holding company's Board of Directors and further to Shikoku Electric Power Transmission & Distribution, the holding company is unable to exercise sufficient oversight and involvement with the Transmission & Distribution business.

A. It is true that the Transmission & Distribution business, the core business of Shikoku Electric Power Transmission & Distribution, is subject to revenue caps, and that the goal is to secure a profit level approved by the government. Under the current system, if profits exceed the budgeted amount, the surplus must be returned during the following regulatory period; consequently, there is little incentive to aim for profits that exceed the business profitability rate. At the same time, we have consistently made it clear to Shikoku Electric Power Transmission & Distribution that we want the Company to work toward increasing their overall profitability, including through ancillary businesses, and we expect them to leverage their transmission and distribution assets to generate profits outside of regulated businesses. As an example, we understand that initiatives are currently underway to provide services such as the use of smart meters for water and gas meter readings.

Q. What is your view of free cash flow at Shikoku Electric Power Transmission & Distribution? Looking at the trend in plant and equipment expenditures on page 57 of the company briefing materials, capital investment in the Transmission & Distribution business appears to be increasing significantly in FY2025 and FY2026, leading me to believe that free cash flow may have turned negative. Does the Company view negative free cash flow as unavoidable under certain circumstances given the revenue cap system and the level of capital expenditures or does it believe that maintaining positive free cash flow should be the target?

A. Of course, we do not believe that negative free cash flow is acceptable, and we believe we should aim to achieve positive free cash flow in every fiscal year. Factors contributing to the larger plant and equipment expenditures in FY2025 and FY2026 include rising prices as well as the cost of updating smart meters and building new systems. I would also add that human resources engaged in construction work at electrical engineering companies are indispensable to business operations, and personnel costs have also risen significantly in recent years due in part to improvements in compensation and working conditions. We understand that, from the outset, the Transmission & Distribution business was expected to generate relatively strong earnings in the first half of the regulatory period and face more challenging conditions in the latter half. However, inflation and increases in labor costs of a magnitude not anticipated at the start of the first regulatory period have emerged midway through the period, and discussions are therefore taking place regarding the need for an interim revision. As we move forward to formulate the business plan for the second regulatory period, I believe it is necessary to ensure that the institutional design prevents a recurrence of the same situation. Regarding your query on free cash flow, we expect Shikoku Electric Power Transmission & Distribution to make a strong case to the government, for example, by seeking an increase in the business profitability rate, to ensure positive cash flow.

Q. Can you provide any specific details regarding the current status of initiatives to attract data centers?

A. We are currently working on various initiatives, but we are not yet at the stage where we can announce any specific details. This initiative depends not only on the know-how of the Group, but also on securing appropriate land, and therefore requires close collaboration with municipal governments. In Shikoku, both Kagawa and Ehime prefectures have been actively engaged in these efforts, and we will continue to work proactively toward making concrete announcements as soon as possible.