

# Message from Financial Executive



**— We are committed to achieving the management goals set in the Medium-Term Management Plan 2022-2025.**

In our Toho Gas Group Vision announced in March 2022, we outlined our ambition to transform the business portfolio to expand the business scale of the overall Group by 1.5 times or more by the mid-2030s. Specifically, this transformation involves allocating strategic management resources to businesses including electricity, energy services and engineering, and also such new areas as hydrogen and renewable energy, while maintaining the core operations of city gas and LPG as our bases of income.

As the first step towards realizing this Group Vision, the Medium-Term Management Plan 2022-2025 sets financial indicators such as operating cash flow, ROA, and Debt to Equity ratio. Additionally, this indicates the balance between cash inflows, such as operating cash flow and borrowings, and cash outflows, including shareholder returns and investments (core business:strategic business = 1:1).

We are now truly at a transitional phase of the business portfolio transformation, and entering a stage where investments are increasing to expand our business areas. As the financial executive, I would like to stay committed to achieve the management goals set in the Medium-Term Management Plan while staying strongly focused on maintaining balanced financial operation with regard to *profitability, efficiency, and soundness*.

	Management Index	Management Goal
Profitability	Operating cash flow	210 billion yen and over (Cumulative total from FY2022 to FY2025)
Efficiency	ROA	About 3%*1 > WACC*2 (FY2025)
Soundness	Debt to Equity ratio	About 0.6 (FY2025)

\*1 Consolidated ordinary income for FY2025 is approximately 25 billion yen.

\*2 WACC = Cost of capital: Mid 2% range

We will focus on maintaining balanced financial operation with regard to *profitability, efficiency, and soundness* to achieve the goals of the Medium-Term Management Plan 2022-2025.

**Satoshi Yamazaki**

Director, Senior Managing Executive Officer

**— In FY2022, despite being amidst various uncertainties, we achieved stable financial management.**

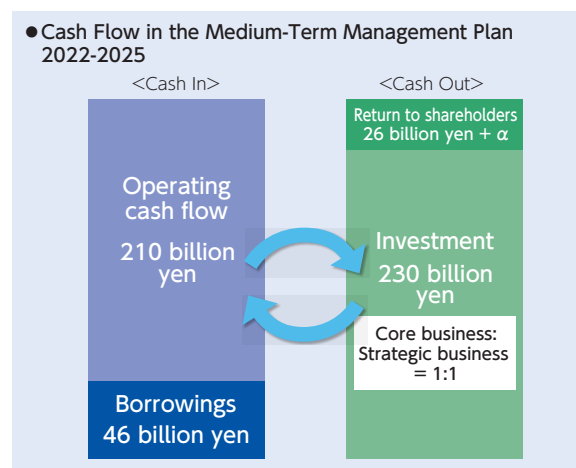
In FY2022, the first year of the Medium-Term Management Plan, demand growth for gas sales was hindered by factors such as temperature impacts on residential gas sales and production cuts due to parts supply shortages in the commercial sector. Additionally, due to the impact of rising crude oil prices, a weakening

yen, and the impact of the situation in Ukraine, the volatility of energy prices increased significantly, creating a challenging financial management situation. Despite these challenges, through thoroughgoing cash flow management while focusing on stable LNG procurement, particularly through long-term contracts, we were fortunate to secure profits that exceeded our plans.

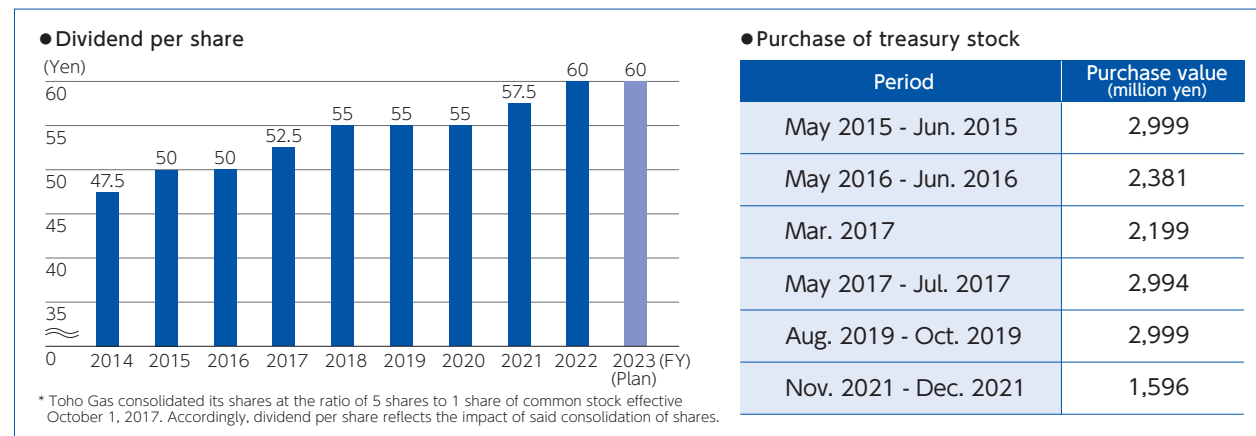
With respect to the financial indicators set in the Medium-Term Management Plan, operating cash flow was 56.4 billion yen, ROA was 5.0%, and Debt to Equity ratio was 0.36 times, making for a promising start toward achieving the plan's objectives. We anticipate continued uncertainty ahead, but we will maintain a financial operation conscious of management indicators while making steady, step-by-step progress in addressing the themes outlined in the Medium-Term Management Plan, including carbon neutrality initiatives.

**— Managing the balance sheet and investment profitability is a key financial challenge in the Medium-Term Management Plan.**

Amid the transformation of the business portfolio, the financial challenge of management of the balance sheet and investment profitability is becoming more critical than



## Shareholder Return Trends (Last 10 Years)



ever. During the period of the Medium-Term Management Plan, as we move toward expanding strategic businesses and achieving carbon neutrality, we plan to make capital expenditures (230 billion yen for four years) exceeding operating cash flow (210 billion yen for four years), and the balance sheet will expand. Recognizing the importance of pursuing efficiency while assets increase due to investments, in the Medium-term Management Plan, we have set achieving ROA of about 3% as one of the management goals, surpassing the cost of capital, WACC (in the mid2% range). We will diligently manage the balance sheet to avoid excessive expansion while maintaining constant awareness of asset efficiency.

With respect to investment decisions in strategic businesses, we establish hurdle rates for individual projects and invest in those that secure profitability exceeding those rates. Furthermore, even after investment, we take steps that include periodically checking the profitability of individual projects and considering divestment or replacement of business assets as needed, thus managing profitability in a thoroughgoing manner.

### We will engage in careful dialog with the stock market while remaining constantly conscious of capital efficiency and financial soundness.

Recently, discussions about PBR (price-to-book ratio) have increased in our dialogs with shareholders and investors, and to work to improve PBR, we recognize the need to enhance both *profitability relative to equity capital* and *evaluation from the stock market*.

In working to improve profitability relative to equity capital, what is most crucial is enhancing earning power. As outlined in the Medium-Term Management Plan, we will first focus on increasing the number of customers for city gas, LPG, and electricity to ensure stable revenue generation centered on energy. Along with this, we will take measures such as shifting management resources to strategic businesses, including energy-related and new services, and combining various services grounded on the energy customer base, thereby aiming to improve profitability with a medium- to long-term perspective. Meanwhile, to prepare for risks such as raw-material

procurement and earthquakes, we will need to maintain an appropriate level of equity capital and sustain financial soundness. We will continuously conduct review with respect to appropriate levels while remaining constantly conscious of capital efficiency and financial soundness.

With regard to evaluation from the stock market, we consider careful dialog through IR activities to be crucial. For instance, as we move toward achieving carbon neutrality, we will resolutely communicate Toho Gas's belief that natural gas will continue to play an important role in reducing CO<sub>2</sub> emissions for society during the transition period to practical decarbonization technologies. From the perspective of dialog with the stock market, we also consider it important to express our stance on shareholder returns. Our fundamental approach to returns to shareholders is to "provide stable dividends and flexibly implement the purchase and retirement of treasury stock, and pay out around 40% to 50% of consolidated net income over the medium to long term." Going forward, we will continue to take action while maintaining a balance between necessary investments for sustainable growth and stable shareholder returns.

We have received valuable feedback from shareholders and investors through dialog at various opportunities regarding our management policy and financial strategies. Going forward, we will continue to listen to your views and work towards enhancing corporate value. We sincerely appreciate your understanding and support.

July 2023