

# Message from the President

Toho Gas will support customers' lives and manufacturing activities, and contribute to regional growth and a low-carbon society.

## Progress and Evaluation of the Medium-term Management Plan

### ■ Positioning of the Medium-term Management Plan

Toho Gas will celebrate the centennial of the company's founding in 2022. The current Medium-term Management Plan ("Medium-term Plan") covering the three years leading up to the centennial (FY2019 through FY2021) is positioned as something indicating the orientation of the strategy we should adopt in this era of full liberalization, while simultaneously showing the basic policies for building a foothold directed toward sustainable growth on into the future.

During these three years, we will respond with a sense of speed to the effects of the novel coronavirus on the economy and social activity and other changes in our operating environment in addition to liberalization and other major trends of the times, and along with this, we will remain aware that we stand on the cusp of extremely important changes, such as the major revision of our business structure ahead of the legal separation occurring in 2022.

### ■ Assessment of FY2019

We regard FY2019, in which the Medium-term Plan began, as having been able to get off to a fair start. The record-breaking warm winter and reduced operation of equipment at customer sites, the effects of liberalization, and other such circumstances did make for quite harsh conditions for the Group, but such factors as acquisition of new demand and improvement in gains and losses due to the sliding time lag effect enabled us to accomplish our period-initial profit plan, and with respect to our operating cash-flow target of "creating 160 billion yen or higher over three years," we achieved a progress rate of over 40% in the first fiscal year.

Regarding individual efforts, we made steady forward progress including in new departures, centered on the company's strengths of *energy* and *the region*. Firstly, in the area of energy, despite the economic slowdown and the effects of liberalization, our total share of the region's energy market grew, thanks to new development of city gas and LPG, securing contracts for electricity, and the transition of the Yamasa Group into a subsidiary. Through

such circumstances as conversions from petroleum to city gas as fuel and adoption of cogeneration, we were also able to help reduce CO<sub>2</sub> emissions at customer locations. In addition to this, and although the portion of electrical power generation it accounts for is still only a few percent, we also devoted attention to introducing renewable energy sources, such as by ownership of solar power facilities and investing in renewable-energy funds.

Next, in terms of the region, as part of our move toward local consumption of locally produced energy, we set up New regional electricity business Okazaki City in Aichi Prefecture as well, following on the business we helped to establish in Matsusaka City, Mie Prefecture. In addition to pressing ahead with the adoption of gas air conditioners in public elementary and junior-high schools, thereby contributing to improving the learning environment for the children who will inherit the future, we also moved forward with endeavors conducive to regional growth and vitalization, such as developing Minato AQUUS. We also developed operations that help with social contribution, including the "*junijuni*" shopping service\*, which aims to reduce food loss and the like, and Toho Flower, established in aims of working to create more workplaces for persons with disabilities and entrenching employment.

I feel that the ways in which we can contribute to regional growth while giving full play to the Group's strengths will become an increasingly consequential issue.

\* "*junijuni*" sponsored by TOHO GAS, a socially conscious shopping service "*JUNIJUNI*" and "*junijuni*" are pending trademarks of Toho Gas Co., Ltd.

### ■ Medium-term Management Plan – Targets and Progress

		FY2019	Medium-term Plan target FY2021
Natural gas	Number of customers*1	2.51 million	2.55 million
	Sales volume*2	3.88 billion m <sup>3</sup>	4.1 billion m <sup>3</sup>
LPG	Number of customers*3	589 thousand	510 thousand
	Sales volume	486 thousand tons	490 thousand tons
Electricity	Number of customers	335 thousand	300 thousand
	Sales volume	0.99 billion kWh	1.0 billion kWh
Amount of reduced CO <sub>2</sub> emissions at customer locations		0.141 million tons	0.60 million tons

	FY2019	Medium-term Plan target FY2019 to FY2021
Operating cash flow	68.3 billion yen	Cumulative total of 160.0 billion yen and over
Investment into the city gas business	27.7 billion yen	Cumulative total of 80.0 billion yen and over
Investment into growth businesses	20.7 billion yen	Cumulative total of 60.0 billion yen and over
ROA	2.9 %	3 % and over

\*1 Number of meters installed \*2 Including LNG sales volume

\*3 Including the number of customers based on commissioned business for delivery

President  
**富成 義郎**  
 Yoshiro Tominari

## Toward Accomplishing Our Plans



### ■Business Environment Perceptions

We are now in the fourth year of the full liberalization of retail markets that began in 2017, and the outflow of customers is still continuing and the number of operators newly entering the market is rising, and in ways such as these the competition is growing increasingly fierce. In addition, rapid development and penetration of digital technology, heightening social demand for lower carbon and decarbonization, declines in numbers of households and in population – these and numerous external factors exist that, going forward, will greatly impact our business activities.

Added to these most recently is "corona shock." We see a strong possibility of myriad changes, from international relations through to the values and modes of action of society and our customers, and together with this, of acceleration in the exacerbation of current issues and the surfacing of future issues. As we determine what will change and what will not, along with as where the risks and opportunities that change brings lie, we will press ahead with innovations that anticipate future needs in our organizational system and workstyles, in how to work in a way that balances efficiency and sense of fulfillment, in the modalities of responding to customers, and in all other aspects.

### ■Orientation of Our Efforts

For FY2020, the second year of our Medium-term Plan, the plan's values for the fiscal year, based on financial trends moving forward and certain premises, were announced when we released the financial results for the first quarter. Circumstances appear to be changing moment by moment, but through flexible course correction based on a quick remedial action with light hand on the rudder, we will ride out the harsh business climate. At the same time, we are pressing ahead with strengthening and expanding our business foundation for the Group's subsequent growth while we work to hasten the deployment of measures for accomplishing the Medium-term Plan.

As an example of "something that changes," acceleration of the digital shift appeals to maintain social distancing and changes in workstyles and values is decidedly apparent, but whereas the realm of "non-contact" services is expanding, the value on one-to-one communication and direct-contact personal services may actually be increasing even further. It also seems that, from the smallest

community units – families and lives – to the larger units of companies and areas, the strength of the links within these communities will gain greater emphasis.

To touch on the relationship with the three key strategies in the Medium-term Plan, while continuing to keep energy supply the core, we will seize such change and rapidly compose services that resonate with the customer. To deliver these and elicit delight not just among existing customers but also among others, including customers in surrounding regions, we will enhance the real physical points of contact that are our strength together with expanding digital points of contact. My belief is that such efforts become the foundation for regional revitalization and consequently lead to improvement of our total energy share and expansion of the scope of business.

In the sense of "something that does not change," the current COVID-19 situation has forcefully impressed it upon me once more that "ensuring safety and security, and stable supply" is a vital mission we carry. Heretofore we have devoted effort to spreading and expanding facility and equipment measures, emergency measures, and distributed energy systems from the standpoint of disaster preparedness and mitigation with respect to earthquakes and climate change, but henceforth we are also adding the perspective of infection measures and expending effort in health management for the employees who carry out our mission and in improving the environments in which they work, and continue contributing to strengthening the resilience of the region as a whole.

Together with this, to heighten our ability to withstand fluctuations in the business environment, my resolve to carry out sweeping cost-structure reforms and build a business foundation that is slimmer and more robust has also grown stronger. Specifically, we intend to acquire the real management ability to be able reduce fixed costs at the current level of around 110 billion yen to the mid-100 billion yen level called for in the Medium-term Plan, then in the future to around 100 billion yen.

Even amid the further accelerating environmental changes that the Group faces, the Medium-term Plan's direction itself remains unchanged, and I am convinced that accomplishing the plan's key strategies is certain to carry us beyond our first hundred years.

## Toward Sustained Growth

### ■The Founding Spirit Carried Down to This Day

For the Toho Gas Group to enjoy long-term, sustainable growth, in addition to strengthening and expanding our business foundation by brining our Medium-term Plan to a successful conclusion, fulfilling our *social responsibility* to an even greater degree – that is to say, contributing to social continuity through responsible corporate activities with consideration for society and the environment – will become crucial, I believe. This is precisely the thinking behind ESG, and the awareness that the aims are the same as those of SDGs.

Some hundred years ago, Sakura Okamoto, Toho Gas's founding president, held in the company's management philosophy that "Customers, shareholders, and employees form a trinity, and the coexistence and coprosperity of such stakeholders in the company is indispensable." He expanded this way of thinking to a doctrine of public service, and advocated furthering local-community welfare and integration with local communities. This thinking has been passed down unbroken to the present, and forms the core of the current Medium-term Plan. This appears in at the beginning of the Medium-term Plan, in the passage reading

"to support customers's lives and the manufacturing activities of companies operating in the region through energy supply, and to contribute to regional development and the creation of a low-carbon society," and is thinking that is congruent with ESG activities.

### ■Efforts Toward ESG

As an example of new initiatives concerning the environment (E), in April 2020 we endorsed the Task Force on Climate-related Financial Disclosures (TCFD). In the course of long-term change to low carbon and decarbonization, we will work for harmony with natural gas and renewable energy, and while taking a hard look at the impact of climate change, with will work to achieve sustainable growth as an energy operator. Through our participation in the new "Challenge Zero" project launched by Keidanren in June 2020, we will also take up the challenges of innovation geared toward net zero carbon, including development of hydrogen utilization technology.

Regarding society (S), to resolve the concerns of customers in this region and social issues the region faces, thinking that asks what kinds of support we can provide is basic for the Group. With grounding on an awareness of connection to the countries and people of the world through our regional

customers, I would like to face the regions with thinking that has global currency and making contributions capable of the meeting the region's needs, with supplying energy at the core of this. Like-minded persons who share such thinking and support our efforts – that is to say, hiring and fostering human resources who are highly sensitive to change, profoundly sensitive themselves, and capable to thinking things through and translating this thought into action for the benefit of the region is critical. We will concentrate on developing a milieu in which they can take action with alacrity and enthusiasm.

Accordingly, as has also been described in the section on the materiality we have now identified (see P. 14), what serves as the base for all corporate activity is the portion of compliance and governance (G). We will devote unstinting hard effort so that we will be able to link the bonds of trust that we have built up among customers and local communities to the next level, and also so that investors will be able to commit to us with confidence. I believe that such diligence will lead directly and indirectly to achieving SDGs.

### ■Considering Our Long-term Vision

As a means to realize these, we plan to start discussing our future vision from the second half of FY2020, with our sights

fixed on our 100th anniversary and after. While giving full play to the spirit of the Group Vision we formulated on the occasion of our 90th anniversary, we will meld the course of the times with our uncompromising determination, taking into account the myriad changes in environment that have occurred since, present a clear view of the vision of ourselves to strive for. To state this another way, this is a task that taking our centennial an important juncture for reflecting anew on our *raison d'être*.

This is a business climate experiencing dizzying changes, but from both the short-term and the medium- to long-term perspectives, we will spare no effort in engaging in management so as to meet the trust of customers, local communities, shareholders and investors, employees, and other stakeholders.

We truly appreciate your continued support and understanding.

## About Our Capitalization Strategy

### ■Basic Approach

The main point of our capitalization strategy is to achieve a good balance for the matters of sustained growth, improving asset efficiency, and a sound financial foundation for the Group.

The Medium-term Plan adopts a target of creating cash flow of 160 billion yen and over during the three years, and we will allocate this in a manner that balances investment in the gas business and growth businesses and return to shareholders while maintaining a certain measure of financial soundness.

### ■Investments

In addition to investments into the city gas business, our core business, with the aim of reinforcing the business foundation and achieving further growth, we will make *growth-business investments* to expand our business scope.

For growth-business investments, to keep amounts for investment from themselves becoming objectives, we will work with carefully selected feasible and good-quality projects. In particular, we will take into account the

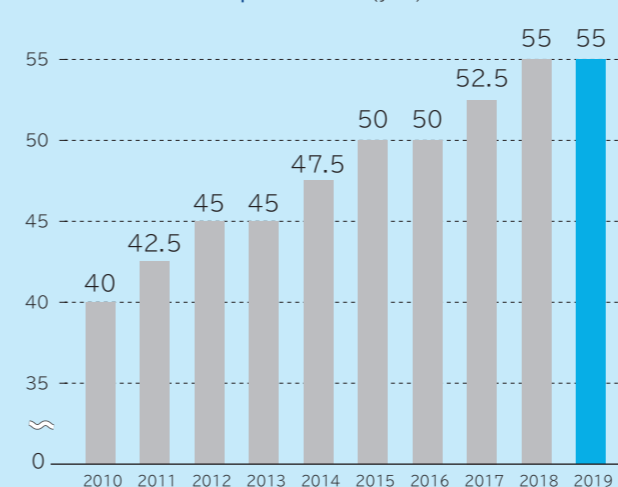
circumstances in which the business environment is changing greatly due to the impact of COVID-19 and other factors and carefully scrutinize the feasibility of proposed projects, and concentrate investment resources with a central focus on *energy and the region*. We will borrow to a certain extent in the case of a good-quality project, but as we ready ourselves with respect to the current COV19 situation and against seismic risk, we believe that also maintaining considerable equity capital is commensurately necessary.

### ■Returns to Shareholders

Based on an approach of providing stable dividends and flexibly implementing the purchase and retirement of treasury stock, and from a medium- to long-term perspective, we have heretofore paid out 40% to 50% of net income in dividends.

Despite the murky outlook for the business environment, we intend to keep our basic thinking unchanged and continue stable making returns to shareholders.

### ■Annual dividend per share\* (yen)



\*Toho Gas consolidated its shares at the ratio of 5 shares to 1 share of common stock effective October 1, 2017. Accordingly, dividend per share reflects the impact of the said consolidation of shares.

### ■Share buy-backs (million yen)

Period	Purchase value
Feb.-May 2001	2,499
Nov. 2001-Mar. 2002	2,999
Nov. 2002-Jun. 2003	5,581
Aug. 2003	344
Nov. 2003-Jun. 2004	4,150
Dec. 2004-Mar. 2005	2,507
Feb. -Jun. 2006	1,746
Feb. 2007	2,668
Feb. -Mar. 2008	2,784
Dec. 2009-Mar. 2010	2,996
Mar. -Jun. 2011	2,751
May-Jun. 2015	2,999
May-Jun. 2016	2,381
Mar. 2017	2,199
May-Jul. 2017	2,994
Aug-Oct. 2019	2,999
<b>Total</b>	<b>44,606</b>