

Message from the President

While adhering to our fundamental stance of growing together with the region, we aim to expand our business domains through various endeavors and further enhance our corporate value.

Nobuyuki Masuda

Representative Director, President



— Actively Pursuing Initiatives Aligned with the Topics of Our Medium-Term Management Plan 2022-2025

In June 2022, Toho Gas celebrated the centennial of the company's founding. Many opportunities to reflect on the company's century of history before and after this important juncture. I would like to express again my heartfelt gratitude to all people and regions involved with Toho Gas.

Since the transition to FY2023, behavior restrictions to counter COVID-19 have been relaxed, and although social and economic activity are both trending toward recovery, the ongoing situation in Ukraine continues to create uncertainty and a lack of transparency in the economic and energy supply sectors. Energy companies must also overcome successive changes, including the changes in the competitive environment brought about by the full liberalization of electricity and gas retail markets, shifts in energy demand structure due to progress towards carbon neutrality, changing customer lifestyles and values driven by digitalization, and rising prices and evolving labor conditions. Viewed from a different perspective, however, we can see an expansion in new possibilities and news opportunities.

Given this awareness of the situation, the Toho Gas Group is actively pursuing initiatives aligned with the Medium-term Management Plan 2022-2025 announced in March 2022. This Medium-term Management Plan is

positioned as the first step toward achieving the sustainable growth on into the future indicated in our Group Vision, and outlines our course for addressing four key themes: "Promote carbon neutrality," "Evolve as an energy operator," "Create diverse value," and "Contribute to the SDGs."

To our shareholders and other stakeholders, I have been communicating the vision and efforts behind this Medium-term Management Plan through IR briefings and various other channels. Within the Toho Gas Group as well, I have consistently emphasized to our employees the significance of these four key themes, which serve as our overarching direction, as they each tackle the tasks before them, and we are united as a group in working towards their realization.

I believe that perceiving the goals set in the Medium-term Management Plan not just as "company objectives" but also as "matters contributing to the prosperity of the communities where live" makes it personal for our employees, leading to their growth as individuals and harnessing the full potential of our organization. Lately, I have noticed a sense of accomplishment as this mindset has permeated throughout the workforce, fostering a shared direction and progress. Actually, to understand the perspective of employees working at the forefront, I regularly visit various departments within the company, engaging in meetings with employees, including young human resources. It is evident that each employee is deeply

driven by a strong desire to make a positive impact on the region. Our region is a major metropolitan area, second only to the Tokyo and Osaka metropolitan areas, and houses various manufacturing industries, including the automotive sector, and is projected to experience steady growth on into the future. While adhering to our fundamental stance of "growing together with the region," we aim to expand our business domains through various endeavors and further enhance our corporate value.

— Looking Back on the First Year of the Medium-term Management Plan (FY2022)

Looking back on fiscal year 2022, we have made steady progress in expanding the numbers of customers in the city gas, LPG, and electricity sectors, which constitute our customer base. Our target of "reaching 3 million customers as soon as possible" has been advancing well, with a total of 2.92 million customers as of the end of FY2022. However, there were challenges in our core business of city gas sales, as the higher average temperatures throughout the year and production reductions caused by supply shortages in the industrial sector resulted in performance below the previous year.

With respect to our financial performance, amid the global upward trend in energy prices, we focused on stable procurement of natural gas, the primary raw material for city gas, chiefly through long-term contracts. As a result, our ordinary income recorded a substantial increase of 119.8% over to the previous period, reaching 48.1 billion yen. On the other hand, the electricity business faced severe financial challenges due to rising electricity procurement costs and other factors, leading us to undertake various approaches, including a reevaluation of procurement, to improve the financial situation.

Four themes
to work on
from FY2022
to FY2025

01 Promote carbon neutrality

03 Create diverse value

02 Evolve as an energy operator

04 Contribute to the SDGs

Message from the President

— Medium-term Management Plan Theme to Address: Promote Carbon Neutrality Actively Working Toward Decarbonizing Gas Itself and Promoting Widespread Adoption of Hydrogen

In July 2021, Toho Gas announced the "2050 Carbon Neutrality Initiative" and has been making concrete efforts toward achieving carbon neutrality by 2050. While achieving carbon neutrality has now become a significant business issue for many companies, as an energy operator, we consider the decarbonization of gas itself and the expansion of hydrogen adoption as crucial management issues directly related to fulfilling our social responsibilities. Also, our frequent opportunities to interact with customers are one of our strengths, and we believe that through energy supply and other means, we can contribute to achieving low carbon and decarbonization at our customers' locations. These efforts are essential for the sustainable growth of the Toho Gas Group, and given especially that they require time, it is vital to proceed steadily, one step at a time.

Regarding the decarbonization of gas itself, we are working on the introduction of e-methane. E-methane is a synthetic methane produced primarily from non-fossil energy sources such as green hydrogen and CO₂. If the adoption of e-methane as an alternative fuel to LNG proceeds, it will not only be able to efficiently utilize the city gas pipeline network, which is a social infrastructure, but will also eliminate the need for fuel conversion on the customer side. In our journey toward achieving carbon neutrality, striking the right balance between environmental performance and societal costs is crucial, and e-methane represents a realistic solution as a carbon-neutral synthetic fuel. Additionally, we are collaborating with universities and other institutions

to advance the development and verification of CO₂ separation and capture, which is essential for CO₂ recycling.

With respect to expanding adoption of hydrogen, we are actively working on establishing a hydrogen supply chain, which involves such tasks as constructing manufacturing facilities, examining transportation and supply systems, and developing technologies related to consumption. Specifically, we are building a hydrogen production plant at the Chita-Midorihama Works, which is our key city gas manufacturing plant, and plan to commence hydrogen supply by FY2024. While meeting the demand for hydrogen usage in thermal fields, mobility applications, and other areas and collaborating with other companies possessing knowledge and expertise, we aim to contribute to the realization of a hydrogen-based society.

Along with this, to support our customers' journey towards carbon neutrality, we are expanding our CNxP (Carbon Neutrality x Partner) business, which provides comprehensive services from consulting to engineering in a one-stop manner. We are also developing and procuring renewable energy sources to promote low carbon and decarbonization for electricity. Toho Gas is dedicated to advancing various initiatives toward achieving carbon neutrality.

— Medium-term Management Plan Themes to Address: Evolve As an Energy Operator Create Diverse Value Launching New Services in the Energy Area While Ensuring Stable Cash Flow

To expand our energy share, I would like to stay committed to increasing the number of customers. While

Toho Gas has been devoting effort to lifestyle services for residential customers and engineering services for commercial clients, securing a solid customer base is vital for expanding these services. It is essential for us to fulfill our responsibilities as an energy operator by *ensuring unwavering safety, security, and stable supply*, and first achieving the milestone of *3 million customers for city gas, LPG, and electricity* as quickly as possible while earning the trust of our customers.

In the energy area, while maintaining a stable sales volume in city gas despite advancing energy efficiency, we will aim to achieve further revenue growth by expanding the business scale of LPG and electricity as growth drivers. We intend to prudently allocate the stable cash flow acquired in the energy area to strategic business investments and shareholder returns, contributing to the overall growth of the group.

Also, starting from our energy customer base, we are actively expanding our range of new service offerings and products. In the realm of everyday living, we are enhancing digital points of contact, such as the Club TOHOGAS member site and the ASMITAS site, and intend to become a valuable presence in various life situations. Likewise, in the field of business support as well, we are working to expand the TOHOBIZNEX member site. Leveraging the strengths of our company, which enjoys real-world interactions with customers through city gas, including these digital touchpoints, we aim to be a versatile support in both personal and business aspects of life.

— Medium-term Management Plan Theme to Address: Contribute to the SDGs Strengthening the Business Foundation to Address a Wide Range of Challenges

With respect to our response to ESG matters, in



February 2023 we established the Toho Gas Group Sustainability Policy, outlining our approach towards achieving sustainability, and formed a new Sustainability Committee. We will diligently promote ESG initiatives across the entire Group.

As an energy operator supporting social infrastructure, we consider community engagement essential and are devoted to collaboration with local municipalities. In FY2022, we signed comprehensive cooperation agreements with six municipalities, focusing on promoting carbon neutrality and contributing to regional revitalization. As Toho Gas strives for sustainable growth alongside the communities, I am personally delighted that we can contribute in various ways to the region.

In pursuit of expanding our business areas in line with the Medium-term Management Plan, there is a need for changes in human-resource management. We are working on enriching expertise-enhancing training programs and study-abroad opportunities, and promoting career-based hiring. In these and other ways, we are working to create a larger space for exploring new initiatives and strengthening the supporting mechanisms for these endeavors.

In supporting human-resource management, ensuring flexible working arrangements and promoting diversity are vital. To enhance employee engagement, we are implementing concrete measures such as expanding support measures for work-life balance with respect to child-rearing, caregiving, and the like, encouraging male parental leave, and increasing employment opportunities for people with disabilities.

Regarding governance reinforcement, we are advancing initiatives across the entire Group, such as risk management and information security enhancement, to ensure that we remain a trusted and reliable company with respect to our stakeholders.

—Engaging in Dialog with the Stock Market More Carefully Than Before

In our Medium-Term Management Plan, we have set the shift of management resources from core businesses to strategic businesses as a goal. In support of this, we consider capital policy to be tremendously important. As call for the need for management awareness of capital costs and stock prices increases, we sense a need to

engage in dialog with the stock market more carefully than ever before.

Currently, Toho Gas has set the following management goals for the period of the Medium-Term Management Plan: a profit-oriented target of operating cash flow of 210 billion yen or higher, an efficiency target of around 3% ROA, and a soundness target of approximately 0.6 times Debt to Equity ratio. We are making progress in line with these targets, but the business environment is constantly changing, and we are therefore committed to always listening to the voices of our shareholders and other stakeholders and leveraging their input in our management decisions.

Regarding shareholder returns, our basic approach is to provide stable dividends and flexibly implement the repurchase and retirement of treasury stock, aiming to achieve approximately 40% to 50% of consolidated net income as a target for the medium to long term. Even as strategic business-related investments expand on into the future, we will continue to implement actions in line with our basic policy on shareholder returns to further enhance corporate value.

In my address at this year's entrance ceremony for new employees, I referred to Darwin's theory of evolution. In every era, there are things that must be preserved unchanged. However, adapting to change and continuously evolving is crucial for a company to achieve sustainable growth. While upholding the fundamental stance of growing together with the region, we remain committed to pursuing various challenges to expand our business areas and further enhance corporate value.

July 2023