Message from the President

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Nobuyuki Masuda
Representative Director, President

In this era of uncertainty, we are embracing challenges and working to achieve carbon neutrality and expand our business domains, thereby improving our corporate value.

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Continuing disaster preparedness and prioritizing compliance

First of all, we wish to send our heartfelt condolences to everyone affected by the 2024 Noto Peninsula Earthquake that struck on January 1 of this year. As an infrastructure provider responsible for energy supply in the region, Toho Gas is constantly working to ensure safety, security, and stable supply, and in addition to providing measures for city gas production facilities and gas pipeline supply facilities in the event of a disaster, we are promoting comprehensive collaborative agreements with local government agencies in order to establish a system that can quickly restore operations. Locally, the risk of a Nankai Trough earthquake has long been a concern, and for this reason, we continue measures to protect the lives and businesses of our customers in the event of a disaster.

In March, we received a warning from the Japan Fair Trade Commission regarding the supply of residential city gas as well as electricity after the expiration of the purchase period under the feed-in tariff for renewable energy, and we were found to have violated the Antimonopoly Act with regard to supplying city gas to large-scale consumers. We sincerely apologize to all of our stakeholders. We take this matter seriously and will work to regain your trust by implementing thorough measures to prevent a recurrence.

Flexibly adapting to environmental changes

With developments in carbon neutrality, the full liberalization of electricity and city gas retail markets, changes in the environment for procuring raw materials, and rising geopolitical risks, the current business environment surrounding the Company is increasingly uncertain, creating a significant impact. That said, Toho Gas has experienced its fair share of major environmental changes since its establishment more than 100 years ago. While it is essential to maintain a healthy awareness of risks, it is also important to see these as opportunities for new growth and be willing to take on new challenges. For example, while developments in carbon neutrality may naturally be expected to negatively impact future city gas demand, the transition period presents a positive opportunity to reemphasize natural gas as a clean energy source, and this could lead to fuel conversion from other fossil fuels, proposals for energy savings utilizing our technical expertise, and expansion of business in areas such as energy services and engineering. In this era of uncertainty, we must change with the times and flexibly adapt to environmental changes in order for the Group to survive.

Looking back on FY2023 and looking forward to FY2024

In FY2023, residential city gas sales decreased year on year due to the significant impact of mild winter temperatures in our region despite continued developing demand. Likewise, commercial city gas sales fell due in part to reduced operation at customers' production facilities. In terms of our financial performance, revenue and profit decreased year on year due to a decrease in gas sales and a decrease in sales prices amid a relatively stable raw materials market. However, in addition to the results of demand development and reductions in fixed costs through efficiency improvements, there were gains from the timing difference between raw materials costs and sales revenue, allowing us to secure a high level of profits.

In FY2024, assuming temperatures remaining average, residential city gas sales are expected to increase year on year, and commercial gas sales are expected to stay the same due to anticipated individual factors such as continued energy saving impacts despite developing demand and a return from a temporary decrease in production capacity. Regarding the financial performance, while a decrease in profit is expected due to a reduction in gains from the timing difference between raw materials costs and sales revenue, the Company generally expects profit to be close to its current actual level.

I would like to take this opportunity to share my thoughts with all our stakeholders including shareholders who have shown a great interest in our electricity business. We began our electricity business in FY2016 and have steadily expanded sales and customers. Regarding our financial performance, the ongoing situation of tight supply and demand along with a significant impact on procurement from soaring market prices caused by the Russia-Ukraine conflict since FY2022 continues to hamper our efforts to contribute to profits. However, our electricity business will become a pillar of our strategic business as outlined in the Group Vision, and with the number of customers exceeding that of the LPG business in FY2023 for the first time and in terms of maintaining core business profitability through set proposals with city gas, there is potential for our electricity business to expand and become an even more important business in the future. In FY2024, while we can see the end of the deficit in sight, the next step is to grow the Company to the point where it can become the driving force in expanding our profits. To achieve this, we are working to build a procurement portfolio to contribute to stabilizing and improving income and expenditure, examine owning our own power sources, and expand rates and services to meet the diverse needs of our customers.

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Progress of Our Medium-Term Management Plan

Our current Medium-Term Management Plan is a four-year period from FY2022 to FY2025, and it is the first step to realizing our vision for the mid-2030s outlined in the Group Vision. Our four objectives are to promote carbon neutrality, evolve as an energy operator, create diverse value, and contribute to the SDGs, and in order to establish a path for new growth of the Company, I have taken the lead, facing changes and driving the Group to take on challenges together.

In FY2023, our second year of the Medium-Term Management Plan, we were able to achieve our goal of reaching 3 million total customers for our city gas, LPG, and electricity businesses by FY2025 ahead of schedule. Regarding our city gas business, the number of customers increased year on year for the first time since the full liberalization of the market. In FY2024, we plan to reach our management target of 25.0 billion yen in consolidated ordinary income for FY2025 ahead of schedule based on our actual performance. The key to the Company's steady progress toward the targets of our Medium-Term Management Plan has been the growing sense of challenge among our employees to achieve these goals. As I mentioned earlier, we are facing developments in carbon neutrality and fierce competition from other companies, and instead of focusing solely on the negative aspects, we need to view risks as opportunities and take on new challenges. I value the seriousness and strong sense of responsibility that our employees bring to their work. To further instill a spirit of embracing challenges, I have consistently shared my vision through meetings and discussions with our team. I feel like the results of these efforts are becoming apparent.

Implementing carbon neutrality initiatives while expanding our strategic businesses

I would like to discuss two initiatives in line with our Medium-Term Management Plan. The first is one of our four objectives and is the initiative to promote carbon neutrality. To become carbon neutral, Toho Gas is studying efforts to decarbonize gas and expand the use of hydrogen. Regarding the decarbonization of gas, we are most excited about the introduction of e-methane, which enables us to continue using our gas pipeline network, a company asset. As we are working with domestic and overseas partners to identify and review projects, we have started to explore the possibility of exporting e-methane from the U.S. to Japan in 2030, and in March of this year, we began e-methane production demonstrations using biogas-derived CO_2 in collaboration with the city of Chita, Aichi Prefecture, using city gas as a raw material for the first time in Japan. With regard to hydrogen, we constructed a hydrogen production plant that uses natural gas as a raw material at Chita-Midorihama Works in the same city of Chita, and hydrogen production started in June of this year. As this region is a hub for manufacturing and looking forward to a future hydrogen society, we are working on creating a hydrogen supply chain that is easily accessible to our customers. In this way, we are steadily making efforts toward carbon neutrality in the future one step at a time, and it is my responsibility to change stakeholders' concerns into expectations.

The second initiative I would like to address is the growth of our strategic business related to evolving as an energy operator and creating diverse value. In our core businesses of city gas and LPG businesses, we will continue to develop demand in light of the future population decline in Japan and development of energy saving measures, but we do not expect to see steady growth we have seen in the past. Amid this, the growth of future profits of the

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Company will be driven by strategic businesses including electricity, overseas energy, carbon neutrality support, energy services and engineering, and living and business support. While our core businesses have made up a majority of our profit structure to date, the scale of our strategic businesses, particularly overseas energy, is gradually expanding. Regarding living and business support, we have a high affinity with existing energy businesses, providing services related to food, housing, and health by utilizing customer accounts, such as for city gas. We will continue to expand new services and enhance customer convenience, but further innovation is needed to ensure a profitable business. As we continue to invest in strategic businesses that will become sources for future growth, we will strongly focus on profitability while utilizing ROIC, which was introduced this fiscal year as an internal investment management indicator.

Realizing management that focuses on shareholder returns, capital costs, and stock prices

Regarding shareholder returns, we announced the repurchase of treasury stock with an upper limit of 10 billion yen in March of this year, and in July, we expanded this limit to 30 billion yen. Taking into account our medium- to long-term profit levels and optimization of equity capital, we decided to repurchase the largest amount of treasury stock to date. In April, we announced an increase in the dividend by 10 yen for the fiscal year ended March 31, 2024, bringing the full-year dividend to 70 yen for FY2023 and 80 yen for FY2024.

Furthermore, in April, we disclosed our capital policy, which was under review since last year, as part of the measures toward realizing management that focuses on capital costs and stock prices, and we outlined initiatives to improve the PBR by enhancing asset efficiency, ensuring an appropriate capital structure, and improving the PER. We have received generally positive feedback from our stakeholders regarding these announcements, and while there may be some surprise at the changes the Company is making, this result reflects a re-evaluation of the gap between the capital efficiency demanded by capital markets and our current situation, and thorough discussions at the Board of Directors and other meetings on action to take to close that gap. However, it is important to outline specific steps forward based on our policies while executing them steadily, and we will continue to create a dialogue with capital markets and push forward to realize our vision.