

Tokyo Gas will make necessary investments while ensuring a three-way balance of asset efficiency, financial soundness, and shareholder return



Managing Executive Officer and CFO
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Using my business experience in performing the duties of CFO

Since I joined Tokyo Gas, I have acquired a wide range of work experience in the Residential Services, Energy Solutions, Gas Rates and Schemes, and Electric Power Systems businesses before becoming the Chief Financial Officer. Now being in the top financial position, I believe that my understanding of cash flow and the left side of the balance sheet (the asset side) from the business perspective I have become accustomed to is my great strength, and I intend to make use of it as CFO.

The business results of Tokyo Gas for fiscal 2020 (ended March 31, 2021) were greatly affected by factors that may be one-off, such as the impact of the COVID-19 pandemic, the soaring LNG prices, and prices in the wholesale power trading market. Apart from these, the main differences from the expected amounts in the Medium-Term Management Plan ("Mid-term Plan") were the difference in the anticipated range of oil prices and exchange rates in overseas business and the difference in business profits of the Solutions and other business areas. In the latter case, additional profits through M&A and other activities are anticipated in the Mid-term Plan. We will continue to consider M&A opportunities during the remaining two years of the plan.

At present, the Tokyo Gas Group is implementing a growth strategy through investment, which tends to cause capital efficiency to decline temporarily. In order to

prevent this, we will focus on the profit contribution to be made within a short time in making investments. Up to now, we have "accelerated" investment, but I think we will gradually shift into a cruise speed as we enter a phase of "control" with application of discipline and with an upper limit.

Continuing growth investment toward 2030 and further investment aimed at Net-Zero CO₂

We plan to make investments worth 1 trillion yen within the three-year in the Mid-term Plan. Investment in the first year amounted to approximately 330 billion yen, which is roughly in line with the plan. We are expecting the shale business in North America to generate operating income of several billion yen per year within the Mid-Term plan period. The photovoltaic power generation business also in North America is poised to gradually increase profits from the moment when financing costs drop. The domestic biomass business is expected to contribute to operating profit relatively early. Since it is a business involving a renewable energy source in Japan, a synergy with existing businesses is anticipated. We have also invested in gas distribution companies in Asia, and overall, we believe that we have made balanced investments in various growth areas. We will inform you of progress and outcome of these investments going forward.

In order to achieve our target profit level of 200 billion yen as stated in Compass2030, we must continue investment in new areas and at

the same time make gas, electricity, and other existing businesses generate profits and support the company. In the past few years, the effects of liberalization and the deterioration in the market environment have led to a significant downturn in the return of our existing businesses, and we intend to enhance the efficiency and profitability of these businesses, and to improve ROA and ROE.

In the meantime, we will put more efforts in investment toward decarbonization, which however would not necessarily result in an early return. It would be a long way off for the investment in offshore wind power and hydrogen-related fields to be profitable and drive growth.

In order to make further investment aimed at Net-Zero CO₂, in addition to the growth investment toward 2030, the balance between asset efficiency and financial soundness will be crucially important. Regarding financial soundness, some of our invested businesses involve various risks in threatening returns, and having sufficient capital is important from the viewpoint of risk management. Moreover, a certain amount of equity capital will be indispensable to continue investment over a long period of time. We hope that our investors will understand this.

Making use of sustainability finance

In 2020, we issued the first green bond in the gas industry. We received a lot of inquiries from investors, and I felt that this type of bond had a strong advantage in terms of conditions for the issuer. As the concept of transition to achieve the

sustainable development becomes increasingly important toward 2030, I believe we need to raise funds by such means as transition bonds. However, transition financing is in its early days in Japan, and investors tend to have diverse opinions and expectations. We will calmly judge the benefits, taking into account the fact that the use of the transition bonds shall be necessarily limited.

Reviewing cash allocation, while being mindful of financial soundness

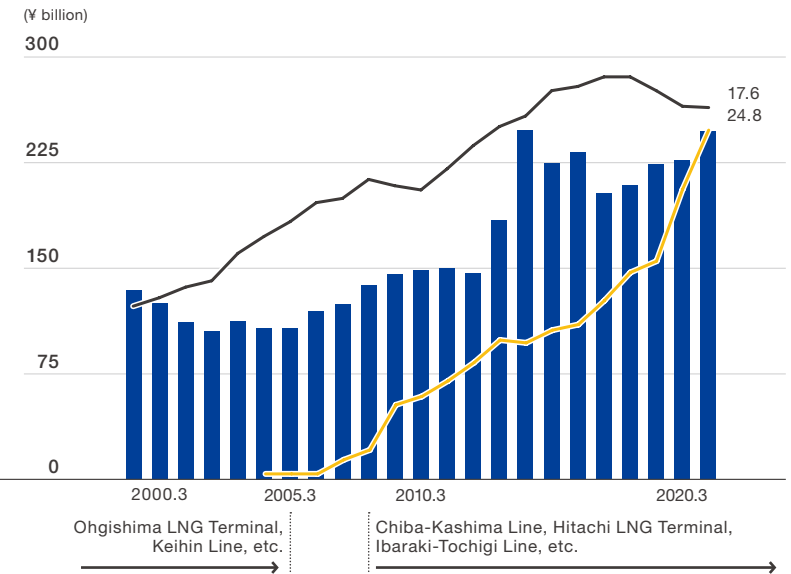
When we began the current shareholder return policy of committing to a total payout ratio of 60% to shareholders, the improved capital efficiency was a challenge and the acquisition and retirement of treasury stock was indispensable. In addition, until now, we had been able to leverage our investments. However, as I stated earlier, we need to be mindful of financial soundness. Moreover, we are now at a point for fundamentally reviewing cash allocation so as to accelerate efforts toward Net-Zero CO₂. We thereby announced last fall that we will review our shareholder return policy. As we have not yet reached a final conclusion, I have to ask you to wait a little longer for official announcement to be made.

We will continue listening to the opinions of our stakeholders, adhere to our basic financial policies, and work toward improving corporate value. I appreciate for your understanding and support.

Capital expenditures and sales volume of gas and electricity

■ Capital expenditures (LH)
 — Gas sales volume (billion m³)
 — Electricity power sales volume (billion kWh)

*1 Non-consolidated basis up to fiscal 1998; consolidated basis from fiscal 1999
 *2 Gas sales volumes from fiscal 2011 onwards are the combined volume from sales and in-house use (including LNG sales volume and city gas volume used in-house under tolling arrangement).



Shareholder return

■ Share repurchases
 ■ Dividends
 — Total payout ratio

