



We will responsibly lead the energy transition with gaseous and renewable energy

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Moving to a holdings type group structure in the era of VUCA

The global economic outlook remains uncertain, clouded by various factors such as concerns over current international affairs, the increased volatility of the energy market, and the lingering impact of the COVID-19 pandemic. Our world has truly entered what many are calling the era of VUCA.*

Amid this economic environment, the Tokyo Gas Group is proactively taking diverse actions guided by our belief that in a time of change, we must change ourselves. In November 2019, we set forth the Tokyo Gas Group management vision “Compass2030” to chart the direction we should take in an era where our business environment is rapidly changing, particularly with regard to trends such as decarbonization, digitalization, diversification of customer, and deregulation in the energy market. In June 2021, in order to strengthen our corporate governance and to enhance our management transparency, we transitioned to become a Company with a Nominating Committee, etc. And, in April 2022, to a holdings type group structure designed to further streamline our management processes and accelerate our decision-making. One key benefit of this transformation is that it transfers greater

*VUCA: This acronym stands for volatility, uncertainty, complexity, and ambiguity, and refers to a state of society in which tremendous change is occurring and making it difficult to forecast the future.

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authority to our internal companies and business corporations, endowing them with a high level of autonomy in their management decisions—a step that is expected to help advance their further growth. While this structure allows each business unit to stand on its own feet and strive toward bigger profits, it also creates a centrifugal force in group management. On the other hand, we believe that it is also vital to generate a centripetal force that will more firmly implant our shared values in every employee so that we, as a group, can move forward in the same direction. For this purpose, we laid out a new Management Philosophy for the Tokyo Gas Group on April 1, 2022.

We will ceaselessly march forward, guided by our new Group Management Philosophy

The new Management Philosophy consists of our Purpose, which states who we are and why we exist, and our Values, which are the priorities that guide our employees’ actions.

“Standing by every person and dedicating ourselves to the society, we shall be the energy that weaves the future.” So declares the statement of our Purpose. But who is “every person” that we stand by? Until now, we have seen our customers as the main target of our services. What, then, is the “society” to which we dedicate ourselves? In our traditional thinking, society has been the communities to which we supply city gas.

However, these definitions have been greatly expanded by our new Management Philosophy.

Now, “every person” refers to the many different stakeholders associated with our businesses. It includes, of course, our customers, shareholders, and investors, but it also comprises everyone across our supply chain—the workers at our natural gas fields around the globe, the people who transport liquefied natural gas (LNG), the members of our partner organizations, and of course all our Group employees. Moreover, to “every person” not just in the present, but to encompass all future generations. We believe that basing our actions on a

conscious awareness of everyone tied to our business operations helps us to contribute more effectively to the achievement of the SDGs.

Meanwhile, our definition of “society” now includes not only all of Japan, but also the international community, as well as the various elements that support these societies. We are thoroughly explaining this expanded concept to our employees as we endeavor to securely embed the new Management Philosophy across our organization.

As for “we shall be the energy that weaves the future,” energy here holds two meanings. One is energy in the literal sense. Up to now, we have taken that to mean natural gas, but going forward it will also encompass renewable energies, hydrogen and synthetic methane, and other forms of energy that we will supply to support society and to contribute to the realization of a net-zero carbon society. The other meaning is that we ourselves will be “the energy”, a driving force behind the development of a sustainable society.

Next, I would like to mention the four Values embodied in our Management Philosophy. The first two, “Challenge” and “Responsibility” have remained at the forefront of our minds ever since we became the first company to introduce LNG to Japan some fifty years ago. Now, we are strengthening our commitment to those values as we take on the challenge of responsibly leading society and the world to a net-zero carbon future. These two Values are underpinned by the other two, “Respect” and “Sincerity,” which we have embraced since our founding.

Positioning these four Values as the mainstay for our employees’ behavior and guided by our new Management Philosophy, we will ceaselessly march forward to help bring sustainability to everyday life, communities, and the planet.

We have formulated “Compass Action” for realizing our management vision

Compass2030, the management vision we announced in November 2019, lays out three overarching challenges: Leadership in the effort to achieve Net-Zero CO₂, Establishment of a value co-creation ecosystem, and

Transformation of the LNG value chain. In October 2020, roughly a year later, the Japanese government declared that it would seek to make Japan carbon neutral by 2050, and six months later in the following April, announced the goal of reducing greenhouse gas emissions by 46% in FY2030. With these came the launch of sweeping efforts toward decarbonization that have factored into the growing volatility of the energy market. In response to the big changes in our business environment over the past two years, we unveiled “Compass Action” in November 2021 to reaffirm the management vision by presenting the detailed roadmap for its realization.

With regard to “leadership in the effort to achieve Net-Zero CO₂,” Compass Action states that we will responsibly lead the transition with gaseous and renewable energy. This means effecting a transition that maintains the stable supply of energy while remaining both environmentally and economically sound. As we lead the shift to carbon neutrality, we will uphold our commitment to S+3E.*

Compass Action’s plan for “establishing a value co-creation ecosystem” involves accelerating value co-creation via digital transformation and reinforced face-to-face engagement. We will enhance businesses that contribute to solving social issues by advancing digital transformation and combining it with our strengths in face-to-face engagement.

The path toward “transformation of the LNG value chain” involves improving each business’s earning power and resilience to change. Specifically, we are seeking to enhance our earning power across each business and bolster their resilience to the dramatic changes in our operating environment by carrying out a series of transformations, such as the aforementioned actions to strengthen governance and realign our organization.

We will boldly advance toward Net-Zero CO₂ by enhancing sophisticated use of natural gas while decarbonizing our gas and electricity supply

The Tokyo Gas Group is committed to playing its part in

*S+3E: This is Japan’s basic energy policy. It envisions giving top priority to safety while working to simultaneously achieve the country’s goals in energy security, economic efficiency, and environment.

firmly establishing a net-zero carbon world by 2050. In order for us to do so, we must pursue diverse forms of innovation that enable us to decarbonize our gas and electricity businesses.

To decarbonize our gas operations, our Group is looking to develop methanation technologies and replace the gas we supply with synthetic methane. However, given the current level of technology, it will require considerable innovation to conquer the formidable challenge of replacing a supply that measures tens of billions of cubic meters. Nevertheless, we must now strive to move forward by peering into the future and starting to develop the technologies we will need to get there. At the same time, it is vital that we reduce our carbon emissions by leveraging existing technologies and making effective use of natural gas. For example, one step we can take is to reduce our customers’ emissions by switching to natural gas in place of the other fossil fuels. In other words, while we fully exploit the potential of natural gas utilizing best available technologies and in doing so steadily reduce carbon emissions, we also pursue development of forward-looking technologies. These approaches will enable us to lead the transition to a net-zero carbon society.

Such innovation is also essential for decarbonizing our electric power business. Since Japan is short on suitable land for installing solar panels and wind turbines, it is unlikely that these onshore renewables will be enough to generate the level of power needed to meet the decarbonization goal. As a last resort in this case, we are currently developing technologies for floating offshore wind power generations, which are better suited for this country’s marine environment where there are limited shallow coastal waters. Another challenge is that renewable energies such as solar and wind power are significantly affected by weather conditions, which means the amount of electricity generated by them is very unstable. While it is generally considered that renewable power cannot be stabilized without breakthrough innovation in large-scale storage battery

technology, progress can still be made with existing technologies. Specifically, natural gas fired thermal power plants and gas engines can act as the balancing electricity source mitigating the volatility of renewable powers. The conversion of conventional thermal power plants to natural gas fired systems would significantly lower carbon emissions, and thus promises to serve as a pivotal solution for the decarbonization transition.

In the coming years, we will step up our decarbonization efforts not only on the supply side, but also on the demand side. In our gas business, as we pursue the aforementioned switching over to natural gas, we are taking action to realize methanation that utilizes the CO₂ emitted by customers’ offices and factories. And, in our electricity business we are working to expand the deployment of renewables on the demand side, including by offering services that enable customers to efficiently use electricity supplied from solar panels and storage batteries that we install at their sites.

As these examples illustrate, we will boldly advance toward Net-Zero CO₂ by maximizing technologies at hand and innovating future technologies, on both the supply and demand sides of our businesses. That is what we call “responsibly leading the transition.”

Achieving S+3E by supporting society with a decarbonized energy mix

It is widely believed that decarbonization can be achieved by shifting to renewable power and utilizing that electricity to power everything we use in our daily lives, and putting more electric vehicles on the roads. However, as I have already indicated, electricity alone does not make for a stable energy system, nor can Japan attain its S+3E vision with this approach. Moreover, such a strategy prompts a critical concern—what do we do when a disaster or other contingency causes a major power outage and there are no other energy sources we can rely on? However, if Gas cogeneration systems that continue to operate at times of power outage are installed, we could generate electricity as long as gas is supplied. Residential fuel cells could also

play a supporting role.

From the standpoint of energy resilience, it is desirable for communities to have access to diversified sources of energy. Accordingly, the Tokyo Gas Group will seek out decarbonization solutions for different forms of energy.

The Compass2030 management vision is advancing smoothly and steadily

Let’s take a look at how progress is being made in tackling the three challenges laid out by Compass2030. We have only begun to implement initiatives toward demonstrating “leadership in the effort to achieve Net-Zero CO₂,” but those actions are firmly moving forward. Notably, salient advances have been achieved in the development of methanation technologies. We established a methanation plant at our Yokohama Techno Station in Yokohama’s Tsurumi Ward, and have already launched demonstration testing of the methanation process. The project will include demonstration testing of methanation utilizing CO₂ emitted from the city’s waterworks and garbage incinerators. In addition, we are jointly carrying out a project with SCREEN Holdings Co., Ltd. to develop technology for rapidly and economically mass-producing water electrolysis cell stacks, which are the core component of a hydrogen production system.

Progress is also being seen in initiatives that we are carrying out with diverse customers to reduce carbon emissions through the use of natural gas. One example is the commencement of Niihama LNG Terminal this spring, which we plan to switch the raw fuel to LNG for Sumitomo Chemical Co., Ltd.’s Ehime Works (Niihama City, Ehime Prefecture).

As for “transformation of the LNG value chain,” we are implementing various actions to further enhance the value of LNG. This includes not only its value as a raw material for city gas or a fuel for power generation, but also its value as a commodity to be traded.

The third, and toughest, challenge is “establishment of a value co-creation ecosystem.” The key to success here is to combine both digital and face-to-face

engagement to co-create value with our customers. We have turned to the UK's Octopus Energy Group Limited as an ally in this effort. Octopus Energy, which possesses keen insights on digital technology and the retail electricity industry, has attained dramatic growth by creating new customer experiences through the coupling of digital technologies with expertise in efficient customer service. In December 2020, we entered into a strategic partnership with the group and subsequently established the joint venture TG Octopus Energy Co., Ltd. Since then, we have co-developed diverse electricity tariffs catering to the individual needs of customers across Japan and made other improvements that we could not do on our own. The result is that we are truly co-creating value with our customers.

Going forward, we will continue expanding our portfolio of energy and services to meet the lifestyle and life stage needs of customers.

Enhancing our long-term corporate value through targeted investment in growth areas

The Tokyo Gas Group is investing roughly 2 trillion yen in the growth areas outlined by Compass2030. In addition to financing renewable energy, methanation, hydrogen, and other elements of Net-Zero CO₂ initiatives, this money will go toward growth areas in overseas projects and the real estate business, as well as investments that will help strengthen our risk tolerance vis-à-vis market volatility.

We will consistently evaluate each candidate for investment through the lens of our Management Philosophy's question: What is our purpose?

Our shift to a Company with a Nominating Committee, etc., which drew a clear line between our oversight and executive functions, has empowered the executive leadership to make decisions on large-scale investments. Needless to say, those leaders are expected to remain accountable, as all investment choices will be monitored to ensure that they are aligned with corporate policy. Greater authority entails greater responsibility for our executive officers, but this change will accelerate

decision-making and thus facilitate the investment process, which is particularly important in overseas projects, where speed is of the essence.

Meanwhile, we re-examined our policy on shareholder returns last September and decided to change the total payout ratio target from 60% to 50%. The resulting 10% will be applied to growth investments in areas such as Net-Zero CO₂. This outlay promises to help advance our growth over the long run and bear fruit in the lead-up to 2030. I see that growth as a vehicle for rewarding our shareholders, and so I hope that they will lend their support to our long-term growth.

This fiscal year is the last in our current three-year Medium-term Management Plan, which also means that it is time to draw up the next plan. In order for us to attain our goals under extremely volatile market conditions, it is imperative that we optimally leverage our Group's assets to strengthen our resilience to change and turn change into positive results. This will be a core focus of our next Medium-term Management Plan.



On a final note about the current state of international affairs, approximately 10% of our total LNG imports comes from Sakhalin in Russia. This represents a significant percentage in terms of our ability to maintain the stable supply of energy. We will continue to closely coordinate with the Japanese government and relevant organizations, while also exploring measures that may need to be taken in the event of contingencies that impact supply or demand.

The Tokyo Gas Group's greatest strength continues to be its brand value of Safety, Security, and Reliability, which we have built up over our more than 130-year history together with our customers and other stakeholders. The many uncertainties we face today will not keep us from fulfilling our commitment to ensuring safety, maintaining the stable supply of energy, and contributing to the world's future through our tackling of new challenges in Net-Zero CO₂ and other areas. We hope that you will continue extending to us your understanding and support.

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