

We will realize sustainable enterprise value creation by establishing a financial base that responds to changing global energy conditions and by carrying out growth strategies aimed at achieving the Group's management vision.



Managing Executive Officer, CFO
MINAMI Taku

I will carry out my role of illuminating the Tokyo Gas Group's present location and its future shape, supporting management strategy financially, and creating a base.

I am MINAMI Taku, and I took on the position of CFO in April 2024. For the past three years, as the head of the Finance Department I have been thinking about the Tokyo Gas Group's present status and its future shape from a financial perspective. Before then, I was in the energy sales division and the TGES* planning division for approximately 16 years. I also have experience in the Gas Resources Dept, the Personnel Dept, the Corporate Planning Dept, and more, so I have been widely involved with the Tokyo Gas value chain, from the upstream to the downstream areas.

I believe that the role a CFO is expected to fulfill is not only being the top officer for finance

and accounting, but also being someone who supports management strategy aimed at corporate growth from a financial point of view, and builds a base. In a business environment that experiences extreme change, I feel that as a member of management, I have a responsibility to realize sustainable enterprise value creation.

Our Group's management vision is "Compass 2030," and we are currently engaged in carrying out our medium-term management plan "Compass Transformation 23-25" in order to progress toward achieving that vision. We must build a sound financial base, in order to respond to global and domestic energy market conditions and structural changes in the energy industry. In addition, I would like to demonstrate our non-financial activities and their results to our various stakeholders including our shareholders and investors, so that they can have confidence in the growth of the Group.

*Tokyo Gas Engineering Solutions Corporation

The Medium-term Management Plan “Compass Transformation 23-25” sets out specific plans for the realization of our “Compass 2030” vision. Aiming for the sustainable development of society and the provision of even greater value to our customers, our Group is endeavoring to transform its own business model.

In FY2023, we conducted investment with the goal of creating a strategic asset portfolio. Firstly, we sold upstream assets in Australia and in their place purchased North American shale gas assets. We also invested in a North American marketing and trading company, and acquired electricity storage battery-related assets. We took these actions with the goal of expanding business while organically controlling our various assets as one united body. In addition, with our eyes firmly focused on the replacement and improving efficiency of LNG-fired thermal power plants, and decarbonization in the future, we made the decision to invest in an LNG-fired thermal power generation plant in Sodegaura City, Chiba Prefecture. With large-scale investments like these, it is crucial to ensure that they lead to future cash flow and profits. Therefore, the entire company will make efforts to follow up on this going forward.

In the area of the solutions business, we launched the new brand “IGNITURE,” summing up the value we provide to customers as “Decarbonization,” “Optimization” and “Resilience.” Incorporating “GX” (“Green Transformation” - a Japanese government initiative to bring about a shift to clean energy), DX and so on, we will provide our residential, corporate, and community customers with a lineup of solutions that are easy to understand and use. Looking ahead toward the achievement of our profit level goals for 2030, we will develop the overseas businesses we are making efforts in, such as the North American shale gas business expansion which I mentioned previously, and also develop the Solutions business, such that these two areas become our main income earners after gas and electricity.

The forward-looking statements for FY2024 (as of April) put segment profits at 120.8 bn yen and net profit for this term at 80 bn yen. The figures remain at levels which call for even further efforts in order for us to achieve the FY2025 financial indicator goals of our Medium-term Management Plan (segment profits of 150 bn yen, ROA of 4%, ROE of 8%). The reasons for this include the fact that serious earning contributions from the North American business will come in FY2025 and beyond, the fact that the superiority of LNG procurement capabilities, which contributed to profit in the last two years, has not been taken into account, and the occurrence of temporary expenses which accompanied large-scale repairs of facilities and system replacements in FY2024. We also recognize that the goals of ROA 4% and ROE 8% are not necessarily sufficient if we take into consideration interest rate rises, changes in the energy market situation, and other factors. Looking toward FY2025, the final year of the Medium-term Management Plan, we will continue to implement measures that contribute to boosting profitability and efficiency.

Firstly, from the perspective of portfolio management, we will clarify the role of each business, and we will pursue profitability by expanding the North American shale business and trading business, reducing Group-wide costs through DX, and so on. In addition, we will take action to improve asset and capital efficiency, venturing into areas such as cash on

hand optimization including cash management cycle review, selective infrastructure investment, disposal or removal from balance sheets of inefficient assets, and acceleration of disposal of cross-shareholdings.

The three core strategies that we have laid out for the medium-term management plan are “Achieve both stable energy supply & decarbonization,” “Fully roll out the solutions business” and “Realize a flexible corporate culture resilient to change.” As CFO, aiming toward the realization of a flexible corporate culture that is resilient to change, I am conducting financial control based on four key phrases: (1) Creation of stable cash inflows; (2) A strong, trim balance sheet which supports growth investment; (3) Business management aimed at improving enterprise value; and (4) Shareholder returns with a total return ratio of approximately 40%.

Regarding investment plans, viewing this as a period of expansion for growth investment aimed at securing future profit, we will allocate approximately 1 trillion yen of the mid-term management plan's three-year projected operating cash flow of 1.1 trillion yen to investment. As for infrastructure investment and so forth, while on the one hand we will carefully select what we invest in, we will actively invest in growth investments which will be a source of future profits, such as renewable energy projects, shale gas projects, and trading projects, while continuing to observe our investment regulations. Further, we will pay attention to appropriately disclosing the results of such investments.

■ Three-year investment plan (aims, amounts, periods etc.)

(Unit: 100 million yen)

	FY2023-25 mid-term plan	FY2023 results	FY2024 plan	FY2025 plan
Growth investments	6,500	3,801	2,687	TBD (adjusted based on FY2024 results)
(Amount of decarbonization-related investment included)	2,300	703	173	TBD (adjusted based on FY2024 results)
Infrastructure investments	3,500	1,008	1,286	TBD (adjusted based on FY2024 results)
Consolidated adjustment	-	(5)	(69)	-
Total	10,000	4,804	3,905	

We will manage human capital based on the concepts of “Strategic talent placement,” “Growing by taking on challenges” and “Turning diversity into a strength.”

Starting this year, I, the CFO, will also be responsible for sustainability. In order to demonstrate the Tokyo Gas Group’s sustainable growth and enterprise value, it is important to properly communicate our non-financial strategy too, in addition to our financial strategy.

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Sustainability has various elements, and among those, human capital is very significant. People are the source of a corporation's strength, and the fact that human capital is one of the most important management resources has not changed over time. The Tokyo Gas Group is endeavoring to strengthen human capital based on "Strategic talent placement," "Growing by taking on challenges" and "Turning diversity into a strength."

Firstly, we are taking action to visualize each internal company and operating company's required technical expertise. We clarify goals for training in order to fill the gaps between the levels aimed for and the current levels, and link that to securing personnel over the medium- to long-term. Further, in order to promote employees' appetite for challenge and growth, we utilize a talent management system to share information about employees' strengths and abilities and promote career building and reskilling that allows each employee to make the most of their strengths. We have also begun new efforts involving employees holding side jobs, in-house recruitment and so on. In addition, to further facilitate utilizing the talents of females and young workers and appointing them to various positions, we are promoting infrastructure development aimed at realizing increased efficiency through the utilization of DX (digital transformation) and diverse ways of working that are not limited by time or place.

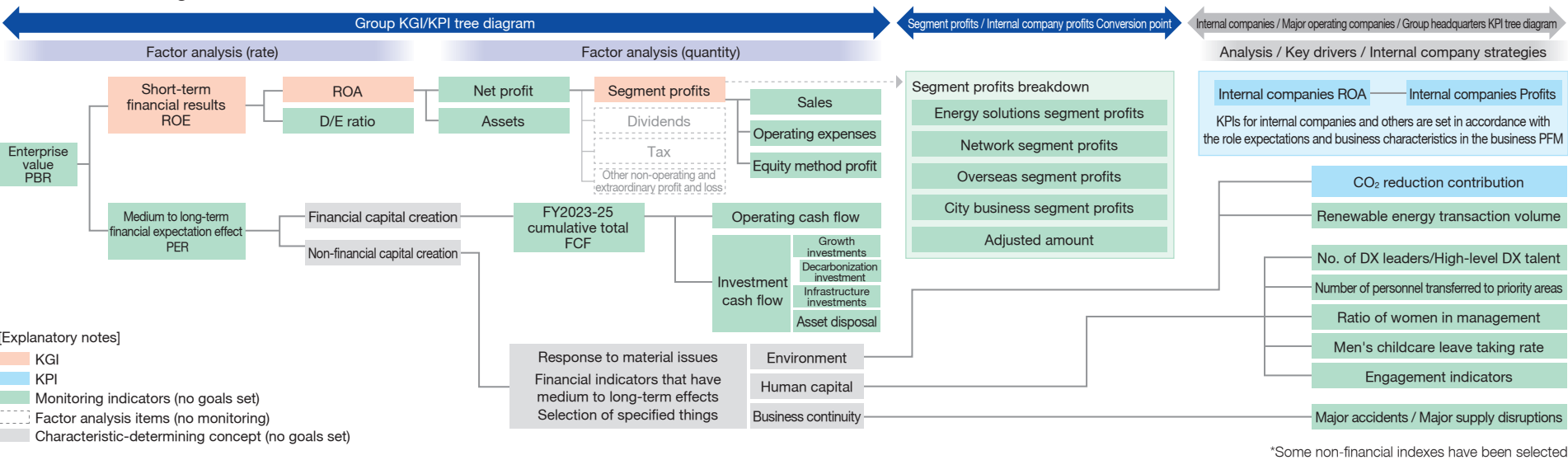
We are monitoring the rates of reskilling and re-learning, the rate of males taking childcare leave, increases in the number of females in management roles, employee engagement indices, and so on, and periodically checking whether improvements in human capital are properly progressing, while endeavoring to improve policies and have them take root.

We will take action to improve our PBR based on sustainable enterprise value improvement, and practice management that is conscious of capital costs and stock prices.

In recent years, the need for management conscious of PBR improvement and capital costs has been regarded as very important. At the Tokyo Gas Group, we believe that rather than shortsighted goals such as short-term share price improvement and PBR improvement, we should pay attention to continuous capital profitability improvement and sustained cash generation ability, and focus on improving medium and long-term enterprise value in our endeavors. Starting in 2024, as an enterprise value indicator, we have set the PBR as the top KGI. We identify KPIs for improving the PBR, and after breaking down target figures for each segment into internal company and operating company levels, we conduct monitoring.

Our PBR has not reached 1.0 in the last five years. If we break down the PBR to ROE×PER, we can see that in the last two years, although the ROE has attained a certain level, the PBR is below 1.0. I understand this as meaning that the PER, which indicates the expectation and trust levels toward the Group's growth, is at a low level. Along with focusing on ROE improvement and goal achievement, we will endeavor to convey a growth narrative to all our investors, to raise expectations towards the Group.

KGI / KPI tree diagram

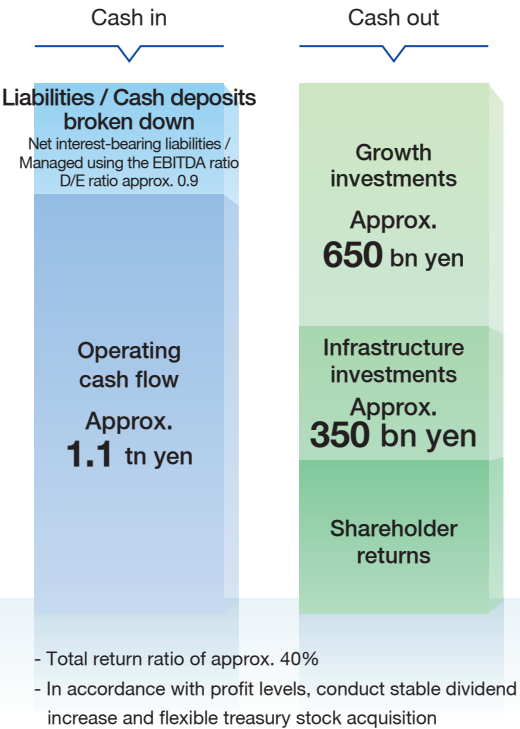


In order to become a corporation from which all stakeholders can anticipate positive results even more than before, we will become active about timely and appropriate information disclosure and dialogue.

Concerning returns to shareholders, we have laid out a policy of a total return ratio of approximately 40%. As before, while maintaining a stable dividend without reducing it, we will consider increasing the dividend gradually in line with our growth, while taking medium and long-term profit levels into overall consideration. In FY2023 we paid a dividend of 70 yen per stock for the year, and we intend to make decisions about increasing dividends flexibly in accordance with profit levels going forward as well. We also consider treasury stock acquisitions to be an element of return to shareholders, along with dividends, and we intend to continue making treasury stock acquisitions as a stable method of return.

Regarding dialogue with stakeholders, centering on our shareholders and investors, we regard this as an important and precious opportunity which is directly linked with management, and we intend to continue to be proactive about holding dialogue going forward. Further, we recognize that it is extremely important to disclose information at appropriate timing, including disclosing information through this Integrated Report. For example, information regarding progress toward goals set out in the management plans, our track record of past investments, and evaluation of new investments. In addition, concerning the fruits that the results of our business operations bear, we would like to assure everyone that we will conduct stable and flexible returns. Through strategic investments in line with our growth narrative, we will be sure to realize improvement in enterprise value, so we would invite everyone to count on the future of our group as being a bright one.

FY2023-25 cash allocation plan



FY2023 cash allocation results

