

# Supporting continuous corporate value enhancement through financial and capital strategies focused on capital efficiency

**Must: Achieving an ROE of 8% in FY2025 and growth beyond**

Managing Executive  
Officer, CFO  
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## Responsibilities as CFO —Supporting management decisions from both financial and non-financial perspectives—

Rising geopolitical risks, energy price volatility, and waves of technological innovation, including GX (green transformation) and DX (digital transformation), are driving structural changes in the energy industry. We regard this turbulent era as our “Third Founding” and are accelerating transformations for the future. As CFO, I view this as an ideal opportunity to evolve ourselves into a more resilient and capital-efficient company.

My mission is to support management decision-making, including that of the CEO, from the perspectives of risk and financial soundness, leveraging my expertise in finance and accounting. My role is to provide accurate financial information and guidance, enabling the company to confidently accelerate the execution of growth strategies. While this might at times seem like applying the brakes, I believe it ultimately drives the Tokyo Gas Group’s sustainable growth into the future.

In fulfilling this mission, I focus on whether our initiatives truly contribute to sustainable corporate value enhancement. Strong short-term performance is meaningless if it is only temporary. At the same time, accumulating short-term results and translating

them into next actions is essential for driving medium- to long-term corporate value. I continually ensure that we remain aligned with a consistent growth story and take the necessary measures to advance it.

I am now in my second year as CFO. Since my appointment, I have been sincerely listening to opinions from the capital markets and taking proactive actions based on that feedback. We view the prolonged situation of a price-to-book (P/B) ratio below 1.0x as a management challenge and are fully committed to implementing management practices with a focus on both the cost of capital and stock price.

We place importance on segment profit, return on equity (ROE), and return on assets (ROA) as key management targets. In particular, ROE is an important measure not only of profitability but also of the “quality of improvement” and “capital efficiency.” Ensuring that the value we create exceeds shareholders’ expectations, and responding quickly and flexibly, is one of my most important missions as CFO. We are committed not only to short-term stock price increases but also to sustainably enhancing corporate value to meet stakeholders’ expectations.

At the same time, ROA serves as a balance sheet efficiency indicator, helping to reduce excess cash and working capital and optimize total assets. We also use ROA as a proxy for return on

invested capital (ROIC), checking whether our investments generate adequate returns over invested capital relative to the weighted average cost of capital (WACC), ensuring that our investments earn sufficient spreads and are appropriate for the capital deployed.

In enhancing corporate value, financial and non-financial information are inseparable. Initiatives addressing climate change and investments in human capital are no longer merely costs; they are critical up-front investments that generate future cash flows. In particular, we will continue to prioritize investing in the development and acquisition of talent essential for driving business transformation.

Our ESG initiatives are likewise indispensable for mitigating future business risks and creating new revenue opportunities. We aim to provide a compass for maximizing corporate value from both financial and non-financial perspectives and to communicate our progress carefully through dialogue with stakeholders. Over the past year, the Board of Directors has actively engaged in discussions on sustainability management, leading to revisions of our FY2025 materiality.

As the executive responsible for both sustainability and oversight of financial and non-financial matters, I will communicate to internal and external stakeholders how non-financial information relates to corporate value over time and clearly convey an integrated management strategy that unites both dimensions to internal and external stakeholders.

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Progress and financial evaluation of the current Medium-term Management Plan  
—Aiming to enhance capital efficiency—

The current Medium-term Management Plan is progressing smoothly toward achieving the profit targets set out in the “Compass 2030 Vision.”

Overseas, we have executed an asset rotation by divesting upstream assets in Australia and making growth investments in the North American shale gas business, achieving steady profit growth. Domestically, we launched the solution brand IGNITURE,” and we expect the solutions business to become the next core pillar alongside gas and electricity.

Regarding GX, despite a challenging investment environment, we have been exploring and selectively investing in projects both

domestically and internationally while carefully managing risks, accumulating experience and know-how toward a future carbon-neutral world.

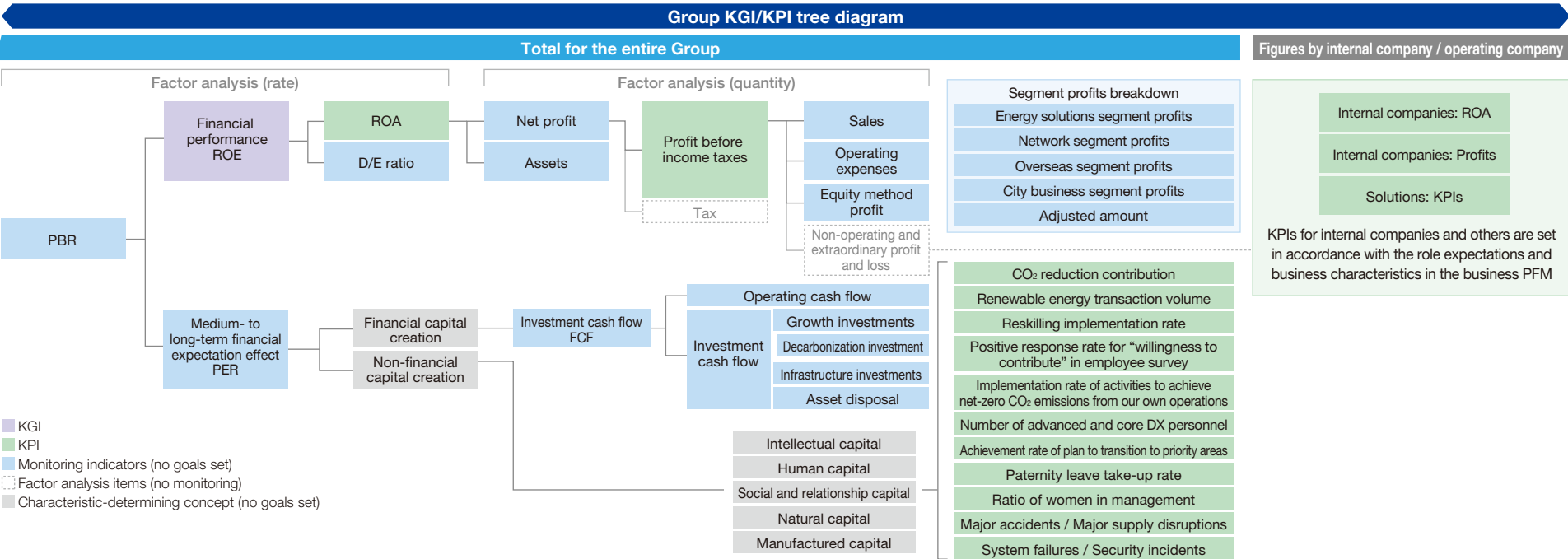
In FY2023—the first year of the Medium-term Management Plan—we achieved record-high levels of profit and cash flow generation, as we did in FY2022, leveraging our superior raw material procurement capabilities amid significant changes in the business environment, including soaring resource prices.

Strong performance driven by growth investments, however, led to an expanded balance sheet, resulting in lower capital and asset efficiency. Retained earnings accumulated more than expected, with shareholders’ equity rising from 1.2 trillion yen at the end of FY2021 to approximately 1.7 trillion yen at the end of FY2023, the first year of the Medium-term Management Plan. Total assets also increased from about 3.2 trillion yen to roughly 3.9 trillion yen. In

addition, profit growth was constrained by high depreciation and fixed costs, resulting in ROE falling below 8% and ROA below 4% in FY2024.

In response to this situation, we are advancing transformation from both profitability and efficiency perspectives. From the second half of FY2024 onward, we began balance sheet optimization with prompt and decisive action. As part of our capital policy to improve capital efficiency, we implemented an additional shareholder returns in addition to the basic shareholder returns by 80 billion yen in FY2024, implementing a total share repurchase of approximately 120 billion yen, and further approved an additional repurchase of up to 120 billion yen in the first half of FY2025. These initiatives are designed to maintain shareholders’ equity at an appropriate level and underscore our strong commitment to enhancing ROE.

KGI/KPI tree diagram



Starting in FY2024, we have implemented a company-wide “KGI/KPI tree,” placing P/B ratio improvement as the key goal indicator (KGI). By cascading metrics such as ROE and ROA down to concrete actions at each business unit, we are fostering a corporate culture in which all employees are conscious of capital efficiency.

At the Management Committee, capital policy—particularly the improvement of capital efficiency—has been a primary focus of discussion. Even at the Board of Directors, where two-thirds of members are outside directors, we have engaged in broad and active discussions not only on specific capital policies but also on the fundamental principle that cash flow growth drives corporate value and that growth investments are a prerequisite for achieving it.

Going forward, we will continue to unite as a company in our efforts to enhance corporate value.

In FY2025, the final year of the Medium-term Management Plan, we are committed to achieving an ROE of 8% and will enhance capital efficiency through a multifaceted approach, including improving the profitability of core businesses, optimizing cost structures, utilizing and divesting non-core assets, and managing shareholders’ equity.

Three pillars for sustainable ROE improvement

—Balance sheet management—

Our financial strategy is built on three pillars, with the ultimate goal of fundamentally strengthening cash generation capabilities. We focus on the quality of profits and aim to maximize the free cash flow generated from our businesses.

■ Accelerating business portfolio reform

Under the current Medium-term Management Plan, we have been strengthening business portfolio management across all businesses, including real estate, and shifting management resources toward growth areas to realize “Compass 2030 Vision.”

In our core businesses, we are thoroughly improving operational efficiency and optimizing assets to establish a stable cash-generation foundation. At the same time, in growth businesses, we are making selective investments to lead future markets.

To realize our long-term growth strategy, investment decisions must be made with the target portfolio aligned with. We assess the cash

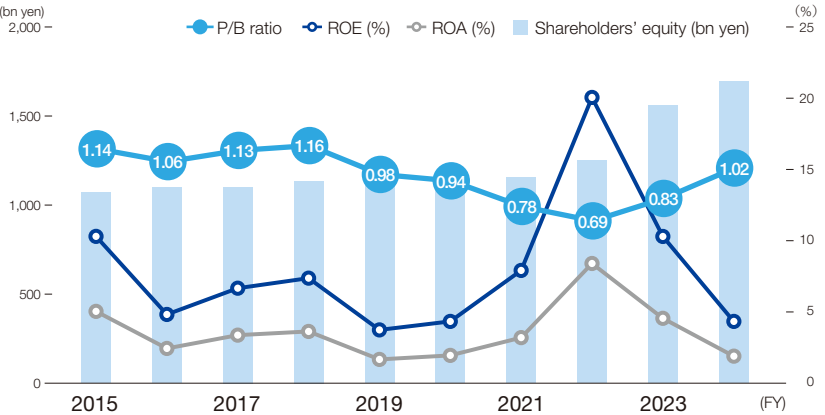
generation and growth potential of each business, clarify its role within the overall portfolio, and advance our portfolio strategy accordingly.

In FY2024, we strengthened ROA management for each internal company and operating company, and as part of this initiative, conducted a “comprehensive business review” of all assets, including real estate, without exception. Based on the results, we are advancing the divestment of cross-shareholdings and assets with limited potential for value enhancement.

These actions not only contribute to profits in FY2024 and the FY2025 plan, but the cash generated will be reinvested in high-growth areas such as overseas businesses. Through this asset recycling, we aim to fundamentally improve overall corporate asset efficiency and optimize the balance sheet.

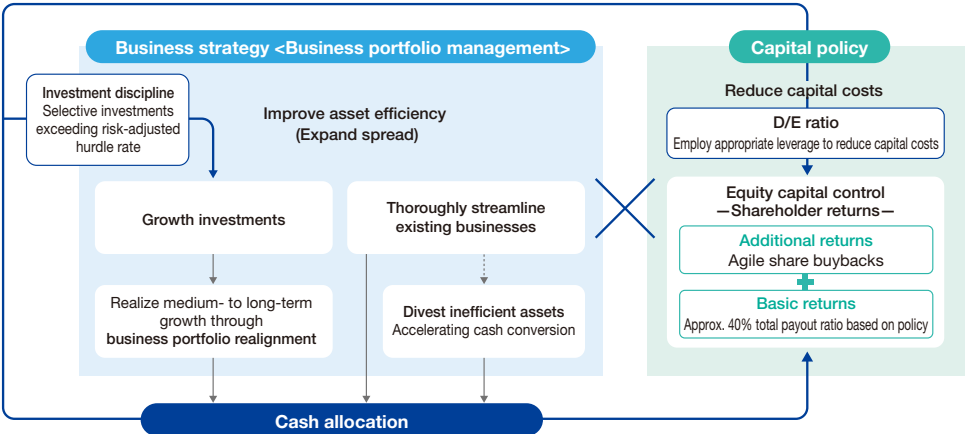
In the next Medium-term Management Plan, we will place even greater emphasis on the returns expected by the capital markets and advance corporate value creation by considering the introduction of ROIC, which reflects the earning power of our businesses. Building on our existing ROA management, we will incorporate awareness of the cost of capital and the effective use of surplus cash, linking actions across the entire Group to WACC-conscious decision-making and further enhancing business portfolio management.

P/B ratio, shareholders’ equity, ROA, and ROE



Note: Figures for FY2023 and earlier are based on data before retrospective application of U.S. GAAP.

Balance sheet management



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Strict discipline for growth investments

Growth investments are essential for the sustainable enhancement of corporate value. We are advancing the sophistication of our investment process to continuously secure, select, and rotate high-quality investment opportunities.

We have further strengthened investment discipline. Each business unit first prepares a comprehensive “long list” of potential investment projects. These are then reviewed in detail in coordination with the corporate division and consolidated into a “department-level short list.” “The Pipeline Committee,” led by the corporate division, creates and manages “the company-wide short list.”

The Pipeline Committee regularly assesses each project’s strategic significance and alignment with the overall corporate strategy, prioritizing projects based on profitability, growth potential, and stability. This enables investments to be evaluated and selected from a cross-company perspective.

Through this process, we maintain a continuous investment pipeline while securing free cash flow by focusing on high-priority projects.

Final investment decisions are made through the Investment Evaluation Committee and the Management Committee. In economic evaluations, we primarily use net present value (NPV) and internal rate of return (IRR), selecting only projects that exceed a hurdle rate reflecting business risks, the cost of capital, and other applicable premiums.

We also conduct a multifaceted assessment, considering the reasonableness of underlying business environment assumptions (both macro and micro), impacts on the Group’s financial statements, and potential maximum risk exposure. For M&A, we evaluate strategic significance, goodwill, and post-merger integration (PMI) plans aimed at value creation.

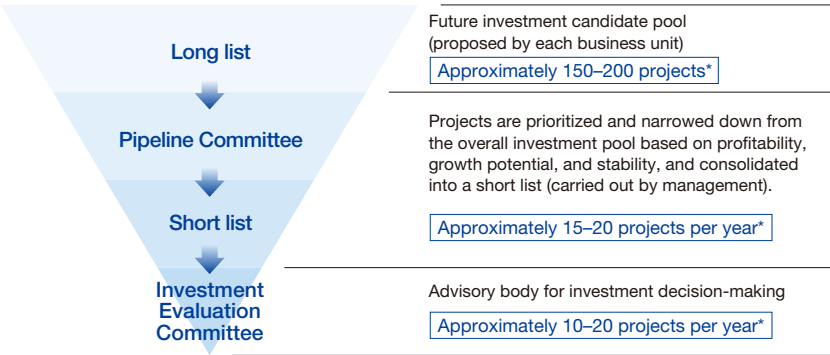
Even after execution, projects are continuously and periodically monitored. We regularly review evaluation criteria and checkpoints for future investment decisions, establishing a system that leverages lessons learned from past investments.

Optimization of the capital structure

To fulfill our social responsibility of providing a stable supply of gas and electricity, a strong financial foundation is indispensable. Given our large-scale infrastructure assets, we require a certain level of capital buffer not only to ensure a stable energy supply but also to mitigate potential risks such as market fluctuations and customer attrition.

At the same time, maximizing shareholder value necessitates the appropriate use of financial leverage. To reconcile these two requirements, we target a domestic credit rating of AA and a net D/E ratio of approximately 0.9. This approach enables us to maintain sufficient capital reserves against business risks while restraining excess equity, thereby pursuing an optimal capital structure.

Investment process



\* Project counts are limited to strategic investments.

Investment evaluation approach

Investment evaluation

- Investment significance: Alignment with business strategy, the objectives to be achieved through the investment, and their reasonableness and feasibility
- Economic viability: Reasonableness of underlying assumptions, verification of NPV and IRR, and impact on the P/L, balance sheet, and financial indicators
- Risks and countermeasures: Identification of multifaceted risks, analysis of impact and occurrence frequency, and assessment of the adequacy of countermeasures
- Post-investment follow-up and exit strategy: Establishment of monitoring indicators and exit criteria

Examples of risks

Energy solutions	Urban Development (real estate)	Overseas business
<ul style="list-style-type: none"><li>Risk of fluctuations in fuel prices</li><li>Credit risk</li><li>Risks related to construction through maintenance</li></ul> <div>Others</div>	<ul style="list-style-type: none"><li>Vacancy risk</li><li>Rent fluctuation risk</li><li>Risks related to development through repairs</li></ul> <div>Others</div>	<ul style="list-style-type: none"><li>Market price fluctuation risk</li><li>Risk of variations in resource reserves and power generation</li><li>Risks related to business operations</li></ul> <div>Others</div>

Common Country risk, regulatory change risk, natural disaster risk, environmental risk, inflation risk, others

Follow-up

Continuous monitoring of the economic performance of existing investment projects and review of evaluation criteria and checkpoints for new investment projects

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Approach to shareholder returns  
—For the next Medium-term Management Plan period—

In recent years, we have placed greater emphasis on allocating funds to growth investments, such as overseas business and GX, gradually lowering the total payout ratio to around 40%. Our policy has been to enhance corporate value by using the cash generated for growth investments and to reward shareholders through the results of those investments. We recognize, however, that our communication to shareholders has not been fully sufficient, and we deeply reflect on this.

Cash allocation is prioritized as follows. First, growth investments conducted under strict discipline, as described above, take precedence, generating future cash flows that serve as the foundation of corporate value. Second, to directly return the fruits of this growth to shareholders, we implement a progressive dividend linked to sustainable profit growth. Third, surplus cash—excluding dividends, approximately equivalent to a 40% total payout ratio—is returned flexibly through share buybacks.

Furthermore, beginning last fiscal year, to achieve the FY2025 ROE target of 8%, in addition to basic returns based on the 40% total payout ratio, we have carried out additional, flexible share buybacks as a balance sheet management measure, taking capital efficiency into account.

We are currently holding active internal discussions on the future approach to shareholder returns. Our goal is to enhance earnings per share (EPS) through medium- to long-term profit growth and flexible share buybacks, while aligning progressive dividends and dividend increases with that performance.

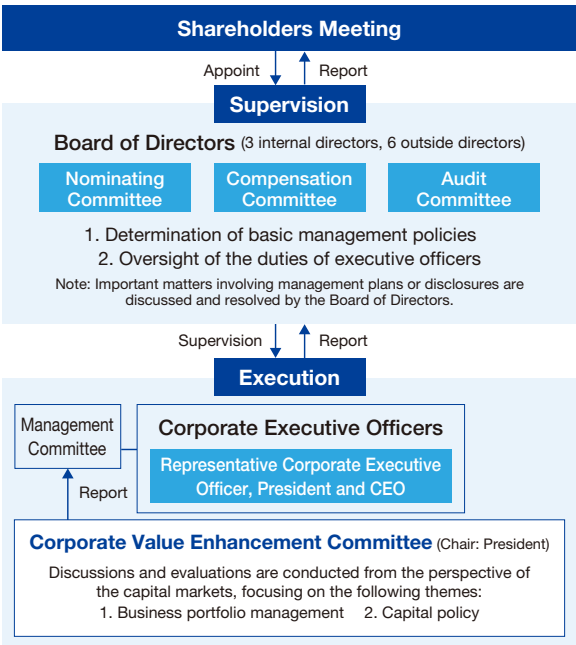
As we conduct further consideration of our shareholder return policy to achieve the target of ROE exceeding 10% around 2030, we will place even greater emphasis on dialogue with the capital markets than ever before.

Promoting dialogue with the capital markets  
—Strengthening the IR framework—

To enhance corporate value through constructive dialogue with the capital markets, we have strengthened our IR framework and are enriching communication with investors.

In FY2025, we established a new post of Head of IR within the Financial Management Department and began strengthening the IR personnel structure. We are expanding opportunities for dialogue to deepen investors' understanding of our policies, while also incorporating their feedback into management to inform initiatives. In addition, we continue to work on improving disclosure materials, including earnings presentation materials.

Corporate Value Enhancement Committee



In FY2024, we established the Corporate Value Enhancement Committee to address key themes in dialogue with the capital markets, including the business portfolio and capital policy. The committee serves as a task force for achieving the Medium-term Management Plan and management vision, integrating internal resources across the company to enable swift and coordinated deliberation. Its discussions are reported to the Management Committee and the Board of Directors, and as needed, communicated externally to stakeholders.

Toward continuous corporate value enhancement

As I have emphasized, generating results that satisfy our stakeholders through the enhancement of corporate value remains our highest priority. Achieving the FY2025 ROE target of 8% is a key commitment, but it is not the ultimate goal—it is the starting point toward realizing an ROE exceeding 10% around 2030. Through the challenge we call our “third founding,” we aim to establish forward-looking business models and consistently deliver sustainable value.

Looking ahead, we will continue to pursue sustainable corporate value enhancement through proactive information disclosure and constructive dialogue with all stakeholders. We sincerely appreciate your ongoing candid feedback and look forward to meeting your expectations for Tokyo Gas.