

Interview with the President



President **Hiroshi Majima**

Helping to realize “a more comfortable space on the Earth” under our PLAN27 medium-term management plan to establish a hydrogen energy-based society.

Q Can you provide an overview of the FY2022 financial results?

A We achieved record profits for the eighth consecutive year and reached the goals of our PLAN23 medium-term management plan.

Overview of financial results in FY2022

Sales of major products grew in FY2022 as economic activities continued to normalize amid signs that the COVID-19 disaster was coming to an end. These efforts and efforts to accommodate growth in various markets resulted in record-high net sales of ¥906.2 billion.

At the same time, as LPG import prices declined gently, the impact of LPG import price fluctuation* were dramatically lower (by ¥11.1 billion) from last year, which led to a decrease in operating income. Nevertheless, ordinary

profit was ¥47.0 billion, while net income, at ¥32.0 billion, set a new high for the eighth consecutive year.

I would like to take this opportunity to express our gratitude to our trading partners, shareholders, and other stakeholders.

* Impact of LPG import price fluctuation: Impact on profit and loss arising from the fact that sale prices in the LPG market reflect fluctuating market conditions first, while the impact on inventory prices lags (by roughly two to three months)

Forecasts of financial results for FY2023 call for increases in net sales to ¥907.0 billion and in operating profit to ¥45.0 billion. We expect ordinary profit and net income to set new records for the ninth consecutive year.

We will seek to increase corporate value further in the runup to the 100th anniversary of our founding in 2030.

Goals of the PLAN23 medium-term management plan achieved ahead of schedule

Our PLAN23 medium-term management plan set numerical targets of ¥40.0 billion in ordinary profits and ROE of 9% or higher. For FY2022, we met these goals ahead of schedule: ordinary profit reached ¥47.0 billion, while ROE was 11.2 percent.

We made steady progress under PLAN23 on enhancing the foundations of individual businesses. In the Integrated Energy Business, efforts to expand our base of LPG direct sales customers, combined with the acquisition of Enlife, formerly a part of the group of Tokyo Gas Co., Ltd., led to success in achieving the target figure of 1.1 million households. In the area of portable gas cooking stoves, we made progress on overseas business development, including the construction of a new manufacturing plant in Thailand.

Sales in the Industrial Gases & Machinery Business grew as we enhanced our domestic and international supply networks, including opening a new helium center in Thailand. We acquired the two companies of Tokico System Solutions, Ltd., whose intellectual property holdings include outstanding fluid control technologies and manufactures hydrogen dispensers, and Aspen Air U.S., a manufacturer of air separation gas in the US state of Montana.

In the Materials Business, growth in sales of environmental products, rising market prices, and efforts to ensure stable resource procurement, including efforts to secure rights to high-purity titanium ore through investments in Nordic Mining ASA, led to significant growth in both sales and profits.

Active investment in medium- to long-term growth resulted in cumulative investments of ¥110.0 billion over two years.

PLAN23 Management Indicators and Investment Amount

Management Indicators

Items	FY2022 Results	PLAN23 Targets
Ordinary Profit [excluding impact of LPG import price fluctuation]	¥47.0 billion [¥50.1 billion]	¥40.0 billion
Return on Equity (ROE)	11.2%	9% or higher

Investment Amount

Items	Result (FY2021-FY2022)	PLAN23 Target
Cumulative Total Investment	¥110.0 billion	¥150.0 billion

Q What kind of sustained growth are you targeting under the new PLAN27 medium-term management plan?

A Our goal is to expand and to contribute to sustained growth by providing solutions to social issues, including solutions that will help society achieve carbon neutrality.

Formulating the five-year PLAN27 medium-term management plan

In June 2023, we announced our new PLAN27 medium-term management plan. This five-year plan for the period beginning in FY2023 seeks to achieve the following management targets in FY2027: operating profit of ¥65.0 billion, ROE of 10% or higher, and ROIC of 6% or higher.

The social issues evident around the world today include the need to secure stable supplies of resources and energy, adapt to climate change, and build sustainable societies. Based on our Corporate Philosophy—Become a person needed by society, as those needed by society can prosper—we will strive to grow our businesses to help implement PLAN27’s basic policies of identifying solutions to social issues and achieving sustained growth.

Turning demand for carbon neutrality into growth opportunities

With the goal of achieving carbon neutrality, which is one of social challenges we face, the global movement to become carbon-free is accelerating, amid dramatic innovations in energy and technology. Under these conditions, we will work to achieve business growth by helping customers reduce carbon emissions.

In the Integrated Energy Business, we are working to grow the low-/zero-carbon business as the world transitions to carbon neutrality. These efforts

include promoting the transition from oil to LPG and supplying carbon offset gas using J-Credits. We are also performing feasibility testing of a method of supplying mixed hydrogen and LPG by pipe. Additionally we hope to decarbonize LPG in the future. By pursuing R&D on the production of green LPG using hydrogen and biomass, we aim to become a leader in decarbonization within the LPG industry.

In the Industrial Gases & Machinery Business, we are meeting the needs of manufacturing customers from perspectives including providing Hydrocut® premixed hydrogen-cutting gas as an alternative to acetylene and other gases and hydrogen burners to decarbonize industrial furnaces. We are also meeting the demand for decarbonization testing through sales of ammonia (which, like hydrogen, is drawing attention) to thermal power plants for denitration applications. As projects in areas such as gas and supply facilities for decarbonization efforts proliferate, we aim to expand supply capacity and enhance engineering functions.

In the Materials Business, we are focusing on procurement and sales expansion for environmental materials to meet customer needs. Examples include plant-derived PET resins with low environmental impact and biomass fuels for power generation. In addition, in 2025 we will begin sales of green titanium raw materials from Nordic Mining ASA, in which we invested last year. We will continue striving to achieve further business growth by supplying the products and materials customers will need in the future.

Q Can you tell us about your efforts in the hydrogen business under PLAN27?

A In addition to building a CO₂-free hydrogen supply chain, we expect to grow the hydrogen business, even during the transitional period, until the system for full-scale supply of hydrogen from overseas has been established.

The Japanese government's Basic Hydrogen Strategy sets a target of 12 million tons of hydrogen adoption for 2040, about six times current levels. Plans call for total public and private investment of about ¥15 trillion for hydrogen over the coming 15 years. In addition, efforts toward full-scale utilization of hydrogen as an energy source are set to greatly accelerate, one of such being governmental research into systems for price differential supplementation between existing fuels and hydrogen. Companies are expected to accelerate their decarbonization efforts, and we expect continuing growth in sales of hydrogen and related testing equipment. For this reason, Iwatani will promote growth in the liquid hydrogen business in response to growing demand for decarbonization and the development of a CO₂-free hydrogen supply chain. We will also move forward with efforts across the entire supply chain from the perspectives of manufacture, transport, and use, in cooperation with domestic and international partners. Hydrogen supply from overseas is expected to commence around 2030. During the transition period, we expect demand to exceed current hydrogen

supply capacity. Thus, we will strive to enhance supply capacity by building new liquid hydrogen production plants, producing hydrogen with lower CO₂ emissions during the production process using waste plastics, and other means. To ensure the steady capture of growing demand, we will enhance our transport functions using tanker trucks and other means. We plan to invest a total of ¥178.0 billion in the hydrogen business, including forward-looking investment in overseas hydrogen production, to help establish a hydrogen energy-based society. We also expect stable growth due to the government's adoption of a price differential supplementation system. We will achieve growth in the hydrogen business through steady investments to achieve the financial targets for FY2027 and efforts to commercialize a CO₂-free hydrogen supply chain.

Q How do you plan to realize the Long-Term Vision of enhanced management foundations to promote sustained growth?

A In addition to enhancing human resources and strengthening our technologies, we will address corporate governance.

To achieve the Group vision of becoming a Group that continues to help realize "a more comfortable space on the Earth" by 2030, four component processes will need executing: developing a CO₂-free hydrogen supply chain; promoting a resource-circulating society; providing infrastructure and services that support local communities; and enhancing management foundations to promote sustained growth. This last element concerns human resources, technology, governance, and other aspects that support the preceding three component processes.

Human resources

Human resources are the source of sustained value creation. We will work toward three numerical targets to become an organization in which each and every employee can continue to grow and succeed. In the area of diversity and inclusivity, we will build environments that welcome and accommodate diverse individual capabilities, perspectives, and ideas. This includes the goal of having women serve in at least of 10% of managerial positions. In the area of human resource development, we will use the new training center to build a training structure to promote the autonomous growth of our employees. At the same time, we will roughly double investments in education per employee. To make the workplace a more rewarding place to work, we will strive to accommodate flexible workstyles that help employees balance work and personal life. As part of these efforts, we are seeking to have all eligible male employees take childcare leave.

(See Non-financial Strategies – Human Resource Strategy, p. 31.)

Technologies

Enhancing our strengths in technology is essential for growing our core gas and energy businesses and maintaining our strengths in the hydrogen business. To this end, we will make progress on the following three themes: First, we will demonstrate our technological capabilities and engineering functions to grow our businesses. In particular, as we work to build a liquid hydrogen supply chain, we will step up joint efforts within the Group and pool our cumulative experiences and expertise to support the hydrogen energy society of the future based on both technology and safety. Second, we will pass along and strengthen our technological capabilities. Drawing on our newly established internal university organization to train employee with strengths in technology and safety, we will enhance the structures needed to make it possible for customers to use LPG, industrial gas, and other products with peace of mind. Third, we will draw on our intellectual property (IP) to increase our earning power. We will strive to increase our earning capabilities by identifying priority fields, including liquid hydrogen, hydrogen-refueling stations, and green LPG; by enhancing our special areas of expertise; by building on our strengths to secure competitive advantages; and by leveraging IP to strengthen alliances.

(See Non-financial Strategies – Technology Strategy, p. 33.)

Governance

At least one-third of the membership of the Board of Directors, which makes key management decisions and provides oversight functions, consists of outside directors, including woman director. It strives to achieve transparent decision-making and ever more effective management oversight. In addition, by establishing the Nomination and Compensation Committee, a majority

of whose members are outside directors, we are enhancing transparency in decision-making on matters such as appointment, dismissal, and compensation of Members of the Board and the appointment of auditors. On the matter of risk management, the Risk Management Committee and its subcommittees, which are directly responsible for risk management, will be subject to appropriate oversight by the Board on important matters.

(See Governance, p. 47.)

We will achieve sustained growth in corporate value by enhancing our management foundations, by enabling each and every employee to work with cheerfulness, fun, and liveliness, as well as by achieving the targets of PLAN27 and the goals envisioned in our Long-Term Vision.

Q What are your thoughts on capital policies and returns to shareholders?

A We prioritize allocation of funds to investments for growth, but we plan to steadily increase dividends in accordance with growth in profits.



The basic idea of capital allocation under PLAN27 calls for raising funds through interest-bearing debt in addition to the operating cash flows generated over the period of the plan while prioritizing investments in

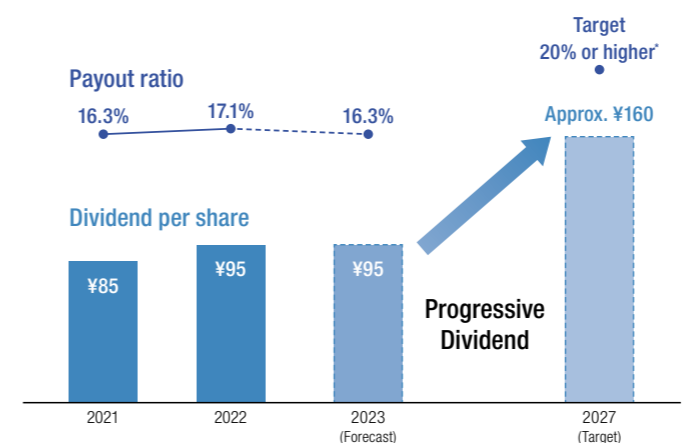
sustained growth by building a CO₂-free hydrogen supply chain and other efforts.

We plan to make cumulative total investments of ¥470.0 billion over the five-year timeframe of the plan. This includes investments of ¥420.0 billion in growth and ¥50.0 billion in maintenance and repairs. We plan to raise funds using interest-bearing debt instead of equity financing. Maintaining financial soundness is an important goal.

Our target for returns to shareholders in FY2027 is a minimum payout ratio of 20% on net income, excluding the impact of LPG import price fluctuations. We plan to ramp up dividends, and plan not to reduce them.

In the future, we plan to continue growing our businesses while targeting solutions to social issues and sustained growth based on steady investment in growth. We ask for the continuing understanding and support of our shareholders and investors.

Trends in dividends and payout ratio



* Based on net income (excluding impact of LPG import price fluctuation)

October 2023

Hiroshi Majima
President

President