

State of Implement Management that is Conscious of Cost of Capital and Stock Price

May 12, 2025

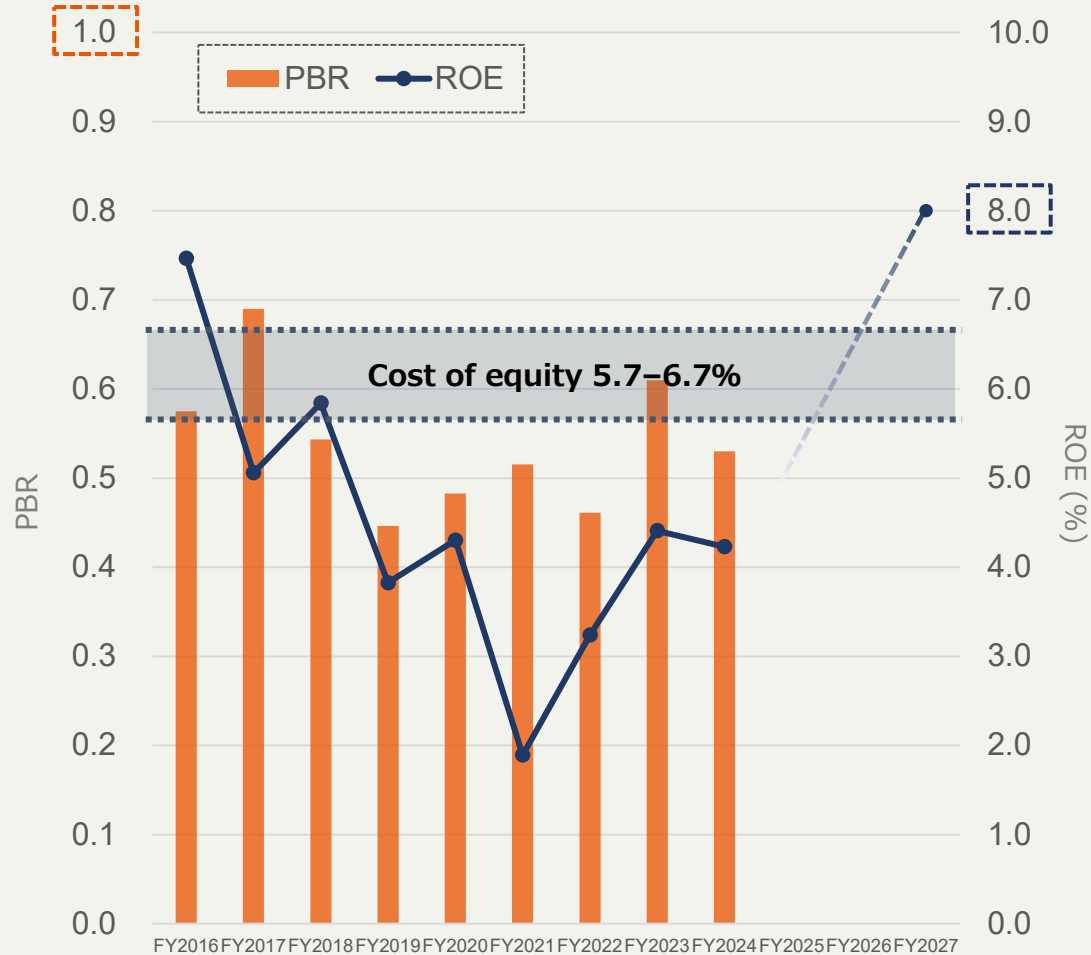
TOKYO ENERGY & SYSTEMS INC.



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Analysis and Assessment of Current Situation

PBR & ROE trends



Assessment of current situation

- Cost of equity was projected at 5.0% to 6.0% when the medium-term management plan was formulated, but was revised to 5.7–6.7% based on the latest calculations of multiple financial institutions and opinions of institutional investors.
- Although we strived to increase orders, mainly in the General Industrial and Other markets to diversify revenue sources, only a few construction projects contributed to sales in FY2024. Profit is down in line with a decline in sales and ROE remains below the cost of equity.
- We noted in IR interviews that the profit level is below the cost of equity, making it necessary to review the management plan.
- Due to the downward revision of our financials and the overall decline of the Nikkei Stock Average, market capitalization has declined since the end of the previous period.
- In addition to expanding total orders received and net sales, we need to urgently increase profitability and profit.

Policies for improvement

- **Improve ROE**
 - Update market analysis and focus more than ever on the **substations, nuclear power, and hydroelectric power** fields to optimize our business portfolio.
 - Aim to generate the profits necessary to achieve an **ROE of 8.0% by FY2027** through enhancing human capital and optimizing equity capital.
- **Improve PBR**
 - Actively **communicate** the current situation and future potential of our business and promote understanding through active **dialogue** with stakeholders.
 - Apply a **shareholder return policy** with awareness of the capital structure and the cost of capital.

Initiatives for Improvement PBR

Increase PBR to 1 or more



Increase ROE	Strengthen profitability Optimize capital structure	Results of efforts in FY2024
Implement the business strategies in the FY2024 Medium-Term Management Plan	Invest in growth businesses	Three biomass power plants we invested in commenced operation.
	Improve profitability by transforming business portfolio	Diversification of revenue sources increased as the proportion of sales from General Industrial and Other and Renewable Energy markets increased.
	Strengthen sales force for expanding business	Six new branches were established across Japan to acquire new customers.
Make shareholder returns with a focus on optimal capital structure and cost of capital	Continue implementing graduated dividends	FY2023 dividend 45 yen ⇒ FY2024 of 52 yen
	Flexibly conduct share buybacks	We bought back 199,000 shares on February 17, 2025.
Improve IR activities to foster stakeholder understanding	Promote understanding of business by actively disclosing information to the market	We projected the image of a company that wishes to be contacted by institutional investors.
	Promote more active dialogue with stakeholders	We conducted 45 IR interviews.
	Make use of opinions expressed in dialogues to review operating strategies	The contents of IR interviews were shared with the Board of Directors and reflected in the FY2025 management plan.
Cost of equity: reduce	Reduce stock price volatility Foster growth expectations	

