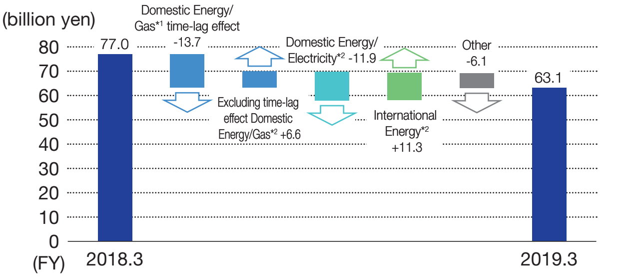
Business Results

Executive Vice President
Takeshi Matsui

Review of the Fiscal Year Ended March 31, 2019

Consolidated ordinary profit for the fiscal year ended March 31, 2019, decreased by ¥13.9 billion year-on-year to ¥63.1 billion, mainly due to the impact of high air and water temperatures and the time-lag effect in the Domestic Energy / Gas Business, and a decrease in profits in the Domestic Energy / Electricity Business. However, excluding the ¥13.7 billion decline in profits due to the time-lag effect, consolidated ordinary profit remained almost at the same level as the previous year. In the Domestic Energy / Gas Business, excluding the large impact from profit decline due to the time-lag effect, segment profit increased ¥6.6 billion year-on-year due to a decrease in gas business expenses, which outweighed the effect of a decrease in gas sales volume caused by high air and water temperatures and gas switching. In the Domestic Energy / Electricity Business, segment profit decreased ¥11.9 billion year-on-year, with an increase in electricity sales volume from new customer acquisitions offset by external factors such as a decrease in sales volume caused by high air temperatures, lower wholesale unit prices, the time-lag effect caused by a rise in crude oil prices, and the impact of competition. In the International Energy Business, segment profit increased ¥11.3 billion year-on-year, mainly due to an increase in LNG sales volume of the Gorgon LNG project and a rebound from a loss on the sale of stakes in the IPP project in North America in the previous fiscal year. For growth investment, we spent ¥165.9 billion mainly in the International Energy Business in the fiscal year ended March 31, 2019, making the cumulative investment amount from the fiscal year ended March 31, 2018, to the fiscal year ended March 31, 2019, amount to ¥239.2 billion, which suggests that we are making steady progress toward the investment plan outlined in the Medium-term Management Plan.

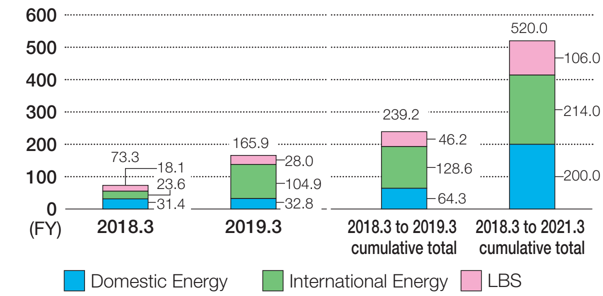
Consolidated Ordinary Profit



*1 Factor that causes a temporary increase / decrease in profit due to a time lag between fluctuations in raw material costs and their reflection in the unit selling price of city gas under the gas resource cost adjustment system

*2 Describe the impact on segment profit

Progress of Growth Investments

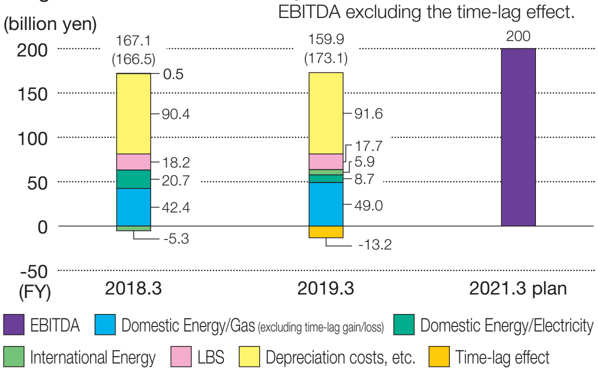


Aiming for the Targets of the Fiscal Year Ending March 31, 2021

The Daigas Group set EBITDA of ¥200 billion, ROE of 7.0%, and ROA of 3.5% as profitability targets in the Medium-term Management Plan 2020. Although competition currently continues in the gas and electricity market, we seek to achieve targets by implementing measures in the Domestic Energy Business, such as continuously reducing costs of the Gas Business, expanding related services such as gas equipment sales and the Sumikata Service, steadily winning retail electricity contracts, and expanding the energy business in the Greater Tokyo area, as well as with profit contributions from investment projects in the International Energy Business, such as the Freeport LNG Project, which is scheduled to start operations in the autumn of 2019. Furthermore, in addition to profitability targets, we set financial soundness targets of having a D/E ratio of approximately 0.7 and a shareholders' equity ratio of approximately 50%. We will be making growth investments taking into account the balance with financial soundness.

Progress of EBITDA*

Figures in parentheses ( ) describe EBITDA excluding the time-lag effect.



* EBITDA = operating profit + depreciation cost + amortization of goodwill + equity in earnings/losses of affiliates

Investment Risk Management

As competition in the Domestic Energy Business intensifies, we actively pursue growth investments without missing opportunities for sustainable growth. Meanwhile, since investments involve risks, we manage the investment risks by ensuring the following four points.

The first point is to confirm consistency with the investment project's strategy. In addition to profit contributions from the project alone, we look at whether or not the project contributes to synergies with other businesses of the Group and the improvement of business execution capabilities. For example, participating in a project and building business expertise leads to identifying projects that can be expected to contribute more to profits, reducing the risk of the next project, and increasing the value of the project that we participate in. The examples include the acquisition of a shale gas development company that owns a mining area under production and development operations in North America, and major participation in a working natural gas-fired power plant business.

The second point is the evaluation of the inherent risks of the investment project. We conduct strict project evaluations and deliberations through the Investment Evaluation Committee after establishing uniform groupwide investment standards and taking into account the evaluations of the Investment Risk Management Department and internal organizations in charge of finance and legal affairs, and neutral evaluations of external consultants as necessary.

The third point is a balance with financial soundness. Investments involve risk of losses due to changes in the business environment. We think it is important to balance risk and return, such as not taking high risks to seek excessively high returns, but also avoiding excessive risk control. We quantitatively assess losses that can occur for a certain risk after investment and balance risk and return across the entire company to be able to sustainably make growth investments while maintaining a certain level of financial soundness even when risks materialize.

The fourth point is follow-up after investment. After setting investment monitoring standards, we individually conduct annual follow-ups on all investment projects. By applying the standards, we evaluate whether or not the project satisfies the original purpose of our investment, is slow to respond to changes in the business environment, and if there are any issues with its progress and profitability. Depending on the evaluation, we encourage reconsideration of the investment, such as making improvement in project profitability or considering divestiture or withdrawal.

Shareholder Returns and Free Cash Flow*1

Our aim is to provide stable dividends, and our basic policy is to maintain a consolidated dividend payout ratio of 30% or higher excluding short-term fluctuation factors that affect profits and pay higher dividends from profit growth to our shareholders. We expect that free cash flows will exceed the growth investment amount in the first half of the 2020s when we start to receive significant returns as planned from the growth investments we are currently pursuing. While taking into account structural risks such as intensifying competition due to the development of fully deregulated energy market and declining population in Japan, and comprehensively evaluating future free cash flows, progress in growth investments, business performance, and the financial situation, we will consider implementing other measures for shareholder return, including share buyback.

*1 Free Cash Flow
= Cash flows from operating activities − Expenses for quality improvement investment

*2 Figures prior to the fiscal year ended March 31, 2017, are adjusted for the 1-for-5 stock consolidation

Annual Dividends per Share (yen)