Progress of Medium-term Management Plan 2020

Representative Director
Executive Vice President
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Review of the Fiscal Year Ended March 31, 2020

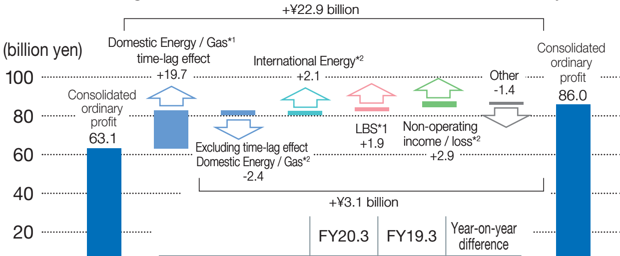
Consolidated ordinary profit for FY2020.3 increased by 22.0 billion yen year-on-year to 86.0 billion yen, mainly due to a time-lag effect in the Domestic Energy / Gas Business. Despite an impact from profit decline in the Domestic Energy / Gas Business mainly due to continued competition in the fully deregulated retail markets, we realized higher profit even after excluding the profit increase of 19.7 billion yen from the time-lag effect, mainly due to the new consolidation of Sabine Oil & Gas Corporation and the commencement of commercial operation of the Freeport LNG Project in the International Energy Business.
Profit attributable to owners of parent increased by 8.1 billion yen year-on-year to 41.7 billion yen. An impairment loss was recorded in extraordinary losses due to changes in development plans for the Sunrise LNG Project and Evans Shoal Gas Field in Australia, in which we have participated since 2000.

* Temporary impact due to time lag between fluctuations in raw material costs and their reflection in the unit selling price of city gas

Consolidated Business Results Data

	Fiscal year ended March 31, 2020	Year-on-year difference	Year-on-year ratio
Net sales	¥1,368.6 billion	-¥3.1 billion	-0.2%
Operating profit	¥83.7 billion	+¥15.8 billion	+23.3%
Ordinary profit	¥86.0 billion	+¥22.9 billion	+36.3%
Profit attributable to owners of parent	¥41.7 billion	+¥8.1 billion	+24.4%
Time-lag effect	¥6.5 billion	+¥19.7 billion	—
Ordinary profit excluding the time-lag effect	¥79.5 billion	+¥3.1 billion	+4.1%

Factors Causing an Increase / Decrease in Consolidated Ordinary Profit



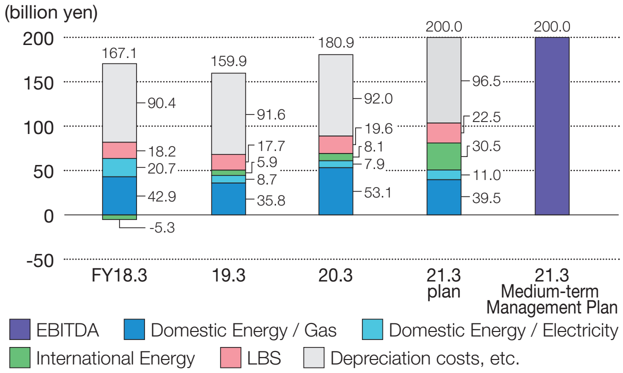
	FY20.3	FY19.3	Year-on-year difference
Crude oil price ($/bbl)	67.8	72.2	-4.4
Exchange rate (¥/$)	108.7	110.9	-2.2

*1 Describe the impact on segment profit
*2 Excludes share of profit / loss of entities accounted for using equity method

Aiming for Targets of the Medium-term Management Plan

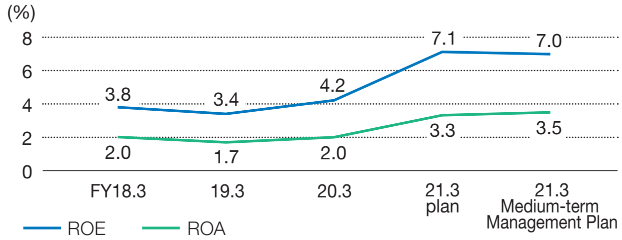
The Daigas Group set EBITDA of 200 billion yen, ROE of 7.0%, and ROA of 3.5% as profitability targets in the Medium-term Management Plan. In the management plan for FY2021.3 announced in March 2020, we aim to reach EBITDA and ROE targets by significantly increasing profits mainly in the International Energy Business through initiatives in the Medium-term Management Plan. We expect that ROA will fall somewhat short of the target as a result of investments for our business growth progressing further than expected, which we expect will lead to future growth. Despite a certain level of COVID-19's impact expected on business results, we aim to achieve the targets and sustainable growth through initiatives that "go beyond borders" as formulated in the Medium-term Management Plan, while flexibly adapting to changes in the business environment.

Progress of EBITDA*



* EBITDA = operating profit + depreciation cost + amortization of goodwill + share of profit / loss of entities accounted for using equity method

ROA/ROE



Assumptions for FY2021.3 Plan

Crude oil price	$65/bbl
Exchange rate	¥110/$1

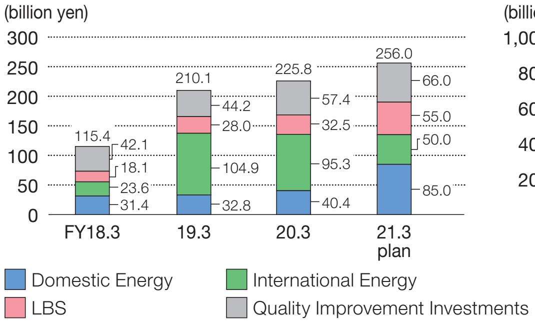
Profit Sensitivity

Crude oil price: -$1/bbl	Approx. +¥0.6 billion
Exchange rate: -¥1/$1	Approx. +¥0.8 billion

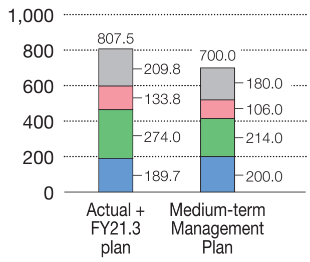
Investment Progress

The Daigas Group proactively conducts investments for further growth of our business as well as investments for quality improvement to maintain and improve our business quality. In investments for growth during FY2020.3, we invested mainly in the International Energy Business, such as for the acquisition of all shares in Sabine Oil & Gas Corporation and the advancement of construction work for the Freeport LNG Project and the Fairview natural gas-fired power plant. In FY2021.3, we intend to invest for growth mainly in power source development in the Domestic Energy Business, such as the Himeji Natural Gas Power Plant and renewable energy power sources.

Trends in Investment Amounts



Trends in Investment Amounts
(Cumulative from FY2018.3 through FY2021.3)



Investment Risk Management

Our investment stance is to maintain a good balance between risk and return, not taking high risks to seek excessively high returns and avoiding unnecessary risk control. To this end, we manage investment risk by ensuring the following four points.

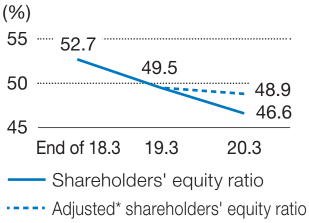
The first point is the consistency with the investment project's strategy. In addition to profit contributions from the project alone, we look at whether or not the project contributes to synergies with other businesses and the improvement of business execution capabilities.

The second 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 group-wide investment standards and taking into account the evaluations of the Investment Risk Management Office and internal organizations in charge of finance and legal affairs, as well as third-party evaluations of external consultants when necessary.

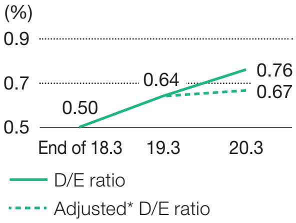
The third is a good balance with financial soundness. We quantitatively assess potential losses for each risk in investment and balance risk and return across the entire Group to make it possible to sustainably conduct investments for growth while maintaining a certain level of financial soundness even when faced with the risks. In the Medium-term Management Plan, we have set a D/E ratio of 0.7 and a shareholder equity ratio of 50% as targets for financial soundness, which we have maintained. In FY2020.3, we issued subordinated corporate bonds of 100 billion yen, which will contribute to maintaining financial soundness even when increasing debt for investments for growth.

The fourth is follow-up after investment. Based on our investment monitoring standards, we conduct annual follow-ups on each investment project every year. By applying the standards, we evaluate whether or not the project satisfies the original purpose of our investment, keeps up with the changes in the business environment, and faces any issues with its progress and profitability. Depending on the evaluation, we take necessary actions such as improving project profitability or considering divestiture or withdrawal.

Trends in shareholders' equity ratio



Trends in D/E ratio

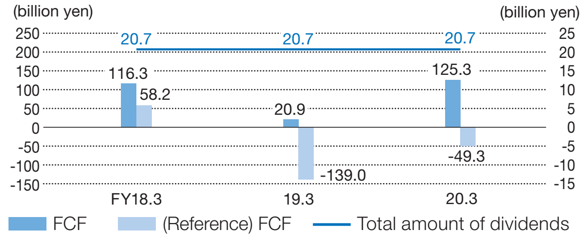


* Adjusted for 50% treated as capital within the subordinated corporate bonds of ¥100 billion issued

Shareholder Returns and Free Cash Flow

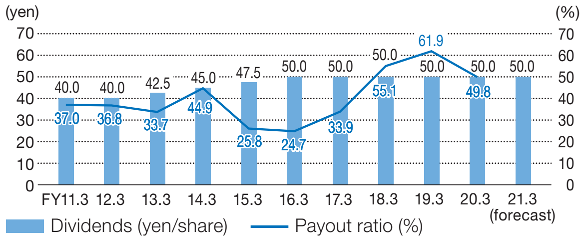
Our shareholder return policy is to provide stable dividends while maintaining a consolidated dividend payout ratio of 30% or higher excluding short-term fluctuation factors that affect profits as our basic stance, and to provide higher dividends when we achieve profit growth. In the first half of the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

Trends in FCF* during the Medium-term Management Plan Period / Total Amount of Dividends



FCF = Cash flows from operating activities – Capital expenditures for maintaining ordinary business
(Reference) FCF = Cash flows from operating activities – Cash flows from investing activities
*Free Cash Flow

Trends in dividends / payout ratio



Annual Dividends per Share (yen)

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

The Daigas Group's Shareholder Return Policy

We provide stable dividends and maintain a consolidated dividend payout ratio of 30% or higher excluding short-time fluctuation factors that affect profits, within the amount available for distribution to Osaka Gas shareholders. We will flexibly implement share buybacks when our financial conditions and cash flows have a surplus after conducting investments for growth.