Explanation of Finance Strategy

Aiming to Achieve Goals Set in the Daigas Group Medium-Term Management Plan 2023

Takeshi Matsui
Representative Director and Executive Vice President

Review of the Medium-Term Management Plan 2020

In order to realize what we aim to be as set forth in the Long-Term Management Vision 2030 announced in March 2017, we have worked to create new business pillars by aggressively investing in new assets for business growth and implementing M & A, while steadily making efforts to generate high profit from previously acquired assets.

In the fiscal year ended March 31, 2021, which was the final year of the Medium-Term Management Plan 2020 (Plan 2020), the International Energy Business began to fully contribute to the Group's profit growth, while the Domestic Energy Business and Life & Business Solutions Business each showed steady growth. As a result, we generally achieved the management indicator outlined in the Plan 2020.

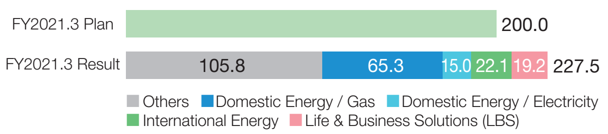
As for profitability indicators, ROE was 7.8%, ROA 3.6%, and EBITDA 227.5 billion yen. In terms of financial soundness indicators, shareholders' equity ratio was 50.5% and D/E ratio was 0.60, which met our targets set in the Plan 2020. With respect to shareholder returns, we raised dividend forecasts for the current and next fiscal years in view of the results of our growth up to this point and projections for future profit levels. Owing to temporary factors that caused profits to rise, the payout ratio was 27.0% for the fiscal year ended March 31, 2021.

■ Review of the Medium-Term Management Plan 2020

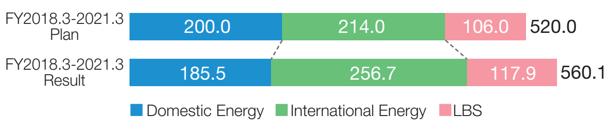
		FY2021.3 Result	Plan 2020
Profitability indicators	ROE	7.8%	7.0%
	ROA	3.6%	3.5%
	EBITDA	227.5 billion yen	200.0 billion yen
Financial soundness indicators	Shareholders' equity ratio*	50.5%	Around 50%
	D/E ratio*	0.60	Approximately 0.70
Shareholder returns	Payout ratio	27.0%	30% or higher

* Calculated with 50% of issued hybrid bonds as equity

■ **Breakdown of EBITDA** (billion yen)



■ **Investment for business growth** (billion yen)



Medium-Term Management Plan 2023

As financial policies under the Medium-Term Management Plan 2023 (Plan 2023), we will steadily promote growth by promoting existing business profitability and by investing in new businesses where we can leverage our strengths. In the meantime, we will strive to maintain financial soundness indicators, and distribute shareholder returns according to growth.

■ Financial targets for the Medium-Term Management Plan 2023

		Plan 2023
Profitability indicators	ROIC*1 (Reference ROE)	Approximately 5% (Approximately 7.5%)
Financial soundness indicators	D/E ratio*2	Approximately 0.7
	Shareholders' equity ratio*2	Around 50%
Shareholder returns	Payout ratio	30% or higher*3

Growth in existing business through improvement of profitability

To ensure the growth of our existing businesses, we have introduced ROIC as a group-wide management indicator and have been working to enhance business portfolio management.

ROIC is an indicator that represents how efficiently we earn profits from assets used for our business. We have been using company-wide ROE as a management indicator, but under the Plan 2023, we take one step further and work to improve ROIC. While the Daigas Group is an aggregate of business units with different characteristics, we use ROIC as a common management indicator as well as EBITDA, which measures the scale of cash. We aim for ROIC higher than the capital cost by using an ROIC tree while reviewing resource allocation and asset replacement for each business unit as well as the overall company.

An indicator of "how efficiently we earn profits from assets associated with our business"

ROIC*1 = NOPAT / Invested capital

Introduction of common indicators for each business unit and the Daigas Group as a whole

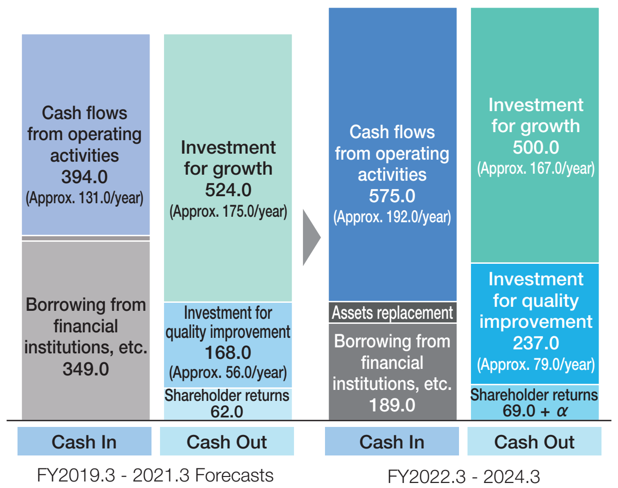
In the meantime, we intend to increase the speed of our responses to changes, and thereby realize a more flexible and highly effective business portfolio management by enhancing the business control functions of each business unit and increasing the frequency of reviews on business plans and resource allocation at the headquarters (Please also see "Enhancing Business Portfolio Management" on page 45).

We will aim to achieve approximately 5% in ROIC on a group-wide basis for the fiscal year ending March 31, 2024. Over the long term, we will aim to raise the target to about 7% in the fiscal year ending March 31, 2031 in light of expected changes in income-and-expense structures associated with future growth.

Growth through investment

We will steadily continue making investment for growth under the Plan 2023 in an effort to expand the scale of revenue. In key areas including decarbonization-related field such as renewable energy, international business, and life and business solutions (LBS), we will make investment for growth in a scale of approximately 500 billion yen during the period covered by the Plan. Of these, we expect that investment in renewable energy will be about 120 billion yen. As for investment in quality improvement, we will enhance investment for DX and resilience. To cover these investments, we will grow our cash flows from operating activitites to 1.5 times the forecasts for the three most recent fiscal years.

■ Cash flows in this Medium-Term Management Plan (billion yen)



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 is the consistency with the investment project's strategy. In addition to profit contributions from the project alone, we evaluate whether or not the project contributes to synergies with the Company's 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 maintenance of 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.

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.

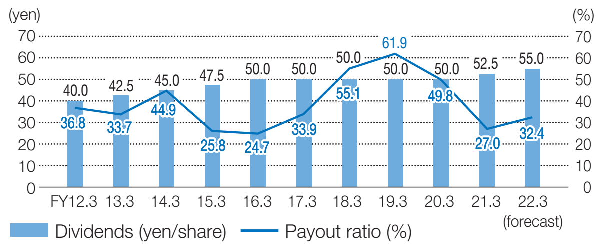
Maintaining financial soundness

During the period of the Plan 2020 (two fiscal years ended March 31, 2020 and March 31, 2021), when the investment for growth exceeded cash flows from operating activities, we issued a total of 175.0 billion yen in hybrid bonds (subordinated corporate bonds) that contributed to both financial soundness and the investment for growth. Going forward, we will increase cash flows from operating activitites by appropriately conducting ROIC management, while also advancing the replacement of assets including securities and restricting borrowing from financial institutions. Under the Plan 2023, we intend to maintain D/E ratio of approximately 0.7 and shareholders' equity ratio of around 50% as targets of financial soundness indicators.

Shareholder returns according to growth

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. We will consider what would be our optimal measures for shareholder returns, taking into account structural risks such as intensifying competition in the fully deregulated energy market and declining population in Japan while comprehensively evaluating future free cash flow, progress in investments for growth, business performance, and financial situation.

■ Trends in dividends / payout ratio



*1 ROIC = NOPAT / Invested capital
NOPAT = Ordinary profit + Interest expenses - Interest income - Income taxes
Invested capital= (Business unit) Working capital + Non-current assets
(Group-wide) Interest-bearing debts + Shareholders' equity (average of the beginning and the end of each fiscal year)
Interest-bearing debts excludes risk-free leased liabilities to us.
Excluding temporary impact on Domestic Energy Business (time-lag effect of Gas Business and Electricity Business).
*2 Calculated with 50% of issued hybrid bonds as equity
*3 Excluding short-time fluctuation factors that affect profits