

# Message from the President



## Co-creating value for a sustainable future and contributing to the realization of a sustainable society

The current Japanese economy, though showing some signs of recovery, still continues to face uncertainty, which is increasing due to unexpected changes in the international situation such as repeated waves of COVID-19 infections and Russia's invasion of Ukraine. In such a business environment, we pursue the stable supply of energy and maintenance of safety as our most critical missions. We aim to be a corporate group that meets the needs of our customers and society, striving to fulfill our responsibility for social infrastructure essential to daily life and industry.

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Masataka Fujiwara

Representative Director and Executive President

## Solving social issues lies at the heart of the Daigas Group's business

This year, the Daigas Group marks 117 years since it began to supply gas in October 1905. Over the years, our energy business has evolved, responding to customer needs and social issues as they have changed with the times. The Group's business began with providing gas for lighting gas lamps and has expanded the applications of its gas supply to residential kitchens and heat sources for commercial and industrial purposes and further to electric power generation. In addition to delivering gas and electricity, we have been also providing various related products, services, and solutions to support customer lifestyles and businesses. As climate change action has become a major social issue in recent years, the Daigas Group is working on the decarbonization of its gas business with carbon neutral solutions and electricity business with increased share of renewables in our power portfolio, in order to achieve our net zero goal by 2050 under the Group's Carbon Neutral Vision.

As demonstrated throughout the Daigas Group's history, solving social issues lies at the heart of our business, and that spirit is reflected in Our Corporate Motto "Service First" and in What We Aim to Be, "a corporate group that powers continuous advancement in customers' lives and businesses," which each employee takes firmly to heart. The Daigas Group's management ensures that these unwavering corporate principles and values are

applied to the Group's corporate activities to the greatest extent possible, regardless of changes in the times or the environment.

## Long-Term Management Vision 2030 and Medium-Term Management Plan 2023

Under the the Daigas Group Long-Term Management Vision 2030 announced in March 2017, we have been working to diversify the Group's business portfolio while creating a foundation for sustainable growth, aiming to be an innovative energy and services company that contributes to be the first choice of customers. Meanwhile, we have been facing the global paradigm shift in recent years caused by escalation of business environmental changes, which affect the sustainability of society as demonstrated by the COVID-19 pandemic and large-scale natural disasters due to climate change.

Amid such rapid changes in our business environment, we announced in March 2021 our Medium-Term Management Plan 2023: Creating Value for a Sustainable Future. In the plan, we define Value for a Sustainable Future as the value consisting of the following three activities essential for solving social issues: achieving a low carbon/carbon neutral society, establishing lifestyles and businesses adjusted to the new normal, and enhancing resilience of customers and society. We aim to co-create Value for a Sustainable Future by leveraging our strengths in solutions and innovation, in order to share the achievements with our stakeholders.



## Initiatives in FY2022.3 for Co-creating Value for a Sustainable Future

In FY2022.3, the first year of the Medium-Term Management Plan 2023, we made a smooth start under the plan, recording 110.4 billion yen of the consolidated ordinary profit and 7.0% of ROIC, a profitability indicator, both of which exceeded targets. In the three activities to create Value for a Sustainable Future, we are making steady efforts to achieve our medium- to long-term goals.

### 1. Achieving a Low Carbon / Carbon Neutral Society

For achieving a low carbon/carbon neutral society, we are promoting the advanced utilization of natural gas, a greener energy source than other fossil fuels, as well as pursuing the development and practical application of highly efficient methanation technology\*1 as indicated in the Carbon Neutral Vision. Methanation is a promising technology for the decarbonization of gas business, which we pursue under the Vision. At the Carbon Neutral Research Hub we established in October 2021 in Konohana Ward, Osaka City, we are working on the research and development of methanation and other carbon neutral technologies. In Nagaoka City, Niigata Prefecture, we have launched a joint demonstration project with INPEX Corporation to develop CO<sub>2</sub>-methanation technology for practical use at INPEX's Nagaoka Field Office Koshijihara Plant. The facility will have a production capacity of 400 normal cubic meters per hour, making it one of the largest scale operations of its kind in the world.

For the decarbonization of power sources, we are actively working to expand the use of renewable energy sources. As of March 31, 2022, we had contributed a total of approximately 1.40 GW to the development of renewables in Japan and overseas. In FY2022.3, we joined a 50 MW biomass power generation project in Hyuga City, Miyazaki Prefecture, which is scheduled to commence commercial operation in November 2024, and a solar power generation project with sites at four locations including Shizukuishi Town, Iwate Prefecture, which had been

already in commercial operation with the combined capacity of 60 MW. In September 2021, commercial operation commenced at Shiribetsu Wind Farm (30 MW), located in Suttsu Town (Suttsu District) and Rankoshi Town (Isoya District), Hokkaido.



Shiribetsu Wind Power Plant (Hokkaido)

Tackling climate change is a key management issue for the Daigas Group. In support of the Recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD), we have published a scenario analysis for a 1.5°C temperature increase. And we are accelerating the implementation of our company-wide business strategy to reduce CO<sub>2</sub> emissions and become carbon neutral with the Carbon Neutrality Promotion Office established in April 2022 in the Corporate Strategy Office.

\*1 A technology that synthesizes methane, the main component of city gas, by a reaction of hydrogen and CO or CO<sub>2</sub> through a catalyst. See "Initiatives to Achieve Carbon Neutrality" on □□ P.28.

## 2. Establishing Lifestyles and Businesses Adjusted to the New Normal

For the establishment of lifestyles and business adjusted to the new normal, we are expanding our lineup of services as optimal solutions to help our customers adjust their lifestyles and business models to the new normal while ensuring a stable supply of gas and electricity. Sumikata Services have been launched to help customers with house renovations and other home-related issues. Sumai LINK is a service platform that offers a wide range of services, including medical care and housekeeping services, in collaboration with partner companies across Japan. Sasuga Net is an internet service we launched in March 2022 to answer the needs of customers who want package deal contracts for home necessity services, which marked our entry into the fixed-line telecommunications business.

The Daigas Group values its connections with customers not only in the Kansai region but in other parts of Japan and overseas, aiming to expand the number of customer accounts as a goal, which is the number of contracts, including those of gas and electricity supply and those of services related to safety and security. In FY2022.3, the number of customer accounts increased by approximately 400,000 compared with the previous fiscal year to 9.81 million. The customer satisfaction rate for direct interactions with customers, such as appliance sales with installation and telephone support, was maintained at a high level of 92%. We will continue providing optimal services to

customers and striving to quickly achieve our target of 10 million customer accounts.

## 3. Enhancing Resilience of Customers and Society

We have pursued enhancing resilience of customers and society, leveraging our experiences in restoration and rebuilding after disasters such as the Great Hanshin Earthquake, the Great East Japan Earthquake, and the North Osaka Earthquake. Faced with the impact of the COVID-19 pandemic and the energy supply-demand balance instability caused by Russia's invasion of Ukraine, we have reaffirmed the importance of ensuring safe and stable energy supply.

As for our pipeline network, which supports stable gas supply to customers, we are implementing earthquake countermeasures such as constant upgrading of gas pipelines to highly earthquake-resistant types and subdividing of supply blocks to minimize the damage from earthquakes and realize early restoration of supply. In FY2021.3, the earthquake resistance rate (earthquake resistant pipes as a percentage of all pipes in use) increased by 0.6 percentage points to approximately 89%, and subdividing supply blocks resulted in an increase in the number of earthquake blocks by 49 to 709 blocks.

In April 2022, Osaka Gas Network Co., Ltd. commenced business as the result of the legal spin-off of the gas pipeline business of Osaka Gas. Osaka Gas established the Safety and Disaster Prevention Committee to strengthen our governance functions

with the centralized management of safety, disaster prevention, and supply stability and to promoting measures related to them.

In June 2022, there was a fire at the Freeport LNG Terminal in Texas, U.S.A., which is one of our LNG sources. This incident forced us to seek out replacement LNG. Going forward, we will further strengthen risk management in our supply chain and strive to secure the safe and stable energy supply by joining forces within the Daigas Group.

## Gaining Confidence of Stakeholders Through ESG Management

Through our business activities to create Value for a Sustainable Future, we pursue SDGs in alliance with other companies and partnership with stakeholders. Such activities include contributing to realizing a low carbon/carbon neutral society, building stable and highly resilient energy infrastructure, and promoting community development that is both environmentally and economically sound.

Meanwhile, we also steadily promote ESG-conscious management and continue striving to gain the confidence of our stakeholders. Since its founding, the Daigas Group has been practicing ESG-conscious management in various ways while working to provide products and services that accommodate the changes of the times, in order to be a corporate group that provides solutions to customers and society. In 2007, we announced our participation in the United

Nations Global Compact, a first for a Japanese public utility enterprise. We are committed to the principles to be followed by companies as members of international community. At the time of releasing the new Medium-Term Management Plan 2023, we revised the Daigas Group Charter of Business Conduct, which shows our stance on corporate governance, and announced the Daigas Group Human Rights Policy amid a growing awareness of human rights among companies on a global scale.

We are committed to strengthening our corporate governance by not only disclosing information in an appropriate manner but also thoroughly implementing fair business operations across the Daigas Group, further promoting diversity, and enhancing information security. Business execution and supervision have already been separated, and at least one-third of the Board of Directors is comprised of outside directors with the intent of further strengthening business execution functions and supervision functions. In addition, the Board of Directors meeting held in December 2021 resolved to set the profit attributable to owners of parent for the past three years and the ESG Indicator Achievement Factor for the previous year\*<sup>2</sup> as the main indicators for the determination of performance-linked remuneration to encourage contributions to short-term and medium- to long-term increases in corporate value. Further, from FY2023.3, Osaka Gas is holding meetings of the Advisory Committee Relating to Management on a regular basis to deliberate on key issues such as medium- to

long-term corporate strategy. This committee is comprised of Osaka Gas President, all Outside Directors, and the Corporate Planning Headquarters President, with outside Audit & Supervisory Board Members participating as observers. Through the initiatives described above, we aim for the further improvement of corporate governance.

By implementing these ESG initiatives, we strive to gain the unwavering trust of our stakeholders and demonstrate the comprehensive strength of the Daigas Group, taking on challenges to realize sustainable growth.

\*<sup>2</sup> Applied from July 2023 onward, when compensation is paid based on FY2023.3 results.

September 2022

