Our Financial Strategy

Enhancing business portfolio management, using ROIC as a group-wide management indicator

As our financial policies under the Daigas Group Medium-Term Management Plan 2023: Creating Value for a Sustainable Future, we have declared the improvement of existing business profitability, investment in new businesses where we can leverage our strengths, and realization of shareholder returns according to business growth. We are steadily driving those initiatives while remaining mindful of the maintenance of financial soundness indicators.

Takeshi Matsui
Representative Director and
Executive Vice President

Review of FY2022.3 and Financial Targets for the Medium-Term Management Plan 2023

FY2022.3, the first year of the Medium-Term Management Plan, was a year of turbulent changes in the social and economic environments, such as the prolonged impact of the COVID-19 pandemic, accelerated trend toward decarbonization, oil and natural gas price surge, yen depreciation, and Russia's invasion of Ukraine. Despite the impact of these situations, the Daigas Group's consolidated ordinary profit exceeded the plan at 110.4 billion yen thanks to each business' flexible response to these changes and the progress made in business portfolio management with the international energy business entering the profit contribution phase. We also achieved our targets for major management indicators, such as EBITDA and ROIC.

We will continue to enhance our earning capabilities through growth by improvement of existing business profitability and growth by investment in new businesses where we can leverage our strengths, aiming for ROIC of around 5% in FY2024.3.

We will also firmly maintain a D/E ratio of approximately 0.7 and shareholders' equity ratio of around 50%.

In our shareholder return policy, we intend to provide stable dividends as our basic stance while working to secure a consolidated dividend payout ratio of 30% or higher excluding short-term profit fluctuation factors and make shareholder returns according to business growth.

In June 2022, there was a fire at the Freeport LNG Terminal in Texas, U.S.A., one of our LNG sources, which forced us to procure replacement LNG. Please refer to our corporate website for details of the impact of this event on the Company's consolidated business results for the fiscal year ending March 31, 2023.

Improvement of Profitability in Existing Business

The Daigas Group works towards ROIC higher than the capital cost for the Group as a whole, with its business units*1 pursuing respective goals depending on business characteristics while using common management indicators. In FY2022.3, the first year we introduced ROIC, we clarified the roles of business units and corporate headquarter divisions, set the targets for each business unit, and enhanced members' understanding and awareness of the importance of ROIC improvement. As a result, the business units have started to focus on ROIC besides profit in their operations and implement measures, such as the sale of overseas assets that have completed their purpose and the value enhancement of asset holdings with the ongoing consideration of securitizing the Group-owned real estate.

In addition, we are speeding up our response to changes and improving the robustness of our

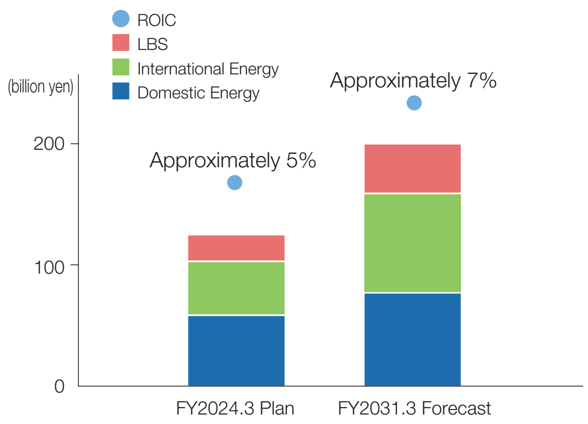
*1 The Daigas Group's seven business management units to plan and execute the Group's strategies

Major management indicators

		FY2022.3 forecast announced on March 10, 2021	FY2022.3 results*1	FY2024.3 plan Final year of Medium-Term Management Plan
Consolidated ordinary profit		95.0 billion yen	110.4 billion yen	—
EBITDA*2		200.0 billion yen	216.6 billion yen	—
Profitability indicators	ROIC*3 (Reference) ROE	4.4% (6.6%)	7.0% (11.0%)	Approx. 5%*4 (Approx. 7.5%)
Shareholder returns	Payout ratio	32.4%	18.6%	30% or higher*5
Financial soundness indicators	D/E ratio	0.79	0.65	Approx. 0.7*6
	Shareholders' equity ratio	45.7%	49.0%	Approx. 50%*6

*1 Major temporary factors that increased profits in FY2022.3 include the effect of Osaka Gas USA's recording of deferred tax assets and income taxes – deferred (gain) of 42.6 billion yen.
*2 EBITDA = Operating profit + Depreciation (including amortization of goodwill) + Share of profit of entities accounted for using equity method
*3 See P.39 for ROIC explanation
*4 Excluding the temporary impact on Domestic Energy Business (time-lag effect of Gas Business and Electricity Business)
*5 Excluding short-time profit fluctuation factors
*6 Calculated after adjusting 50% of issued hybrid bonds as equity

Forecasts for ordinary profit by segment*1



*1 Excluding temporary impact (time-lag effect on gas business and electricity business)

business portfolio by increasing the frequency of corporate operations divisions' reviews on our business plan and resource allocations, aiming for the sustainable growth of the Group businesses.

Investment in New Businesses Where We Can Leverage Our Strengths

In FY2022.3, we made investments worth 141.3 billion yen in projects to develop power sources such as the Himeji Natural Gas Power Plant and renewables, upstream business in North America, and real estate assets in Japan with the aim of expanding revenue.

We plan to execute steady investments in the cumulative amount of approximately 500 billion yen for the period up to March 2024 under the Medium-Term Management Plan for business growth in key areas including decarbonization-related fields such as renewable energy (about 120 billion yen), International Energy business, and Life and Business Solutions (LBS).

In our investment for business growth, we focus on ROIC as a target in our renewable energy development project in Japan, where we invest with strategic partners to minimize our investment amounts while maximizing our power offtake in excess of our stakes in the projects. In renewable energy development overseas, we aim to enhance investment efficiency by participating in projects at an early stage while implementing risk-reduction measures through strategic collaborations with partners.

In our investments for quality improvement, we are increasing investments for digital transformation and resilience enhancement.

For the sound and sustainable growth of the Daigas Group, we work to maximize ROIC from medium- to long-term perspectives while increasing profits and boost our operating cash flows to 575 billion yen, 1.5 times the FY2019.3 – FY2021.3 cumulative forecast, in the three years of the Medium-Term Management Plan.

■ ROIC enhancement measures

Promote business units' autonomous asset divestment	■ Sell overseas assets that have completed their purpose (Idemitsu Snorre, 4 IPP projects including one with expired PPA*1) ■ For cross-shareholdings, re-examine the significance of holdings for each individual stock and sell stocks appropriately (divestment of 9 stocks)
Improve asset efficiency	■ Consider securitization of the Group-owned real estate ■ Mitigate business risk and improve asset efficiency through leasing in industrial energy services
Invest in assets with focus on ROIC target	■ In renewable energy development in Japan, maximize investment efficiency through joint investments with strategic partners, power offtake in excess of stakes in the project, innovation in finance schemes, etc. ■ In renewable energy development overseas, enhance investment efficiency by participating in projects at an early stage

■ Domestic Energy ■ International Energy ■ Life & Business Solutions

*1 Power Purchase Agreement

Investment Risk Management

In our investments, we aim to maintain a good balance between risk and return, not taking high risks to seek excessively high returns and avoiding unnecessary risk control. We manage investment risk by ensuring the following four points.

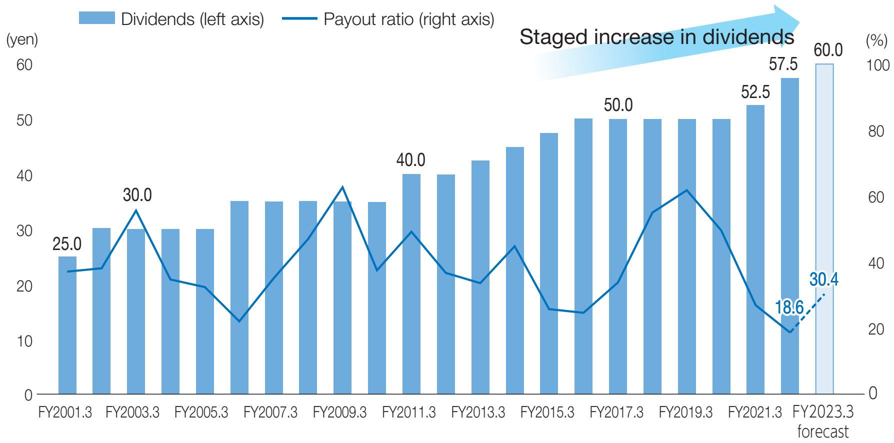
The first is the investment project's consistency with our strategy. Besides evaluating project profitability, we assess the project potential for synergies with the Group's other businesses and enhancement of business execution capabilities.

The second is the evaluation of the inherent risks of the investment project. We make decisions on investment through strict evaluations and deliberations of target projects at the Investment Evaluation Committee based on our group-wide investment standards, taking into account the evaluation results made by the Investment Risk Management Office, our internal organizations for financial and legal affairs, as well as external consultants when necessary.

The third is the 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 business growth while maintaining a certain level of financial soundness in the face of the risks.

The fourth is follow-up after investment. We conduct annual follow-ups on each investment project based on our investment monitoring standards, where we evaluate whether 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 results, we take necessary actions such as improving project profitability and considering divestiture or withdrawal.

■ Dividends and payout ratio



Note: The calculation of figures for 2017 and prior includes the effects of share consolidation (5 shares to 1 share) conducted in October 2017.

Shareholder Returns According to Profit Growth

As our shareholder return policy, we intend to provide stable dividends while maintaining a consolidated dividend payout ratio of 30% or higher excluding short-term profit fluctuation factors, and increase dividends when we achieve profit growth.

In FY2022.3, we achieved the payout ratio of 18.6% due in part to the temporary profit-increasing factors, such as our overseas subsidiary's recording of deferred tax assets and income taxes – deferred (gain). In the meantime, we raised dividend forecasts for two consecutive fiscal years in view of the achieved growth and estimated future profits.

We will implement optimal shareholder-return policy formulated based on comprehensive evaluation of projected free cash flow, progress in investments for business growth, business performance, and financial situation, taking into account factors such as the accelerating decarbonization trend and intensifying competition driven by non-energy players' entry into the gas and power markets.