

Risk Management

Basic Approach and Policy

As the social and economic environment is changing drastically, with the increasingly unstable international situation, exchange rate fluctuations and inflation, the importance of energy security is rapidly growing, along with the further acceleration of decarbonization. In such an environment, the Daigas Group, which operates a various types of businesses in various regions, recognizes that risks listed on P.118 may have an impact on its business performance and financial position. We are working on each measure under the risk management promotion system, and the ESG Committee, the Safety and Disaster Prevention Committee, and other corporate committees are implementing plans and following up on progress.

Matters concerning the future as stated are based on the Group’s judgment and assumptions as of the end of FY2023.3.

Promotion System

Organizational heads of the Company and presidents of the affiliates promote the management of the risk of losses and periodically conduct risk management assessments. Each basic organization or affiliate identifies risk items, checks the status of management concerning the risk items, and conducts follow-ups or other measures by using such means as the “G-RIMS (Gas Group Risk Management System),” which systematizes the self-assessment of risk management practices.

Periodic Reviews and Monitoring

Operating our own self-assessment system G-RIMS

The Group introduced the “G-RIMS,” a system for risk management in routine business operations, in 2006. The manager of each organization and affiliated company checks if preventive measures have been implemented or if an early-detection system is in place as required, using a checklist comprising about 50 risk items. G-RIMS is also designed to evaluate the magnitude of risks and identify risks to be addressed, before PDCA (plan-do-check-act) is operated for improvement.

■ G-RIMS (Gas Group Risk Management System) Checklist

<p>1. Management environment</p> <ul style="list-style-type: none"> Dissemination of corporate principles Decision-making and follow-up process Poor maintenance of regulations Failure to report business information that should be reported Effectiveness of self-audits <p>2. Human rights, harassment</p> <ul style="list-style-type: none"> Violation of human rights (workers, local residents, consumers, etc.) Harassment (sexual harassment, maternity harassment, power harassment) <p>3. Personnel affairs, labor affairs</p> <ul style="list-style-type: none"> Inappropriate labor management and incompliance with labor-related laws and regulations Inappropriate employment contracts with non-regular employees Securing human resources Developing human resources <p>4. Accident prevention, workplace safety</p> <ul style="list-style-type: none"> Slack conduct regarding accident prevention and workplace safety Vehicles for business use 	<p>5. Response to relevant laws</p> <ul style="list-style-type: none"> Violation of applicable laws and regulations <p>6. Illegal transactions</p> <ul style="list-style-type: none"> Violation of the antitrust act Violation of the subcontract act Violation of the labeling act <p>7. Inappropriate relationships</p> <ul style="list-style-type: none"> Cozy relationships, bribery, etc. with public servants; cozy relationships with clients and suppliers <p>8. Anti-social forces</p> <ul style="list-style-type: none"> Refusal to have a relationship with anti-social forces <p>9. Insider trading</p> <ul style="list-style-type: none"> Practice of insider trading, provision of insider information <p>10. Public funds (subsidies, etc.)</p> <ul style="list-style-type: none"> Illegal receipt of public funds (subsidies, etc.) <p>11. Management of seals</p> <ul style="list-style-type: none"> Illegal use of seals <p>12. Purchase, expense-related spending</p> <ul style="list-style-type: none"> Inappropriate procedures and illegal practices concerning purchase and expense-related spending (accounting spending) <p>13. Illegal practices concerning money transfer</p>	<ul style="list-style-type: none"> Illegal use of bank accounts Embezzlement of cash Embezzlement of sales proceeds Illegal spending The same person taking a spending-related post for a long time <p>14. Accounting, tax-related procedures</p> <ul style="list-style-type: none"> Errors, illegal practices, and delays concerning accounting and tax-related procedures <p>15. Credit control, loan control</p> <ul style="list-style-type: none"> Irrecoverable loans, delays in loan collection Acceptance and execution of guaranteed debts <p>16. Scandals involving suppliers</p> <ul style="list-style-type: none"> Compliance problems emerged at corporate clients concerning human rights, labor practices, environment, and corruption <p>17. Whistle-blowing system (Compliance Desk)</p> <ul style="list-style-type: none"> Insufficient dissemination of a whistleblowing system Operational defects of a whistleblowing system <p>18. Environment-related</p> <ul style="list-style-type: none"> Violation of environment-related laws 	<p>19. Products, services</p> <ul style="list-style-type: none"> Quality of products and services (complaints, defects, recall, product liability, consumer protection, etc.) <p>20. Business continuity in emergency</p> <ul style="list-style-type: none"> Suspension or delay of business activities/ operations in an emergency, such as a disaster <p>21. Intellectual property</p> <ul style="list-style-type: none"> Insufficient protection of intellectual property rights owned by Osaka Gas Infringement of intellectual property rights owned by third companies <p>22. Lawsuits</p> <ul style="list-style-type: none"> Legal disputes such as lawsuits <p>23. Information disclosure</p> <ul style="list-style-type: none"> Inappropriate information disclosure procedures and the subsequent erosion of public trust in Osaka Gas <p>24. Information control in general</p> <ul style="list-style-type: none"> Leakage, loss, and illegal use of information <p>25. Computer network related</p> <ul style="list-style-type: none"> (computer networks, business apps related to computer networks, information used via such networks and apps) 	<ul style="list-style-type: none"> Illegal use of information, illegal alteration of information, and information leakage, all arising from the lack of security measures <p>26. Personal information concerning customers and corporate clients (including customer information)</p> <ul style="list-style-type: none"> Leakage, loss, and illegal use of personal information concerning customers <p>27. Personal information concerning employees</p> <ul style="list-style-type: none"> Leakage, loss, and illegal use of personal information concerning employees <p>28. “My Number” system (individual identification number and specified personal information)</p> <ul style="list-style-type: none"> Leakage, loss, and illegal use of “My Number” identification numbers <p>29. Funds, derivatives</p> <ul style="list-style-type: none"> Problematic fund management and fund procurement Problematic fund control Speculative derivative transactions <p>30. Electronic banking</p> <ul style="list-style-type: none"> Illegal and erroneous money transfers using the electronic banking system
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Recognition of and Countermeasures Against Business Risks

In addition to the measures preparing for the following risks, the Daigas Group aims to mitigate the impact on its business in cases where such risks emerge by appropriately understanding and supervising the situations of business operations, while considering the degree and time period of the potential for risks to materialize.

Risks Related to All Businesses within the Group

Countermeasures against Risks

Changes in economic, financial, and social conditions as well as market contraction	The Group is practicing portfolio management that responds to changes in the business environment by growing each of three segments "Domestic Energy Business," "International Energy Business," and "Life & Business Solutions (LBS) Business."
Occurrence of catastrophic disasters, accidents, or infectious diseases	In preparation for the occurrence of natural disasters, terrorism, accidents, and infectious diseases, we are promoting initiatives including centralized management, intensive inspections, and continuous improvements of facilities, taking out various types of insurance such as disaster insurance, and formulation and review of a "Business Continuity Plan (BCP)" in the event of a catastrophic disaster or accident and an operational plan for responses to outbreaks of infectious diseases, etc. In addition, we are striving to build cooperative relationships in projects in which we participate for safe and stable business operations.
Changes in international rules, politics, laws and regulations, and institutional systems	We are executing our respective businesses in accordance with international rules on environmental, social and governance issues, as well as other domestic and international rules, politics, laws and regulations, and institutional systems.
Changes in foreign exchange rates and borrowing rates	We are working to minimize the impact of changes in foreign exchange rates and borrowing rates through hedging and foreign currency procurement.
Uncollected investments	The Board of Directors makes decisions on various types of investments for growth based on comprehensive management decisions by the Investment Evaluation Committee including projects' economic and risk evaluation.
Climate change and decarbonization	In order to respond to changes in regulations due to climate change issues, changes in social trends toward the realization of a carbon-neutral society in the future, and fluctuations in energy demand, etc., we are promoting initiatives for fuel conversion from coal and heavy oil to natural gas, the introduction of renewable energy and highly efficient products and facilities, and development of technologies and building supply chains related to low-carbon/carbon-neutral transition.
Intensifying competition	In order to increase our market competitiveness in all business segments, we are promoting initiatives to increase added value, reduce raw material costs, develop technologies, etc.
Breakdown or malfunction of critical IT systems, information leaks, and development delays	We are promoting and monitoring security measures, ensuring dissemination and education of information management, building information systems, etc.
Quality issues with products or services	In order to ensure that the products and services we offer are used securely and safely, we are working on thorough quality management and other measures.
Non-compliance with laws and regulations	To raise awareness of compliance, we are promoting initiatives to prevent problems from occurring through ongoing internal training, periodic risk identification, and review, follow-up and improvement of response status, etc.

Individual Risks of Each Business Segment

• Domestic Energy Business

Impact of fluctuations in temperature/water temperature on energy demand	In order to respond to the impact of fluctuations in energy demand, we are expanding sales in peripheral energy fields such as gas appliances and energy services.
Changes in raw fuel costs	We are working to minimize the impact of cash flows through diversifying contract price indices and hedging in the procurement of LNG, and to adjust unit gas prices under the fuel cost adjustment system.
Difficulty in procuring raw fuels	As most of the raw fuels for gas and electricity, such as LNG, are imported from overseas, we are promoting diversified procurement from numerous producers as well as utilizing LNG carriers owned by the Group, aiming to ensure stable and flexible raw fuel procurement.
Changes in electricity procurement costs	We are working to ensure a stable electricity supply by responding to power demand through procurement from procurement contracts with other companies, and from the Japan Electric Power Exchange and other markets, in addition to procurement from our own power source.
Difficulties in gas production/power generation and gas/power supply	In order to maintain safe and stable city gas production/supply and electricity generation/supply, we are carrying out various drills to prepare for emergencies, periodic inspections and upgrading of facilities, and measures to prevent accidents and supply disruptions including earthquake and tsunami countermeasures.
Products such as gas equipment and facility issues	We are striving to ensure a stable supply of products, and promoting the use of safe equipment and related inspection and dissemination.
Intensifying competition in the industry and the resulting increase in choices available to consumers	We are working to provide various added values, aiming to be a company that continues to be the first choice of customers.

• International Energy Business

Changes in the operating environment, such as decreased profitability or project delay or cancellation, resulting from the public policies, implementation of or changes in regulations, deterioration of economic or social conditions, market fluctuation in areas including crude oil prices and gas prices, technical issues, or damage by natural disasters in the countries in which the Group operates	We are promoting risk countermeasures such as proactive business operations and strict evaluation of target projects in the decision-making of investment for growth. In addition, for stable procurement, we are striving to build cooperative relationships that contribute to safe and stable operations in the participating projects.
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• Life & Business Solutions Business

Changes in the operating environment, such as soaring material costs, suspension of material supplies, and worsening economic conditions	We are working on internal growth, investment for growth, and other initiatives based on technologies and knowledge we have cultivated in our energy business.
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Status of Internal Control

Osaka Gas established systems (internal control systems) to ensure that Directors of the Company execute the duties in compliance with the laws and regulations and the Articles of Incorporation and other systems necessary to ensure the properness of the Daigas Group's operations at the Board of Directors. The Company confirms the operating status of the internal control systems periodically by identifying items to confirm for various matters and receiving reports from the organizational heads and other persons concerned. At the meeting of the Board of Directors held on April 26, 2023, it was reported that the internal control systems were operating in a proper manner.

Overview of Operating Status of the Internal Control Systems (FY2023.3)


①Matters concerning compliance, etc.

The ESG Committee promotes initiatives in each sector, including sustainability activities, through the Compliance and Risk Management Subcommittee, Environment Subcommittee, and Social Contribution Subcommittee. With the movement toward decarbonization gaining pace globally in response to the issue of climate change, the Company formulated and announced Energy Transition 2030 (ET2030) in March 2023, integrating an overall roadmap for the transition to low carbon and carbon neutral energy, as well as the Group's specific initiatives and the solutions it can provide for customers. Educational materials, including a guide to the Daigas Group Code of Business Conduct, are posted on the intranet at all times to familiarize Directors and employees of the Group with said Code to promote and ensure its understanding.

The consultation and reporting system has been revised in light of the Partial Amendment of the Whistleblower Protection Act (Act No. 51, 2020), which came into effect in June 2022. Effective April 1, 2022, the number of affiliated companies with whistleblower hotlines was expanded, and measures have been taken to ensure the independence of whistleblowing processes involving management. During FY2023.3, the Company implemented measures to improve the operational quality of whistleblower hotlines at affiliated companies.

On May 10, 2023, CD Energy Direct, Inc. (our stake of 50%) received an order from the Consumer Affairs Agency to suspend its door-to-door sales operations (for six months) based on the Act on Specified Commercial Transactions, for some inappropriate business practices in door-to-door sales by a subcontractor. In order to prevent recurrence, the Company is reviewing its compliance system and strengthening the supervision and education of its contractors.

②Matters concerning risk management, etc.

We are committed to risk management under the promotion system described on  P.117. Regarding the management of risks concerning security and disaster prevention which are common to the Group, the organization in charge is clearly specified, and the organization supports each basic organization and affiliate to ensure risk management on a Group-wide basis.

With the legal separation of our gas pipeline division, we established a Security and Disaster Prevention Committee on April 1, 2022, to coordinate and promote cross-organizational measures related to safety and disaster prevention within the Group, and are taking all possible measures to ensure safety and disaster prevention after the legal separation. We also implemented internal investigations to confirm the status of measures to block the transfer of information between the Network Company and the Company and its

affiliated companies, which are gas retailers, and the status of information management.

To prepare for emergencies, regulations for disaster countermeasures and business continuity plans are prepared. We carry out company-wide disaster-prevention drills, which consist of earthquake drills and BCP exercises. During FY2023.3, in addition to drills assuming disasters occurred amid an epidemic, we also implemented emergency coordination training and drills, including the use of remote communications, to ensure coordination between the Network Company and gas retailers.

The Cyber Security Committee has been established to further strengthen measures against cyberattacks from outside the Group's network such as by carrying out periodic inspections and following up on the Group's security.

③Matters concerning the management of businesses in the Group

The affiliates to be managed by the core non-energy business companies, the gas pipeline business company, the overseas regional headquarters, or the management support organizations are designated and their managerial tasks are monitored by receiving periodic reports and reports on important issues from the affiliates. In addition, day-to-day management of those affiliates is performed by using the G-RIMS and/or conducting audits.

The Company's Auditing Department, which conducts internal audits, implements planned internal audits of the Company's organizations and affiliates and provides follow-up audits after a certain period of time.

④Matters concerning the effectiveness of audits by Audit & Supervisory Board Members

Full-time Audit & Supervisory Board Members have periodic exchanges of opinion with the Director and Chairman, the Representative Director and President and the accounting auditor, in which Outside Audit & Supervisory Board Members also participate as necessary. Partly through the opportunity to exchange opinions with the accounting auditor, Audit & Supervisory Board Members evaluate the qualifications, expertise and independence of the accounting auditor.

Full-time Audit & Supervisory Board Members attend important meetings such as the Management Meeting, the ESG Council, the Investment Evaluation Committee, etc., and read approval documents and other important documents. Through the Board of Directors' resolution on the internal control systems, they also clarify important matters to be reported to Audit & Supervisory Board Members and disseminate information thereof.

Five assistants to Audit & Supervisory Board Members are in place to engage solely in assisting Audit & Supervisory Board Members in the performance of their duties.