

Disclosure Based on the TCFD Recommendations: Recognition of and Action on Risks and Opportunities

Principle and Outline

Tackling climate change is seen as one of the Sustainable Development Goals (SDGs) adopted by the United Nations. Since the Paris Agreement came into force in November 2016, initiatives to tackle climate change are being undertaken around the world. In Japan, the country declared carbon neutral by 2050 in October 2020, making it even more important to address climate change.

For the Daigas Group, which is engaged primarily in the energy business, climate change represents an important management challenge, and initiatives to reduce CO₂ emissions are a crucial mission. In January 2021, the Daigas Group established and announced the “Daigas Group Carbon Neutral Vision,” indicating its vision of how it strives to become carbon neutral by 2050. In March of the same year, the Company announced its “Medium-Term Management Plan 2023.”

In March 2023, we released “Energy Transition 2030 (ET2030),” which outlines the overall roadmap for the transition to carbon neutral energy, as well as our Group’s specific initiatives and solutions we can offer our customers toward 2030. In the Daigas Group Medium-Term Management Plan 2026, announced in March 2024, we position providing carbon neutral energy as one of our key initiatives.

The recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) announced in June 2017 (the “TCFD recommendations”) encourage companies to disclose climate change-related financial information to promote appropriate investment decisions by investors. Osaka Gas supports the TCFD recommendations, and utilizes them as indicators to validate its climate change response. We also participate in the TCFD Consortium*, where discussions take place on efforts toward information disclosure on responses to climate change based on the TCFD recommendations.

* TCFD Consortium

The TCFD Consortium was established on May 27, 2019, whose members from the Japanese private sector discuss how companies can effectively disclose information on tackling climate change and how financial institutions can use the disclosed information to make appropriate investment decisions. From the Japanese government, the Ministry of Economy, Trade and Industry, the Financial Services Agency, and the Ministry of the Environment participate as observers in the consortium.

Climate Change Governance

The Daigas Group regards tackling climate change as a key management issue. Just as with other important business activities across the Group, the Board of Directors is responsible for making decisions on and supervising activities aimed at tackling climate change and other environmental issues. At the ESG Council (Management Meeting), which is held three times a year, executives discuss activity plans and activity reports related to ESG issues, including climate change issues, and submit reports to the President.

The Group also has the ESG Committee, chaired by the Executive in Charge of ESG Promotion (Representative Director and Executive Vice President), who supervises the Group’s sustainability activities, and consisting of the heads of related organizations. The ESG Committee meets three times a year for the cross-organizational deliberation, coordination, and supervision of climate-change-related issues, including the planning and promotion of related business activities, progress in achieving relevant targets, and risk management. The committee submits to the Board of Directors deliberation proposals and reports on important agenda items, such as the status of achievement of sustainability-related ESG management targets and business projects expected to sustain a major financial impact due to climate change.

Directors other than Outside Directors are paid performance-linked remuneration, and one of the performance indicators is the ESG indicators achievement coefficient. For ESG indicators, CO₂ emissions aimed at carbon neutrality and other climate change-related indicators are employed.

Strategy

Scenario analysis

The Daigas Group has been working on climate change scenario analysis that is intended to be utilized as reference material in the evaluation and preparation of countermeasures, and to understand the impact of climate change on the Group’s business on a medium- and long-term basis. For the analysis, we used the scenarios* published by IEA.

We assessed our energy businesses (gas, electricity and related businesses in Japan and overseas) which are expected to experience the greatest impact from climate change among the Group’s businesses, assuming a multi-track scenario (1.5°C Scenario (NZE2050), 2.6°C Scenario (STEPS)*) that takes into account the progress of energy conservation and changes in the composition of power sources, etc.

We steadily implement initiatives to increase the resilience of the Group’s businesses, while applying the suggestions gained from scenario analysis to our evaluation of medium- and long-term business strategies. Moreover, as the global response to climate change continues to progress, the scenario’s preconditions may also change in the future. We will continue to deepen our scenario analysis, renewing our assumptions in line with the latest conditions as necessary, taking into account scenarios established by external authorities.

Source: IEA “World Energy Outlook 2021”

■ Governance System for Climate Change



- Board of Directors
15 Directors (8 Internal Directors and 7 Outside Directors)
- ESG Council (Management Meeting)
1 President, 3 Executive Vice Presidents and
8 Senior Executive Officers
* In principle, it is held three times per year as “ESG Council.”
- ESG Committee
Executive Vice President (Head of ESG Promotion) and
heads of related business units, etc.

(As of June 27, 2024)

Recognition of risks and opportunities

Using a multi-track scenario analysis, the Daigas Group identified anticipated risks and opportunities, based on the environment surrounding its domestic and overseas energy businesses, evaluated them, and examined countermeasures in the short- to medium-term toward 2030 and the long-term toward 2050.

The Group is engaged in gas and electricity businesses, primarily in the Kansai region, which use natural gas as their main raw material and fuel. The external environment is undergoing various changes due to climate change. We have classified the major factors associated with these changes into “transition risks” and “physical risks,” and identified the major risks and opportunities. Significant risks for the Group related to climate change include the possibility that rising sea levels and natural disasters such as typhoons and torrential rains due to localized abnormal weather events, etc. may cause damage to our manufacturing/distribution equipment. In addition, it is possible that our businesses may be affected by significant increases in the carbon tax rate in Japan, or an increased desire among our customers to switch to non-fossil fuels. However, promotion of the development and spread of renewable energy and technologies for carbon neutrality also represents a significant opportunity for the Group.

The Group will pursue sustainable growth by promoting portfolio management through diverse businesses in order to respond appropriately to the identified risks and opportunities.

■ Evaluation of Risks and Opportunities

		Impact on Business			
		Scenario	Impact	Short- and Medium-Term	Long-Term
Risks	Physical	Physical risks 2.6°C	Damage to facilities arising from meteorological disasters	Increase in capital investment costs and insurance premiums	Increase in facilities countermeasure costs
	Transition	Market	Switch to natural gas	Increase in prices due to greater competition in LNG procurement	Further price hikes and impediments to procurement, due to increasing competition in LNG procurement
		Market	Switch to non-fossil fuel energy	Fall in sales of gas and thermal power	Fall in sales of gas and thermal power
		Reputation	Focus of investment criteria on low-carbon or decarbonized businesses	Diminished capital procurement power in gas-related businesses	Declining investment in fossil fuels businesses
		Policy and legal	Introduction of a carbon tax	Carbon tax burden on gas and thermal power businesses	Increasing burden with rising carbon tax rates
Opportunities	Physical	Physical Opportunities 2.6°C	Increase in awareness and support measures for weather disaster countermeasures	Increase in sales of products /services with disaster response function	Expansion of decentralized energy systems
	Transition	Market	Switch to natural gas	Switch to LNG in Japan; Expansion of LNG business oversea	Switch to LNG and expansion of sales of high-efficiency equipment abroad
		Technology	Development of renewable energy and CCUS technologies	Expansion of development of renewable energy sources	Introduction of "e-methane," expansion of renewable energy sources, utilization of thermal power generation with CCS
		Policy and legal	Implementation of a national policy for the mass introduction of renewable energy sources	Expansion of sales of electricity from renewable energy sources	Expansion of sales of electricity from renewable energy sources
		Technology	Development of AI/IoT	Participation in decentralized power sources aggregation business	Expansion of decentralized power sources aggregation business

Financial impact : Small Financial impact : Large

■ Strategies/Countermeasures for Risks and Opportunities

		Short- and Medium-Term	Long-Term
Risks	Physical	● Implement disaster countermeasures for facilities	
	Transition	<ul style="list-style-type: none"> ● Diversify procurement sources ● Develop and expand sales of renewable energy power sources in Japan and abroad ● Engage in dialogue with investors Please see the following material for our major initiatives*	
Opportunities		● Investigate, develop, and verify "e-methane" technologies	● Full-scale introduction of CCUS/"e-methane," hydrogen, etc. and establishment of supply chains
	Physical	● Development and sale of equipment with disaster response functions	
	Transition	<ul style="list-style-type: none"> ● Develop and expand sales of renewable energy power sources in Japan and abroad ● Develop and sell high efficiency, compact decentralized power sources (CHP, fuel cells) ● Expand fuel switching, sales of high efficiency equipment in Japan and abroad ● Verify and participate in the decentralized power sources aggregation business Please see the following material for our major initiatives*	
		● Further develop energy-saving technologies	● Full-scale introduction of CCUS/"e-methane," hydrogen, etc. and establishment of supply chains

*  Carbon Neutral Vision  Energy Transition 2030

Financial Impact of Climate Change Risks and Opportunities

In its Medium-Term Management Plan 2026, the Daigas Group expects to invest 100.0 billion yen in the carbon neutral field (renewable energy, e-methane, etc.) for a future earnings structure as investment for growth from FY2025.3 to FY2027.3.

The Daigas Group is actively contributing to the spread of renewable energy, and estimates that the sales impact of expanding its renewable energy business in FY2031.3 will be on the order of 100 billion yen.

It should be noted that there are uncertainties and assumptions in the above estimation of financial impact. In practice, the impact may vary significantly as a result of changes in key factors.

Initiatives to Reduce Greenhouse Gas Emissions

Initiatives to reduce greenhouse gas emissions are a crucial mission for the Daigas Group. We focus on reducing CO₂ emissions, not only from our own business activities, but also from customers who use the energy we provide. In the Daigas Group Energy Transition 2030 (ET2030), we have set a target of reducing CO₂ emissions in our domestic supply chain by 5 million tons by FY2031.3 compared to FY2018.3, and we are taking various initiatives to reduce CO₂ emissions.

Under the Daigas Group Carbon Neutral Vision, we have established the goal of contributing 10 million tons per year of CO₂ emissions reductions in FY2031.3. This indicator will enable us to contribute to reductions throughout society, and we therefore use it as a management target linked to the Group's business initiatives. Please see □□P.038-P.046 for each initiative.

Initiatives Ensuring Resiliency for a Carbon Neutral Society

Securing a stable supply of energy, a core social infrastructure, is one of the major climate change-driven challenges facing society as a whole. By continuing to provide a range of services, including multiple sources of clean energy such as gas and electricity utilizing technologies for carbon neutrality, disaster response equipment, and the widespread and advanced use of energy, the Daigas Group will strive to contribute to society in terms of stable supply and resilience toward a carbon neutral society.

The Daigas Group will aim to achieve both business growth and stable social infrastructure, and promote activities that contribute to reducing CO₂ emissions throughout society, promote the advanced use of gas, and develop technologies for carbon neutrality, in response to the growing global trend toward carbon neutrality. Please see □□P.040 for an overall picture of the Daigas Group's efforts to provide carbon neutral energy.

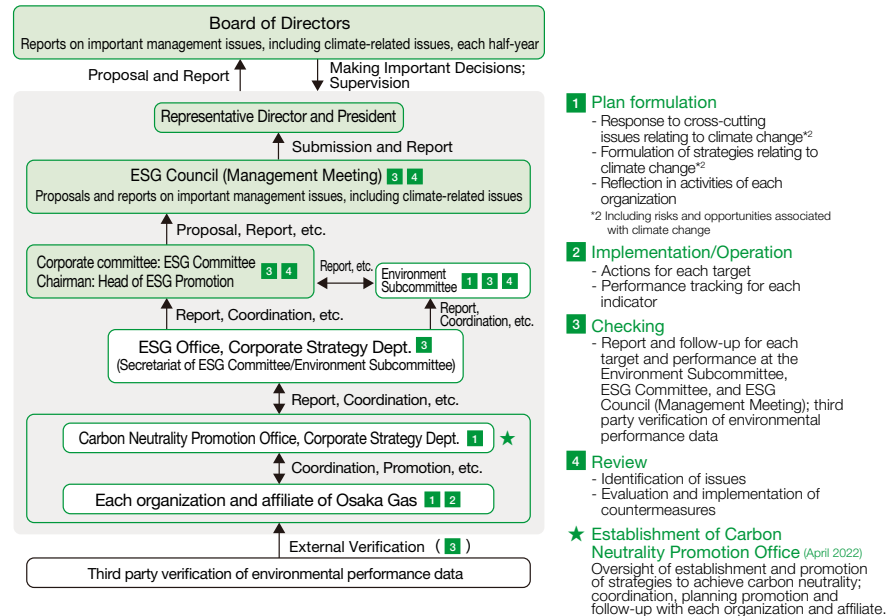
Risk Management

When deciding on the Daigas Group's business plan and investment plan, the internal organizations responsible for the gas, electricity and other businesses analyze the risk factors and their impact on each business, distill and identify risks, and submit these together with other business risks, etc. to the Management Meeting for deliberation. Climate change risks in the formulated plans are managed through a PDCA cycle, and are reported and followed up at the Environment Subcommittee, ESG Committee, and ESG Council (Management Meeting).

Decisions on climate-related risks and sustainability, including investment decisions, are made by the Board of Directors and the Management Meeting. Matters related to climate change that were proposed or reported by March 31, 2024, included those listed right.

- Resolutions for collaboration and participation in projects for a carbon neutral society, based on the Carbon Neutral Vision
- Formulation and disclosure of Medium-Term Management Plan 2026
- Monitoring of the results for indicators used to manage climate change response, etc.

■ Governance/Risk Management System for Climate Change



Indicators and Targets

The Daigas Group will proceed to contribute to radically reducing CO₂ emissions and realizing a carbon neutral society, through initiatives such as energy conservation, the advanced use of natural gas, and the widespread use of renewable energies.

	Field	Indicators	Targets	Target FY	
Climate Change		CO ₂ emissions of Daigas Group	Net-zero CO ₂ emissions 27.02 million tons ^{*1} Domestic: 5 million tons less than FY18.3	2051.3 2031.3	
		Contribution to CO ₂ emissions reductions across society	Avoided emissions ^{*2}	10 million tons 7 million tons	2031.3 2027.3
	CO ₂ emissions reductions from our own business activities	Renewable energy development contribution	5 GW 4 GW	2031.3 2027.3	
		Percentage of renewables in our power generation portfolio in Japan	Approx. 50% Approx. 30%	2031.3 2027.3	
		CO ₂ emissions reduction in the Group company offices and vehicles	100% 67%	2031.3 2027.3	
	Contribution by development of technologies	Promotion of e-methane practical application	1% e-methane in gas grid Final investment decisions in e-methane supply chain PJ	2031.3 2027.3	
		Promotion of methanation technology development	Establishing a pilot-scale (400 Nm ³ /h class) SOEC technology Transition to the second phase of SOEC GI funds business	2031.3 2027.3	

^{*1} Emissions in domestic supply chain (Scopes 1, 2 and 3)

^{*2} Calculate the estimated effect of CO₂ emissions reduction in one year of the target FY by introducing high efficiency facilities and low carbon energy, etc. to customer side and the company's business activities in and after FY2018.3.