# Message from the President of Osaka Gas

## Guided by a “Service First” Spirit That Responds to the Issues of Our Customers and Society, We Will Keep Kindling the Flame of Hope for the Future

Representative Director and President
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### “Service First”—The Foundation of the Daigas Group

Last year marked the 120th anniversary of the start of our operations in 1905. Over the past 120 years, the environment surrounding our business has changed dramatically, and we too have continually adapted to the times and society, while transforming and evolving along the way. At the same time, every company has principles that remain unchanged and should never be changed. For the Daigas Group, that enduring foundation is our corporate motto, “Service First.” It embodies the spirit of putting our customers first and supporting their lives and businesses.

Some may think it is only natural for a public utility providing essential energy infrastructure such as gas and electricity to embrace a philosophy of “Service First.” Others may find it surprising, given that the gas business in Japan was historically operated as a public utility serving designated supply areas. When I joined Osaka Gas in 1982, the liberalization of the gas market was still years away. Since Osaka Gas was not expected to compete with other companies, I honestly wondered why “Service First” was our corporate motto in the first place.

That perspective changed completely after I was assigned to a department responsible for selling gas to industrial customers. I spent my days visiting small manufacturing businesses throughout Osaka, proposing that customers switch their factory fuel from heavy oil or propane gas to natural gas. At the time, heavy fuel oil and propane gas were the fuels predominantly used by factories, while natural gas, which was more expensive, attracted little interest. As I struggled to win customers, I found myself thinking, “So much for an easy ride in the gas business.” Yet those struggles led me to an important realization. Simply asking customers to use natural gas was never enough. We needed to demonstrate concretely what value it could create for their businesses —a value compelling enough for customers to choose natural gas despite its higher cost.

To do so, I carefully examined our customers' factories, reviewing their manufacturing processes in detail to identify energy waste and opportunities to improve energy efficiency. I looked beyond energy costs to consider how we could also reduce the workload on people at the site and the burden of managing equipment. By looking at the factory as a whole, we developed a series of proposals showing how switching to natural gas could create new value for the customer.

Engaging with customers directly, discovering and addressing their needs and challenges, and earning their trust taught me that the key to earning customers' continued choice of natural gas over competing energy sources is an unwavering commitment to "Service First."
I came to realize that this philosophy is the foundation of everything we do at the Daigas Group. This was, in a sense, the formative experience in my career.

As we have put "Service First" into practice with sincerity, it has also given rise to various mindsets and ways of thinking within our Group. One of these is what we call *osekkai*. It means not only identifying our customers' current needs and issues, but also uncovering latent needs and challenges they have yet to recognize and proactively proposing solutions ahead of time. This spirit of going the extra mile for our customers is what we at the Daigas Group call *osekkai*.

Over the years, this spirit has enabled us to pioneer products and systems ahead of their time and industry, including gas fan heaters, floor heating systems, and Eco-Jozu high-efficiency water heaters for residential customers, as well as combined heat and power (CHP) systems and energy-efficiency assessments for commercial and industrial customers. These products and systems have since become commonplace, enriching people's daily lives and advancing industry. "Service First," together with the spirit of *osekkai* that has grown from it, continues to be passed down throughout the Daigas Group.

## A History of Facing Adversity and Taking on New Challenges

Looking back on the history of the Daigas Group, I see a history of adversity and challenge—and of confronting adversity and rising to each challenge. Our business began with gas lighting, but when the spread of electric lighting meant giving up our position as the primary source of illumination, we faced our first major test. At that time, we found a new path forward in supplying thermal energy to residential customers.

As people's lifestyles continued to evolve, we expanded the use of natural gas into space heating and water heating, and then into commercial and industrial applications. We built our position today by overcoming intensifying competition brought about by energy market liberalization and other changes. Responding to change was demanding, but it also gave us opportunities to move our business forward.
However, remaining in the domestic market, where the population is expected to decline, would slow our growth. That is why we have boldly pursued expansion not only in the scope of our businesses but also in our geographic footprint. In terms of energy sources, we have expanded from natural gas to electricity and then to renewable energy. Geographically, we have expanded overseas, including through participation in upstream operations in Australia and the United States. We have also grown the Life & Business Solutions (LBS) segment, comprising three fields—real estate, information, and materials—as a stable earnings base distinct from our energy businesses, thereby building a resilient business portfolio capable of withstanding changes in the business environment.
Whenever we face adversity, we seek new ways to create value and broaden the role we play. Those accumulated efforts underpin the strong earnings base that supports the Daigas Group today.

Digitalization, AI, and technological innovation are transforming society. Even a business model that is optimal today can quickly become obsolete tomorrow if we fail to pursue continuous reform and innovation. At the same time, when the scale and pace of change increase, risks and opportunities both grow. We intend to identify opportunities amid change, take on new challenges, drive innovation, and translate those efforts into the growth and evolution of the Daigas Group.

## Enhancing Profitability in Our Existing Businesses While Building a "Second Osaka Gas" in Rapidly Growing India

In the fiscal year ended March 2026 (FY2026), we made steady progress toward achieving the goals of our Medium-Term Management Plan 2026. Although consolidated net sales decreased 1.9% year on year to 2.03 trillion yen, operating profit increased 8.8% to 174.8 billion yen, and ordinary profit increased 7.8% to 204.5 billion yen. ROIC reached 5.8%, and ROE 8.7%, with both remaining on track to achieve our final-year targets under the Medium-Term Plan 2026.



By segment, the Domestic Energy segment reported lower profit, reflecting higher fixed costs following the commencement of operations at the Himeji Natural Gas Power Plant, as well as lower gains from electricity market transactions. The International Energy segment delivered higher revenue and profit, driven by strong performance in the U.S. The LBS segment also posted higher profit, driven primarily by improved earnings in the real estate business. By broadening our business portfolio and growing each business into a solid earnings pillar, we have built a stronger overall earnings base.

For the fiscal year ending March 2027 (FY2027), we expect consolidated net sales of 2.07 trillion yen, operating profit of 150.0 billion yen, and ordinary profit of 190.0 billion yen. As the final year of our Medium-Term Plan 2026, we will keep a clear focus on achieving our ROE and ROIC targets while further enhancing corporate value through the organic growth of the Domestic Energy, International Energy, and LBS segments. In the Domestic Energy segment, Unit 2 of the Himeji Natural Gas Power Plant came online in May. Together with Unit 1, which commenced operations in January, it increased our domestic thermal power generation capacity from 2 GW to 3.2 GW. This large-scale project took nearly 10 years from the start of the environmental assessment process in April 2016, and I am pleased that we brought it into operation as planned. Preparatory work has also begun for Unit 3, which was selected in Japan's Long-Term Decarbonized Power Source Auction and is scheduled to commence operations in 2030. Together, the three units will have approximately 1.8 GW of new high-efficiency generation capacity. By expanding the use of natural gas, which is becoming increasingly important during the energy transition, we will help meet growing electricity demand over the medium to long term.

The International Energy segment is an important area for sustaining our medium- to long-term growth. One of its key earnings pillars today is Sabine Energy Inc., our U.S. shale gas business. At the beginning of each fiscal year, we hedge the selling price for approximately 70–80% of our planned sales volume for the year to stabilize earnings, while capturing upside potential through increased production when gas prices rise. In thermal power generation, we aim to enhance the value of our existing generating assets by leveraging the power plant operating expertise we have developed in Japan to meet robust electricity demand in the United States, driven in part by AI and data centers. At the same time, drawing on the knowledge we have accumulated through our overseas businesses, we will consider opportunities, including new investments.

Another market we expect to make a significant contribution to our performance in the future is India. Since making our initial investment in an energy infrastructure company in 2021, we have expanded our involvement in the country. Today, we operate a gas distribution business across a total area of approximately 320,000 $km^2$, equivalent to about 90% of Japan's land area, primarily in southern India. Sales volume is expected to increase from 150 million $m^3$ in FY2024 to 820 million $m^3$ in FY2027. In India, we do more than simply invest for returns. We lay gas pipelines, develop natural gas stations, and supply gas to customers in the region, operating a business that directly supports energy infrastructure. This enables us to fully leverage the experience and expertise we have developed as an energy provider in Japan. Naturally, operating in India involves country risks and compliance challenges. We apply rigorous investment criteria, deploy our own people on the ground, and remain closely involved in the business, verifying conditions firsthand. With a long-term focus on the market, we aim to build a "second Osaka Gas" in rapidly growing India.

## Driving Energy Transition toward Carbon Neutrality through e-methane

The energy transition is another key to our success during the period of the Medium-Term Plan and beyond. Following Cabinet approval of the Seventh Strategic Energy Plan in February 2025, Japan's energy policy is moving along a more realistic path. While achieving decarbonization is an essential objective, it cannot be accomplished overnight. Progress must be made while simultaneously meeting the requirements of safety, energy security, economic efficiency, and environmental considerations.

In this regard, we believe that promoting the use of natural gas during the transition to carbon neutrality—that is, shifting from coal and oil to natural gas, which emits less $CO_2$—is a practical and effective approach. From a long-term perspective, we will pursue the optimal approach to energy during the transition period. This includes natural gas-fired power generation, which can respond flexibly to supply-demand gaps that cannot readily be met by baseload power sources such as nuclear and hydropower while enabling more efficient energy use, as well as LNG bunkering (LNG fuel supply for vessels), which helps reduce the carbon intensity of marine fuels.

The key to achieving decarbonization is e-methane, a gas produced by recycling $CO_2$. While e-methane is a carbon-neutral energy source, it has virtually the same composition as natural gas, allowing existing gas infrastructure and gas appliances to be used without modification. This compatibility gives e-methane a significant advantage over other decarbonized energy sources.

Of course, achieving this will not be easy. Many challenges remain, including developing technologies to reduce costs and designing global regulatory frameworks. Nevertheless, we have set a target of having e-methane and other carbon-neutral gases account for 1% of the gas supplied through our gas network by 2030, and we are making steady progress toward that goal. As I have noted, transforming social infrastructure cannot happen overnight. We must first achieve that 1%, and then build on it step by step. Beyond that lies a fundamental transition from natural gas to carbon-neutral gases. I believe we can achieve this transition because we have faced adversity, taken on challenges, and overcome them before. From gas lamps to residential thermal energy supply, from coal gas to natural gas, and from a regional gas utility to an integrated energy company. We take pride in having grown by evolving the value we create in response to changing times and an increasingly competitive business environment. We see our pursuit of e-methane as a natural extension of that journey.

## Stable Supply, Safety, and Peace of Mind—the Foundation of Our Energy Business

Geopolitical risks are affecting energy supply on a global scale. At times like these, we must reaffirm our foremost responsibility as an energy company: ensuring a stable energy supply and maintaining safety as our highest priority. This means securing LNG reliably through long-term contracts and diversified procurement that does not depend on any single country or region, delivering gas reliably to our customers, and maintaining safety as our highest priority at all times. These are the very foundation of our business. No matter how our business portfolio expands or how our company evolves, this mission and these responsibilities will never change. The trust that our customers and society place in us as an energy provider depends on our ability to ensure stable supply, safety, and peace of mind. A serious supply disruption or major accident could cause the trust we have built over the years to collapse in an instant. This is why we always believe that ensuring safety and peace of mind is the Daigas Group's greatest brand asset.

Above all, ensuring stable supply, safety, and peace of mind requires the strength of our people as professionals. In recent years, we have been called upon to respond to changes in the conditions at our operations, including workforce shortages and the increasing burden on workers caused by extreme heat. By using digital technologies, AI, and other approaches to reduce the burden on our frontline workforce and improve efficiency, while further enhancing safety and quality, we will pursue both objectives.

## Creating an Environment That Allows Diligent and Reliable People to Take on New Challenges: A Duty and Commitment of Management

The people of the Daigas Group are known for their diligence and reliability. That is one of our greatest strengths as a company that supports essential infrastructure. But to continue growing, diligence alone is not enough. We also need the ability to take that extra step. I encourage our people to sometimes get a little carried away and take on challenges—to *ichibiru*, as we say in the Kansai dialect. Of course, I do not mean that they should take reckless risks. Rather, I encourage them to deepen their expertise, carefully assess the risks involved, and then have the courage to take on new challenges.

To make that possible, management must create opportunities for our people to take on challenges. We will invest in their development and provide opportunities for them to grow. Above all, we believe in our people and will support them even when they fail. We are committed to creating the foundation that enables our people to take on challenges. Our company will not move forward if we simply repeat yesterday's work in the same way today. We need to be willing to cross boundaries, create new value, and foster that spirit throughout the organization.

## Further Challenges and Evolution of the Daigas Group

While advancing these initiatives, the Daigas Group pursues sustainability management that focuses on the environment, human rights, and other social and governance issues. We are committed to upholding the Daigas Group Charter of Business Conduct, which articulates our corporate stance, and the Daigas Group Code of Business Conduct, which specifies behavioral standards for our executives and employees, in order to realize our corporate philosophy. Additionally, in 2007, we became the first Japanese public utility company to participate in the United Nations Global Compact, endorsing the principles that guide companies in their contributions to sustainability as responsible members of the international community.

### The Ten Principles of the UN Global Compact

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| Human Rights | Principle 1 : Businesses should support and respect the protection of internationally proclaimed human rights; and |
| | Principle 2 : make sure that they are not complicit in human rights abuses. |
| Labour | Principle 3 : Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; |
| | Principle 4 : the elimination of all forms of forced and compulsory labour; |
| | Principle 5 : the effective abolition of child labour; and |
| | Principle 6 : the elimination of discrimination in respect of employment and occupation. |
| Environment | Principle 7 : Businesses should support a precautionary approach to environmental challenges; |
| | Principle 8 : undertake initiatives to promote greater environmental responsibility; and |
| | Principle 9 : encourage the development and diffusion of environmentally friendly technologies. |
| Anti-Corruption | Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery. |

Looking ahead, the Daigas Group will pursue growth across a broad range of businesses, building on the strength of our Domestic Energy operations while expanding internationally and advancing carbon neutrality through initiatives such as e-methane and renewable energy. Yet the principles that underpin everything we do will remain unchanged. We will strive to anticipate and respond to the needs of our customers and society—even to the point of seeming overly proactive. We will chart a course through an uncertain future by drawing on the technologies and expertise we have built over many years. And we will bring our knowledge and expertise to bear to keep the flame of hope alive for the future. "Service First" is not a phrase for looking back with nostalgia. It is our compass for navigating an era of change. Guided by this spirit, we will remain a corporate group that earns the understanding and trust of all our stakeholders. As we pursue our vision of becoming "an innovative energy & service company that continues to be the first choice of customers" and enhance our corporate value, we invite you to look forward to the further challenges and evolution of the Daigas Group as we move forward.