

Our Financial Strategy

We pursue asset-light management, aiming to achieve the Medium-Term Management Plan 2026 targets.

Representative Director and Executive Vice President

Ko Sakanashi



Meeting the management indicator targets of Medium-Term Management Plan 2023

In FY2024.3, the final year of the Medium-Term Management Plan 2023, our investments in the International Energy segment led to significant profit growth.

In addition, the Domestic Energy and Life & Business Solutions (LBS) segments achieved steady growth, and market conditions generated positive outcomes, such as foreign exchange gains from the weakened yen. As a result, our FY2024.3 ordinary profit reached 198.0 billion yen, excluding time-lag profit (or 226.5 billion yen, including time-lag profit), far exceeding the forecast of 120.0 billion yen. This enabled us to

meet the management indicator targets for profitability and financial soundness set out in the Medium-Term Management Plan 2023.

Throughout the three years of the previous Medium-Term Management Plan period, we faced an extremely harsh business environment due to the COVID-19 pandemic, Russia's invasion of Ukraine, other rising geopolitical risks, growing instability in the energy supply-demand balance, soaring energy prices, and losses from Freeport LNG's plant shutdown, among other things. Despite these challenges, we made progress in portfolio-focused management and business foundation enhancement.

(See Page 19 for a review of the major indicators and Page 18 for trends in ordinary profit and segment profit.)

Management indicator targets of Medium-Term Management Plan 2026 and initiatives aimed at achieving them

Financial targets (FY2027.3)

ROIC approx. 5%	ROE approx. 8%	Shareholders' equity ratio 45% or higher* D/E ratio 0.8 or lower*
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* Calculated with 50% of issued hybrid bonds as equity

ROIC: Approx. 5% in Medium-Term Management Plan 2023 → Approx. 5% in FY2027.3 and approx. 6% early in 2030s

We will continue striving to achieve ROIC targets as a capital efficiency indicator by focusing on profit growth and capital efficiency enhancement in our business management.



In the Medium-Term Management Plan 2026, we have revised and updated our targets for the early 2030s as critical benchmarks for the steady progress of our investments in the carbon neutrality (CN) space. Our CN projects include renewables and the e-methane value chain, which form the essential foundations for our future growth in alignment with the transition to a CN society.

ROE: 7.5% ref. target in Medium-Term Management Plan 2023 → Approx. 8% in FY2027.3 and approx. 10% early in 2030s

ROE has been upgraded from a reference target in the previous medium-term plan to a key management indicator on the same level as ROIC. We will work to improve ROE from the dual aspects of increasing profit and controlling shareholders' equity.

Shareholders' equity ratio: Approx. 50% in Medium-Term Management Plan 2023 → 45% or higher in FY2027.3
D/E ratio: Approx. 0.7 in Medium-Term Management Plan 2023→0.8 or lower in FY2027.3

Our targets for shareholders' equity ratio and D/E ratio have also been updated through the comprehensive



consideration of factors, such as the shareholders' equity needed against risks and the impact of risks on our credit rating. This update was prompted by the increased operating cash flow due to steady growth in the International Energy and LBS segments, as well as the improved stability of the management foundations resulting from the enhanced robustness of our business portfolio.

Effective July 2024, the indicator used to determine performance-linked remuneration for executives responsible for business execution was changed from profit attributable to owners of the parent to ROE and others. This change is intended to provide additional motivation for them to reach the Medium-Term Management Plan 2026 targets.

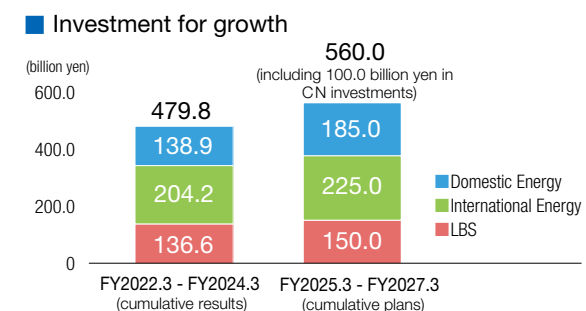
Asset-light management throughout the Group

Since FY2022.3, the Daigas Group has pursued ROIC-focused management, improving earning capacity and constructing a robust business portfolio. We also strive to evolve the business foundation, which is one of the Three Commitments of our Key Strategy in the Medium-Term Management Plan 2026. Our aim is to enhance corporate value without compromising capital efficiency while investing in the CN field and other future growth drivers. Furthermore, we intend to improve capital efficiency through asset-light management, which is to identify value-generating assets in our portfolio and maximize their value.

The aim of asset-light management is to pursue securing value-generating assets as the sources of competitive edge and added value for our business, which are prioritized over non-value-generating ones. An example of our asset-light management is renewable energy projects, where we aim to maximize our off-take instead of pursuing ownership. We promote the implementation of asset-light management in each business to take maximum advantage of the asset value and enhance asset efficiency.

Balanced investment in immediate growth drivers and future business foundations

To achieve sustainable growth, we pursue balanced investment in two types of business fields. The first is the primary growth field, where we aim to expand profitability during the immediate transition period. The second is the CN field, where we lay the groundwork for future business development. Our total planned investment in these two areas amounts to 560.0 billion yen. Approximately 460.0 billion yen is earmarked for the primary growth field (FY2025.3-FY2027.3), including the construction of the Himeji Natural Gas Power Plant, other power business development, acceleration of shale gas production in the United States, and business expansion in the LBS segment. Approximately 100.0 billion yen is allocated to the CN field, including renewable energy development in Japan and e-methane introduction to the Japanese market.

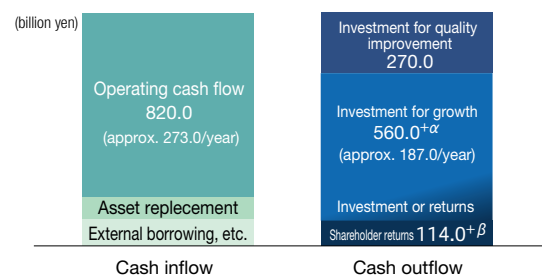


- FY2025.3 - FY2027.3**
- Investment in immediate earnings drivers in the primary growth field
Approx. **460** billion yen for thermal power plants, shale gas development, LBS, etc.
 - Investment in future business foundation in the CN field
Approx. **100** billion yen for domestic renewable energy, e-methane, etc.



In the Medium-Term Management Plan 2026, our focus is on increasing cash flow through asset replacement, which is aimed at ROIC improvement, while achieving a cumulative operating cash flow of 820.0 billion yen. As for cash outflow, we plan to earmark 270.0 billion yen for quality improvement, 560.0 billion yen for business growth, and 114.0 billion yen for shareholder returns. If operating cash flow increases as planned, we will allocate it as funds for either additional investment for growth, aiming to reach the Medium-Term Management Plan targets, or for shareholder returns.

■ Cash allocation (FY2025.3 - FY2027.3 cumulative plans)

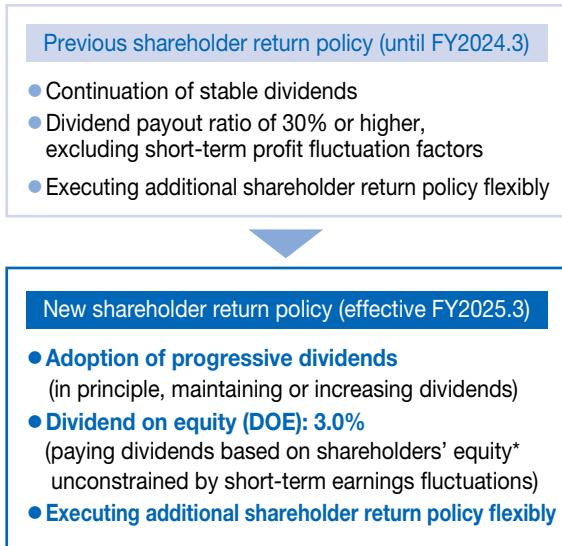


Progressive dividends to enhance shareholder returns

To meet our shareholders' expectations, we have adopted a progressive dividend policy, which reflects our embraced approach of increasing or maintaining dividends without reducing them, in line with our improved financial position.

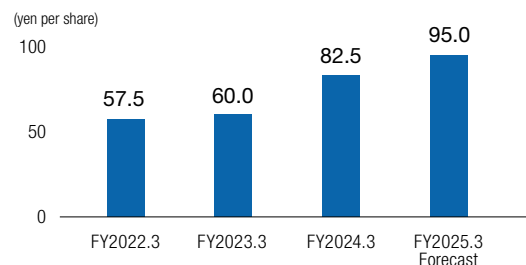
In addition, we have changed the dividend determination indicator from the dividend payout ratio, which is based on single-year profits, to the dividend on equity (DOE), which is based on shareholders' equity,* value that is not subject to short-term profit fluctuations. Our goal is to enhance dividend levels and achieve a DOE of 3.0% while improving dividend predictability and ensuring steady dividend increases over the long

term, even amid intense business environment changes and large short-term fluctuations in profit.



*Excluding accumulated other comprehensive income

■ Dividend per share



Risk management for Daigas Group investment

We will maintain our current investment risk management approach and manage risks appropriately by ensuring the following four points.

The first is consistency with the business strategies outlined in the Medium-Term Management Plan.

Besides evaluating project profitability, we will assess the potential for synergies with the Group's other businesses and enhancement of business execution capabilities.

The second is inherent risk evaluation. We will make investment decisions through strict evaluations and deliberations of target projects at the Investment Evaluation Committee based on our group-wide investment standards. This process will consider the evaluation results from the Investment Risk Management Office, our internal financial and legal teams, and external consultants as needed.

The third is a good balance with financial soundness. We will balance risk and return across the entire Group while quantitatively assessing potential losses based on estimated risks. This will enable us to sustainably pursue investments for business growth while maintaining an appropriate level of financial soundness in the face of potential risks.

The fourth is post-investment follow-ups. We will conduct annual evaluations of our invested assets to assess their status in meeting respective original purposes, adapting to the changing business environment, and addressing issues regarding progress and profitability. Based on the outcomes, we will consider implementing profitability improvement measures, divesting the assets, or withdrawing from the projects.

Active use of transition finance

Since FY2023.3, the Daigas Group has secured funds through transition finance for initiatives that align with the company's long-term transition strategies to reduce greenhouse gas emissions.

Our funding activities have proven successful partly due to our engagement with corporate bond investors and financial institutions to deepen their understanding of our CN strategy outlined in the Energy Transition 2030 announced in March 2023.



Consequently, our transition loans and transition-linked bonds became the first case for a gas utility. Transition finance with loans, besides corporate bonds, will provide excellent opportunities to gain support from more financial institutions. We intend to continue actively using transition finance to secure funds for our CN business development.

* Source: Osaka Gas' research based on publicly available information

Dialogues with capital markets to enhance corporate value

Dialogues with investors regarding the optimal capital structure have provided valuable insights into the capital markets' perspectives and expectations for the Daigas Group. These insights have been instrumental in deliberating management strategies as I was involved in developing the Medium-Term Management Plan 2026 in my capacity as Head of the Corporate Strategy Department.

Transition finance conducted

Transition finance	Month of issue	Amount	Use of funds
1st Transition bonds	June 2022	10.0 billion yen	Inami Wind Power Plant, Noheji Mitsu Bay Wind Farm, Yokohama Town Wind Power Plant, Daigas Oita Mirai Solar Power Plant, projects that contribute to fuel conversion at customer facilities to natural gas
2nd Transition bonds	September 2022	27.0 billion yen	Kuwaharajou Mega Solar (No.4), the Extra-high-voltage Power Plant in Isohara-cho, Kitaibaraki City, Ibaraki Prefecture, Himeji Natural Gas Power Plant
Transition loan	January 2023	35.0 billion yen	Himeji Natural Gas Power Plant
3rd - 5th Transition bonds	June 2023	35.0 billion yen	Himeji Natural Gas Power Plant
1st Transition-linked bonds	June 2024	25.0 billion yen	None

Our recent investor relations activities have served as great opportunities to discuss the Medium-Term Management Plan 2026. The subjects include initiatives aimed at meeting our financial targets, such as ROIC and ROE, and challenges related to profit growth drivers and ESG issues, such as climate change, human capital, and governance. We will continue engaging in constructive dialogues with the capital markets as we strive to enhance our corporate value through financial and non-financial measures, aiming to maintain long-term support from investors, shareholders, and all the other stakeholders.

