

# Message from the President



President

本庄武宏

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## 1. Long-term Management Vision and Medium-term Management Plan: Going Forward, Beyond Borders

### Business Environment

The Daigas Group announced in 2009 the long-term management vision “Field of Dreams 2020,” and we have carried out our business activities based on the medium-term business plan aiming to realize the vision. We have started full operation of the Electricity Business, International Energy Business, and Life & Business Solutions Business in order to ensure earnings from businesses other than the gas business in the Kansai area. In preparation for intensifying competition. We have also, diversified sources of earnings by expanding energy-related services and strengthened cost competitiveness.

Since the announcement of the vision, the business environment has changed drastically due to the full deregulation of the retail markets of electricity and gas, as well as demographic contraction in Japan and the offshoring of factories. Furthermore, crude oil prices and

global LNG supply and demand, among other factors, served to increase risks such as uncertainty surrounding the LNG procurement. Under such a business environment, in March 2017, we formulated “Going Forward, Beyond Borders” consisting of the Long-term Management Vision 2030 and the Medium-term Management Plan 2020 covering the four fiscal years from the fiscal year ended March 31, 2018 to the fiscal year ending March 31, 2021.

### Daigas Group’s Unchanged Views toward 2030

Allow me to mention the Group’s unchanged views on our attitude toward realization of what we aim to be, formulated in the Long-term Management Vision. The management principles are the foundation of our business operations and must not be modified; these consist of the Corporate Motto “Service First,” our aim to be “Daigas Group powers continuous advancement in consumer life and business,” and the declaration to create four values, namely, value for

customers, value for society, value for shareholders, and value for employees.

I wish to present three statements which represent management's direction toward 2030, based on these principles. First, we provide high-quality services developed with the motto "Service First" in the Kansai area, to more customers in Kansai and other regions. Second, we commit ourselves to professionalism in pursuing innovative challenges. Third, we remain a trusted organization for investors, partner companies, society, and employees.

### What We Aim To Be in FY2031.3

By FY2031.3, the Group will attempt to triple the consolidated ordinary profit of 64 billion yen targeted for fiscal year ended March 31, 2018. In addition to further growth in domestic businesses, we will achieve continued growth in international businesses by building a business structure that can derive profits in balanced proportions from multiple core strategic regions overseas, so that the ratio of profit from overseas business against domestic business will be 1:2 in FY2031.3. We have organized the three core businesses of the Group, the Domestic Energy Business, International Energy Business and Life & Business Solutions (LBS) Business, into nine business fields, aiming to grow each business field respectively to promote portfolio management that can meet various changes in the future.

#### Development of the Domestic Energy Business for a New Era

- 1 Gas manufacturing and sales\*
- 2 Gas distribution
- 3 Electric power generation and sales

#### Acceleration of the International Energy Business Development

- 4 International upstream and trading businesses
- 5 International middle and downstream businesses

#### Expansion of the LBS Business

- 6 Real estate
- 7 Materials
- 8 IT

#### Expansion of New Business Fields

- 9 New business fields and others

\* Includes equipment sales, service sales, LNG sales, etc.

## 2. Review of the Fiscal Year Ended March 31, 2018 and Strategies for the Fiscal Year Ending March 31, 2019

### Impact of Deregulation

Since the gas retail market was fully deregulated in April 2017, competition in the gas business in the Kansai area has been intensifying; around 390 thousand customers had switched to other companies as of March 31, 2018. Meanwhile, we achieved positive results as the number of customer accounts reached 8.27 million, an increase of 270 thousand since March 31, 2017, as a result of gaining 620 thousand electricity contracts and expanding the LPG business and gas related services including warranty service.

### Strategy in Fully Deregulated Electricity and Gas Retail Markets

To further increase the number of customer accounts, we are expanding rate plan options and providing new products and services to better meet customer needs. For electricity rates, we created a rate plan that offers discounts irrespective of electricity usage amount. Regarding gas rates, in addition to existing rates for Optional Supply Provisions that customers could apply for by installing eligible equipment, we started offering Motto-Wari rate that customers could apply for without such equipment installation. In terms of new products and services, we have developed services such as Sumikata Service and Sumikata Plus, and have expanded rate plan options for these services. In addition, we started selling ENE-FARM type S, an IoT-compatible residential fuel cell and ECO-JOZU, an energy-saving hot water heater and offer new value-added services utilizing IoT, such as a voice-operated system for running a bath via a smart speaker and notifications of remote families' hot water usage record.





### Our Strengths in Fully Deregulated Electricity and Gas Retail Markets

Osaka Gas proposes various services to customers mainly through its well-established customer touch points. This is one of the Company's strengths and we do not intend to change this approach. We intend to increase the number of customer accounts including energy services and other related services to remain the first choice of customers. Through expansion of Sumikata Plus services, we continue creating more touch points and enhancing relationships with customers, aiming to increase the number of customer accounts from 8.27 million as of March 31, 2018 to 8.9 million by March 31, 2019.

### Expansion to the Greater Tokyo Area

To date, we have promoted business going beyond local boundaries and corporate boundaries for sustainable growth, utilizing expertise and know-how built through business in the Kansai market. In the Greater Tokyo

Area, we have decided to participate in the Fukushima natural gas power generation, Ichihara biomass power generation, and Ogishima natural gas supply projects. We have also established structures to expand the energy business into wider areas centered around the Greater Tokyo Area by setting up ENEARC Co., Ltd., an LPG sales company based in Tokyo, Nagoya and Osaka, and CD Energy Direct Co., Ltd., a gas and electricity sales company based in the Greater Tokyo Area. Furthermore, we pursue business alliances in the retail gas segment while developing rate plans for the Greater Tokyo market. We aim to grow the Domestic Energy Business by expanding businesses widely across the region centered on the Greater Tokyo.

### Power Source Development

We have been building a power source portfolio with a focus on renewable energy, which is necessary for growth in the electricity business. During the fiscal year ended March 31, 2018, we started commercial operations at the Nakayama Nagoya Power Plant II, which succeeded in co-firing biomass fuel at 30%, the highest level in Japan. We also decided to partake in several renewable energy sources in projects such as Ichihara biomass power generation, Matsuzaka biomass power generation, and Shiribetsu wind power generation. To accelerate the introduction of renewable energy sources, we doubled the FY2031.3 target for renewable energy source acquisition from 0.5 million kW to 1 million kW. We intend to expand our power source portfolio which is competitive and eco-friendly.

### Strategy in the International Energy Business

In the International Energy Business, we steadily worked on our existing projects such as the Freeport LNG project and the Ichthys LNG project. We also made the decision to invest in the Michigan natural gas-fired thermal power plant and Kleen Energy natural gas-fired thermal power plant, following investments in the Shore natural gas-fired thermal power plant and Fairview natural gas-fired thermal power plant in the previous year. Through participation in these



projects, we dispatch our staff to the sites and promote the accumulation of know-how regarding fuel procurement for projects and sales of electricity to the power market. In particular, as we hold a 50% equity interest in the Fairview power plant, we will take the initiative in its management to make use of its large power capacity of 525 thousand kW. In preparation for the launch of the Fairview power plant operations, we are building know-how through taking active roles in management of the Michigan power plant, for which we hold a 100% equity interest. In addition, outside North America, we strengthened business structures in April 2018 by establishing the Southeast Asia Energy Business Department to accelerate business development in the region. Through these activities, we pursue growth in the International Energy Business.

### Strategy in Life & Business Solutions (LBS) Business

Our LBS segment has developed stable businesses, steadily contributing to the Group's profits. We carried out strategies to achieve future growth including the acquisition of Agnie Consulting Corporation, and we continue to reinforce the LBS Business, the risk profile of which differs from energy businesses. In the Real Estate Business, we are strengthening the business structure in the Greater Tokyo Area. In the Material Business, we are boosting the activated carbon business and developing various applications for fine materials apart from lenses. In the Information Business, we are promoting contribution to innovation within the Group and expansion and enhancement of the IoT business and ERP business.

### Strategy to Establish New Business Fields

In order to increase the number of customer accounts and strengthen the energy value chain, we promote M&As and alliances with other companies in business areas such as Sumikata Service, gas and power retailing, kitchen and bath renovations, industrial water treatment, and renewable energy including solar and wind power generation to develop them into new core businesses of the Daigas Group.

## 3. Strategy to Meet the targets of the Medium-term Management Plan 2020

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In the Medium-term Management Plan 2020, The Group aims for EBITDA of 200 billion yen, ROE of 7.0%, and ROA of 3.5%. Although the business environments in gas and electricity are becoming harsh, we seek to achieve these goals by implementing measures in the Domestic Energy Business, such as keeping high customer retention in the gas business; steadily winning retail electricity contracts; sales expansion of gas equipment to meet customers' various needs; expansion of offerings in related services including Sumikata Service; promotion of continuous cost reduction; in the International Energy Business, revenue growth through the Freeport LNG Project and Ichthys LNG Project; and steady growth in the LBS Business.

## 4. Daigas Group's Strengths

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In 1905, Osaka Gas began supplying gas for gas lamps, and since then, our business has continued for more than 110 years. Through all those years of energy business, we have gained our strengths in technological development of gas equipment from gas lamps to cooking, heating, hot water, and power generation, which have helped expand the use of gas; in sales and services grown through our relationships with customers as we worked closely with them; in diversity and stability of business footing established based on these relationship with customers as we expanded our business areas; and in soundness of the financial base, which supports all of the above.

## 5. Earning the Trust of Stakeholders

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In order to grow our business sustainably, we ensure that the entire Group performs ESG-conscious management and earns the trust of stakeholders. We also exercise environmentally-conscious management, under which we accelerate the introduction of high-efficiency equipment to customers and the acquisition of renewable energy power sources such as wind and solar power to achieve a scale of 1 million kW in FY2031.3. Through society-conscious management, we promote human right activities and appropriate labor practices while expanding its scope to overseas business partners. In addition, to continue to be a healthy and sound group, the Daigas Group continues to support its members to establish efficient work styles and improve productivity. Concerning governance, we pursue enhancement of our PDCA activities and information disclosure, so that we continue receiving high evaluations from investors and assessment bodies inside and outside Japan for fair and sound business practices.

