

Hiroshima Gas Group Fiscal 2021 Medium-term Management Plan and Hiroshima Gas Business Plan

Hiroshima Gas Co., Ltd. has established a three-year (FY3/22-FY3/24) Medium-term Management Plan for the Hiroshima Gas Group and a fiscal 2021 business plan for Hiroshima Gas.

1. Hiroshima Gas Group Medium-term Management Plan (FY3/22-FY3/24)

(1) Basic policies

Using management initiatives to be a source of products and services embodying moving messages is a key element of the Hiroshima Gas Group Vision 2030. This goal expresses our determination to use initiatives involving management, the environment and society in order to enable the Hiroshima Gas Group to fulfill its obligations to society and its obligations concerning corporate social responsibility. We believe this stance is consistent with the goal of achieving a carbon-free society.

In October 2020, we announced the “SDG commitment of the Hiroshima Gas Group for the benefit of the communities we serve – Actions for a future filled with happiness.” This declaration positions business activities to achieve our Vision 2030 as well as the UN Sustainable Development Goals for 2030 as the unified goals of our group. We will continue to strengthen activities to accomplish these goals while placing emphasis on the environment, social responsibility and sound governance as in prior years.

The Hiroshima Gas Group taken many actions to lower the environmental impact of its business operations. Cogeneration systems, smart communities, solar power and other technologies and concepts are contributing to energy conservation and the reduction of CO₂ emissions.

Our goal, with looks ahead to 2050, is to play a role in reducing the CO₂ stock by a widespread shift to natural gas along with natural gas utilization backed by advanced technologies. We are also taking on the challenge of conducting business operations in a manner that helps achieve a carbon-free society. Through these measures, we want to be a corporate group that moves forward along with the communities and regions we serve.

For the efficient use of energy, we will continue to take full advantage of the superiority of gas as an energy source as LP gas remains an important element of our business operations. In addition, we will increase the use of biomass, small hydroelectric facilities and other sources of renewable energy and continue the forest restoration project. All of these initiatives are aimed at protecting the environment and lowering CO₂ emissions.

Basic policy 1: Contribute to energy conservation and CO₂ emission reductions and expand business operations by strengthening peripheral energy services activities through more growth of the comprehensive energy business

- Increase the volume of gas sales
- More alliances and other cooperation with other companies
- Use stronger marketing activities for determining and implementing rates that match customers' needs

- Continuous gas resource procurement with a low cost, stability and flexibility and measures to further enhance this capability
- Maintain and strengthen a sound manufacturing and supply network
- Strengthen upstream activities for gas resource procurement and other activities
- Responses to the complete liberalization of retail gas sales
- Studies to determine the best possible structure for the group
- Strengthen and expand services associated with the supply of energy; earn customer's loyalty and increase lifetime value
- More and closer ties with other gas companies in the Chugoku and Shikoku region
- Studies concerning more cooperation and sales operations with business alliance partners
- Contribute to energy conservation, lower CO₂ emissions and improved energy security by working with government agencies and others for the growth of the comprehensive energy business
- Use the Singapore Office to perform studies about opportunities for overseas business activities

Basic policy 2: Take actions that lower our environmental impact by conducting business operations that help protect the environment and performing next-generation energy research.

- Increase the use of renewable energy
- Increase the use of dispersed energy systems
- Aim for an energy mix that can achieve zero emissions
- Build a business foundation that reflects the move away from fossil fuels

Basic policy 3: Create new value and operate more efficiently by utilizing digital technology for the creation of added value

- Use ICT to improve productivity
- Use digital workspaces to give people new ways to do their jobs
- Use smart devices to make business processes more efficient
- Use digital technologies to upgrade training programs and the transfer of skills to others
- Contribute to creating highly appealing neighborhoods by increasing the use of smart meters and utilizing EMS and other advanced technologies
- Use the IoT and artificial intelligence to increase the quality of customer services

Basic policy 4: Train and utilize a workforce of highly creative people in order to increase the overall strength of the Hiroshima Gas Group

- Create an environment that facilitates diversity and flexibility for working formats
- Create pleasant workplaces where people are motivated to do their best and enjoy doing their jobs
- Implement reforms about how people think about their jobs in order to increase productivity
- Create a highly creative workforce capable of delivering services that surpass the expectations of customers
- Reinforce employee support activities concerning education and career goals
- Give people the training for creating a workforce of professionals with substantial added value
- Foster a feeling of solidarity by strengthening lines of communication that go beyond individual groups and departments
- Establish group functions and stronger ties within the group in order to achieve the best possible performance of the entire Hiroshima Gas Group
- Conduct fair and transparent business activities that reflect compliance (laws and regulations and ethical standards) guidelines
- Increase programs to raise awareness of human rights and strengthen communication activities

- Use group-wide personnel management and exchanges in order to place people in the right assignments as well as to strengthen risk management and collaboration within the group

Basic policy 5: Further advances in energy security by aiming for even better confidence and safety

- Increase safety and security (replacing aging pipelines, regional safety, safety notices, etc.)
- Upgrade disaster preparedness (cooperation with communities, disaster preparedness investments, etc.)
- Strengthen ability to maintain a reliable supply of gas (procurement of gas resources, infrastructure investments)

Basic policy 6: Be a group that uses CSR activities in order to grow and advance with the communities we serve

- Conduct activities that contribute to regional vitality and advancement as a company dedicated supplying energy closely tied to localities
- Conduct environmental activities in accordance with the Basic Environmental Philosophy and the Environmental Action Guidelines (lower environmental impact, help customers conserve energy and reduce CO₂ emissions, work with community partners for environmental education activities, and other measures)
- Perform activities that utilize new frameworks
- Verify the benefits of CSR activities

Basic policy 7: Strengthen the management of the Hiroshima Gas Group to make the group more resilient and aim for sustained progress

- Reexamine the business portfolio and allocate corporate resources properly in order to become more profitable and use capital more efficiently
- Reconstruct group functions
- Strengthen organizational functions and operate more efficiently in order to become more profitable

Basic policy 8: Manage business operations in a manner that earns the trust of the public

- Disclose information internally and externally in a timely and proper manner (develop and strengthen investor relation activities)
- Constantly work on internal controls in order to ensure that business activities and financial reports comply with laws and are conducted properly
- Retain a constant commitment to proper group management and sound corporate governance

(2) Gas supply and demand plan

City gas

The sales volume, including wholesale sales, is planned to decrease at an annual rate of 4.0% to 499 million cubic meters in FY2023. The 2020 Vision target of a sales volume of 600 million cubic meters was achieved in FY2019.

LPG

The plan for gas sales volume, including wholesale operations, is for average annual growth of 4.1% to 94 thousand tons in the fiscal year ending in March 2024.

	FY3/21 (est.)	FY3/22	FY3/23	FY3/24	3-year avg. growth rate
City gas (including wholesale) [million m ³]	562	551	536	499	-4.0%
LPG [1,000 tons]	83	90	91	94	4.1%

*City gas (45MJ)

(3) Plan for capital expenditures

In the city gas business, there will be well planned and efficient expenditures for strengthening, improving and replacing gas production and supply facilities from a medium to long-term standpoint. The purpose is to maintain a stable supply infrastructure for the anticipated growth of the gas sales volume.

In the LPG business, there will be expenditures to replace aging pipelines in community gas housing projects with polyethylene pipes and other highly earthquake-resistant pipes.

	FY3/21 (est.)	FY3/22	FY3/23	FY3/24	Total (FY3/22- FY3/24)
Hiroshima Gas Group capital expenditures	¥7.7 billion	¥13.1 billion	¥7.8 billion	¥6.1 billion	¥27.2 billion

(4) More activities for safety and security

The Hiroshima Gas Group is committed to taking actions for achieving even better energy security so that people can use gas with even greater confidence and safety.

- 1) An environment that allows people to conduct their daily activities with confidence
Hiroshima Gas is dedicated to providing energy and services that customers can use with confidence. Hiroshima Gas will maintain a reliable supply of energy (gas resource procurement, infrastructure activities, etc.), maintain a high level of disaster preparedness, enhance safety and security measures, and take other actions.
 - 2) Confidence regarding energy services
Hiroshima Gas wants all customers to have no worries at all regarding the use of the energy and services provided by the Hiroshima Gas Group. This is why safety measures of all types will be a priority as the group takes actions for the growth of its comprehensive energy business.
- A higher level of safety (replacing aging pipelines, regional safety, safety notices, etc.)
- ・ Activities based on national government guidelines and the gas safety advancement plan of The Japan Gas Association
 - ・ Achieve the goals of Gas Vision 2030
 - ・ Maintain and enhance the current high level of safety
 - ・ Strengthen training programs (use unified group activities for the training of safety personnel and upgrade activities for accident prevention, earthquake readiness and other measures)

- Step up disaster preparedness measures (joint activities with communities, purchase of disaster prevention and response equipment, and other measures)
 - ・ Activities for responding to an earthquake
 - ・ Activities for responding to a tsunami or flood
 - ・ Activities for responding to a disaster
- More measures for a reliable supply of gas (gas resource procurement, infrastructure investments)
 - ・ Activities for maintaining a reliable supply of gas
 - ・ Measures to meet growing demand for gas
 - ・ Build a stronger distribution framework for LPG

(5) Activities involving the liberalization of Japan's energy market

Hiroshima Gas is responding to the complete liberalization retail of gas sales in Japan by studying and implementing measures involving gas rates, services and other aspects of operations in order to meet new needs of customers and remain the first choice of customers.

In 2017, Hiroshima Gas started offering three new services for customers: the Web member service, point service and lifestyle services. By providing these services, Hiroshima Gas is determined to meet customers' expectations and build even stronger relationships rooted in trust in order to remain the company that customers choose over others.

As a new service, the Gas Heater First Time Discount campaign was conducted for three years starting in FY2017. From FY2020, this was changed to a new rate menu that customers can apply for at any time. In addition, gas clothes dryers, which have been a very popular product in recent years, were added to the list of appliances eligible for household heating contracts.

For more improvements in services, studies are continuing to determine ways to make more upgrades to the service menu with the goal of making more contributions to the vitality of the communities served by the Hiroshima Gas Group.

In addition, to capture synergies with current business operations, Hiroshima Gas will perform studies involving renewable energy and other business activities that can help protect the environment and conduct research in the field of next-generation energy. The goal is to become a comprehensive energy organization.

2. Business Plan for Fiscal Year Ending March 2022

(1) Gas Supply and Demand Plan (Units: 45MJ, million cubic meters)

In fiscal year ending March 2022, Hiroshima Gas expects the number of customers to be 416,000 and gas sales to be 551 million cubic meters, including wholesale sales.

			FY3/21 (est.)	FY3/22(plan)	Year-on-year change
Number of customer accounts (end of each FY)			415,000	416,000	0.2%
Sales volume (million m³)	Residential		103	106	2.9%
	Business	Commercial	36	39	8.3%
		Industrial	302	274	-9.3%
		Others	35	36	2.9%
	Total (excluding wholesale)		478	456	-4.6%
	Wholesale and other		84	95	13.1%
	Grand total		562	551	-2.0%

Residential

There are many activities for maintaining and increasing the volume of gas sales in the household category. Two goals are increasing sales of hot water heating systems, heaters and other gas appliances and increasing the use of household service contracts with options for more savings. We are also combining city gas and LP gas sales activities to improve the efficiency of these activities. Another measure is strengthening sales activities in areas where gas is not yet used very little.

For people who have newly constructed or remodeled residences, Hiroshima Gas is offering many ways to make homes more environmentally responsible and energy efficient. The goal is to increase the use of a number of products, including the Ene Farm fuel cell for apartment buildings and other residential applications.

To improve customer satisfaction, gas equipment repair services will be upgraded and household services, such as a 24-hour plumbing repair service and kitchen and bathroom remodeling package service, will be strengthened. All activities are aimed at creating more opportunities to interact with customers and further improving services.

Goal for sales of residential gas products (FY3/22)	
Hot water and heating units	3,800
Heaters	3,400
Ene Farm	460

Business

Hiroshima Gas plans to increase the use of natural gas, which is environmentally responsible and ideal for powering dispersed sources of electricity. To attract new users of natural gas, there will be more sales activities that include new rate plans for commercial customers, ideas for energy conservation, CO₂ emission reduction and other ways to meet customers' needs. Activities also include identifying new sources of demand for gas to enlarge the service area. These activities will target areas with low gas usage as well as areas where Hiroshima Gas does not currently supply gas.

(2) Plan for capital expenditures

Hiroshima Gas plans to make capital expenditures totaling ¥11.9 billion in FY3/22.

Investments will continue in primary gas lines in order to increase the use of natural gas and improve the reliability of the gas supply. There will also be more replacements of aging main and distribution pipelines.

(billion yen)

	Plan for FY3/22	Notes
Production infrastructure	0.5	Upgrades and replacements of equipment and other projects
Supply infrastructure	8.8	Primary gas lines
Service and maintenance facilities and other facilities	2.5	Upgrades and replacements of equipment, new businesses, etc.
Total	11.9	

(3) Businesses that protect the environment and next-generation energy research

Construction of the Kaita Biomass power plant started on December 10, 2018 and the plant started operating in April 2021.

This plant will use a variety of biomass resources, including unused wood originating in Hiroshima prefecture, wood biomass materials from overseas and other materials. Hiroshima Gas expects that this plant will increase the use of renewable energy while making a contribution to the economy of the Kaita region.