

# Financial Report for 2<sup>nd</sup> Quarter of FY2022.3 (April 2021 – September 2021)

Creating Value for a Sustainable Future

October 2021  
Osaka Gas Co., Ltd.



I am Masataka Fujiwara, President and Representative Director of Osaka Gas. Thank you for taking time to participate in our conference call to discuss our financial results for the 2<sup>nd</sup> quarter of FY2022.3.

On behalf of the company, I would like to express my gratitude for your continued support and understanding in regard to the Company's businesses.

I would now like to explain the financial results for the 2<sup>nd</sup> quarter of FY2022.3 in accordance with the presentation materials disclosed on our website.

Please look at page 4.

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Management information is available on Osaka Gas websites.

Financial reports, integrated reports, fact books and road show materials can be accessed and downloaded at the following URL. <https://www.osakagas.co.jp/en/ir/>

### Disclaimer

Certain statements contained herein are forward-looking statements, strategies, and plans, which reflect our judgment based on the information so far available. Actual results may differ materially from those discussed in such statements. Among the factors that could cause actual results to differ materially are: economic trends in Japan, sharp fluctuations in exchange rates and crude oil prices, and extraordinary weather conditions.

### Note regarding gas sales volume

All gas sales volumes are indicated based on the standard heating value at 45 MJ/m<sup>3</sup>.

### Note regarding consolidated gas sales volume

The fiscal year of Nabari Kintetsu Gas, Toyooka Energy, and Shingu Gas ends on December 31.

## **I . Review of Major Activities in 1H**



## Major Events and Achievements in 1H FY2022.3

- ✓ Progress made in our efforts to operate business adapted to the world under the impact of COVID-19 and advance the co-creation of value for a sustainable future under the Medium-Term Management Plan.

Low carbon/carbon neutral society	<Gas>	<ul style="list-style-type: none"><li>● First carbon neutral LNG cargo purchased to start carbon neutral city gas supply</li><li>● 150,000 milestone reached in the sale of residential ENE-FARM fuel cell units (cumulative)</li><li>● Research and development base for carbon neutral technology opened</li></ul>	
	<Electricity and others>	<ul style="list-style-type: none"><li>● D-Bio and other service series launched (see page 5)</li><li>● Increase in renewable capacity both in Japan and overseas (renewables development contribution: approx. <b>1.25 GW</b>, up 0.20 GW from FY21.3, FY24.3 target: 2.50 GW)</li></ul>	
	Wind	Katagami, Oga, & Akita, Akita Pref.	Consideration statement submitted & available for public inspection
		Goto, Nagasaki Pref.	Consortium selected as operator
		Yokohama, Aomori Pref.	Stakes acquired, construction started
		Shiribetsu power plant	Operation started
	Solar	GPSS Holdings	Joint development agreement signed
		Etrion*1	Stakes acquired for 4 mega-solar plants
		SRE*2, Novi*3, Oriden*4 in US	Partnership agreed (see page 6)
	Biomass	Hyuga power plant	Plan commercialized
	Renewable Other	Association FOURE	Established
		Invest. fund corp. Z Energy Co., Ltd.	Established
Lifestyles and businesses adjusted to the new normal	<ul style="list-style-type: none"><li>● Launch of Sagasuru, an online learning service</li><li>● Avatar technology collaboration with AVITA started</li></ul>		
Resilience of customers and society	<ul style="list-style-type: none"><li>● Launch of joint VPP proof of concept with 3600 residential ENE-FARM typeS fuel cell units</li><li>● Launch of AI-powered software for ground penetrating radar system</li></ul>		

\*1 Etrion Corporation \*2 Summit Ridge Energy, LLC \*3 NOVI Energy, LLC \*4 Oriden LLC

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In 1H of FY2022.3, we made progress in our efforts to operate business that is adapted to the world under the impact of COVID-19 and advance the co-creation of value for a sustainable future under the Medium-Term Management Plan.

For a low carbon/carbon neutral society, we made our first purchase of carbon neutral LNG and started to sell carbon neutral natural gas. And we launched new line of services such as the D-Bio series. These products and services target business customers who are interested in reducing CO2 emissions. We also accelerated the expansion of our renewable capacity in Japan and overseas toward our goal of renewables development contribution.

For lifestyles and businesses adjusted to the new normal, we launched an online learning service, Sagasuru. Through this new service, we aim to create new business opportunities for corporations and small business owners affected by the COVID-19 pandemic.

For resilience of customers and society, we launched a joint VPP proof of concept project for grid balancing with 3,600 residential ENE-FARM fuel cell units in order to establish the wide use of energy networks that source electricity from distributed power generation units.

Two of the above efforts are further explained in the following pages.

## New Services to Meet Customers' Decarbonization Needs

Note: Data as of Sep. 2021

- ✓ Daigas Energy provides new services and products as D-Lineup series to many business customers including factories, offices, and commercial buildings, who are interested in reducing CO<sub>2</sub> emissions and solving issues such as the impact of increasing natural disaster.

### D-Green

A tariff option for renewable electricity generated mainly by new power plants that are built without using the FIT system

Launched on April 2021

**37 sites** including Shimadzu Corp.  
Inquired about by dozens of companies.

### D-Solar

Solar power service to generate electricity to be consumed by the customer with zero initial cost, supporting CO<sub>2</sub> emissions reduction and BCP

All related services united under D-Solar brand on June 2020

**17 sites** including Rokko Butter Co., Ltd. Kobe plant

### D-Bio

Waste treatment service that reduces waste through on-site utilization & CO<sub>2</sub> emissions

D-Bio Methane	Registration started on October 2021	<b>1 site</b>
D-Bio Steam		<b>1 site</b>

### D-Aqua

Water treatment service that reduces customers' costs for water supply and waste water treatment, supports their BCP, and mitigates environmental burdens

All related services united under D-Aqua brand on March 2021

**90 sites**

## D-Lineup

**Decarbonization**

**Decentralization**

**Digitalization**

### D-Response

Demand response service that contributes to grid stability with energy saving and power surplus, which generate income for customers

Launched on April 2017

**131 sites**

### D-Airing

Service for air conditioning and ventilation with energy saving

Launched on April 2020

**6 sites**

### D-Fire

IoT service for energy & manpower saving, quality uniformity, and operation stability

Registration started on June 2019

**5 sites**

First is our effort in the Domestic Energy Business: the D-Lineup, a series of services for low-carbon/carbon neutral solutions offered to business customers in Japan.

D-Green, one of the D-Lineup services, was launched in April 2021 and has been provided to many customers including Shimadzu Corporation. In this service, we offer a tariff option for renewable electricity generated mainly by new solar power plants installed without using the FIT system. D-Bio, another D-Lineup service, was announced in September 2021, designed to help reduce waste and CO<sub>2</sub> emissions through on-site effective waste utilization. We have completed proof of concept at a food plant and started registration for service subscription in October.

These new services are offered by one of our Group's Core Energy Business Companies, Daigas Energy, which was launched in April 2020 to market energy related services and products to meet the needs of business customers for their factories, offices, and commercial buildings. In addition to our conventional products and services such as city gas and energy saving solutions, we are developing and offering new solutions to customers through Daigas Energy to meet their increasing needs of CO<sub>2</sub> emissions reduction and natural disaster risk mitigation.

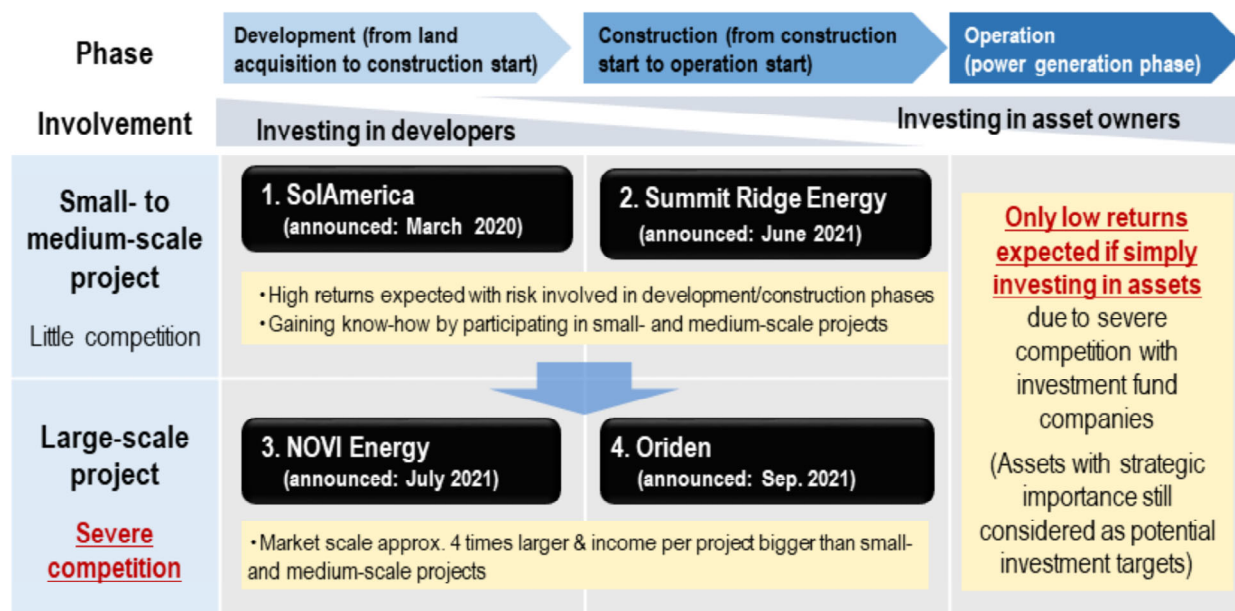
Through the D-Lineup services, we aim to help customers' energy saving and waste treatment reduction while contributing to achieving a carbon neutral society.



## Renewable Energy Business in North America

- ✓ Accelerating renewable energy business development in North American power business as a part of efforts toward a low-carbon/carbon-neutral society, which has been mainly focusing on gas-fired IPP.
- ✓ Aiming for higher returns while gaining business know-how by participating in projects that are in the development or construction phase in collaboration with solar project developers, instead of simply investing in assets for low returns.
- ✓ Controlling income scale, risks, and returns by optimizing the portfolio with various approaches to project involvement.

## Current Solar Asset Investment Portfolio



Second is our effort in the International Energy Business: renewables in North America.

As seen in our progress made in three solar power projects announced during 1H FY2022.3, we accelerated our renewable energy business development in North America, where we had mainly focused on gas-fired IPP.

Our strategy is to maximize returns from assets by participating in development or construction phase in collaboration with solar project developers, instead of simply investing in operating assets for low returns under the severe competition with investment fund companies. In the meantime, we target small and medium scale projects, where there are less competition, and accumulate know-how through them before participating in large projects.

While trying to identify the most suitable investment styles for us as shown in the matrix in the slide, we intend to pursue renewable business as we expand our portfolio in an optimal way and control the income scale, risks, and returns.

## **Ⅱ . Summary of Business Results for 2<sup>nd</sup> Quarter of FY2022.3 and Forecasts for FY2022.3**



## Summary of Business Results for 2<sup>nd</sup> Quarter of FY2022.3

- ✓ Increase in net sales and decrease in profit, mainly due to the negative time-lag effect in the Domestic Energy business, despite increase in profit from the International Energy business and the Life & Business Solutions.

billion yen	A. FY22.3 2Q	B. FY21.3 2Q	A-B	(A-B)/B	Remarks
Net sales	650.4	638.9	+11.5	+1.8%	
Ordinary profit	47.3	54.8	-7.4	-13.5%	
Time-lag effect (Gas and Electricity)*1	-22.5	13.9	-36.4	-	Breakdown of YoY difference (-36.4) Gas -24.9, Electricity -11.5
Ordinary profit excluding time-lag effect	69.9	40.9	+29.0	+71.0%	
Profit attributable to owners of parent	36.7	36.7	-0.0	-0.0%	

\*1 Included in the Domestic Energy

		A. FY22.3 2Q	B. FY21.3 2Q	A-B	Remarks
Crude oil price	USD/bbl	70.3	36.5	+33.8	A: Average of preliminary monthly data up to Sept. 2021
Exchange rate	JPY/USD	109.8	106.9	+2.9	

Page 8 summarizes the financial results for the second quarter of FY2022.3.

Consolidated net sales increased by 1.8% year on year to 650.4 billion yen in the second quarter. In each segment, the Domestic Energy business sales decreased due to low gas unit selling prices based on the fuel cost adjustment system, the International Energy business sales increased due to the strong performance of the U.S. projects, and the Life & Business Solutions business sales also increased as the impact of the COVID-19 reduced.

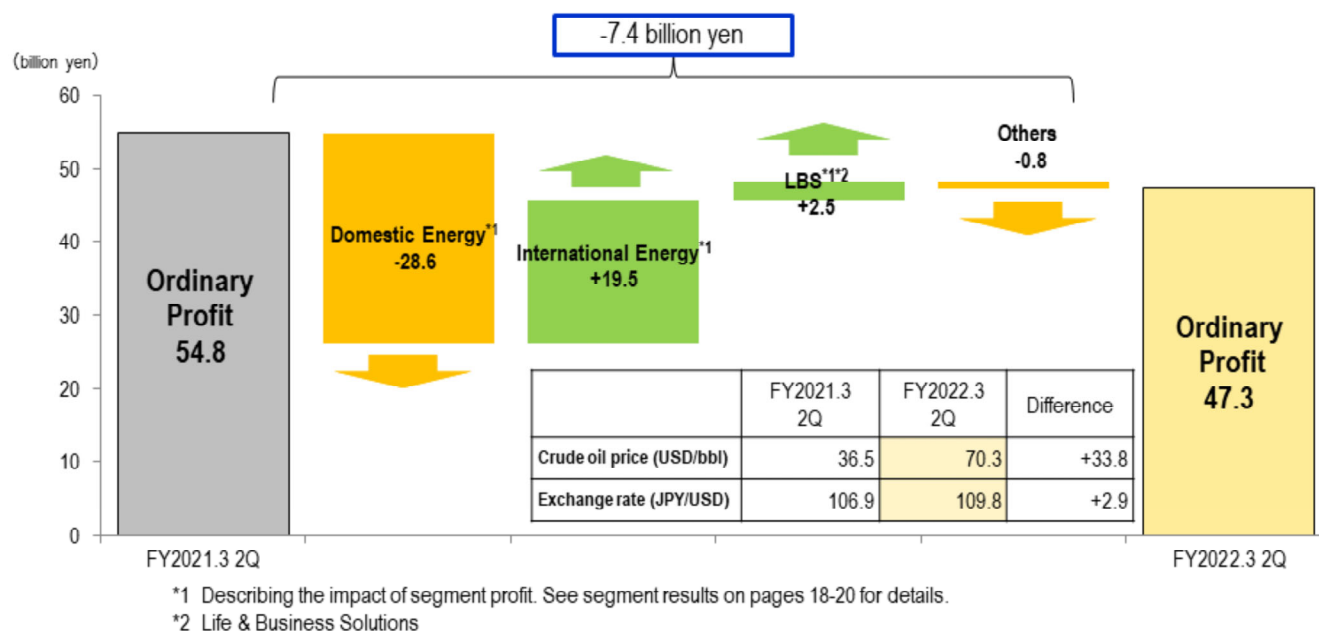
Consolidated ordinary profit decreased by 13.5% to 47.3 billion yen mainly due to the negative time-lag effect.

The year-on-year differences are explained in the following pages.



## YoY Comparison of 2<sup>nd</sup> Quarter of FY2022.3

- ✓ Ordinary profit decreased by ¥7.4 billion to ¥47.3 billion from the previous year, mainly due to the negative time-lag effect in the Domestic Energy business, despite an increase in profit in the International Energy business as a result of profit contributions from the Freeport LNG Project and the Sabine Shale Gas Project.



Page 9 summarizes the year-on-year comparison of consolidated ordinary profit.

Compared to the same period last year, consolidated ordinary profit decreased by 7.4 billion yen to 47.3 billion yen this year.

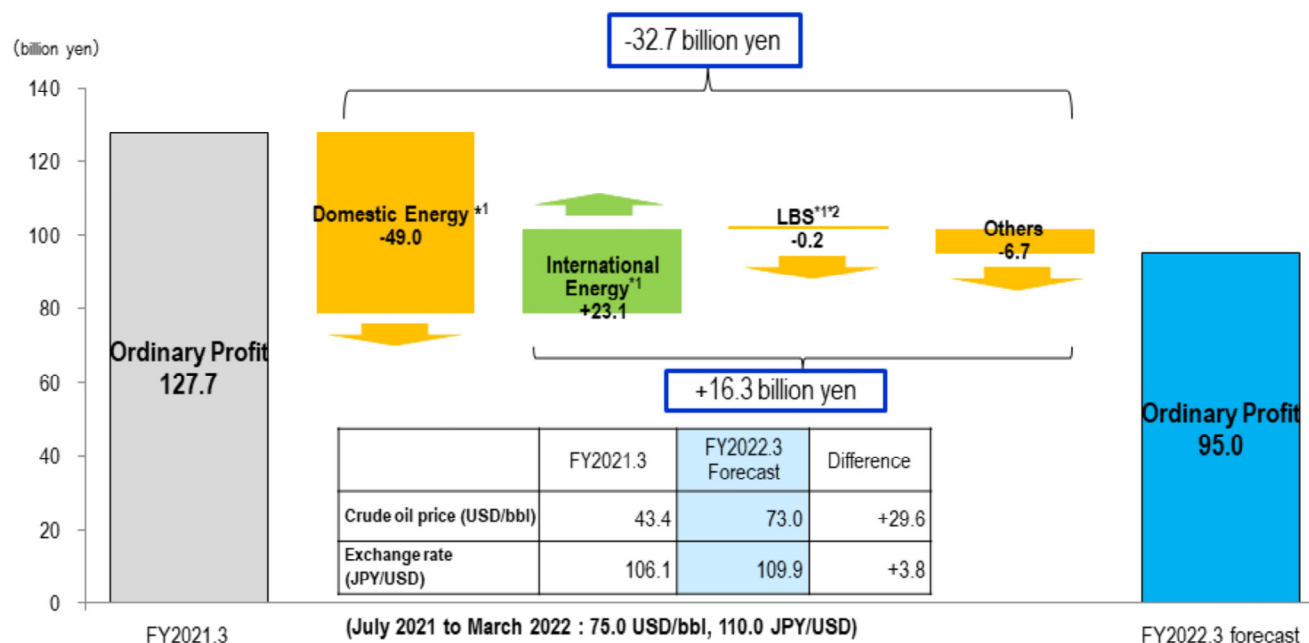
The main reason for the decrease was the negative time-lag effect in the Domestic Energy business, which exceeded the profit increase in the other two segments, the International Energy and Life & Business Solutions.

In the International Energy business, profits increased by 19.5 billion yen due to the strong performance of the Freeport LNG Project and the Sabine Shale Gas Project.

In the Life & Business Solutions segment, profit increased by 2.5 billion yen mainly due to the reduced impact of the COVID-19 in the information solutions business and the fitness business.

## YoY Comparison of FY2022.3 Forecasts

- ✓ No change from the forecast announced in July 2021.
- ✓ Consolidated ordinary profit is expected to decrease by ¥32.7 billion to ¥95.0 billion in FY2022.3 from the previous year, due to the significant impact of the negative time-lag effect in the Domestic Energy business, despite the increase in the International Energy business.



\*1 Describing the impact of segment profit. See segment results on pages 27-29 for details.

\*2 Life & Business Solutions

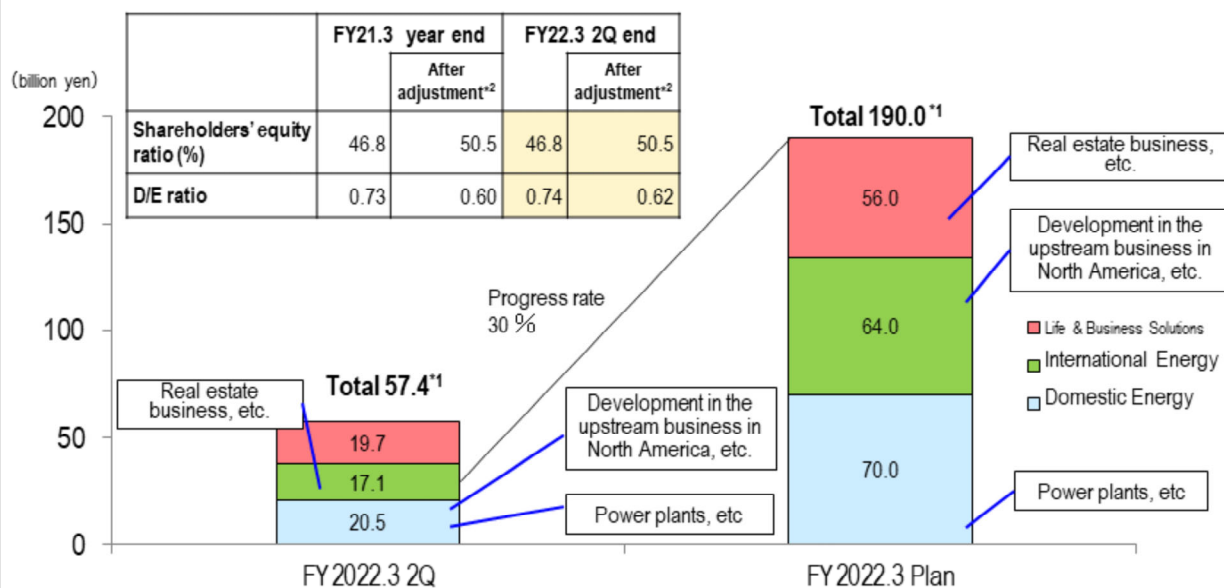
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Page 10 shows the comparison between the consolidated ordinary profit forecast for FY2022.3 and the results of the previous year.

There is no change in the full-year forecast from the one announced in July 2021. Consolidated ordinary profit for the full FY2022.3 is expected to decrease by 32.7 billion yen to 95.0 billion yen from the FY2021.3 result. While the profit is expected to increase in the International Energy business, a large decrease in profit is expected in the Domestic Energy business due to factors such as time-lag losses and a lack of positive impact of lower-than-average winter temperatures as experienced in the previous year.

## Results of Investments for Growth for 2<sup>nd</sup> Quarter of FY2022.3

- ✓ In 2<sup>nd</sup> quarter of FY2022.3, we invested ¥57.4 billion for business growth, such as for the development of power plants in the Domestic Energy business and the upstream business in North America in the International Energy business.
- ✓ The financial soundness indicators were maintained at the target levels: around 50% in shareholders' equity ratio and around 0.7 in D/E ratio.



<sup>\*1</sup> Amounts of investment include both capital expenditure items and investment-and-loan items, and therefore the amounts of investment are different from actual amounts of capital expenditures.

<sup>\*2</sup> Calculated with 50% of issued hybrid bonds as equity. Total ¥175 billion (Dec. 2019 ¥100 billion, Sep. 2020 ¥75 billion). It does not mean that shareholders will be diluted.

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Page 11 shows the results of investments for growth.

During the second quarter of FY2022.3, 57.4 billion yen was spent for investment for growth, including power plants in the Domestic Energy business and development of upstream projects in North America in the International Energy business.

As for financial soundness indicators as of the end of September 2021, the shareholder equity ratio was 46.8%, and the D/E ratio was 0.74, maintaining our targets of shareholder equity ratio of around 50% and a D/E ratio of around 0.7.

Investment for business growth will continue to be executed in an appropriate balance with the company's financial soundness.

Pages 12 to 20 provide details of the financial results for the second quarter of FY2022.3, and page 21 and following provide details of the forecast for the full FY2022.3.

This concludes my explanation of the financial results for the second quarter of FY2022.3 and the forecast for the full FY2022.3.

### **III. Business Results for 2<sup>nd</sup> Quarter of FY2022.3**



## 1. Net Sales and Profit

billion yen	A. FY22.3 2Q	B. FY21.3 2Q	A-B	(A-B)/B	Remarks
Net sales	650.4	638.9	+11.5	+1.8%	
Operating Profit	40.5	51.9	-11.3	-21.9%	
Ordinary profit	47.3	54.8	-7.4	-13.5%	
Time-lag effect (Gas and Electricity) *1	-22.5	13.9	-36.4	-	
Ordinary profit excluding time-lag effect	69.9	40.9	+29.0	+71.0%	
Profit attributable to owners of parent	36.7	36.7	-0.0	-0.0%	
Earnings per share (EPS) (yen)	88.5	88.5	-0.0	-0.0%	
EBITDA*2	99.3	105.5	-6.2	-5.9%	

\*1 Included in the Domestic Energy.

\*2 EBITDA = Operating profit + share of profit/loss of entities accounted for using equity method + depreciation (including amortization of goodwill)

		A. FY22.3 2Q	B. FY21.3 2Q	A-B	Remarks
Crude oil price	USD/bbl	70.3	36.5	+33.8	A: Average of preliminary monthly data up to Sept. 2021
Exchange rate	JPY/USD	109.8	106.9	+2.9	

# YoY Comparison of 2<sup>nd</sup> Quarter of FY2022.3

## 2. Asset, Equity, and Debt

billion yen	A. FY22.3 2Q end	B. FY21.3 year end	FY21.3 2Q end	A-B	Remarks
Total assets	2,422.7	2,313.3	2,199.5	+109.4	Progress in the investment for growth, etc.
Shareholders' equity	1,134.8	1,081.8	1,004.0	+52.9	
Book value per share (BPS)(yen)	2,729.4	2,602.2	2,414.9	+127.2	
Interest-bearing debts	842.3	785.3	803.8	+56.9	Bond issue, etc.
Hybrid bonds	175.0	175.0	175.0	± 0	

	A. FY22.3 2Q end	FY21.3 year end	B. FY21.3 2Q end	A-B	Remarks
ROIC	2.2%	6.2%	-	-	
ROE	3.3%	7.8%	3.7%	-0.4%	

	A. FY22.3 2Q end	B. FY21.3 year end	FY21.3 2Q end	A-B	Remarks
Shareholders' equity ratio	46.8%	46.8%	45.6%	+0.1%	
After adjustment <sup>*1</sup>	50.5%	50.5%	49.6%	-0.1%	
Debt/Equity ratio	0.74	0.73	0.80	+0.02	
After adjustment <sup>*1</sup>	0.62	0.60	0.66	+0.02	

<sup>\*1</sup> Calculated with 50% of issued hybrid bonds as equity. It does not mean that shareholders will be diluted.



## YoY Comparison of 2<sup>nd</sup> Quarter of FY2022.3

### 3. Cash Flow and Investment

billion yen	A. FY22.3 2Q	B. FY21.3 2Q	A-B	Remarks
Cash flows from operating activities	21.7	80.8	-59.0	
Cash flows from investing activities	-96.5	-84.4	-12.1	
Free cash flow*	-74.7	-3.5	-71.2	

\*1 Free cash flow = Cash flows from operating activities - Cash flows from investing activities

billion yen	A. FY22.3 2Q	B. FY21.3 2Q	A-B	Remarks
Investment for quality improvement	27.3	24.4	+2.9	
Investment for growth	57.4	68.8	-11.4	
Domestic Energy	20.5	32.6	-12.0	Power plants, etc.
International Energy	17.1	17.7	-0.6	Development in the upstream business in North America, etc.
Life & Business Solutions	19.7	18.4	+1.2	Real estate business, etc.
Capital expenditures	77.1	82.6	-5.5	
Depreciation	52.1	48.6	+3.4	

## 4. Customer Accounts and Sales Volume

	A. FY22.3 2Q end	B. FY21.3 year end	A-B	(A-B)/B	Remarks
Number of customer accounts (thousands)	9,594	9,401	+193	+2.1%	
	A. FY22.3 2Q	B. FY21.3 2Q	A-B	(A-B)/B	Remarks
Consolidated gas sales volume (million m <sup>3</sup> )	3,235	3,178	+57	+1.8%	
(Non-consolidated) Gas sales volume	3,215	3,158	+57	+1.8%	
Residential	657	693	-37	-5.3%	decreasing number of units for gas supply and Impact of air and water temperatures in spring, etc.
Monthly gas sales volume per household (m <sup>3</sup> / month)	22.9	23.3	-0.4	-1.9%	
Non-residential	2,558	2,465	+93	+3.8%	Higher capacity of utilization of facilities, etc.
Electricity sales volume (GWh) *1	8,047	7,594	+454	+6.0%	
Residential	2,757	2,715	+42	+1.5%	
Non-residential	5,291	4,879	+412	+8.4%	
(Non-consolidated) Number of units for gas supply	4,939	5,096	-157	-3.1%	
Number of low-voltage electricity supply	1,567	1,424	+143	+10.0%	

\*1 From FY2022.3 electricity sales reflects the estimated usage amount for the period between the last meter reading day in the account closing month and the account closing date, as the revenue for electricity sales is estimated and recorded based on the Implementation Guidance on Accounting Standard for Revenue Recognition.  
Electricity sales volume for the FY2021.3 is based on monthly meter readings.

	A. FY22.3 2Q	B. FY21.3 2Q	A-B	Remarks
Average temperature (°C)	23.4	23.7	-0.3	

## 5. Segment Sales and Profit

billion yen	A. FY22.3 2Q	B. FY21.3 2Q	A-B	(A-B)/B	Remarks
<b>Net Sales<sup>*1</sup></b>	650.4	638.9	+11.5	+1.8%	
Domestic Energy	537.6	543.5	-5.8	-1.1%	Decreased in the lower unit selling price of city gas under the fuel cost adjustment system, etc.
International Energy	34.1	19.3	+14.8	+76.5%	Increased in Freeport and Sabine, etc.
Life & Business Solutions	106.3	99.5	+6.7	+6.8%	
Adjustments	-27.7	-23.5	-4.2	-	
<b>Segment profit<sup>*1,2</sup></b>	47.1	56.8	-9.6	-17.0%	
Domestic Energy	17.1	45.8	-28.6	-62.5%	
Electricity <sup>*3</sup>	6.0	11.5	-5.5	-47.6%	
International Energy	19.6	0.1	+19.5	-	Increased due to the profit contribution from Freeport and Sabine, etc.
Life & Business Solutions	9.8	7.2	+2.5	+35.5%	Increased due to the reduced impact of the COVID-19, etc.
Adjustments	0.4	3.6	-3.1	-	
<b>Profit/Loss on time-lag effect (Gas and Electricity)<sup>*4</sup></b>	-22.5	13.9	-36.4	-	
<b>Profit/Loss on market value of derivative<sup>*5</sup></b>	0.9	-6.8	+7.7	-	

\*1 From FY22.3, "Domestic Energy / Gas" and "Domestic Energy / Electricity" are integrated into the "Domestic Energy". Osaka Gas International Transport Inc. and its subsidiaries are transferred "Domestic Energy" from "International Energy". Osaka Gas' operating expenses for International Energy business, which was previously included in "Domestic Energy / Gas" are transferred into "International Energy." Results For FY2021.3 this page are calculated with consideration of the reclassification.

\*2 Segment profit = Operating profit(loss) + Share of profit(loss) of entities accounted for using equity method

\*3 It is a simple total of the profit in Osaka Gas Co., Ltd.'s incidental electricity business and profits of its affiliated companies involved in electricity business, which is different from the profit in the Domestic Energy / Electricity, which we used as a segment name before.

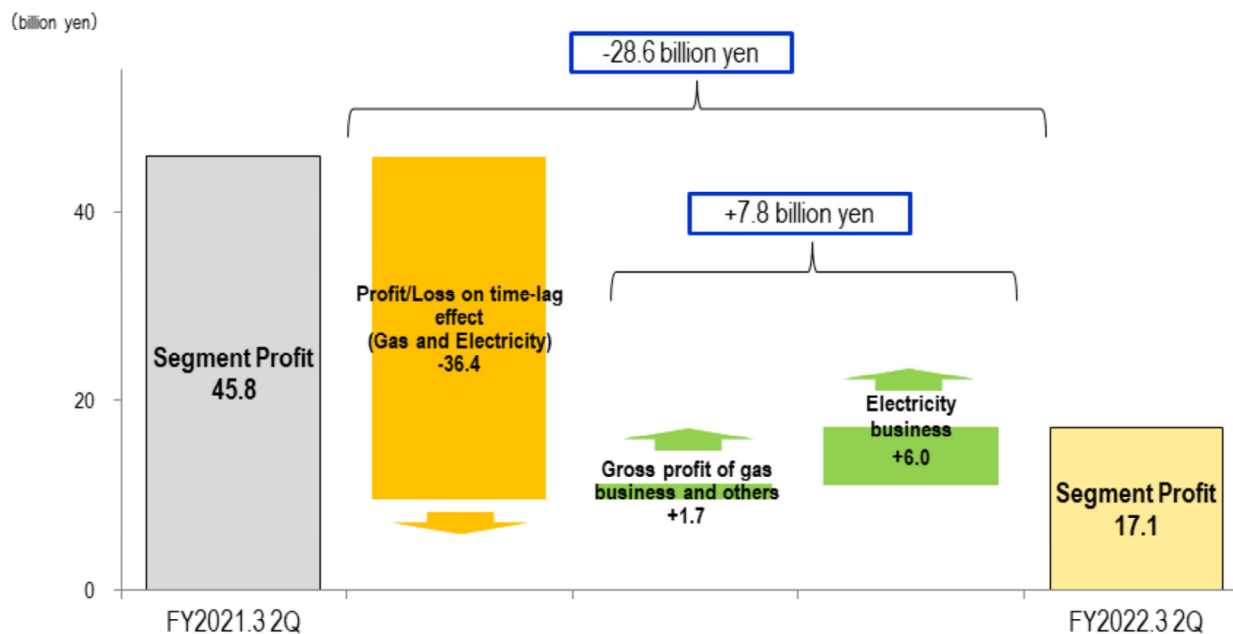
\*4 Included in the Domestic Energy.

\*5 Included in the International Energy.

## Results for 2<sup>nd</sup> Quarter of FY2022.3 in Each Segment

### 1. Domestic Energy (Gas and Electricity)

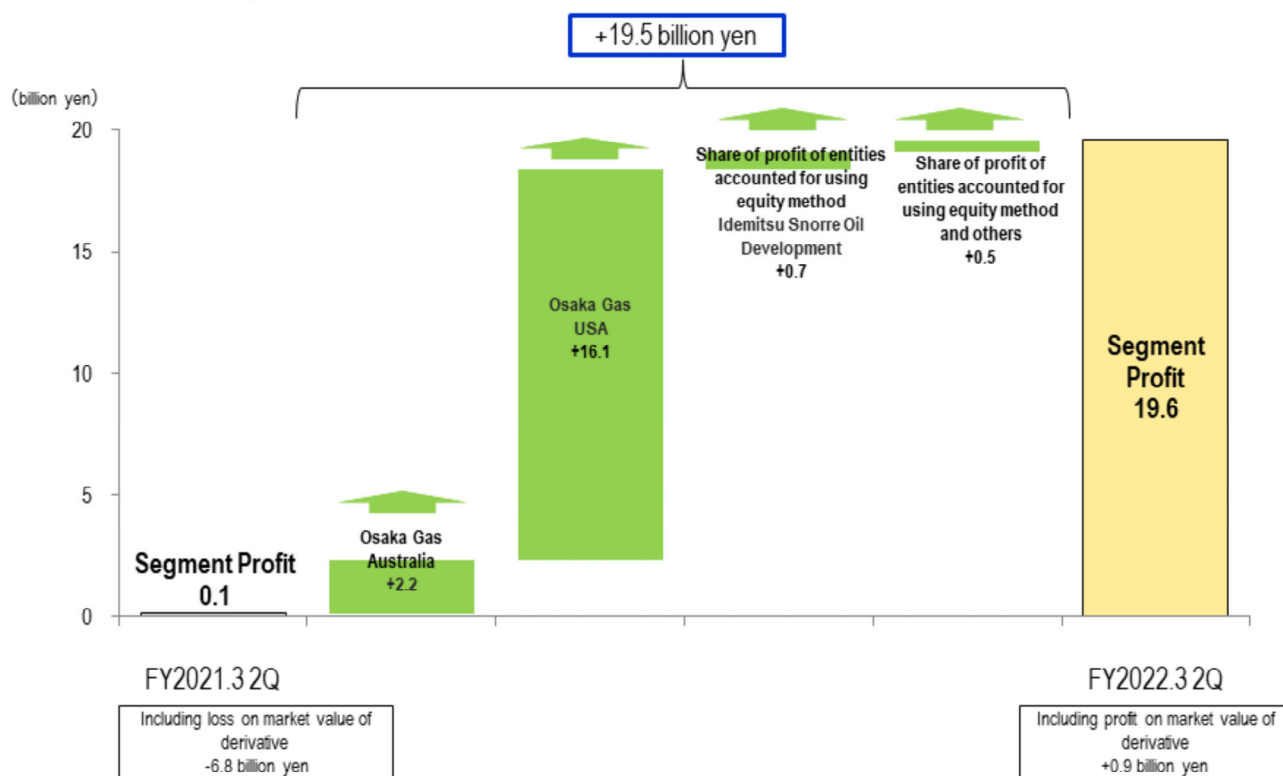
- ✓ Domestic Energy segment profit decreased by ¥28.6 billion to ¥17.1 billion due to the time-lag effect.



# Results for 2<sup>nd</sup> Quarter of FY2022.3 in Each Segment

## 2. International Energy

- ✓ International Energy segment profit increased by ¥19.5 billion to ¥19.6 billion, mainly due to profit contributions from Freeport LNG Project and Sabine Shale Gas Project.



## 3. Life &amp; Business Solutions

- ✓ Life & Business Solutions segment profit increased by ¥2.5 billion to ¥9.8 billion, mainly due the reduced impact of the COVID-19 in the information solutions business and the fitness business.

