

Osaka Gas Co., Ltd. (9532)

Q&A at the Analysts' Meeting held on May 8, 2023, on the financial results for the fiscal year ended March 31, 2023 (FY23.3).

Q1: What is your strategy for improving ROIC over the medium to long term? How do you perceive the TSE's notice to request actions to achieve management mindful of the cost of capital and stock prices?

A1: We take the issue of the P/B ratio falling below 1 very seriously. Even before TSE's notice, our Board of Directors had been discussing this matter, and we have been diligently raising awareness of the cost of capital through our ROIC-focused management approach introduced in FY2022.3. We focus on achieving a 5% ROIC by FY2024.3 and a 7% ROIC by FY2031.3.

Several factors have contributed to the decline of our P/B ratio below 1. Those factors include the impact of the decarbonization trend on our medium- and long-term growth outlook and the expansion of equity capital.

We are exploring ways to improve management efficiency, reduce costs through digital transformation (DX), build an optimal capital structure, and resolve other relevant issues to enhance our corporate value over the medium to long term. With our Board of Directors examining those matters, we will formulate the new Medium-Term Management Plan for the upcoming medium-term.

Q2: According to the latest forecast, FY24.3 ROIC, excluding the time-lag impact on income, is expected to fall short of the target. Given this prospect, what will be the ROIC target for the next Medium-Term Management Plan?

A2: We recognize that, excluding the time-lag effect, FY24.3 ROIC will miss the mark of 5%, as pointed out. One of the reasons is the increase in invested capital, the denominator of the ROIC formula, due to the weaker yen and soaring energy prices, among other things.

As we expect a bumpy ride toward 2030, we will thoroughly examine every possible strategic option in formulating the new Medium-Term Management Plan.

Q3: What is the current status of the Freeport LNG?

A3: As of today, the Freeport LNG continues to ship LNG smoothly, with all three LNG liquefaction trains, two out of three LNG storage tanks, and one of two LNG berths being in operation. We are concerned about the potential impact of trips under the current limited-capacity operation, and we hope the Freeport LNG will swiftly restore full-capacity operation as soon as possible.

Q4: The number of gas customers declined slightly over FY23.3, but it seems to have bottomed out in the third quarter. How do you analyze the market competition status?

A4: The switching of gas customers has been slowing down gradually in recent years after the full deregulation in 2017. That is partly due to our FY23.3 sales campaign in spring when many people relocate for school and work in the country, and other campaigns. As our pace of gaining new electricity customers is also losing

momentum, we intend to approach the customer segments we have yet to reached out to.

Q5: In FY23.3, residential gas sales volume decreased significantly from the previous year. According to the Supplementary Information, "Other" is larger than "Impact of temperature" as a contributing factor. What is your perception of the major elements included in "Other?" Are they of a temporary nature, such as the loss of stay-home demand under Covid-19, or medium- to long-term trends, such as heightened awareness of energy conservation due to soaring energy prices?

A5: Some are temporary, and others long-term. A major temporary element is the average temperature increase of 0.7°C from last year. Another temporary element is the loss of stay-home demand; we saw an unexpected growth in residential gas sales volume in FY21.3 when a state of emergency was declared. In the long term, we expect a downward trend in residential gas sales volume due to population decline and growing awareness of energy conservation.

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