

Osaka Gas Co., Ltd. (9532)

Q&A at the Analysts' Meeting held on February 3, 2025, on the financial results for the 3rd quarter of fiscal year ended March 31, 2025 (FY25.3)

Q1: What is the outlook for the shale gas and electricity businesses in the US in FY2026.3?

A1: Sabine's shale gas business expects profits comparable to FY2025.3, with most of its planned production in FY2026.3 already hedged at prices similar to those in FY2025.3. If Henry Hub price rises and maintains a higher level, we plan to enhance production and sell additional gas at the market prices. We anticipate a profit increase driven by both elevated unit selling prices and greater sales volume, depending on the trajectory of Henry Hub price.

In our U.S. electricity business, profits rose from the previous year, driven by robust power sales (kWh) in FY2025.3. The profitability of our electricity sales in FY2026.3 will depend on market conditions. Regarding the capacity market, capacity value (kW) will be a key driver of our profit in FY2026.3, given the high contracted prices in the U.S. capacity market set to take effect in the second half of FY2026.3.

Q2: With shareholders' equity increasing due to yen depreciation, what strategies is Osaka Gas implementing to achieve an 8% ROE? What is the sensitivity of foreign currency translation adjustments to fluctuations in the exchange rate?

A2: Based on the current foreign exchange rate, shareholders' equity is projected to be approximately 1,660 billion yen at the end of FY2025.3. To achieve an ROE of 8% with this equity level, we need to generate a net profit exceeding 130 billion yen, along with an ordinary profit of more than 180 billion yen. These profit targets exceed those outlined in our Medium-Term Management Plan. While a depreciation of the yen may enhance profits from our international operations, improving the numerator in our ROE calculation, we recognize that relying solely on this may not suffice to meet the ROE target. Therefore, we believe it is crucial to make appropriate decisions regarding the management of shareholders' equity, the denominator. Regarding the sensitivity of foreign currency translation adjustments to exchange rate fluctuations, we estimate that for every 1 yen movement in the exchange rate, there is a potential change of approximately 5 billion yen in these adjustments. This estimate is based on our observation of an increase in foreign currency translation adjustments of roughly 100 billion yen, which consequently boosted shareholders' equity, when the yen depreciated by about 20 yen per dollar from the end of the last fiscal year to the first half of this fiscal year.

Q3: What is your normalized profit for the current fiscal year, excluding one-time factors, and what are your expectations for the next fiscal year?

A3: This fiscal year, we have three one-time positive factors. The first is a time-lag profit; the second arises from our business in the electricity reserve market; and the third, while as substantial, is our LNG cost advantage over JLC (the increased competitiveness of our long-term LNG contracts compared to JLC). Together, these factors amount to over 20.0 billion yen. We believe that some of the gains from the electricity reserve market and our LNG cost advantage over JLC may extend into FY2026.3.

On the other hand, there are two one-time negative factors that total over 15 billion yen. The first pertains to our operations in the electricity reserve market within the Domestic Energy segment, where the contracted

prices for FY2025.3 have reached exceptionally high levels. Coupled with our electricity supply shortages, this creates a significant burden. The second negative factor is a decrease in profits from Freeport LNG in the International Energy segment, which has faced challenges due to operational issues and hurricane impacts, leading to a temporary shutdown.

When excluding these one-time factors for this fiscal year, we expect that profits for FY2026.3 will largely align with this year's levels. Given that FY2025.3's time-lag profit stands at 9 billion yen, the normalized profit is projected to be higher next year.

Q4: What is the expected improvement in normalized profits for FY2027.3, the final year of the Medium-Term Management Plan?

A4: Given that the absolute profit may vary with foreign exchange fluctuations, we have set our Medium-Term Management Plan targets based on rates rather than fixed amounts. Our goal is to achieve an ROE of 8% and an ROIC of 5%, calculated based on normalized profits.

Q5: What conditions must be met for profit to be generated in the reserve market?

A5: Our objective is to optimize the utilization efficiency of our owned power assets. In FY2025.3, we achieved profitability by contributing to the reserve market, responding to a shortage of power reserves in the Kansai area. Although we expect a potential decline in profits from the reserve market in FY2026.3, we plan to capitalize on opportunities from the market situations and its system to deliver positive results.

Q6: Have there been any recent developments in the competitive landscape for gas and electricity?

A6: We do not observe any significant changes in trends. Since the full deregulation of the electricity market in 2016 and the gas market in 2017, the rate of customer switching has decreased.

Q7: Which businesses hold potential for sustainable earning power on a normalized basis as the company aims for an 8% ROE and 5% ROIC?

A7: I would like to address this question by highlighting the factors that are expected to enhance normalized profits in FY2026.3.

First, we anticipate improvements in the sales volume and unit price of electricity and gas. With the intense competition that followed the full deregulation of Japan's energy markets now subsiding, we believe prices will stabilize at a more appropriate level, leading to a healthier market environment after the energy price hikes in FY2023.3.

Secondly, we expect to boost profits from LNG sales by renewing and expanding our wholesale LNG contracts and increasing trading opportunities through the expansion of the LNG value chain.

Meanwhile, there are certain businesses that are likely to experience growth over the medium to long term, even though they may contribute to lowering profits in FY2026.3. One of these is the Himeji Power Plant, which is currently under construction and progressing well, targeting January 2025 as the commencement of operations. While we expect high fixed costs and depreciation expenses in FY2026.3, we remain optimistic about the business' growth prospects over the medium to long term. In the Indian city gas distribution business, we are in the initial phase, focusing on investing in pipeline installation. Although this will negatively impact profits in FY2026.3, we believe this business will reach profitability by 2030 and has

strong potential for long-term growth.

Q8: What is the progress on liquidating unprofitable businesses to enhance capital efficiency?

A8: We are making steady progress in alignment with our Medium-Term Management Plan, which emphasizes an asset-light approach. Last fiscal year, we successfully sold a gas-fired power plant in the US. In the real estate business, we are actively divesting properties through private REITs. Additionally, we are in the process of selling investment securities. We plan to share specific results at an appropriate time.

Q9: What is the likelihood of increasing share buybacks?

A9: We announced a share buyback program totaling 40 billion yen, with 20 billion yen allocated for each half of FY2025.3. We see potential for increasing this program, given the time gap between the completion of the initial 20-billion-yen buyback in the first half and the initiation of the second buyback in the second half. We aim to achieve our ROE target by proactively controlling the denominator, ensuring we main steady as we near the end of the Medium-Term Management Plan period.

Q10: With labor and other costs rising, what is the current status and outlook for gas and electricity price increases?

A10:In the gas business, we have not implemented any gas tariff increase. With improvements in our management efficiency and a decline in the number of employees as they reach retiring age, we are capable of absorbing short-term increases in unit labor costs, including base pay raises. Moving forward, we will evaluate and consider appropriate measures regarding price increase as needed.

In the electricity business, our objective is to drive business growth by improving the income and expenditure structure, rather than merely passing inflation-driven cost increases onto customers.

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