Osaka Gas Co., Ltd. (9532)

Q&A at the Analysts' Meeting held on February 2, 2026, on the financial results for the 3rd quarter of fiscal year ended March 31, 2026 (FY26.3)

Q1 : The full-year outlook for FY26.3 appears conservative, as only the profit outlook for gas and electricity within the Domestic Energy segment was revised, while the overall forecast was maintained. Are there any specific downside risks or concerns that you see for the fourth quarter?

A1 : We acknowledge that the outlook is somewhat conservative. This reflects our view that, while the forecast for the International Energy segment remains unchanged, we do not assume any significant downside factors in the fourth quarter. In the Domestic Energy segment, although electricity market trading performance has been solid, we expect downward pressure on profits, reflecting higher depreciation expenses following the commencement of the Himeji Natural Gas Power Plant, a decline in the competitiveness of our long-term LNG contracts relative to JLC due to lower LNG spot prices, and lower electricity selling prices amid market conditions, including coal prices. Based on these factors, we have maintained our current full-year outlook.

Q2 : What is your outlook for FY27.3, after taking into account the non-recurring factors included in the full-year forecast for FY26.3?

A2 : We outline our outlook for FY27.3 by segment.

In the Domestic Energy segment, while we will continue to pursue gas and LNG price optimization and contract improvements, profitability in the electricity business is expected to be negatively affected by the absence of strong electricity market trading gains recorded in FY26.3, as well as higher depreciation expenses following the commencement of the Himeji Natural Gas Power Plant.

In the International Energy segment, core businesses such as Freeport, Sabine, and thermal power generation operated steadily in FY26.3. For FY27.3, we expect to continue to build earnings steadily, rather than anticipating significant upside or downside volatility.

In LBS, for FY27.3, we expect the real estate development business to maintain solid performance. With respect to the materials business, while cost increases have not yet been fully passed through to selling prices, we expect that further progress in price pass-through will contribute positively to earnings.

Q3 : The ROE target of 8% for FY27.3, the final year of the Medium-Term Management Plan, raises the question of whether it can be achieved through underlying profit growth alone, or capital management, including optimization of shareholders' equity, will also be required.

A3 : The single-year plan for FY27.3 is currently under development. As the final year of the Medium-Term Management Plan, it will be formulated with a clear focus on achieving the ROIC target of 5% and the ROE target of 8%.

While we recognize that shareholders' equity has increased, partly due to factors such as yen depreciation, our priority remains securing and expanding profits. In FY26.3, we confirmed stronger-than-expected growth, particularly in the International Energy segment, which we view as a significant achievement, and we intend to sustain and further accelerate this growth.

At the same time, with respect to shareholders' equity as the denominator of ROE, we will seek to achieve our target through appropriate capital management, including shareholder returns such as dividends.

Q4 : The shareholders' equity ratio has remained at a relatively high level. How do you view the current balance? Do you intend to manage the shareholders' equity ratio toward the 45% level, or do you see limitations in controlling it precisely due to factors such as foreign exchange movements?

A4 : Under the current Medium-Term Management Plan, we lowered our reference level for the shareholders' equity ratio from approximately 50% to 45% or higher. This does not imply that the current level is necessarily appropriate.

That said, ROIC and ROE remain our top management priorities. With these objectives in mind, we will consider appropriate management of the shareholders' equity ratio..

Q5 : Extraordinary income includes gains from the sale of affiliated companies. Which assets were sold, and how were these disposals carried out?

A5 : The majority of the extraordinary income relates to the gain on the sale of a thermal power plant in Michigan, United States, which was previously 100% owned by the Company.

We have been involved in the U.S. power generation business for nearly two decades and have held multiple projects over that period. Among these, some assets exhibited lower capital efficiency or limited potential for further value enhancement.

In line with the asset-light strategy set out in our Medium-Term Management Plan, we are selectively divesting assets where appropriate, while retaining and enhancing the value of those with higher capital efficiency and greater value-up potential. The Michigan asset was sold based on this assessment.

This decision does not represent a fundamental review of our U.S. power generation strategy. Rather, we continue to focus on carefully selecting and managing assets that can deliver superior capital efficiency and sustainable value creation.

Q6 With respect to extraordinary profit and loss for FY26.3, extraordinary income is positive on a year-to-

date basis through the third quarter, while the full-year forecast is flat. Are there any extraordinary losses anticipated in the fourth quarter?

A6 : At this stage, no specific extraordinary losses have been identified for the fourth quarter.

However, in line with our asset-light strategy, we are progressively reviewing and disposing of assets with lower capital efficiency. In the course of this process, we recognize that certain disposals could result in losses. Taking this possibility into account, extraordinary income recorded through the third quarter has not been factored into the full-year forecast.

Q7 : The Henry Hub price has remained firm in the near term. How do you expect movements in Henry Hub prices to impact the International Energy segment in FY27.3?

A7 : In the Sabine shale gas business, we implement hedging measures while closely monitoring futures markets, with the objective of mitigating price volatility. As of the beginning of the year, approximately 80% of the relevant fiscal year's exposure had been hedged.

In addition, hedging is executed on a staggered basis over time. As a result, we do not expect recent increases in the Henry Hub price to have a significant impact on performance.

Q8 : The full-year forecast for gas business gross profit in FY26.3 has been revised downward. How did the third-quarter results compare year on year, and how do you view the outlook for the fourth quarter relative to the previous year?

A8 : Compared with the previous year, the margin generated by the improved competitiveness of our long-term LNG contracts relative to JLC has made a significant positive contribution to earnings. Since the first quarter, this margin has remained steady at a level of the low tens of billions of yen per quarter.

While there remains uncertainty regarding future fluctuations due to factors such as cold weather, we expect the margin advantage of our long-term LNG contracts over JLC to gradually narrow toward the full year, as LNG spot prices have recently been lower than initially assumed.

Q9 : For the third-quarter results of the Domestic Energy segment, what were the main components of the "Others" item that contributed approximately ¥7.0 billion, and what are the key negative factors expected in the fourth quarter?

A9 : In the third-quarter results, LNG sales benefited from favorable market conditions. In addition, at Osaka Gas International Transport (OGIT), time lag effects contributed positively, resulting in an increase of approximately ¥6 billion.

By contrast, Osaka Gas Network (OGNW) recorded a negative impact of slightly more than ¥6 billion.

As for the fourth quarter, the primary negative factors are cost-related. While gas sales volumes typically increase during the winter season, various associated costs also rise during this period. Taking into account these seasonal factors, as well as certain time lag effects, we expect costs to increase in the fourth quarter.

Q10 : In light of the cold snap in the United States this January, and recalling that a previous cold snap affected both U.S. operations and domestic procurement, have any impacts been identified at this stage?

A10 : At this stage, there has been no material impact. While there were reports that operations at Sabine were temporarily curtailed for several days due to cold weather, overall, there have been no significant operational issues.

Q11 : The Company's ROIC on an underlying basis this year is 5.2%. Is it reasonable to expect that the planned ¥64 billion investment in power generation assets will generate returns exceeding a ROIC of 5.2%? Similarly, is it reasonable to expect that the ¥50 billion investment in real estate development will achieve returns above the current consolidated ROIC level of 5.2%?

A11 : In the power generation business, our approach is to enhance profitability across our entire value chain—including retail operations—aiming to improve ROIC at the level of the Domestic Energy segment as a whole.

As for the real estate development business, the absolute level of ROIC is generally not high across the industry. While a ROIC of 5.2% represents a relatively high level, we intend to continue improving ROIC by shifting from a predominantly stock-based business model toward a greater emphasis on asset rotation, including the sale of assets once value enhancement has been completed.

Q12 : Amid rising long-term interest rates, there are concerns regarding the relatively low profitability of the gas network business. Is the ROIC of the gas network business disclosed?

A12 : The ROIC of the gas network business is not disclosed.

Within the Domestic Energy segment, rising interest rates are a key issue that we are increasingly mindful of as we look ahead to next year and beyond. The gas network business faces a range of challenges, including inflation and labor shortages; however, we will continue to focus on cost reduction initiatives and aim to steadily enhance profitability.

Q13 : While real estate development is positioned as a non-core business and part of the Company's

diversification efforts, is it possible to disclose synergies with the core businesses on a quantitative basis in the future?

A13 : We recognize that, without synergies, questions naturally arise regarding the strategic rationale for engaging in the real estate development business. In this context, we are already pursuing business collaborations with our core operations, including the provision of energy supply and the installation of gas equipment for rental and condominium properties, as well as area-based development initiatives.

Looking ahead, we will consider providing some form of quantitative disclosure regarding these synergies.

Q14 : How much is the India business expected to contribute to earnings in the current fiscal year, and what is the outlook for the business in the coming years?

A14 : The India business has incurred significant losses over the past several years; however, performance has been gradually improving. Based on the current trajectory, we are proceeding with a plan to turn the business profitable around fiscal year 2030. Gas sales volumes are expected to continue increasing year by year, and we will continue our efforts to achieve steady business expansion and early profitability.

Q15 : In the domestic electricity business, how is customer acquisition progressing relative to the Company's internal plan, and how would you assess the competitive environment?

A15 : Compared with the heightened market activity seen during the early stages of liberalization, customer switching activity in both the gas and electricity markets has moderated in recent years. In the electricity business, customer acquisition is progressing in line with internal targets.

That said, competition has by no means disappeared. We recognize that maintaining competitiveness will require us to continue delivering clear value-added offerings in order to be selected by customers.

Q16 : Depreciation expenses have increased following the start of operations at the Himeji Natural Gas Power Plant. Assuming the current pace of customer growth continues, how many years are required before profits are expected to exceed depreciation?

A16 : With the commencement of operations at the Himeji Natural Gas Power Plant, the Company's total power generation capacity will increase by more than 1.5 times, from approximately 2.0 GW to 3.2 GW. As part of this transition, we plan to shift our core power generation from the aging Senboku Power Plant to the state-of-the-art Himeji facility.

Going forward, the Senboku Power Plant is not expected to operate at full capacity. Instead, it will gradually be positioned as a complementary asset, generating electricity selectively during periods of favorable market conditions to capture incremental earnings.

Rather than assessing profitability on a standalone basis for each plant, we believe it is important to enhance profitability across the domestic electricity business as a whole, including Senboku, and to steadily increase overall earnings through optimized asset utilization.