

# Financial Report for 1<sup>st</sup> Quarter of FY2016.3 (April 2015 – June 2015)

July 2015

Osaka Gas Co., Ltd.

# I. Business Results for 1<sup>st</sup> Quarter of FY2016.3

## **Management information is available on Osaka Gas websites.**

Financial reports, annual reports and road show materials can be accessed and downloaded at the following URL.

<http://www.osakagas.co.jp/en/ir/index.html>

## **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.

## **Note regarding the indication of quarter**

“Quarter” refers to “quarterly cumulative period,” unless otherwise noted.

# Summary of Business Results for 1<sup>st</sup> Quarter of FY 2016.3

## ■ Overview

Net sales	Decreased by 5.7% to ¥341.5 billion due to the fall in gas sales unit price driven by lower LNG prices
Ordinary income	Increased by 75.1% to ¥74.1 billion due to the increase in gross profit of gas sales caused by the increase in time-lag profit Time-lag profit totaled ¥41.5 billion (Time-lag profit totaled ¥2.4 billion from the previous year)

## ■ Gas Sales Volume

Residential	Decreased by 3.2% to 512 million m <sup>3</sup> , due to higher air and water temperatures in the reporting period than previous year
Commercial, public and medical	Increased by 0.9% to 302 million m <sup>3</sup> , due to smooth expansion of new demand, etc.
Industrial	Decreased by 3.9% to 978 million m <sup>3</sup> , due to the fall in capacity utilization of customers

## ■ Others

Investments for expansion, greenfield and M&A	Decided to participate in a natural gas power generation plant in the U.S. Total investments of ¥24.6 billion, up ¥4.5 billion from the previous year
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# Gas Sales Volume Results for 1<sup>st</sup> Quarter of FY2016.3

45MJ/m<sup>3</sup>

	A. FY16.3 1Q	B. FY15.3 1Q	A-B	A-B/B (%)
Number of meters installed (thousands)	7,203	7,145	+58	+0.8%
Installation of new meters (thousands)	24	24	+0	+0.6%
Monthly gas sales volume per household (m <sup>3</sup> /month)	28.9	30.0	-1.1	-3.8%
Residential use	512	530	-17	-3.2%
Commercial, public and medical use	302	299	+3	+0.9%
Industrial use	978	1,017	-39	-3.9%
Commercial and industrial use	1,280	1,316	-37	-2.8%
Wholesale	110	110	+1	+0.7%
(Non-regulated included)	(1,098)	(1,140)	-41	(-3.6%)
Non-consolidated gas sales volume (million m <sup>3</sup> )	1,902	1,955	-53	-2.7%
Consolidated gas sales volume (million m <sup>3</sup> )	1,913	1,966	-53	-2.7%

# Results for 1<sup>st</sup> Quarter of FY2016.3 - I

Figures in parentheses are ratios of consolidated results to non-consolidated results.

Consolidated, billion yen	A. FY16.3 1Q	B. FY15.3 1Q	A-B	A-B/B	Remarks
Net sales	(1.22) 341.5	(1.21) 362.1	-20.6	-5.7%	Fall in the gas sales unit price, etc.
Operating income	(1.11) 72.3	(1.21) 39.3	+33.0	+84.0%	Increase in gross margin of gas sales, etc.
Ordinary income	(1.04) 74.1	(1.09) 42.3	+31.7	+75.1%	Increase in gross margin of gas sales, etc.
Net income*	(1.00) 52.1	(0.99) 36.8	+15.2	+41.4%	

\* Net income that belongs to shareholders of the parent company.

		A. FY16.3 1Q	B. FY15.3 1Q	A-B
Profit/ loss on fuel cost adjustment system	billion yen	41.5	2.4	+39.0
Crude oil price	\$/bbl	59.5	109.5	-50.0
Exchange rate	yen/\$	121.4	102.2	+19.3

(\*) Average of preliminary monthly data up to June.

# Results for 1<sup>st</sup> Quarter of FY2016.3 - II

Consolidated, billion yen	A. FY16.3 1Q end	FY15.3 1Q end	B. year end	A-B	Remarks
Total assets	1,834.0	1,680.8	1,862.2	-28.1	Decrease in Current assets, etc.
Net worth	922.7	830.2	888.4	+34.2	
Interest-bearing liabilities	591.5	598.4	633.9	-42.4	
Number of employees	21,634	21,427	20,982	+652	
Net worth / Total assets	50.3%	49.4%	47.7%	+2.6	
D/E ratio	0.64	0.72	0.71	-0.07	
	A. 16.3 1Q	B. 15.3 1Q		A-B	Remarks
Capital expenditure	21.9	26.8		-4.8	Decrease in cash spent on upstream businesses
Depreciation	20.9	21.3		-0.3	
Free cash flow	81.4	-9.3		+90.7	Increase in profit and internal reserves



## II. Facts and Figures (1)

# Sales variance for 1<sup>st</sup> Quarter of FY2016.3 (Year-on-Year)

FY15.3 1Q → FY16.3 1Q (differences)

362.1

341.5

(-20.6)

(billion yen)

Osaka Gas: -17.7

Subsidiaries: -2.8

Gas sales	-11.9
• Impact of fuel cost adjustment	-18.4
• Volume change, etc.	-5.5
• Others	+12.0

Other revenues	-5.8
• Gas appliance sales	-1.0
• Incidental business sales (Electricity business, etc.)	-4.3

LPG businesses	-2.7
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# Ordinary income variance for 1<sup>st</sup> Quarter of FY2016.3 (Year-on-Year)

FY15.3 1Q → FY16.3 1Q (differences)

42.3

74.1

(+31.7)

(billion yen)

Osaka Gas: +32.3

Subsidiaries: -0.5

+/- signs indicate impact on profit.

Gross margin of gas sales +34.2  
 • Impact of fuel cost adjustment system +39.0  
 • Volume change, etc. -4.8

Gross margin of other sales -1.9  
 • Gross margin of incidental business (mainly of electricity business) -3.0  
 • Gross margin of gas appliance sales +1.2

Decrease in operating expenses +0.6

Non-operating income -0.6

Freeport project -0.5

# Results for 1<sup>st</sup> Quarter of FY2016.3 by Segments

billion yen	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY16.3 1Q	FY15.3 1Q (*)	FY16.3 1Q	FY15.3 1Q	
Gas	255.9	269.7	59.1	23.1	<u>Net sales</u> : Fall in the gas sales unit price, etc. <u>Income</u> : Increase in time-lag profit
LPG, electricity, and other energies	48.2	56.5	8.1	12.2	<u>Net sales</u> : Decrease in electricity business and LNG sales <u>Income</u> : Decrease in profit in electricity business
International energies	4.4	3.4	1.2	3.2	<u>Net sales</u> : Increase in LNG tanker business, etc. <u>Income</u> : Decrease in Freeport project
Life & Business Solutions	47.7	46.4	3.3	2.3	<u>Net sales</u> : Increase in the influence of newly consolidated subsidiary <u>Income</u> : Increase in Jacobi Carbons
Elimination/ consolidation	-14.8	-13.9	0.5	0.6	
Consolidated	341.5	362.1	72.5	41.7	

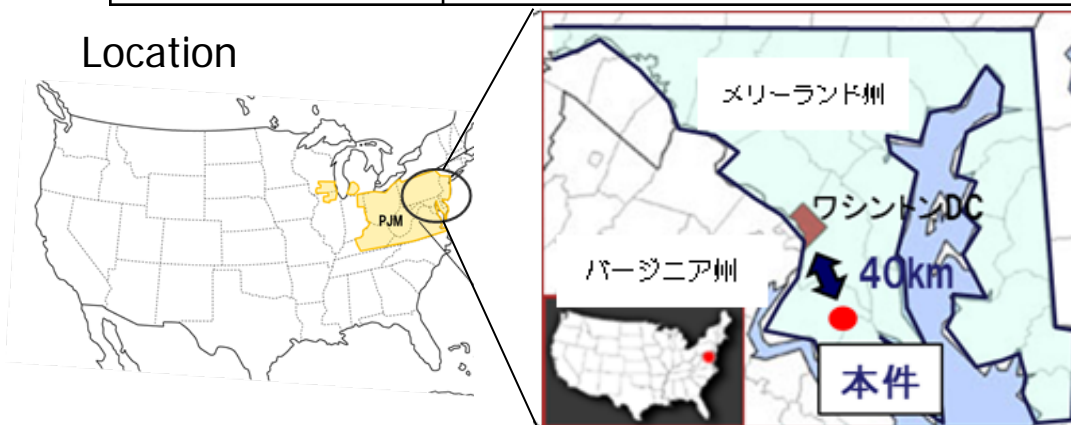
## Participation in St. Charles Power Project in the U.S.

- In April 2015, it was decided to participate in a Construction Phase IPP Project (St. Charles Power Project) in Maryland, U.S.

### Project outline

Company	CPV Maryland LLC
Location	Maryland, USA (Waldort city)
Generating Capacity	725MW (Start of commercial operation : Feb. 2017)
Customers	PJM power market (Pennsylvania-New Jersey-Maryland)
Equity composition	Osaka Gas : 25%, Marubeni : 25%, Toyota Tsusho : 25%, CPV:25%

Location



Conceptional drawing





## III. Facts and Figures (2)

Maintaining our full-year forecasts unchanged from the April forecasts

# Gas Sales Volume Forecasts for FY2016.3

45MJ/m <sup>3</sup>	A. FY16.3 forecasts	B. FY15.3 results	A-B	A-B/B(%)
Number of meters installed (thousand)	7,217	7,196	+21	+0.3%
Installation of new meters (thousand)	101	107	-6	-5.3%
Monthly gas sales volume per household (m <sup>3</sup> /month)	31.1	30.9	+0.1	+0.4%
Residential use	2,202	2,186	+16	+0.7%
Commercial, public, and medical use	1,446	1,465	-19	-1.3%
Industrial use	4,280	4,133	+147	+3.5%
Non-residential total	5,727	5,599	+128	+2.3%
Wholesale	498	474	+24	+5.1%
(non-regulated)	(4,890)	(4,755)	(+135)	(+2.8%)
Non-consolidated gas sales volume total (million m <sup>3</sup> )	8,427	8,259	+168	+2.0%
Consolidated gas sales volume total (million m <sup>3</sup> )	8,459	8,290	+169	+2.0%

# Forecasts for FY2016.3 - I

Figures in ( ) are ratios of consolidated results to non-consolidated results

(billion yen)		A. FY16.3 forecasts	B. FY15.3 results	A-B	A-B/B (%)
Net sales		(1.29) 1,368.5	(1.22) 1,528.1	-159.6	-10.4%
Operating income		(1.53) 113.5	(1.31) 105.0	+8.4	+8.0%
Ordinary income		(1.31) 110.0	(1.23) 108.1	+1.8	+1.7%
Net income		(1.17) 73.5*	(1.09) 76.7	-3.2	-4.2%
SVA**		40.9	42.9	-1.9	-4.6%
Profit/loss on fuel cost adjustment system	billion yen	40.0	12.3	+27.6	
Exchange rate	yen/\$	120.0	109.8	+10.2	
Crude oil price	\$/bbl	65.0***	90.4	-25.4	

\* Net income that belongs to shareholders of the parent company.

\*\* SVA (Shareholders' value added) = NOPAT – Invested capital × WACC

\*\*\* 1Q:55\$/bbl, 2Q:65\$/bbl, 3Q and 4Q:70\$/bbl

# Forecasts for FY2016.3 - II

(billion yen)	A. FY16.3 end forecasts	B. FY15.3 end results	A-B
Total assets	1,866.5	1,862.2	+4.2
Net worth	916.7	888.4	+28.2
Interest-bearing liabilities	643.1	633.9	+9.1
Number of employees	21,901	20,982	+919
Net worth / Total assets	49.1%	47.7%	+1.4
D/E ratio	0.70	0.71	-0.01

	A. FY16.3 forecasts	B. FY15.3 results	A-B
Capital expenditures	125.3	119.3	+5.9
Depreciation	84.5	87.7	-3.2
Free cash flow	129.5	112.2	+17.3
ROA	4.0%	4.3%	-0.3
ROE	8.3%	9.1%	-0.8
EPS (yen/share)	35.3	36.9	-1.5
BPS (yen/share)	440.5	427.0	+13.5

FCF = Cash flows from operating activities - capital expenditures for upgrading existing businesses

# Forecasts for FY2016.3 by Segments

(billion yen)	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY16.3 forecasts	FY15.3 results	FY16.3 forecasts	FY15.3 results	
Gas	974.0	1,136.9	61.0	50.2	<u>Net sales</u> : Decrease in the price of gas sales <u>Profit</u> : Increase in profit on fuel cost adjustment system
LPG, electricity, and other energies	213.0	243.7	25.5	41.6	<u>Net sales</u> : Decrease in revenues of electricity business and LNG sales <u>Profit</u> : Mainly decrease in electricity business
International energies	21.5	13.7	8.5	1.2	<u>Net sales/Profit</u> : Accounting impact of energy business in US in previous year
Life & Business Solutions	229.5	207.5	20.5	16.5	<u>Net sales/Profit</u> : Increase in material business, etc.
Elimination/consolidation	-69.5	-73.7	2.0	2.2	
Consolidated	1,368.5	1,528.1	117.5	112.0	



# Risk Factors for Annual Earnings Results Forecast

- Atmospheric and water temperatures
  - A 1 degree Celsius change in atmospheric and water temperatures will affect the residential gas sales volume: increase/decrease of approx. 5% in spring and autumn, approx. 6% in summer, and approx. 4% in winter.
- Crude oil prices
  - LNG prices are linked to crude oil prices. A +\$1/bbl change in crude oil prices will have an effect of approx. -1.2 billion yen on ordinary profit since the 2<sup>nd</sup> quarter (Jul. thru. Mar.) of this fiscal year.
- Foreign exchange rate
  - LNG prices are affected by fluctuations in the US\$/JPY exchange rate. A +1 yen fluctuation in the US\$/JPY exchange rate will have an effect of approx. -0.7 billion yen on ordinary profit since the 2<sup>nd</sup> quarter (Jul. thru. Mar.) of this fiscal year.
- Materials costs
  - Although the fuel cost adjustment system allows us to reflect changes in fuel costs in gas rates in the medium- and long-term, an increase in fuel costs is likely to affect the business results due to a time lag in reflecting cost fluctuations, and also depends on the composition of fuel suppliers.
- Interest rate
  - A 1% change in the interest rate will have an effect of approx. 500 million yen on annual consolidated non-operating expenses.