



Financial Report for 3rd Quarter of FY2016.3 (April 2015 – December 2015)

January 2016
Osaka Gas Co., Ltd.

I. Business Results for 3rd Quarter of FY2016.3 and Forecasts for 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/ir/index_e.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/m³.

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.

Thank you very much for taking time to attend this briefing on our business result report.

I would like to explain briefly the business results of Osaka Gas for the third quarter of the fiscal year ending March 2016.

Summary of the Results for 3rd Quarter of FY2016.3

Year-on-Year Comparison

■ Overview

Consolidated net sales	Decreased by 10.5% (¥110.5 billion) from the previous year to ¥944.7 billion due to the fall in sales unit price in the Gas Business and decreased gas sales volume, etc.
Consolidated ordinary income	Increased by 78.0% (¥45.4 billion) from the previous year to ¥103.6 billion due to increased income in the Gas Business that was caused by a reduction in materials costs due to a drop in LNG prices, etc.
Consolidated net income*	Increased by 55.4% (¥26.3 billion) from the previous year to ¥73.9 billion * Profit attributable to owners of parent

■ Gas Sales Volume (by class)

Residential	Decreased by 2.8% (36 million m ³) from the previous year to 1,234 million m ³ due to higher air and water temperatures leading to lower demand for heating and hot water, etc.
Commercial, public and medical	Decreased by 2.6% (27 million m ³) from the previous year to 1,013 million m ³ due to improved efficiency of gas appliance, impact of further energy conservation by customers and the fall in capacity utilization of customers, etc.
Industrial	Decreased by 2.5% (76 million m ³) from the previous year to 3,009 million m ³ due to the fall in capacity utilization of customers

The third quarter of the fiscal year ending March 2016 resulted in a decrease in net sales and an increase in income.

Consolidated net sales decreased by 10.5% or 110.5 billion yen from the previous year to 944.7 billion yen due to the fall in sales unit price in the Gas Business and decreased gas sales volume.

Consolidated ordinary income increased by 78.0% or 45.4 billion yen from the previous year to 103.6 billion yen due to increased income in the Gas Business that was caused by a reduction in materials costs due to a drop in LNG prices.

Consolidated net income for the quarter increased by 55.4% or 26.3 billion yen from the previous year to 73.9 billion yen.

Gas sales volume for residential use decreased by 2.8% from the previous year to 1,234 million m³ due to higher air and water temperatures leading to lower demand for heating and hot water.

Gas sales volume for commercial, public and medical uses decreased by 2.6% from the previous year to 1,013 million m³ due to improved efficiency of gas appliance, impact of further energy conservation by customers and the fall in capacity utilization of customers.

Gas sales volume for industrial use decreased by 2.5% from the previous year to 3,009 million m³ due to the fall in capacity utilization of customers.

Gas Sales Volume Results for 3rd Quarter of FY2016.3

45MJ/m ³	A. FY16.3 3Q	B. FY15.3 3Q	A-B	A-B/B (%)
Number of meters installed (thousands)	7,228	7,171	+57	+0.8%
Installation of new meters (thousands)	69	70	-0	-0.5%
Monthly gas sales volume per household (m ³ /month)	23.1	24.0	-0.8	-3.4%
Residential use	1,234	1,269	-36	-2.8%
Commercial, public and medical use	1,013	1,041	-27	-2.6%
Industrial use	3,009	3,085	-76	-2.5%
Commercial and industrial use	4,022	4,126	-104	-2.5%
Wholesale	335	336	-1	-0.2%
(Non-regulated included)	(3,442)	(3,539)	(-97)	(-2.8%)
Non-consolidated gas sales volume (million m ³)	5,591	5,731	-140	-2.4%
Consolidated gas sales volume (million m ³)	5,615	5,755	-140	-2.4%

This table shows the gas sales volume results for the third quarter of the fiscal year ending March 2016.

The gas sales volume on a consolidated basis decreased by 2.4% from the same period of last year, to 5,615 million m³.

Results for 3rd Quarter of FY2016.3 - I

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

Consolidated, billion yen	A. FY16.3 3Q	B. FY15.3 3Q	A-B	A-B/B	Remarks	
Net sales	(1.26) 944.7	(1.22) 1,055.3	-110.5	-10.5%	Fall in the gas sales unit price, etc.	
Operating income	(1.30) 106.4	(1.65) 53.4	+52.9	+99.0%	Increase in a time-lag profit	
Ordinary income	(1.17) 103.6	(1.50) 58.1	+45.4	+78.0%		
Net income	(1.13) 73.9*	(1.27) 47.5	+26.3	+55.4%		
* Profit attributable to owners of parent						
				A. FY16.3 3Q	B. FY15.3 3Q	A-B
Profit/ loss on fuel cost adjustment system	billion yen			55.8	-3.9	+59.7
Crude oil price		\$/bbl		54.8**	103.2	-48.5
Exchange rate		yen/\$		121.7	106.7	+15.0
Number of subsidiaries				148	146	+2
** Average of monthly data up to middle of December.						

Please see the financial results for the third quarter of the fiscal year ending March 2016, summarized on page 5.

As shown in the table below, the operating income and ordinary income increased from the previous year, due mainly to the increase in the time-lag profit.

The time-lag profit on the fuel cost adjustment system increased by 59.7 billion yen from the previous year to 55.8 billion yen profit.

Results for 3rd Quarter of FY2016.3 - II

Consolidated, billion yen	A. FY16.3 3Q end	FY15.3 3Q end	B. year end	A-B	Remarks
Total assets	1,827.7	1,780.7	1,862.2	-34.4	
Net worth	923.5	834.0	888.4	+35.0	
Interest-bearing liabilities	591.9	655.3	633.9	-41.9	
Number of employees	21,168	21,566	20,982	+186	
Net worth / Total assets	50.5%	46.8%	47.7%	+2.8%	
D/E ratio	0.64	0.79	0.71	-0.07	
	A. 16.3 3Q	B. 15.3 3Q	A-B	Remarks	
Capital expenditure	78.3	82.6	-4.2	Decrease in cash spent on upstream businesses	
Depreciation	63.9	64.7	-0.8		
Free cash flow	122.0	25.8	+96.2		
<small>FCF = CF from operating activities - (OP after tax + depreciation and other non-cash expenses) - capital expenditure</small>					

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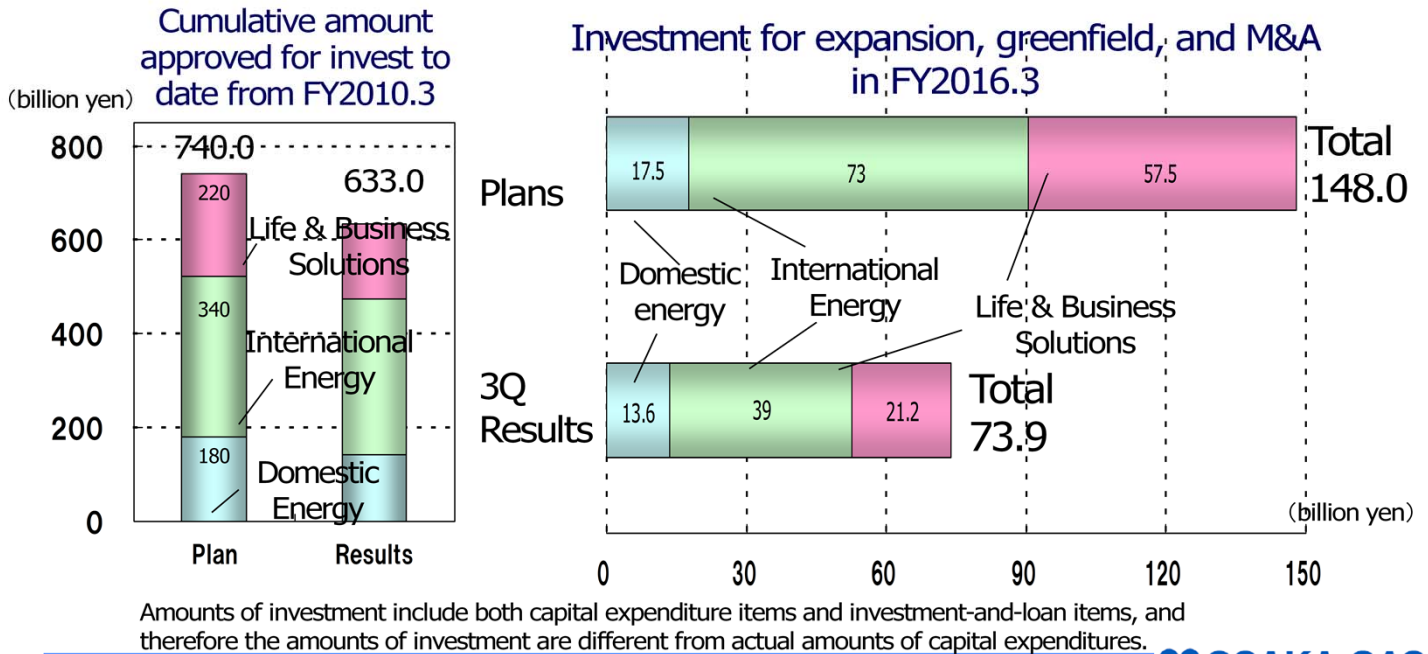
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The results for assets, liabilities, and other major financial indicators are shown in the table on page 6.

Capital expenditure decreased by 4.2 billion yen from the previous year to 78.3 billion yen due to decrease in cash spent on upstream businesses, although invested to construction of domestic power plant and material business, etc.

Results of Investment for Expansion, Greenfield, and M&A in 3rd Quarter of FY2016.3

- Total investment in 3rd Quarter of FY2016.3 were **¥73.9 billion**. Mainly for overseas upstream and downstream businesses, the M&A in advanced material businesses, power plant in domestic energy businesses.
- Cumulative amount approved for investment from FY2010.3 onwards are **¥633.0 billion**. (86% of the amount projected for the period between FY2010.3 and FY2017.3).



Let me now explain the progress of the investment plan for expansion, greenfield, and M&A.

Investments made in the third quarter of the fiscal year amount to 73.9 billion yen.

We have so far allocated 633.0 billion yen of the budget in six years and nine months since the start of the mid-term and long-term management plan in 2009, which accounts for 86% of the plan.

We will further make investments for our future business growth.

Summary of Modifications to Forecasts for FY 2016.3

			A. Revised Forecasts	B. Previous Forecasts	A-B	Remarks
Assumed factors for 4 th Quarter	Crude oil price	\$/bbl	40.0	55.0	-15.0	
	Exchange rate	yen/\$	120	125	-5	
Non-consolidated gas sales volume (45MJ/m ³)	Residential use		2,133	2,168	-35	Considering impact of air and water temperature
	Commercial, industrial, and other use		5,949	6,029	-81	Considering decrease in customers' facilities utilization
P/L (billion yen)	Consolidated net sales		1,339.0	1,358.5	-19.5	Decrease in gas sales unit price, etc.
	Gross margin of gas sales		383.0	375.0	+8.0	Increase in a time-lag profit
	Profit of other sales		28.1	27.1	+1.0	Increase in incidental profit
	Operating expenses, labor costs, and depreciation		303.1	303.1	±0.0	—
	Profit of subsidiaries		37.5	39.5	-2.0	Decrease in activated carbon business, and energy businesses in U.S.
	Consolidated operating income		145.5	138.5	+7.0	
	Consolidated non-operating income / expenses		-10.5	-8.5	-2.0	Decrease in equity in earnings of affiliates, etc.
	Consolidated ordinary income		135.0	130.0	+5.0	

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Let me now explain the modified forecasts for the fiscal year ending March 2016.

Considering forward price and the forecasts of thinktanks, the forecasts for the fourth quarter are based on our latest assumptions of the crude oil price and forex rate, which are 40 US dollars per barrel and 120 yen to the US dollar, respectively.

At residential customers, the forecast of gas sales volume was lowered by 35 million m³ from the previous forecasts due to consider impact of air and water temperature.

And at commercial and industrial customers, the forecast was lowered by 81 million m³ from the previous forecast due to consider reducing in the customers facility utilization.

Consolidated ordinary income is expected to increase by 5 billion yen from previous forecasts, since gas sales gross margin would increase due to increase in time-lag profit although gas sales volumes are expected to drop.

Gas Sales Volume Forecasts for FY2016.3

45MJ/m ³	A. FY16.3 Forecasts	B. FY15.3 Results	A-B	(A-B)/B
Number of meters installed (thousand)	7,248	7,196	+53	+0.7%
Installation of new meters (thousand)	109	107	+3	+2.5%
Monthly gas sales volume per household (m ³ /month)	30.0	30.9	-0.9	-3.0%
Residential use	2,133	2,186	-53	-2.4%
Commercial, public, and medical use	1,413	1,465	-52	-3.6%
Industrial use	4,070	4,133	-64	-1.5%
Commercial and industrial use	5,483	5,599	-116	-2.1%
Wholesale	466	474	-8	-1.8%
(Non-regulated included)	(4,658)	(4,755)	(-96)	(-2.0%)
Non-consolidated gas sales volume (million m ³)	8,081	8,259	-178	-2.1%
Consolidated gas sales volume (million m ³)	8,113	8,290	-177	-2.1%

This slide shows the gas sales volume forecast for the fiscal year ending March 2016 in comparison with the previous year.

Forecasts for FY2016.3 - I

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

Consolidated, billion yen	A. FY16.3 Forecasts	B. FY15.3 Results	A-B	(A-B)/B
Net sales	(1.28) 1,339.0	(1.22) 1,528.1	-189.1	-12.4%
Operating income	(1.35) 145.5	(1.31) 105.0	+40.4	+38.5%
Ordinary income	(1.19) 135.0	(1.23) 108.1	+26.8	+24.8%
Net income	(1.13) 92.5 ^{※1}	(1.09) 76.7	+15.7	+20.6%
SVA ^{※2}	59.8	42.9	+16.8	+39.3%

		A. FY16.3 Forecasts	B. FY15.3 Results	A-B
Profit/loss on fuel cost adjustment system	billion yen	79.9	12.3	+67.6
Crude oil price ^{※3}	\$/bbl	51.1	90.4	-39.3
Exchange rate	yen/\$	121.3	109.8	+11.5

*1 Profit attributable to owners of parent

*2 SVA (Shareholders' value added) = NOPAT - Invested capital × WACC

*3 For the period from January 2016 to March 2016, it is assumed that the crude oil price is 40\$/bbl, and the exchange rate is ¥120/\$.

This slide shows the profit and loss forecasts for the whole year in comparison with the previous year.

Net sales are expected to be 1 trillion and 339 billion yen, down 12.4%.

As for profits, operating income is expected to increase by 38.5% to 145.5 billion yen, and ordinary income to increase by 24.8% to 135.0 billion yen.

Forecasts for FY2016.3 - II

Consolidated, billion yen	A. FY16.3 end Forecasts	B. FY15.3 end Results	A-B
Total assets	1,863.5	1,862.2	+1.2
Net worth	942.2	888.4	+53.7
Interest-bearing debt	608.9	633.9	-25.0
Number of employees	21,901	20,982	+919
Equity ratio	50.6%	47.7%	+2.8%
D/E ratio	0.65	0.71	-0.07
	A. FY16.3 Forecasts	B. FY15.3 Results	A-B
Capital expenditure	125.3	119.3	+5.9
Depreciation	84.5	87.7	-3.2
Free cash flow	163.6	112.2	+51.3
ROA	5.0%	4.3%	+0.6%
ROE	10.1%	9.1%	+1.0%
EPS (yen)	44.5	36.9	+7.6
BPS (yen)	452.9	427.0	+25.9

FCF = CF from operating activities - (OP after tax + depreciation and other non-cash expenses) - capital expenditure

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This slide shows the summary of the forecasts for assets, liability, and primary financial indicators.

ROA and ROE for the entire year are expected to be 5.0% and 10.1%, respectively.

For the detailed gap analysis and breakdown by segment, please refer to the handouts.

This concludes my presentation.
Thank you for your kind attention.

II. Facts and Figures

Latest Topics I

Start to take applications for low-voltage electricity contracts

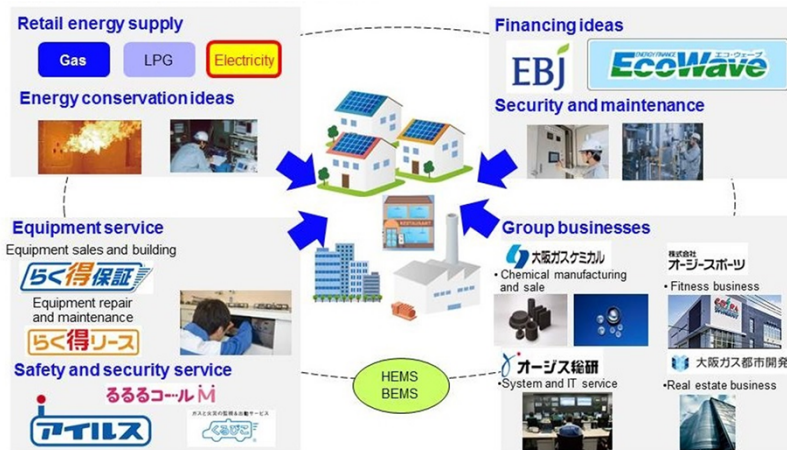
Applications accepted from	From January 4, 2016 (electricity supply begins April 1, 2016)
Sales area	Kyoto Prefecture, Osaka Prefecture, Shiga Prefecture, Hyogo Prefecture (some areas excluded), Nara Prefecture, Wakayama Prefecture, Fukui Prefecture (some areas), Mie Prefecture (some areas), Gifu Prefecture (some areas)
Fee plans	<ol style="list-style-type: none"> Base Plan A <equivalent to Metered Usage Lighting A> *Optional discounts available (a. Discount for purchasing both gas and electricity, 1% off; b. Long-term 2-year discount, 2% off) Residential Gas Electricity Generation Plan Base Plan B <equivalent to Metered Usage Lighting B>



これからは、電気も大阪ガス。



Overview of energy services



Recommended for these customers

- Large families** (Illustration of a family of five)
- Many rooms** (Illustration of a person cleaning a large room)
- Heavy air conditioner use** (Illustration of a person using a large air conditioner)
- At home most of the time** (Illustration of a family relaxing on a sofa)



Latest Topics II

Equity participation in Italian city gas distributor Erogasmet S.p.A.

Overview of Erogasmet S.p.A.

Corporate headquarters	Brescia, Lombardy, Italy
Total assets / income	About €193 million / about €45 million
Distribution customers / volume	256,000 (10th largest in Italy) / 360 million m ³ annually
Miles of pipeline	About 3,000 km
Service areas	Piedmont, Lombardy, Veneto, Lazio, Umbria regions

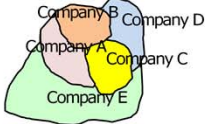


Overview of concession reorganization

<Now>

Current concessions:
Fragmented into individual cities and towns (6,500 areas throughout Italy)
Very few customers per concession

Small business areas



Reorganize and consolidate service areas

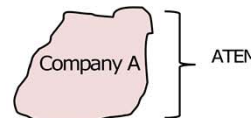
Submit bid (2016-18)

Reorganize small business areas so they have a certain size (ATEM) and submit bids



<After reorganization>

New concessions:
Concessions covering larger areas (177 areas throughout Italy)
customers per concession gains



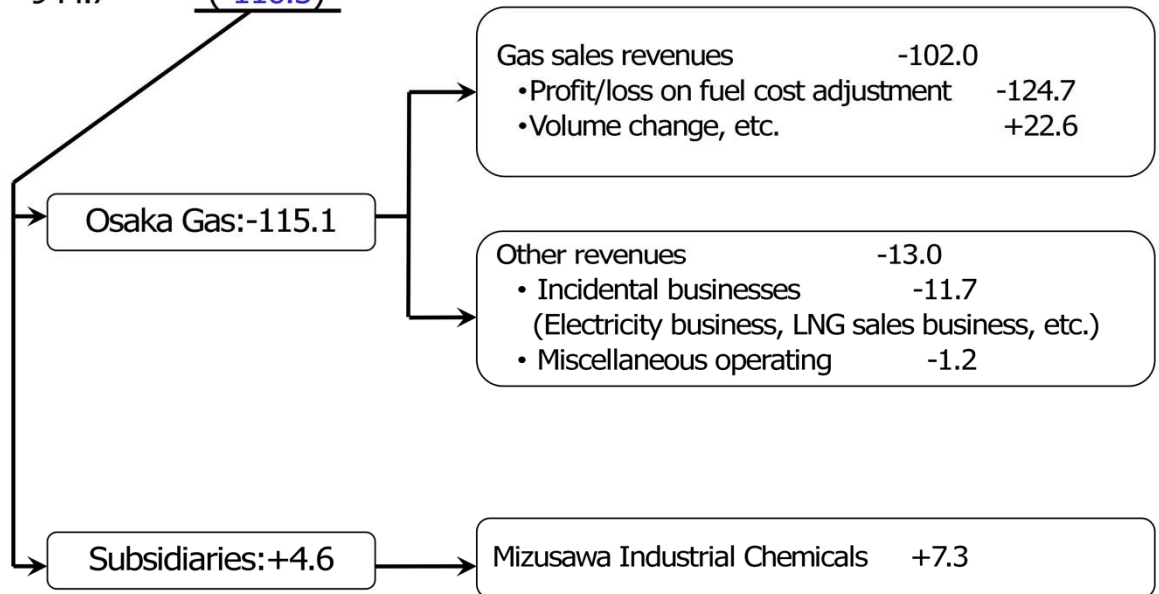
As a result of a bid, company A wins the bid and acquire the reorganized areas

- Companies B, C, D, and E sell their assets to Company A
- Company A gets exclusive gas distribution rights for 12 years

Sales Variance for 3rd Quarter of FY2016.3 (Year-on-Year)

FY15.3 3Q → FY16.3 3Q (differences)
 1,055.3 944.7 (-110.5)

billion yen



Ordinary Income Variance for 3rd Quarter of FY2016.3 (Year-on-Year)

+/- signs indicate impact on profit.

FY15.3 3Q → FY16.3 3Q (differences)
 58.1 103.6 (+45.4)

billion yen

Osaka Gas: +49.4

Subsidiaries: -3.9

Gross margin of gas sales +51.5
 • Profit/ loss on fuel cost adjustment +59.7
 • Volume change, etc. -8.2

Decrease in expenses +4.5

Profit of other sales -6.3
 • Incidental businesses -9.1
 • Miscellaneous operating +2.8

Non-operating income / expenses -0.3

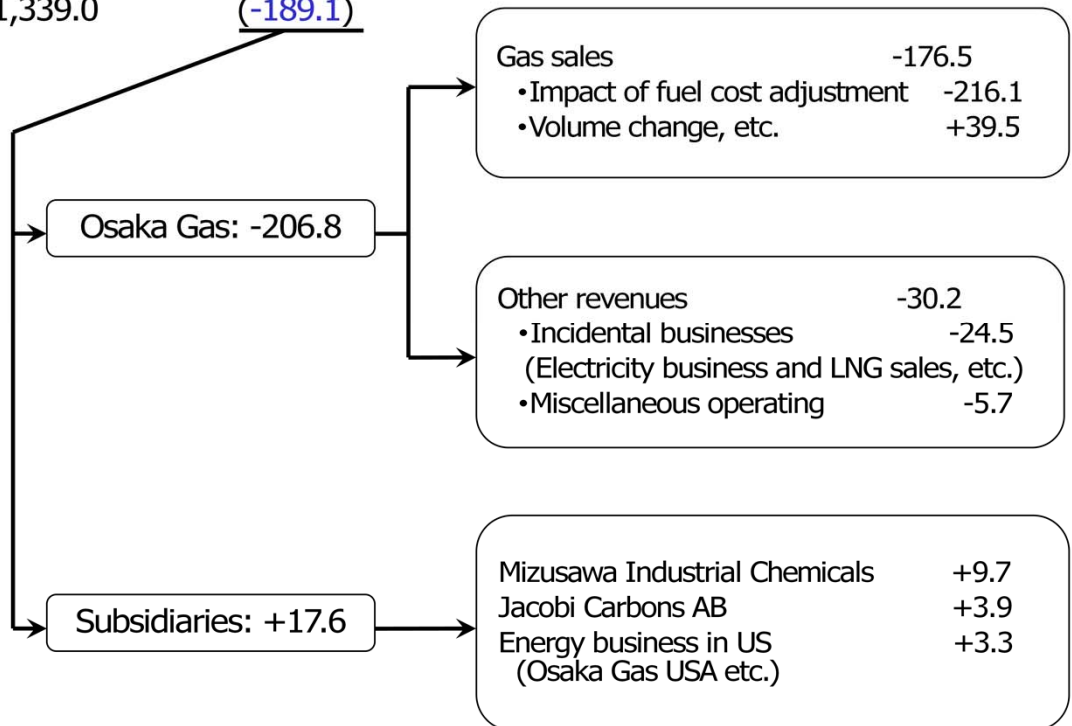
Idemitsu Snorre
 (Equity in earning of affiliate) -2.7

Sales variance for FY2016.3 (Year-on-Year)

FY15.3 results → FY16.3 forecasts (differences)

1,528.1 1,339.0 (-189.1)

(billion yen)



Ordinary income variance for FY2016.3 (Year-on-Year)

+/- signs indicate impact on profit.

FY15.3 results → FY16.3 forecasts (differences)

108.1

135.0

(+26.8)

(billion yen)

Osaka Gas: +24.7

Subsidiaries: +2.0

Gross margin of gas sales +39.7
 • Profit/loss on fuel cost adjustment +67.6
 • Volume change, etc. -27.8

Increase in costs -0.7
 • Increase in operating expenses -0.6

Profit of other sales -11.2
 • Profit of incidental business (Mainly Electricity business) -15.1
 • Miscellaneous operating +3.8

Non-operating income and expenses -3.0

Energy business in US (Mainly Freeport Project) +6.1
 Idemitsu Snorre (Equity in earning of affiliate) -2.7

Results for 3rd Quarter of FY2016.3 by Segment

billion yen	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY16.3 3Q	FY15.3 3Q	FY16.3 3Q	FY15.3 3Q	
Gas	671.6	777.8	67.7	8.4	Net sales: Decrease in gas sales unit price and gas sales volume Profit: Increase in gross margin of gas sales
LPG, electricity, and other energy	156.5	174.6	23.3	32.0	Net sales: Decrease in electricity and LPG businesses, etc. Profit: Mainly decrease in electricity business
International energy	12.5	10.2	1.3	8.3	Net sales: Increase in LNG tanker business, etc. Profit: Mainly decrease in upstream business
Life & Business Solutions	153.3	141.6	12.8	9.9	Net sales: Increase in advanced material businesses, etc. Profit: Increase in advanced material businesses (Temporary expenses in previous year)
Adjustments	-49.3	-49.0	0.8	1.8	
Consolidated	944.7	1,055.3	105.9	60.7	

Forecasts for FY2016.3 by Segment

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	953.1	1,136.9	93.0	50.2	<u>Net sales:</u> Decrease in gas sales unit price and gas sales volume <u>Profit:</u> Increase in gross margin of gas sales
LPG, electricity, and other energy	207.3	243.7	26.0	41.6	<u>Net sales:</u> Decrease in electricity and LPG businesses <u>Profit:</u> Mainly decrease in electricity business
International energy	19.3	13.7	2.5	1.2	<u>Net sales / Profit:</u> Increase in Energy businesses in US etc.
Life & Business Solutions	227.2	207.5	20.0	16.5	<u>Net sales:</u> Increase in advanced material businesses, etc. <u>Profit:</u> Increase in advanced material businesses (Temporary expenses in previous year)
Adjustments	-67.9	-73.7	2.1	2.2	
Consolidated	1,339.0	1,528.1	143.6	112.0	

Residential Gas Sales

FY2016.3 3Q Results

	YoY change	Remarks
Number of customers	+0.6%	
Influence of temperature	-3.0%	Average annual temperature: 20.4 degrees Celsius (Year-on-Year change: +0.6 degrees Celsius)
Others	-0.4%	Improved efficiency of gas appliance, impact of further energy conservation by customers etc.
Total	-2.8%	



FY2016.3 Forecasts

- Full-year result is expected to fall below the previous forecasts by 35 million m³, which is a decrease by 53 million m³ from the previous year to 2,133 million m³

Commercial, Public, and Medical Gas Sales

FY2016.3 3Q Results

	YoY change	Remarks
Demand development	+2.3%	Marketing efforts to develop new demand for air conditioning
Influence of temperature, etc.	-0.8%	
Individual factors	-1.3%	Decrease in capacity utilization of customers' facilities due to special factors
Others	-2.8%	Improved efficiency of gas appliance, impact of further energy conservation by customers etc.
Total	-2.6%	

FY2016.3 Forecasts



- Full-year result is expected to fall below the previous forecasts by 23 million m³, which is a decrease of 52 million m³ from the previous year to 1,413 million m³

Industrial Gas Sales

FY2016.3 3Q Results

	YoY change	Remarks
Demand development	+1.7%	Shift to gas from other fuels, etc.
Increase/decrease of operating rates	-2.9%	Decrease in capacity utilization of customers' facilities
Individual factors	-0.7%	Decrease due to special factors
Others	-0.7%	
Total	-2.5%	

Breakdown by sector

(45MJ, million m³)

	Volume	YoY change
Machinery	231	96.1%
Metal	709	93.9%
Glass	223	96.9%
Chemical	888	99.2%
Food	391	100.7%

FY2016.3 Forecasts



- Full-year result is expected to fall below the previous forecasts by 51 million m³, which is a decrease of 64 million m³ from the previous year to 4,070 million m³

Monthly Gas Sales

Year-on-Year Change FY2015 / FY2014 (%)

	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Total	
Residential	99.7	93.4	96.0	107.4	101.8	97.6	105.3	94.3	90.4	97.2	
Commercial, Public, Medical	100.8	107.9	94.6	96.6	102.4	94.3	93.2	94.7	91.8	97.4	
Industrial	98.2	93.2	96.8	100.0	102.4	96.7	96.0	99.9	94.6	97.5	
By Segment	Machinery	97.2	93.5	103.5	97.9	103.2	93.5	93.0	100.7	84.2	96.1
	Metal	93.6	91.4	92.7	95.9	97.8	93.4	93.3	96.0	91.6	93.9
	Glass	92.4	89.7	97.6	97.4	100.2	98.8	99.3	101.5	95.2	96.9
	Chemical	100.9	93.6	101.1	103.8	106.5	101.6	93.2	98.7	94.0	99.2
	Food	99.6	97.6	100.0	103.3	103.5	99.0	99.7	104.5	99.0	100.7
Wholesale	103.2	97.0	101.9	101.5	108.2	96.5	92.3	111.8	88.8	99.8	
Total	99.4	95.6	96.6	100.5	102.7	96.2	96.8	98.3	92.6	97.6	

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. -0.0 billion yen on ordinary income since the 4th quarter (Jan. 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. -0.6 billion yen on ordinary income since the 4th quarter (Jan. 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.