

Financial Report for 1st Quarter of FY2017.3 (April 2016 – June 2016)

July 2016

Osaka Gas Co., Ltd.

I. Business Results for 1st Quarter of FY2017.3

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/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

Summary of Business Results for 1st Quarter of FY 2017.3

Year-on-Year Comparison

■ Overview

| | |
|-----------------|---|
| Net sales | Decreased by 19.1% to ¥276.3 billion due to the fall in gas sales unit price driven by lower LNG prices |
| Ordinary income | Decreased by 45.5% to ¥40.3 billion due to the decrease in gross profit of gas sales caused by the decrease in time-lag profit Time-lag profit totaled ¥14.5 billion (Time-lag profit of the 1 st quarter of the previous year totaled ¥41.5 billion) |

■ Gas Sales Volume

| | |
|-----------------------------|--|
| Residential | Decreased by 2.2% to 501 million m ³ , due to high-efficiency of gas appliances and higher air and water temperatures in spring |
| Commercial, public, medical | Decreased by 3.4% to 291 million m ³ , due to high-efficiency of gas appliances and customers' energy-saving consciousness |
| Industrial | Increased by 11.6% to 1,091 million m ³ , due to newly created large demand and increase in capacity utilization of customers |

■ Others

| | |
|---|---|
| Investments for expansion, greenfield and M&A | Invested mainly in international energy businesses that are already approved. Total investments of ¥12.9 billion, down ¥11.6 billion from the previous year |
|---|---|

Gas Sales Volume Results for 1st Quarter of FY2017.3

45MJ/m³

| | A. FY17.3 1Q | B. FY16.3 1Q | A-B | A-B/B (%) |
|---|--------------------|--------------------|--------|--------------|
| Number of meters installed (thousands) | 7,259 | 7,203 | +55 | +0.8% |
| Installation of new meters (thousands) | 22 | 24 | -2 | -9.9% |
| Monthly gas sales volume per household (m ³ /month) | 28.0 | 28.9 | -0.9 | -3.0% |
| Residential use | 501 | 512 | -11 | -2.2% |
| Commercial, public and medical use | 291 | 302 | -10 | -3.4% |
| Industrial use | 1,091 | 978 | +114 | +11.6% |
| Commercial and industrial use | 1,383 | 1,280 | +103 | +8.1% |
| Wholesale | 115 | 110 | +5 | +4.2% |
| (Non-regulated included) | (1,207) | (1,098) | (+109) | (+9.9%) |
| Non-consolidated gas sales volume (million m ³) | 1,999 | 1,902 | +97 | +5.1% |
| Consolidated gas sales volume (million m ³) | 2,009 | 1,913 | +96 | +5.0% |

Results for 1st Quarter of FY2017.3 - I

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

| Consolidated, billion yen | A. FY17.3 1Q | B. FY16.3 1Q | A-B | A-B/B | Remarks |
|------------------------------|-----------------|-----------------|-------|--------|---|
| Net sales | (1.28) 276.3 | (1.22) 341.5 | -65.2 | -19.1% | Fall in the gas sales unit price, etc. |
| Operating income | (1.17) 38.4 | (1.11) 72.3 | -33.9 | -46.9% | Decrease in gross margin of gas sales, etc. |
| Ordinary income | (0.86) 40.3 | (1.04) 74.1 | -33.7 | -45.5% | Decrease in gross margin of gas sales, etc. |
| Net income* | (0.74) 26.9 | (1.00) 52.1 | -25.2 | -48.4% | |

* Net income that belongs to shareholders of the parent company

| | | A. FY17.3 1Q | B. FY16.3 1Q | A-B |
|--|-------------|--------------|--------------|-------|
| Profit / loss on fuel cost adjustment system | billion yen | 14.5 | 41.5 | -27.0 |
| Crude oil price | \$/bbl | 40.9 | 59.6 | -18.7 |
| Exchange rate | yen/\$ | 108.0 | 121.4 | -13.4 |

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

Results for 1st Quarter of FY2017.3 - II

| Consolidated, billion yen | A. FY17.3 1Q end | FY16.3 1Q end | B. year end | A-B | Remarks |
|------------------------------|---------------------|------------------|----------------|-------|----------------------------------|
| Total assets | 1,736.5 | 1,834.0 | 1,829.7 | -93.1 | Decrease in current assets, etc. |
| Net worth | 896.7 | 922.7 | 906.6 | -9.8 | |
| Interest-bearing liabilities | 552.7 | 591.5 | 567.1 | -14.4 | |
| Number of employees | 21,137 | 21,634 | 20,844 | +293 | |
| Net worth / Total assets | 51.6% | 50.3% | 49.5% | +2.1 | |
| D/E ratio | 0.62 | 0.64 | 0.63 | -0.01 | |

| | A. 17.3 1Q | B. 16.3 1Q | A-B | Remarks |
|---------------------|------------|------------|-------|---|
| Capital expenditure | 15.4 | 21.9 | -6.5 | Decrease in cash spent on production facilities |
| Depreciation | 20.6 | 20.9 | -0.3 | |
| Free cash flow | 8.8 | 81.4 | -72.5 | |



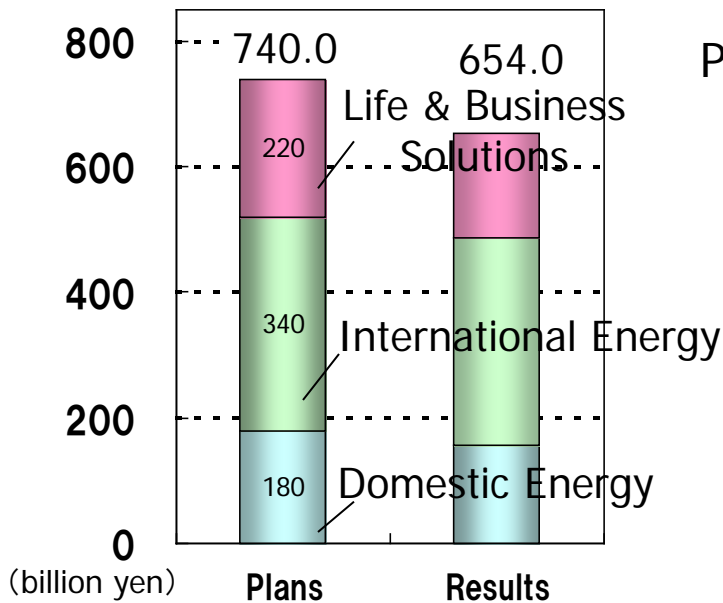
II. Facts and Figures (1)

Results of Investments

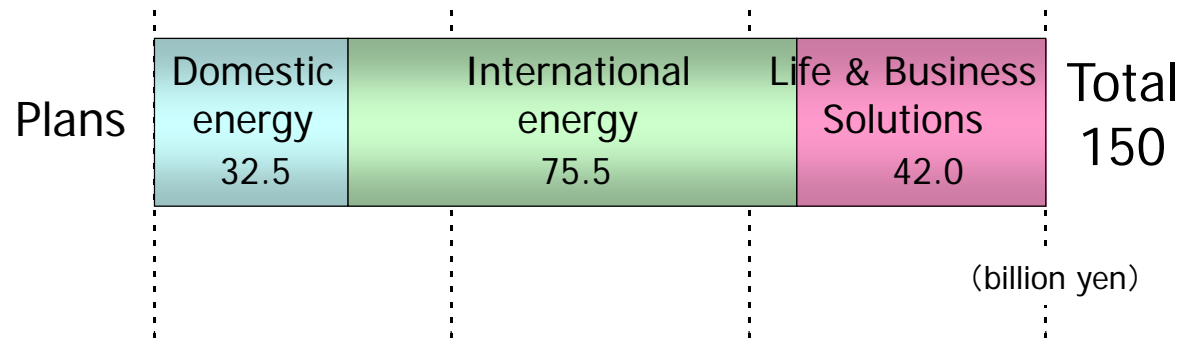
for expansion, greenfield, and M&A in FY2017.3

- Cumulative amount approved for investment from FY2010.3 onwards are **¥654.0 billion** (88% of the amount projected for the period between FY2010.3 and FY2017.3)
- Total investment in FY2017.3 were **¥12.9 billion** (9% of the plan in FY2017.3)

Cumulative amount approved for invest to date from FY2010.3



Investment for expansion, greenfield, and M&A in FY2017.3



1Q Total investment : ¥12.9 billion in FY2017.3

Domestic energy : 2.7 (LPG business, construction of power plants, etc.)

International energy : 7.8 (Upstream business, construction of power plant, etc.)

Life & Business Solutions : 2.3 (Real estate business, etc.)

(billion yen)

Amounts of investment include both capital expenditure items and investment-and-loan items, and therefore the amounts of investment are different from actual amounts of capital expenditures

Sales variance for 1st Quarter of FY2017.3 (Year-on-Year)

FY16.3 1Q → FY17.3 1Q (differences)

341.5

276.3

(-65.2)

(billion yen)

Osaka Gas: -64.3

Subsidiaries: -0.8

| | |
|----------------------------------|-------|
| Gas sales | -56.9 |
| • Impact of fuel cost adjustment | -63.6 |
| • Volume change | +5.7 |
| • Others | +1.0 |

| | |
|--|------|
| Other revenues | -7.4 |
| • Miscellaneous operating revenue | -2.1 |
| • Incidental business sales (Mainly electricity business) | -5.3 |

| | |
|-----------------|------|
| LPG distributor | -1.5 |
|-----------------|------|

Ordinary income variance for 1st Quarter of FY2017.3 (Year-on-Year)

FY16.3 1Q → FY17.3 1Q (differences)

74.1

40.3

(-33.7)

(billion yen)

Osaka Gas: -24.2

Subsidiaries: -9.5

+/- signs indicate impact on profit.

Gross margin of gas sales -27.4

- Profit on fuel cost adjustment system -27.0
- Volume change -0.7
- Others +0.3

Gross margin of other sales -5.1

- Miscellaneous operating profit +0.6
- Incidental business profit -5.7

Decrease in operating expenses -0.0

Non-operating income +8.3

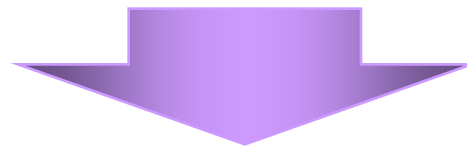
Osaka Gas USA -2.5

Idemitsu Snorre Oil Development (Equity method affiliates) -1.1

Residential Gas Sales

FY2017.3 1Q results

| | YoY change | Remarks |
|-----------------------------|------------|--|
| Number of customers | +0.8% | |
| Impact of temperature, etc. | -0.8% | Average annual temperature: 20.4 degrees Celsius (+0.3 degrees Celsius from the previous year) |
| Others | -2.2% | High-efficiency of gas appliances, etc. |
| Total | -2.2% | |



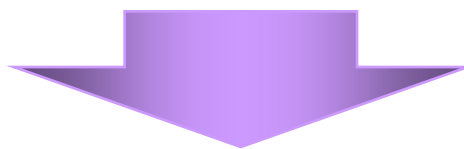
FY2017.3 forecasts

- Residential gas sales volume is expected to increase from the previous year by 44 million m³ (up 2.1% YoY) to 2,127 million m³, assuming that temperatures will be the same as usual years and gas demand will increase in winter period, etc.

Commercial/Public and medical Gas Sales

FY2017.3 1Q results

| | YoY change | Remarks |
|-----------------------------|------------|--|
| Demand development | +2.0% | New demand development (mainly air condition) |
| Impact of temperature, etc. | -0.3% | |
| Individual factor | -0.8% | Decreased in capacity utilization of customers' facilities, due to individual factor |
| Others | -4.3% | High-efficiency of gas appliances and customers' energy-saving consciousness, etc. |
| Total | -3.4% | |



FY2017.3 forecasts

- Commercial/Public and medical gas sales volume is expected to increase by 55 million m³ (up 3.9% YoY) to 1,464 million m³, assuming increase in capacity utilization of customers' facilities, etc.

Industrial Gas Sales

FY2017.3 1Q results

| | YoY change | Remarks |
|--|------------|--|
| Demand development | +12.9% | Newly created large demands, etc. |
| Capacity utilization of facilities, etc. | +1.0% | Increased in capacity utilization of customers' facilities |
| Individual factor | -1.5% | Decreased in individual factor, etc. |
| Others | -0.8% | |
| Total | +11.6% | |

Breakdown by sectors (45MJ, million m³)

| | Volume | Y-o-Y |
|-----------|--------|--------|
| Machinery | 69 | 97.3% |
| Metal | 237 | 100.0% |
| Glass | 70 | 99.1% |
| Chemical | 313 | 103.6% |
| Food | 131 | 103.2% |

FY2017.3 forecasts

- Industrial gas sales volume is expected to increase by 314 million m³ (up 7.7% YoY) to 4,373 million m³, assuming new demand development and increase in capacity utilization of customers' facilities, etc.

Results for 1st Quarter of FY2017.3 by Segments

| billion yen | Net sales | | Operating income + Equity in earnings of affiliates | | Remarks |
|--|--------------|------------------|--|--------------|--|
| | FY17.3 1Q | FY16.3 1Q (*) | FY17.3 1Q | FY16.3 1Q | |
| Gas | 196.8 | 255.9 | 32.5 | 59.1 | <u>Net sales</u> : Fall in the gas sales unit price, etc. <u>Income</u> : Decrease in time-lag profit |
| LPG, electricity, and other energies | 40.2 | 48.2 | 3.5 | 8.1 | <u>Net sales / Income</u> : Mainly decrease in electricity business |
| International energies | 3.0 | 4.4 | -2.4 | 1.2 | <u>Net sales</u> : Decrease in OGUSA, etc. <u>Income</u> : Decrease in OGUSA, Idemitsu Snorre Oil Development, etc. |
| Life & Business Solutions | 49.2 | 47.7 | 3.5 | 3.3 | <u>Net sales</u> : Increase in OG Urban Development, etc. <u>Income</u> : Increase in Jacobi Carbons, etc. |
| Elimination/ consolidation | -13.1 | -14.8 | 0.6 | 0.5 | |
| Consolidated | 276.3 | 341.5 | 37.7 | 72.5 | |

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 2nd 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. -0.6 billion yen on ordinary profit since the 2nd 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. -0.5 billion yen on annual consolidated non-operating expenses



III. Facts and Figures (2)

- Forecasts for FY2017.3

Maintaining our full-year forecasts unchanged from the April forecasts

Gas Sales Volume Forecasts for FY2017.3

| 45MJ/m ³ | A. FY17.3 forecasts | B. FY16.3 results | A-B | A-B/B(%) |
|---|------------------------|----------------------|--------|----------|
| Number of meters installed (thousand) | 7,298 | 7,252 | +46 | +0.6% |
| Installation of new meters (thousand) | 109 | 109 | -0 | -0.4% |
| Monthly gas sales volume per household (m ³ /month) | 29.7 | 29.3 | +0.4 | +1.5% |
| Residential use | 2,127 | 2,083 | +44 | +2.1% |
| Commercial, public, and medical use | 1,464 | 1,410 | +55 | +3.9% |
| Industrial use | 4,373 | 4,059 | +314 | +7.7% |
| Non-residential total | 5,837 | 5,469 | +368 | +6.7% |
| Wholesale | 483 | 469 | +14 | +3.0% |
| (non-regulated) | (4,991) | (4,647) | (+344) | (+7.4%) |
| Non-consolidated gas sales volume total (million m ³) | 8,447 | 8,021 | +427 | +5.3% |
| Consolidated gas sales volume total (million m ³) | 8,480 | 8,052 | +427 | +5.3% |

Forecasts for FY2017.3 - I

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

| (billion yen) | | A. FY17.3 forecasts | B. FY16.3 results | A-B | A-B/B (%) |
|---|----------------|------------------------|----------------------|--------|-----------|
| Net sales | | (1.32) 1,170.5 | (1.27) 1,322.0 | -151.5 | -11.5% |
| Operating income | | (1.80) 85.5 | (1.31) 146.6 | -61.1 | -41.7% |
| Ordinary income | | (1.36) 78.0 | (1.19) 134.9 | -56.9 | -42.2% |
| Net income* | | (1.16) 52.0 | (1.01) 84.3 | -32.3 | -38.3% |
| SVA** | | 23.4 | 52.6 | -29.1 | -55.4% |
| Profit/loss on fuel cost adjustment system | billion yen | 12.4 | 81.7 | -69.2 | |
| Crude oil price | \$/bbl | 42.5*** | 48.7 | -6.2 | |
| Exchange rate | yen/\$ | 120.0 | 120.2 | -0.2 | |

* Profit attributable to owners of parent

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

*** 1H: 40\$/bbl, 2H: 45\$/bbl

Forecasts for FY2017.3 - II

| (billion yen) | A. FY17.3 end forecasts | B. FY16.3 end results | A-B |
|------------------------------|-------------------------|-----------------------|--------|
| Total assets | 1,890.7 | 1,829.7 | +60.9 |
| Net worth | 974.1 | 906.6 | +67.4 |
| Interest-bearing liabilities | 569.8 | 567.1 | +2.6 |
| Number of employees | 21,232 | 20,844 | +388 |
| Net worth / Total assets | 51.5% | 49.5% | +2.0 |
| D/E ratio | 0.59 | 0.63 | -0.04 |
| | A. FY17.3 forecasts | B. FY16.3 results | A-B |
| Capital expenditures | 109.5 | 114.4 | -4.8 |
| Depreciation | 86.6 | 86.7 | -0.0 |
| Free cash flow * | 113.5 | 225.7 | -112.2 |
| ROA | 2.8% | 4.6% | -1.8 |
| ROE | 5.4% | 9.4% | -4.0 |
| EPS (yen/share) | 25.0 | 40.5 | -15.5 |
| BPS (yen/share) | 468.3 | 435.8 | +32.4 |

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

Forecasts for FY2017.3 by Segments

| (billion yen) | Net sales | | Operating income + Equity in earnings of affiliates | | Remarks |
|--|---------------------|-------------------|--|-------------------|---|
| | FY17.3 forecasts | FY16.3 results | FY17.3 forecasts | FY16.3 results | |
| Gas | 796.1 | 948.5 | 45.5 | 95.7 | <u>Net sales</u> : Fall in the unit price of gas sales, etc. <u>Profit</u> : Decrease in profit on fuel cost adjustment system |
| LPG, electricity, and other energies | 190.8 | 206.4 | 13.5 | 28.8 | <u>Net sales/Profit</u> : Mainly decrease in electricity business |
| International energies | 22.7 | 18.7 | 1.5 | -0.2 | <u>Net sales</u> : Increase in LNG tanker business, etc. <u>Profit</u> : Increase in equity in earnings of affiliates |
| Life & Business Solutions | 221.3 | 221.7 | 22.0 | 18.8 | <u>Profit</u> : Increase in Osaka Gas Chemicals Group, etc. |
| Elimination/ consolidation | -60.4 | -73.3 | 2.1 | -0.9 | |
| Consolidated | 1,170.5 | 1,322.0 | 84.6 | 142.1 | |



Thank you