

# Financial Report for 1<sup>st</sup> Quarter of FY2017.3 (April 2016 – June 2016)

July 2016  
Osaka Gas Co., Ltd.



# I. Business Results for 1<sup>st</sup> 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/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.

I would like to explain briefly the business results of Osaka Gas for the first quarter of the fiscal year ending March, 2017.

# Summary of Business Results for 1<sup>st</sup> 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 totaled ¥41.5 billion from the previous year)

### ■ Gas Sales Volume

Residential	Decreased by 2.2% to 501 million m <sup>3</sup> , 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 <sup>3</sup> , due to high-efficiency of gas appliances and customer's energy-saving consciousness.
Industrial	Increased by 11.6% to 1,091 million m <sup>3</sup> , 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.
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The first quarter of the fiscal year ending March, 2017 resulted in a decrease in net sales and income.

Net sales decreased by 19.1% from the previous year to 276.3 billion yen, due to the fall in gas sales unit price driven by lower LNG prices.

Ordinary income decreased by 45.5% from the previous year to 40.3 billion yen, 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 yen, down 27.0 billion yen from the previous year.

Gas sales volume for residential use decreased by 2.2% from the previous year to 501 million m<sup>3</sup> due to high-efficiency of gas appliances and higher air and water temperatures in spring.

Gas sales volume for commercial, public and medical uses decreased by 3.4% from the previous year to 291 million m<sup>3</sup>, due to high-efficiency of gas appliances and customer's energy-saving consciousness.

Regarding industrial use, gas sales volume increased by 11.6% from the previous year to 1,091 million m<sup>3</sup> due to newly created large demand and increase in capacity utilization of customers.

Investments in the first quarter of the fiscal year totaled 12.9 billion yen, down 11.6 billion yen from the previous year. Mainly invested in international energy businesses that are already approved.

## Gas Sales Volume Results for 1<sup>st</sup> Quarter of FY2017.3

45MJ/m <sup>3</sup>	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 <sup>3</sup> /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 <sup>3</sup> )	1,999	1,902	+97	+5.1%
Consolidated gas sales volume (million m <sup>3</sup> )	2,009	1,913	+96	+5.0%

This table shows the gas sales volume results for the first quarter of the fiscal year ending March, 2017.

The gas sales volume on a consolidated basis increased by 5.0% from the same period of last year, to 2,009 million m<sup>3</sup>.

Though its are not mentioned, I'd like to inform that the number of low-voltage electricity supply reached the 135 thousand mark up to the end of June.

As for the number of contracts, it reaches almost 170 thousand so far.

Moreover, the number of low-voltage electricity supply and the electric power sales volume are shown in "Supplementary Information" file.

# Results for 1<sup>st</sup> 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.

As shown in the table, the net sales decreased by 65.2 billion yen from the previous year to 276.3 billion yen, due to fall in the gas sales unit price.

Since the gross margin of gas sales decreased due to decrease in the time-lag profit under the fuel cost adjustment system, operating income and ordinary income decreased.

Operating income decreased by 33.9 billion yen from the previous year to 38.4 billion yen.

Ordinary income decreased by 33.7 billion yen from the previous year to 40.3 billion yen.

# Results for 1<sup>st</sup> 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		

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

Capital expenditure decreased by 6.5 billion yen from the previous year to 15.4 billion yen, due to decrease in cash spent on production facilities such as LNG tank.

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

Moreover, we maintain our full-year forecasts unchanged from April forecasts.

This concludes the presentation.

Thank you for your kind attention.



## II. Facts and Figures (1)

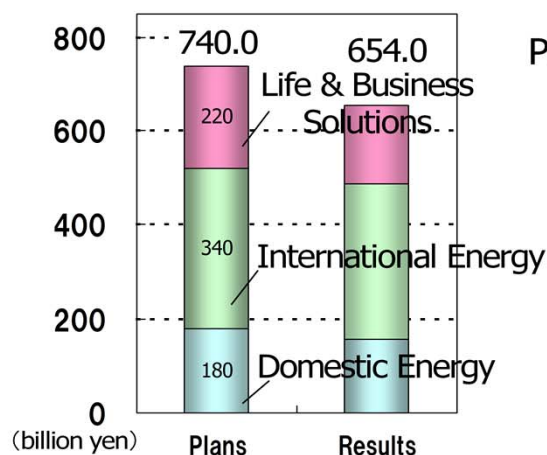


# Results of Investments

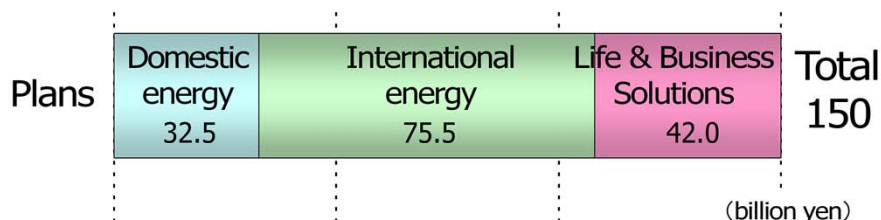
## for expansion, greenfield, and M&A in FY2017.3

- 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 1<sup>st</sup> 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 -5.3  
 (Mainly electricity business)

LPG distributor -1.5

## Ordinary income variance for 1<sup>st</sup> Quarter of FY2017.3 (Year-on-Year)

FY16.3 1Q → FY17.3 1Q (differences)

+/- signs indicate impact on profit.

74.1

40.3

(-33.7)

(billion yen)

Osaka Gas: -24.2

Subsidiaries: -9.5

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 +0.6
- Incidental business -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 m<sup>3</sup> (up 2.1% YoY) to 2,127 million m<sup>3</sup>, assuming that temperatures will be the same as usual years and will increase in gas demand in winter period, etc.

# Commercial/Public and medical Gas Sales

## FY2017.3 1Q results

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



## FY2017.3 forecasts

- Commercial/Public and medical gas sales volume is expected to increase by 55 million m<sup>3</sup> (up 3.9% YoY) to 1,464 million m<sup>3</sup>, 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 special factor, etc.
Others	-0.8%	
Total	+11.6%	

## Breakdown by sectors (45MJ, million m<sup>3</sup>)

	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 m<sup>3</sup> (up 7.7% YoY) to 4,373 million m<sup>3</sup>, assuming newly created demand and increase in capacity utilization of customers' facilities, etc.

# Results for 1<sup>st</sup> 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 <sup>3</sup>	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 <sup>3</sup> /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 <sup>3</sup> )	8,447	8,021	+427	+5.3%
Consolidated gas sales volume total (million m <sup>3</sup> )	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