



Financial Report for 1st Half of FY2017.3 (April 2016 – September 2016)

October 2016
Osaka Gas Co., Ltd.

I. Business Results for 1st Half of FY2017.3 and Forecasts for 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/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

Summary of the Results for 1st Half of FY2017.3 - I

Year-on-Year Comparison

■ Overview

Consolidated net sales	Decreased by 17.0% (¥109.0 billion) from the previous year to ¥532.3 billion due to the fall in gas sales unit price driven by lower LNG prices, etc.
Consolidated ordinary income	Decreased by 46.0% (¥42.7 billion) from the previous year to ¥50.1 billion due to decrease in gross profit of gas sales caused by the decrease in time-lag profit. Time-lag profit totaled ¥17.4 billion (Time-lag profit totaled ¥51.0 billion from the previous year)
Consolidated net income *	Decreased by 49.4% (¥32.6 billion) from the previous year to ¥33.3 billion

* Profit attributable to owners of parent

■ Gas Sales Volume (Non-consolidated)

Residential	Decreased by 3.6% (27 million m ³) from the previous year to 746 million m ³ due to higher air and water temperatures leading to lower demand for hot water and heating, etc.
Commercial, public and medical	Increased by 1.1% (8 million m ³) from the previous year to 731 million m ³ due to higher air temperatures in summer, which led to higher demand for air conditioning, and development of new demand (mainly air conditioning), etc.
Industrial	Increased by 11.9% (241 million m ³) from the previous year to 2,258 million m ³ due to development of huge new demand, and the increase in capacity utilization of customers

Summary of the Results for 1st Half of FY2017.3 - II

Comparison with Initial Plan

■ Overview

Consolidated net sales	Although the net sales from gas business and affiliated company decreased, consolidated net sales was almost same level as the plan to ¥532.3 billion due to increase in net sales from incidental business, etc.
Consolidated ordinary income	Increased by 32.0% (¥12.1 billion) from the plan to ¥50.1 billion due to increase in gross margin of gas business and profit from incidental business, etc.

■ Gas Sales Volume (Non-consolidated)

Residential	Decreased by 3.2% (25 million m³) from the plan to 746 million m³ due to higher air and water temperatures leading to lower demand for hot water and heating, etc.
Commercial, public and medical	Decreased by 1.8% (14 million m³) from the plan to 731 million m³ due to the lower-than-expected impact of air and water temperatures, although the development of new demand increased
Industrial	Increased by 3.7% (80 million m³) from the plan to 2,258 million m³ due to development of new demand and higher utilization of cogeneration systems, etc.

■ Others

Investments for expansion, greenfield and M&A	Invested mainly in international energy businesses that have already been approved. Total investments amounted to 27.6 billion yen (50% of the previous year) in the first half, down 42.3 billion yen from the initial plan
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Gas Sales Volume Results for 1st Half of FY2017.3

45MJ/m ³	A. FY17.3 1 st Half	B. FY16.3 1 st Half	A-B	(A-B)/B	C. FY17.3 1 st H Plan	(A-C)/C
Number of meters installed (thousand)	7,270	7,215	+55	+0.8%	7,266	+0.1%
Installation of new meters (thousand)	45	46	-2	-3.6%	43	+3.9%
Monthly gas sales volume per household (m ³ /month)	20.9	21.8	-0.9	-4.3%	21.6	-3.4%
Residential use	746	774	-27	-3.6%	771	-3.2%
Commercial, public, and medical use	731	723	+8	+1.1%	745	-1.8%
Industrial use	2,258	2,017	+241	+11.9%	2,178	+3.7%
Non-residential total	2,989	2,740	+249	+9.1%	2,923	+2.3%
Wholesale	232	224	+8	+3.7%	232	+0.1%
(non-regulated)	2,576	2,332	+244	+10.5%	2,504	+2.9%
Non-consolidated gas sales volume total (million m ³)	3,968	3,738	+230	+6.1%	3,926	+1.1%
Consolidated gas sales volume total (million m ³)	3,985	3,756	+229	+6.1%	3,944	+1.1%

Results for 1st Half of FY2017.3 - I

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

Consolidated, billion yen	A. FY17.3 1 st Half	B. FY16.3 1 st Half	A-B	(A-B)/B	C. FY17.3 1H Plan	(A-C)/C
Net sales	(1.29) 532.3	(1.25) 641.4	-109.0	-17.0%	533.0	-0.1%
Operating income	(1.32) 49.9	(1.21) 94.0	-44.1	-46.9%	38.0	+31.4%
Ordinary income	(0.98) 50.1	(1.12) 92.9	-42.7	-46.0%	38.0	+32.0%
Net income ※ ¹	(0.84) 33.3	(1.09) 65.9	-32.6	-49.4%	25.5	+30.9%
SVA ※ ²	19.7	49.9	-30.1	-60.4%	11.0	+79.0%

		A. FY17.3 1 st Half	B. FY16.3 1 st Half	A-B	C. FY17.3 1H Plan	A-C
Profit/ loss on fuel cost adjustment system	billion yen	17.4	51.0	-33.6	9.9	+7.5
Crude oil price	\$/bbl	43.6 ※ ³	58.9	-15.2	40.0	+3.6
Exchange rate	yen/\$	105.2	121.9	-16.7	120.0	-14.8
Number of subsidiaries		147	147	±0	---	---

*1 Profit attributable to owners of parent

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

*3 Average of preliminary monthly data up to September.

Results for 1st Half of FY2017.3 – II

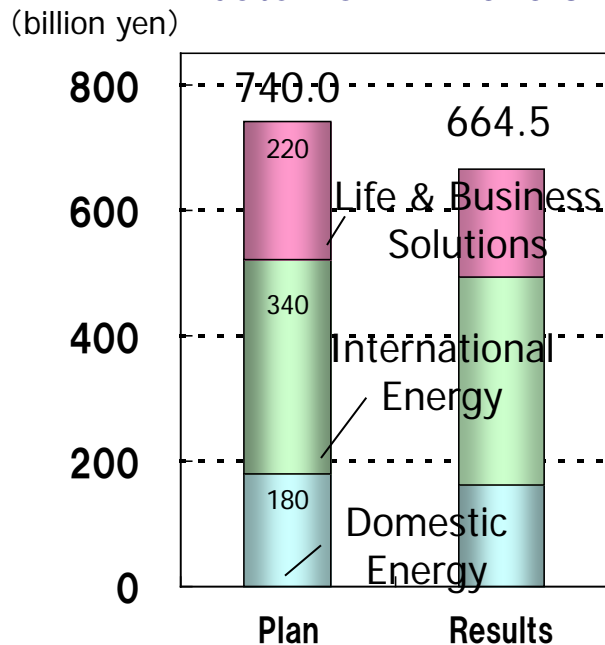
Consolidated, billion yen	A. FY17.3 1H end	FY16.3 1H end	B. Year end	A-B	Remarks
Total assets	1,711.2	1,849.9	1,829.7	-118.5	Decrease in fixed assets
Net worth	881.6	939.3	906.6	-25.0	
Interest-bearing debt	546.6	593.6	567.1	-20.5	Decrease in long-term loans
Number of employees	21,009	21,486	20,844	+165	
Equity ratio	51.5%	50.8%	49.5%	+2.0%	
D/E ratio	0.62	0.63	0.63	-0.01	
	A. FY17.3 1H	B. FY16.3 1H	A-B	Remarks	
Capital expenditure	34.8	51.4	-16.6	Decrease in investment for overseas businesses, etc.	
Depreciation	41.6	42.2	-0.6		
Free cash flow	22.1	130.5	-108.3	Decrease in inventories, etc.	
ROA	1.9%	3.6%	-1.7%		
ROE	3.7%	7.2%	-3.5%		
EPS (yen)	16.0	31.7	-15.7	Decrease in gross margin of gas business, etc.	
BPS (yen)	423.9	451.5	-27.6	Decrease in fixed assets, etc.	

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

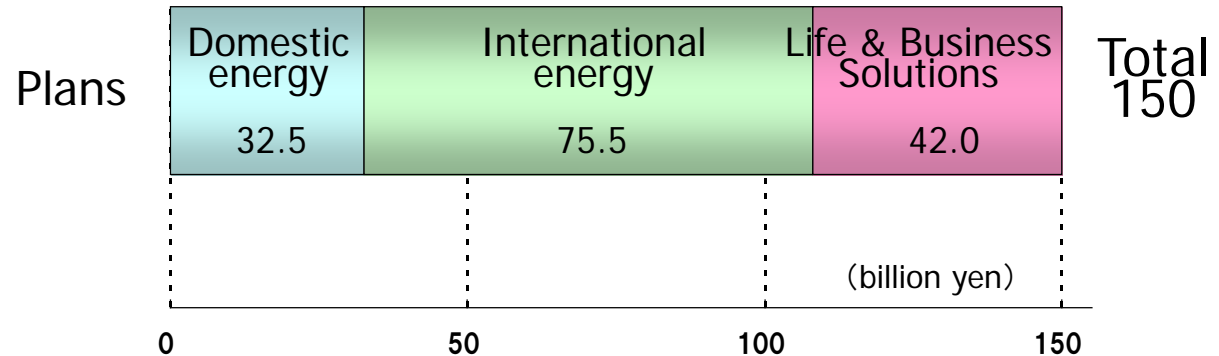
Results of Investment for Expansion, Greenfield, and M&A in 1st Half of FY2017.3

- Total investment in FY2017.3 were **¥27.6 billion**, mainly invested to overseas upstream and mid-downstream businesses and real estate.
- Cumulative amount approved for investment from FY2010.3 onwards are **¥664.5 billion**. (90% of the amount projected for the period between FY2010.3 and FY2017.3)

Cumulative amount approved for invest to date from FY2010.3



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



1st H Total investment : ¥27.6 billion in FY2017.3

Domestic energy : 4.2 (LPG business, construction of power plants, etc.)

International energy : 16.0 (Upstream business, construction of power plant, etc.)

Life & Business Solutions : 7.3 (Real estate business, etc.)

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.

Summary of Modifications to Forecasts for FY 2017.3

			A. Revised Forecasts	B. Initial Plan	A-B	Remarks
Assumed factors for 2 nd Half	Crude oil price	\$/bbl	55.0	45.0	+10.0	
	Exchange rate	yen/\$	105	120	-15	
Non-consolidated gas sales volume (45MJ/m ³)	Residential use		(1,356)	(1,356)	(±0)	
			2,103	2,127	-25	
	Commercial, industrial, and other use		(3,123)	(3,165)	(-42)	Considering changing in customers' facilities utilization
			6,345	6,320	+25	
P/L (billion yen)	Consolidated net sales		1,170.5	1,170.5	±0	
	Gross margin of gas sales		320.0	326.0	-6.0	Decrease in a time-lag profit
	Profit of other sales		25.2	20.2	+5.0	Increase in incidental profit
	Operating expenses, labor costs, and depreciation		296.7	298.7	-2.0	Decrease in operating expenses
	Profit of subsidiaries		33.5	38.0	-4.5	OGUSA/Related to Free Port PJ
	Consolidated operating income		82.0	85.5	-3.5	
	Consolidated non-operating income / expenses		-4.0	-7.5	+3.5	Increase in equity in earnings of affiliates
	Consolidated ordinary income		78.0	78.0	±0	

Gas sales volume figures in parentheses in the upper row are figures for the 2nd half of FY2017.3

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)	110	109	+0	+0.3%
Monthly gas sales volume per household (m ³ /month)	29.3	29.3	+0.1	+0.2%
Residential use	2,103	2,083	+19	+0.9%
Commercial, public, and medical use	1,446	1,410	+36	+2.6%
Industrial use	4,416	4,059	+357	+8.8%
Commercial and industrial use	5,862	5,469	+393	+7.2%
Wholesale	483	469	+14	+3.1%
(Non-regulated included)	(5,021)	(4,647)	(+374)	(+8.0%)
Non-consolidated gas sales volume (million m ³)	8,447	8,021	+427	+5.3%
Consolidated gas sales volume (million m ³)	8,480	8,052	+427	+5.3%

Forecasts for FY2017.3 - I

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

Consolidated, billion yen	A. FY17.3 Forecasts	B. FY16.3 Results	A-B	(A-B)/B
Net sales	(1.31) 1,170.5	(1.27) 1,322.0	-151.5	-11.5%
Operating income	(1.69) 82.0	(1.31) 146.6	-64.6	-44.1%
Ordinary income	(1.25) 78.0	(1.19) 134.9	-56.9	-42.2%
Net income ※1	(1.07) 52.0	(1.01) 84.3	-32.3	-38.3%
SVA ※2	25.6	52.6	-26.9	-51.3%

		A. FY17.3 Forecasts	B. FY16.3 Results	A-B
Profit/loss on fuel cost adjustment system	billion yen	8.9	81.7	-72.7
Crude oil price	\$/bbl	49.3 ※3	48.7	+0.6
Exchange rate	yen/\$	105.1	120.2	-15.0

*1 Profit attributable to owners of parent

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

*3 For the period from October 2016 to March 2017, it is assumed that the crude oil price is 55 \$/bbl

Forecasts for FY2017.3 - II

Consolidated, billion yen	A. FY17.3 end Forecasts	B. FY16.3 end Results	A-B
Total assets	1,781.8	1,829.7	-47.9
Net worth	889.8	906.6	-16.8
Interest-bearing debt	552.8	567.1	-14.3
Number of employees	21,232	20,844	+388
Equity ratio	49.9%	49.5%	+0.4%
D/E ratio	0.62	0.63	-0.00
	A. FY17.3 Forecasts	B. FY16.3 Results	A-B
Capital expenditure	109.5	114.4	-4.8
Depreciation	86.6	86.7	-0.0
Free cash flow	88.6	225.7	-137.1
ROA	3.0%	4.6%	-1.6%
ROE	5.9%	9.4%	-3.5%
EPS (yen)	25.0	40.5	-15.5
BPS (yen)	427.8	435.8	-8.0

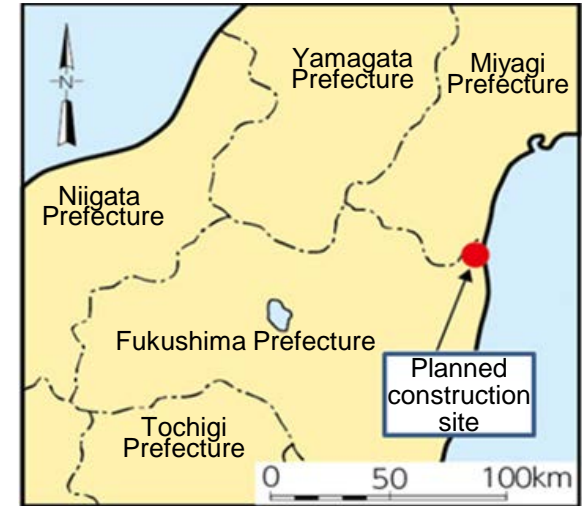
FCF = CF from operating activities - (OP after tax + depreciation and other non-cash expenses) - capital expenditure

II. Facts and Figures

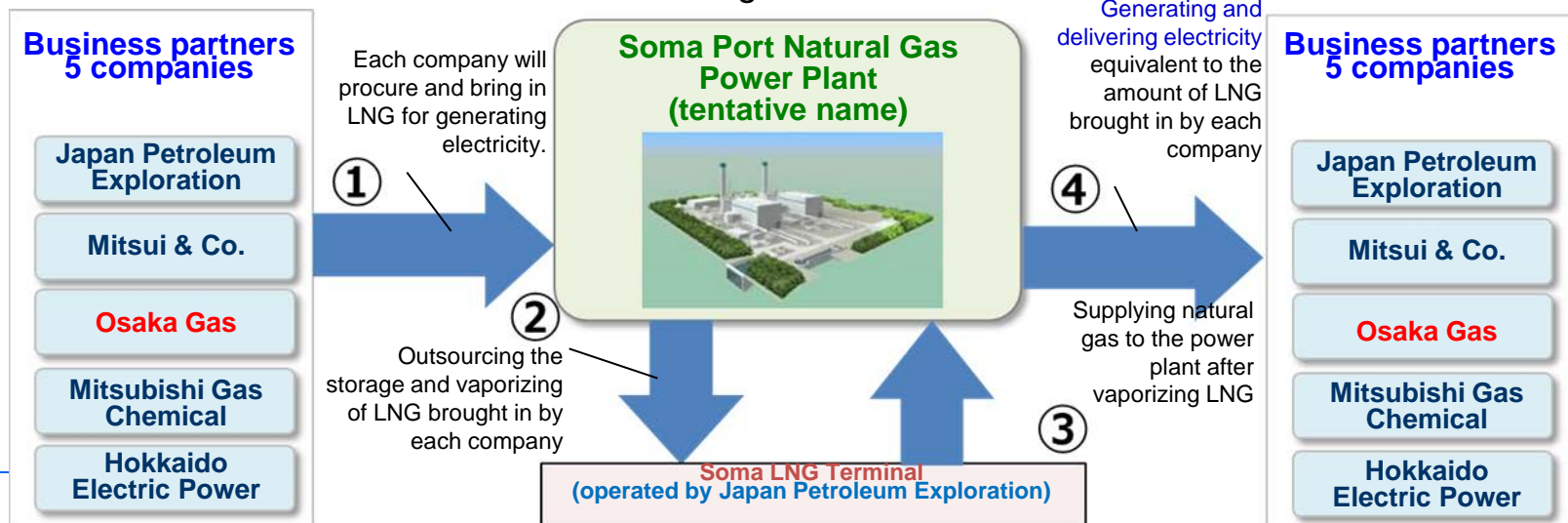
Topics : Investments in Fukushima Gas Power (FGP)

■ Promotion of natural gas power generation business at Soma Port, Fukushima Prefecture

Company name	Fukushima Gas Power Co., Ltd. (established in April 2015)
Capital stock	Capital stock: ¥537 million; Legal capital surplus: ¥537 million
Investment ratio	Japan Petroleum Exploration Co., Ltd. 33%, Mitsui & Co., Ltd.: 29%, Osaka Gas Co., Ltd.: 20%, Mitsubishi Gas Chemical Company, Inc.: 9%, Hokkaido Electric Power Co., Inc.: 9%
Power plant name	Soma Port Natural Gas Power Plant (tentative name)
Generation method	Gas turbine combined cycle method
Total generation capacity	1,180 MW (2 units of 590 MW)
Commencement of commercial operation	Spring 2020 * Full operation (1,180 MW) in Summer 2020



■ Business scheme: Tolling method



Sales Variance for 1st Half of FY2017.3 (Year-on-Year)

FY16.3 1st Half → FY17.3 1st Half (differences)

641.4

532.3

(-109.0)

billion yen

Osaka Gas: -100.4

Subsidiaries: -8.5

Gas sales revenues	-93.8
• Impact of fuel cost adjustment	-109.2
• Volume change, etc.	+15.4

Other revenues	-6.5
• Gas appliances sales	-4.3
• Electricity business revenues	-1.8

• Osaka Gas USA	-4.3
• Osaka Gas Community Life	-1.8
• Osaka Gas Excellent Agency	-1.6

Ordinary Income Variance for 1st Half of FY2017.3 (Year-on-Year)

FY16.3 1st Half → FY17.3 1st Half (differences)

92.9

50.1

(-42.7)

+/- signs indicate impact on profit.

billion yen

Osaka Gas : -31.8

Subsidiaries : -10.8

Gross margin of gas sales	-35.5
• Profit/ loss on fuel cost adjustment system	-33.6
• Volume change, etc.	-1.8

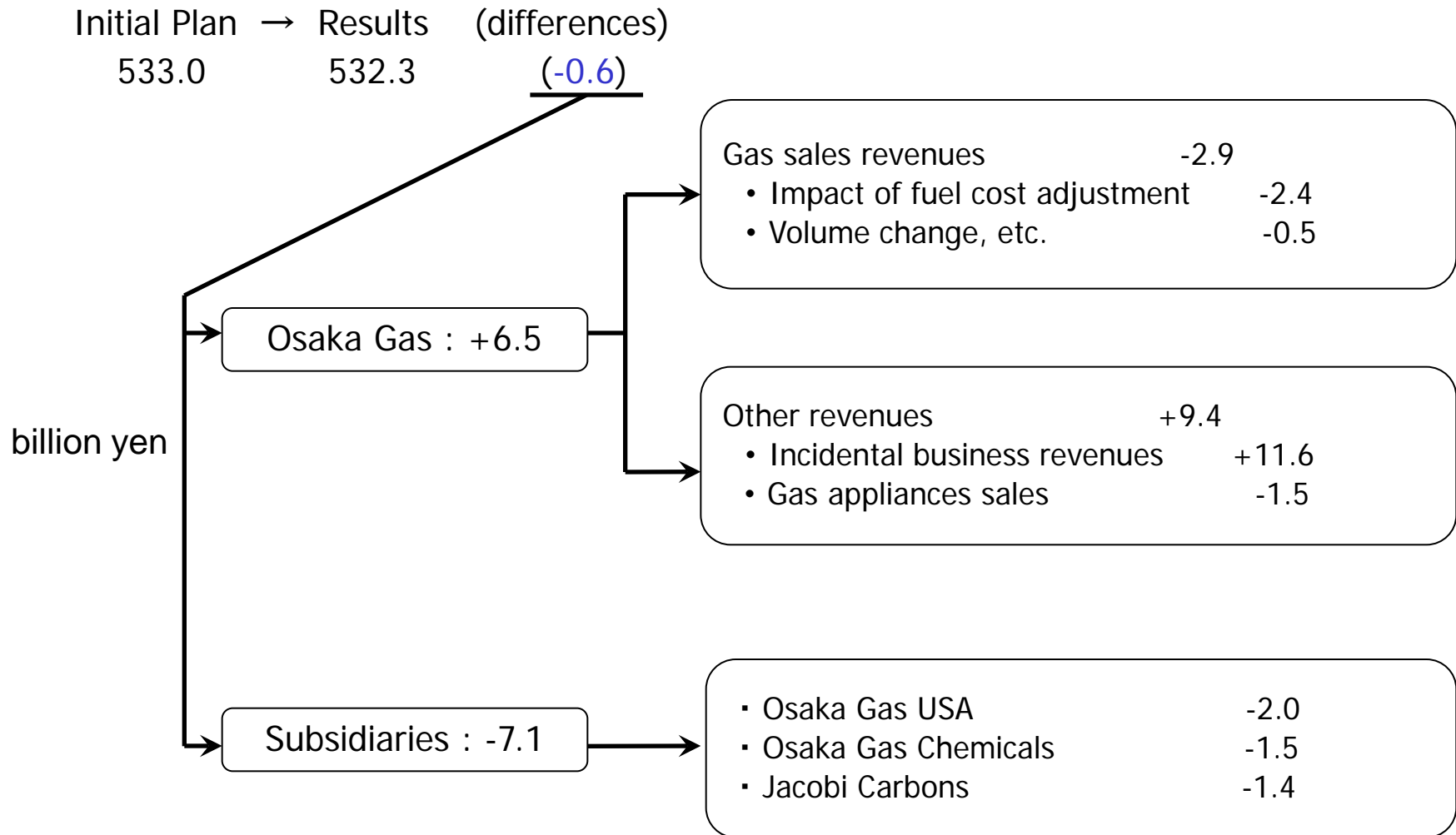
Decrease in expenses	+0.3
• Decrease in operating expenses	+3.6
• Increase in labor costs	-2.6
• Increase in depreciation costs	-0.5

Profit of other sales	-4.6
• Profit of Electricity business	-3.9
• Profit of LNG sales	-1.6

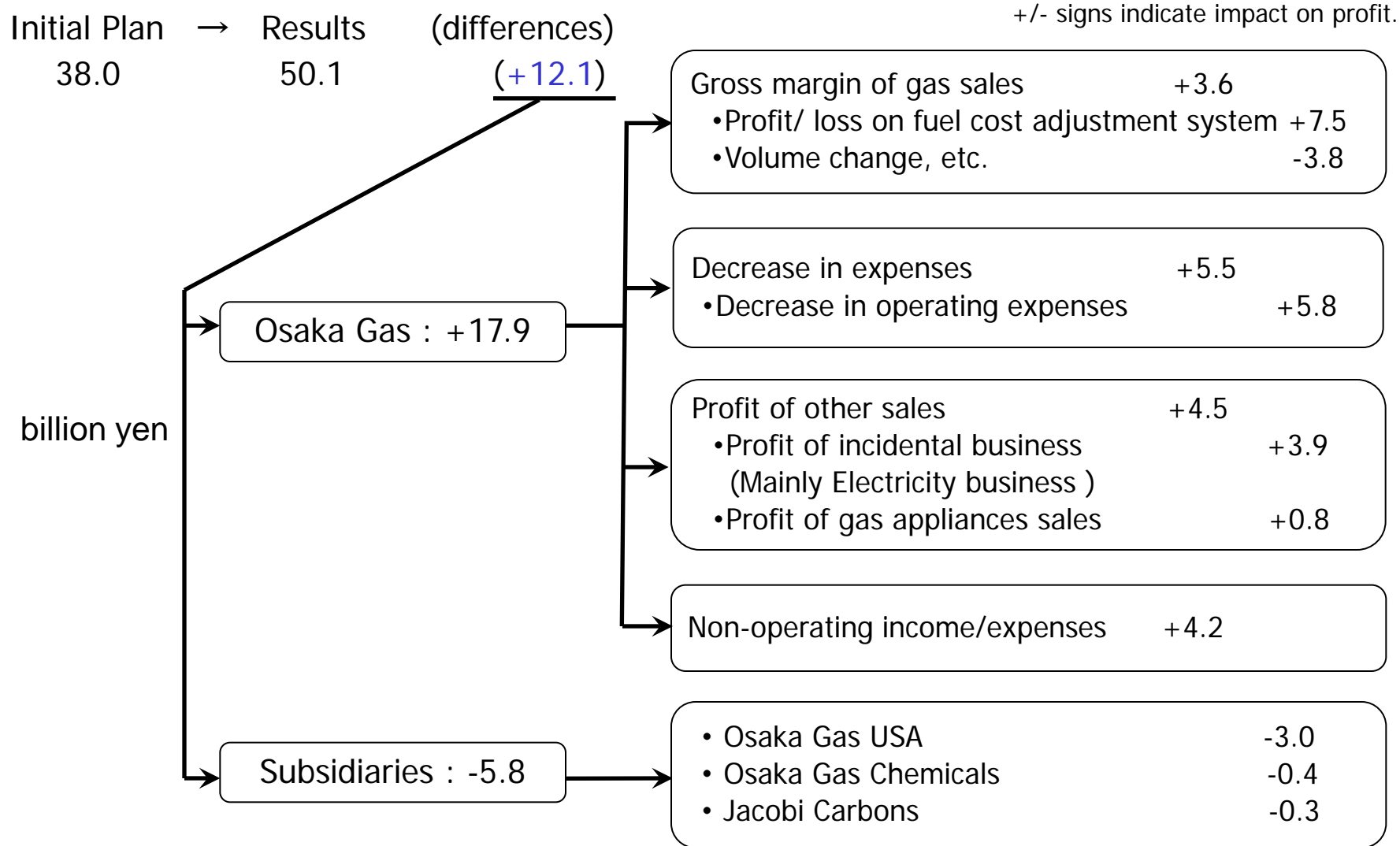
Non-operating income/expenses	+7.8
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Osaka Gas USA	-5.7
Osaka Gas UK	-0.7

Sales Variance for 1st Half of FY2017.3 (with initial plan)



Ordinary Income Variance for 1st Half of FY2017.3 (with initial plan)



Sales variance for FY2017.3 (Year-on-Year)

FY16.3 results → FY17.3 forecasts (differences)

1,322.0

1,170.5

(-151.5)

(billion yen)

Osaka Gas : -149.2

Subsidiaries : -2.2

Gas sales -156.1
 • Impact of fuel cost adjustment -189.1
 • Volume change, etc. +32.9

Other revenues +6.9
 • Incidental businesses revenue +14.8
 • Miscellaneous operating revenue -7.9

• Osaka Gas USA -4.1
 • Osaka Gas Excellent Agency -3.3
 • Osaka Gas Community Life -1.8
 • Osaka Gas Urban Development +3.6
 • Osaka Gas Chemicals +3.4

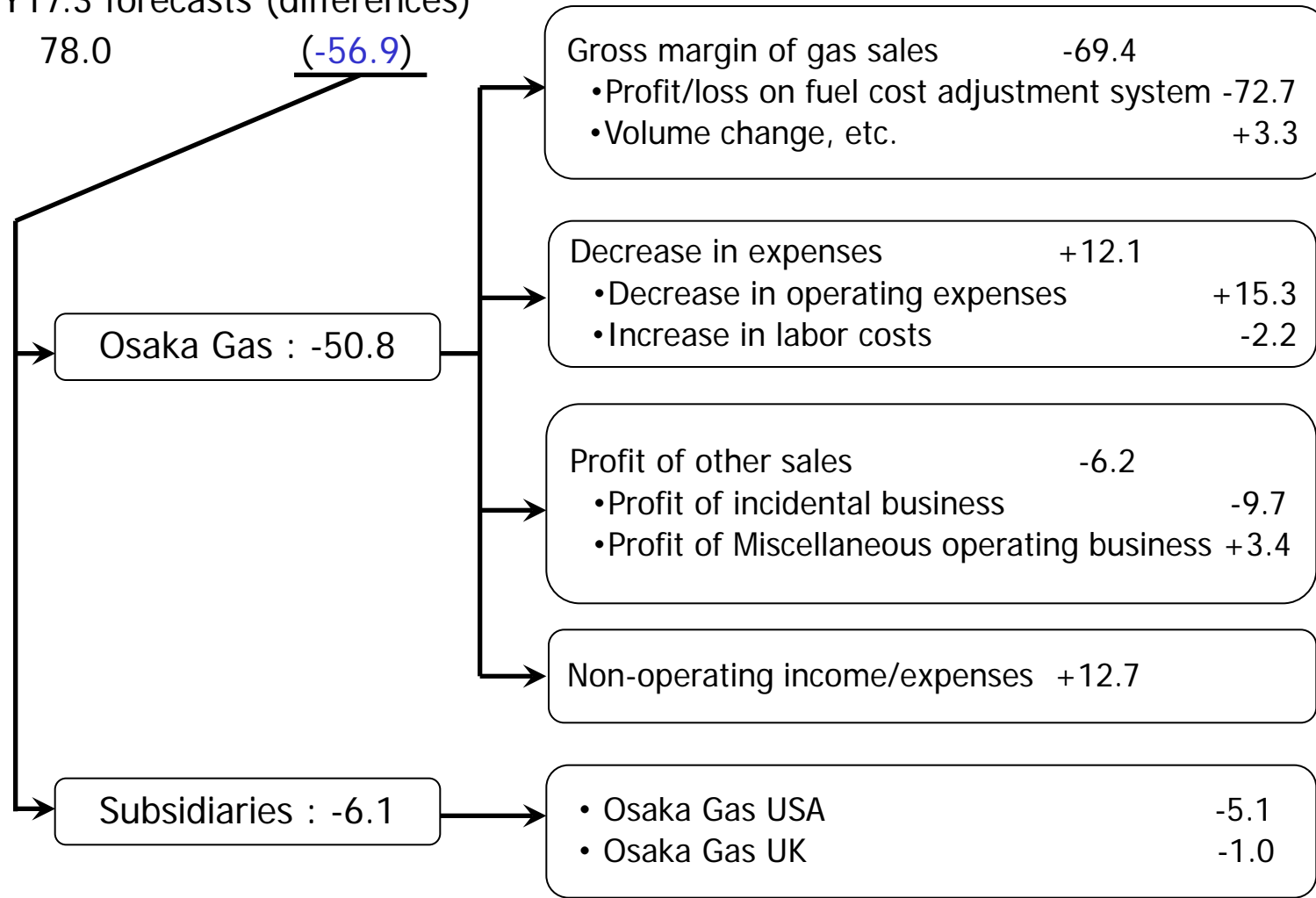
Ordinary income variance for FY2017.3 (Year-on-Year)

+/- signs indicate impact on profit.

FY16.3 results → FY17.3 forecasts (differences)

134.9 78.0 (-56.9)

(billion yen)



Results for FY2017.3 by Segment

billion yen	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY17.3 1st Half	FY16.3 1st Half	FY17.3 1st Half	FY16.3 1st Half	
Gas	359.7	458.6	31.9	64.8	Net sales: Decrease in gas sales unit price Profit: Decrease in gross margin of gas business
LPG, electricity, and other energy	94.7	103.8	11.8	16.9	Net sales / Profit: Mainly decrease in electricity business, etc. Profit of electricity business (*) FY16.3 1H: 10.0, FY17.3 1H: 6.0
International energy	6.4	10.7	-1.8	3.6	Net sales / Profit: Decrease in energy business in USA, etc. (Mainly impact from Freeport Project)
Life & Business Solutions	100.4	100.2	7.8	7.4	Net sales / Profit: Overall, almost same line with the results of previous year
Adjustments	-28.9	-32.1	0.1	0.7	
Consolidated	532.3	641.4	49.8	93.7	

(*) Profit from electricity business represents operating income earned by Osaka Gas's related electricity business.

Forecasts for FY2017.3 by Segment

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	785.6	948.5	42.0	95.7	<u>Net sales</u> :Decrease in gas sales unit price <u>Profit</u> : Decrease in gross margin of gas business
LPG, electricity, and other energy	205.3	206.4	19.0	28.8	<u>Net sales</u> :Increase in electricity business and LNG sales, decrease in LPG business <u>Profit</u> :Decrease in electricity business and LNG sales, etc.
International energy	17.7	18.7	-1.5	-0.2	<u>Net sales / Profit</u> :Decrease in energy business in USA, etc. (Mainly impact from Freeport Project)
Life & Business Solutions	222.2	221.7	20.5	18.8	<u>Net sales</u> :Almost same line with previous year <u>Profit</u> :Increase in Material businesses, etc.
Adjustments	-60.3	-73.3	2.0	-0.9	
Consolidated	1,170.5	1,322.0	82.0	142.1	

Residential Gas Sales

FY2017.3 1st Half Results

	YoY change	Remarks
Number of customers	+0.8%	
Influence of temperature, etc.	-2.1%	Average annual temperature: 24.1 degrees Celsius (Year-on-Year change: +0.9 degrees Celsius)
Others	-2.3%	Improved efficiency of gas appliance, impact of further energy conservation by customers etc.
Total	-3.6%	

FY2017.3 Forecasts

- Results in the 1st half decreased by 27 million m³ from the previous year, and decreased by 25 million m³ from the initial plan
- Sales volume for the 2nd half is expected to be in line with the initial plan
- Full-year result is expected to increase by 19 million m³ from the previous year, and decrease by 25 million m³ from the initial plan to 2,103 million m³

Commercial, Public, and Medical Gas Sales

FY2017.3 1st Half Results

	YoY change	Remarks
Demand development	+1.9%	Development of new demand mainly for air conditioning
Influence of temperature, etc.	+2.5%	Increase in demand for air conditioning due to higher weather in summer
Individual factors	-1.2%	Decrease in capacity of customers' facilities due to special factors
Others	-2.1%	Improved efficiency of gas appliance, impact of further energy conservation by customers etc.
Total	+1.1%	

FY2017.3 Forecasts



- Results in the 1st half increased by 8 million m³ from the previous year, and decreased by 14 million m³ from the initial plan
- Sales volume for the 2nd half is expected to decrease by 5 million m³ from the initial plan
- Full-year result is expected to increase by 36 million m³ from the previous year, and decrease by 19 million m³ from the initial plan to 1,446 million m³

Industrial Gas Sales

FY2017.3 1st Half Results

	YoY change	Remarks
Demand development	+13.6%	Development of huge new demand, etc.
Increase/decrease of operating rates	+0.9%	Increase in capacity of customers' facilities, etc.
Individual factors	-2.3%	Decrease due to special factors
Others	-0.2%	
Total	+11.9%	

Breakdown by sector

(45MJ, million m³)

	Volume	YoY change
Machinery	153	97.2%
Metal	474	100.0%
Glass	141	96.0%
Chemical	625	101.5%
Food	265	102.8%

FY2017.3 Forecasts

- Results in the 1st half increased by 241 million m³ from the previous year, and increased by 80 million m³ from the initial plan
- Sales volume for the 2nd half is expected to decrease by 37 million m³ from the initial plan
- Full-year result is expected to increase by 357 million m³ from the previous year, and increase by 43 million m³ from the initial plan to 4,416 million m³

Monthly Gas Sales

Year-on-Year Change 2016/2015 (%)

		Apr.	May	Jun.	Jul.	Aug.	Sep.	1 st Half Total
Residential use		94.8	99.9	100.7	94.2	95.2	92.1	96.4
Commercial, public, and medical use		95.5	90.2	104.6	102.9	100.0	110.7	101.1
Industrial use		101.5	121.2	112.9	106.0	114.5	116.8	111.9
By sector	Machinery	93.8	104.1	95.4	91.4	99.2	101.4	97.2
	Metal	98.2	102.0	99.7	99.9	98.2	101.8	100.0
	Glass	95.4	104.0	98.1	92.8	99.1	95.7	96.0
	Chemical	94.5	109.2	107.4	96.4	100.5	102.2	101.5
	Food	100.0	106.9	102.8	98.2	104.6	104.5	102.8
Wholesale		98.7	120.8	94.6	96.3	109.3	104.2	103.7
Total		98.3	110.3	108.0	102.9	107.9	111.2	106.1

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: approx. -7% in spring and autumn, approx. -8% in summer, and approx. -6% 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. -1.1 billion yen on ordinary profit since the 3rd quarter (Oct. 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. -0.9 billion yen on ordinary profit since the 3rd quarter (Oct. 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. -0.4 billion yen on annual consolidated non-operating expenses