



# Financial Report for 3<sup>rd</sup> Quarter of FY2017.3 (April 2016 – December 2016)

January 2017  
Osaka Gas Co., Ltd.

# I. Business Results for 3<sup>rd</sup> Quarter 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](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/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 third quarter of the fiscal year ending March, 2017.

# Summary of the Results for 3<sup>rd</sup> Quarter of FY2017.3

## Year-on-Year Comparison

### ■ Overview

Consolidated net sales	Decreased by 14.5% (¥137.3 billion) from the previous year to ¥807.4 billion due to the fall in sales unit price driven by lower LNG prices, etc.
Consolidated ordinary income	Decreased by 42.6% (¥44.0 billion) from the previous year to ¥59.5 billion due to decreased in gross profit of gas sales caused by the decrease in time-lag profit. Time-lag profit totaled ¥16.1 billion (Time-lag profit totaled ¥55.8 billion from the previous year)
Consolidated net income*	Decreased by 46.6% (¥34.4 billion) from the previous year to ¥39.4 billion * Profit attributable to owners of parent

### ■ Gas Sales Volume (by class)

Residential	Decreased by 2.2% (27 million m <sup>3</sup> ) from the previous year to 1,207 million m <sup>3</sup> due to higher air and water temperatures leading to lower demand for hot water and heating, etc.
Commercial, public and medical	Increased by 3.4% (34 million m <sup>3</sup> ) from the previous year to 1,048 million m <sup>3</sup> 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 11.6% (350 million m <sup>3</sup> ) from the previous year to 3,359 million m <sup>3</sup> due to development of huge demand, and the increase in capacity utilization of customers.

The third quarters of the fiscal year ending March 2017 resulted in a decrease in net sales and income compared with the same period of the previous year.

Consolidated net sales decreased by 14.5% or 137.3 billion yen from the previous year to 807.4 billion yen due to the fall in sales unit price in gas business.

Consolidated ordinary income decreased by 42.6% or 44.0 billion yen from the previous year to 59.5 billion yen due to decrease in the profit of gas business caused by decrease in time-lag profit.

Consolidated net income decreased by 46.6% or 34.4 billion yen from the previous year to 39.4 billion yen.

Gas sales volume for residential use decreased by 2.2% from the previous year to 1,207 million m<sup>3</sup> due to higher air and water temperatures leading to lower demand for hot water and heating.

Gas sales volume for commercial, public and medical uses increased by 3.4% from the previous year to 1,048 million m<sup>3</sup> due to higher air temperatures in summer leading to higher demand for air conditioning, and development of new demand mainly for air conditioning.

Gas sales volume for industrial use increased by 11.6% from the previous year to 3,359 million m<sup>3</sup> due to development of huge new demand, and the increase in capacity utilization of customers.

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

45MJ/m <sup>3</sup>	A. FY17.3 3Q	B. FY16.3 3Q	A-B	A-B/B (%)
Number of meters installed (thousands)	7,286	7,228	+58	+0.8%
Installation of new meters (thousands)	71	69	+2	+2.3%
Monthly gas sales volume per household (m <sup>3</sup> /month)	22.5	23.1	-0.7	-3.0%
Residential use	1,207	1,234	-27	-2.2%
Commercial, public and medical use	1,048	1,013	+34	+3.4%
Industrial use	3,359	3,009	+350	+11.6%
Commercial and industrial use	4,407	4,022	+385	+9.6%
Wholesale	350	335	+15	+4.5%
(Non-regulated included)	(3,805)	(3,442)	(+364)	(+10.6%)
Non-consolidated gas sales volume (million m <sup>3</sup> )	5,963	5,591	+373	+6.7%
Consolidated gas sales volume (million m <sup>3</sup> )	5,988	5,615	+372	+6.6%

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

The gas sales volume on a consolidated basis increased by 6.6% from the same period of last year, to 5,988 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 260 thousand mark up to the 30 January.

# Results for 3<sup>rd</sup> Quarter of FY2017.3 - I

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

Consolidated, billion yen	A. FY17.3 3Q	B. FY16.3 3Q	A-B	(A-B)/B	Remarks
Net sales	(1.30) 807.4	(1.26) 944.7	-137.3	-14.5%	Fall in the gas sales unit price, etc.
Operating income	(1.59) 59.9	(1.30) 106.4	-46.4	-43.7%	Decrease in a time-lag profit
Ordinary income	(1.17) 59.5	(1.17) 103.6	-44.0	-42.6%	
Net income*	(0.98) 39.4	(1.13) 73.9	-34.4	-46.6%	

\* Profit attributable to owners of parent

		A. FY17.3 3Q	B. FY16.3 3Q	A-B
Profit/ loss on fuel cost adjustment system	billion yen	16.1	55.8	-39.6
Crude oil price	\$/bbl	44.8**	54.6	-9.8
Exchange rate	yen/\$	106.5	121.7	-15.2
Number of subsidiaries		147	148	-1

\*\* Average of monthly data up to middle of December.

This table summarizes the other results for the third quarter of the fiscal year ending March 2017.

# Results for 3<sup>rd</sup> Quarter of FY2017.3 - II

Consolidated, billion yen	A. FY17.3 3Q end	FY16.3 3Q end	B. year end	A-B	Remarks
Total assets	1731.9	1827.7	1829.7	-97.7	Decrease in cash and deposits, non current assets, etc.
Net worth	884.1	923.5	906.6	-22.4	
Interest-bearing liabilities	550.6	591.9	567.1	-16.5	
Number of employees	21,014	21,168	20,844	+170	
Equity ratio	51.0%	50.5%	49.5%	+1.5%	
D/E ratio	0.62	0.64	0.63	-0.00	
	A. 17.3 3Q	B. 16.3 3Q	A-B		Remarks
Capital expenditure	58.2	78.3	-20.0		Decrease in investment for power plants and upstream businesses, etc.
Depreciation	63.2	63.9	-0.6		
Free cash flow	22.8	122.0	-99.2		Decrease in cash and cash equivalents, etc.

We sold all of our shares of Cordova Gas Resources Ltd. in Canada and withdrew from it in October 2016.

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



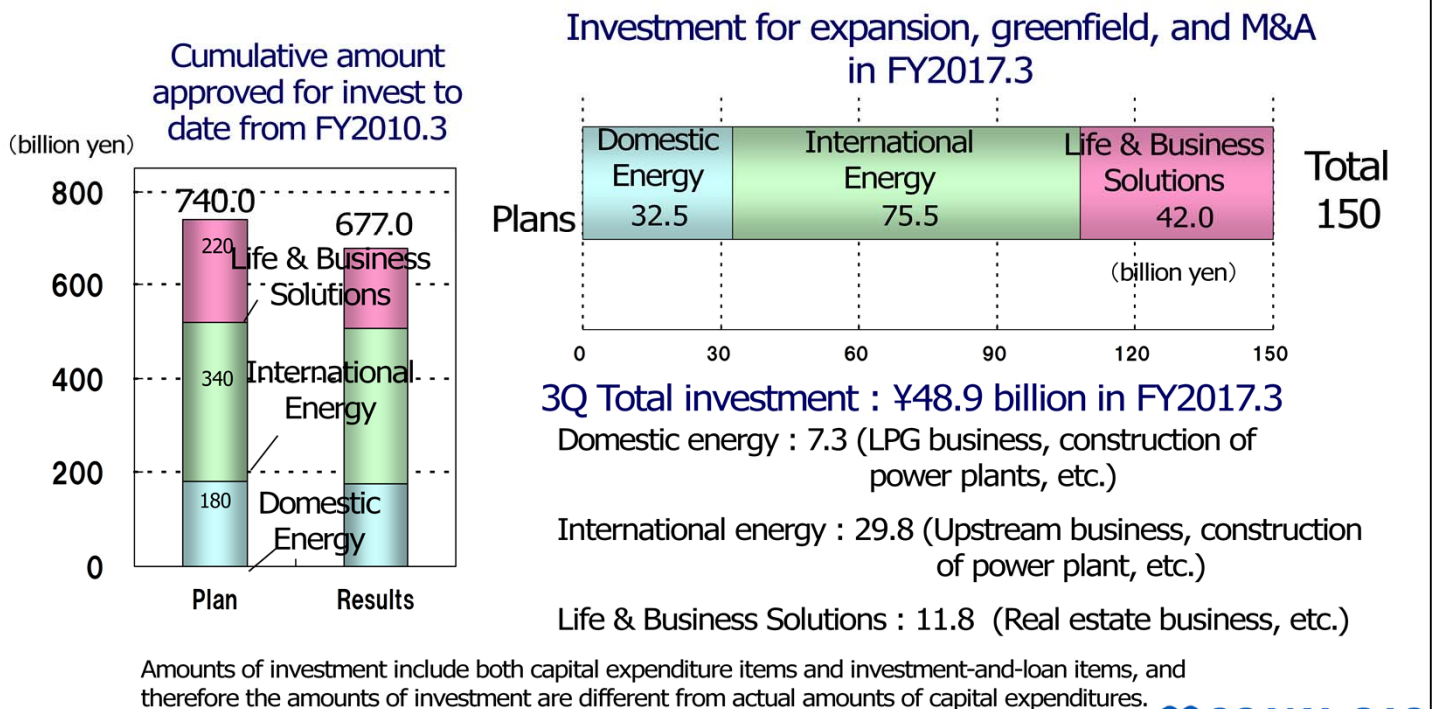
This tables shouws the results of assets, liability, and primary financial indicators.

Capital expenditure decreased by 20.0 billion yen from the previous year to 58.2 billion yen due to decrease in investment for power plants and upstream businesses.



# Results of Investment for Expansion, Greenfield, and M&A in 3<sup>rd</sup> Quarter of FY2017.3

- Total investment in FY2017.3 were **¥48.9 billion**, mainly invested to overseas upstream and mid-downstream businesses and real estate.
- Cumulative amount approved for investment from FY2010.3 onwards are **¥677.0 billion**. (91% of the amount projected for the period between FY2010.3 and FY2017.3)



This slide summarizes the results of the investment plan for expansion, greenfield, and M&A.

Cumulative amount approved for investments since April 2009 are 677.0 billion yen, which consist 91% of the plan.

We will further make investments for our future business growth.

## Summary of Modifications to Forecasts for FY 2017.3

			A. Revised Forecasts	B. Previous Forecasts*	A-B	Remarks
Assumed factors for 4 <sup>th</sup> Quarter	Crude oil price	\$/bbl	55.0	55.0	±0	
	Exchange rate	yen/\$	115	105	+10	
Non-consolidated gas sales volume (45MJ/m <sup>3</sup> )	Residential use		2,091	2,103	-11	
	Commercial, industrial, and other use		6,381	6,345	+37	Considering changing in customers' facilities utilization
P/L (billion yen)	Consolidated net sales		1,159.5	1,170.5	-11.0	Fall in the gas sales unit price, etc.
	Gross margin of gas sales		325.0	320.0	+5.0	Decrease in a time-lag profit
	Profit of other sales		25.2	25.2	±0.0	
	Operating expenses, labor costs, and depreciation		294.7	296.7	-2.0	
	Profit of subsidiaries		40.0	33.5	+6.5	OGUSA/Related to Free Port PJ
	Consolidated operating income		95.5	82.0	+13.5	
	Consolidated non-operating income / expenses		-2.5	-4.0	+1.5	
	Consolidated ordinary income		93.0	78.0	+15.0	

\*announced on October 26

Let me now explain the revised forecasts for the fiscal year ending March 2017.

Considering forward price and the forecasts of think tanks, the forecasts for the forth quarter are based on our latest assumptions of the crude oil price and exchange rate, which are 55 US dollars per barrel and 115 yen to the US dollar, respectively.

At residential customers, the revised forecast of gas sales volume is lowered by 11 million m<sup>3</sup> from the previous forecasts. And at commercial, industrial and other customers, the revised forecast is over by 37 million m<sup>3</sup> from the previous forecast. Overall, the entire gas sales volume is expected to increase by 25 million m<sup>3</sup> from the previous forecasts.

Consolidated ordinary income is expected to increase by 15 billion yen from the previous forecasts to 93.0 billion yen, due to increase in time-lag profit and the profit from affiliated companies.



## 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)	111	109	+2	+1.9%
Monthly gas sales volume per household (m <sup>3</sup> /month)	29.2	29.3	-0.1	-4.1%
Residential use	2,091	2,083	+8	+0.4%
Commercial, public, and medical use	1,461	1,410	+52	+3.7%
Industrial use	4,438	4,059	+379	+9.3%
Commercial and industrial use	5,900	5,469	+431	+7.9%
Wholesale	482	469	+13	+2.7%
(Non-regulated included)	(5,047)	(4,647)	(+400)	(+8.6%)
Non-consolidated gas sales volume (million m <sup>3</sup> )	8,473	8,021	+452	+5.6%
Consolidated gas sales volume (million m <sup>3</sup> )	8,505	8,052	+453	+5.6%

This table shows the gas sales volume forecast for the fiscal year ending March 2017.

Consolidated gas sales volume is expected to increase by 5.6% from the previous year to 8,505 million m<sup>3</sup>.

# 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) 1,159.5	(1.27) 1,322.0	-162.5	-12.3%
Operating income	(1.72) 95.5	(1.31) 146.6	-51.1	-34.9%
Ordinary income	(1.34) 93.0	(1.19) 134.9	-41.9	-31.1%
Net income*	(1.19) 64.5	(1.01) 84.3	-19.8	-23.5%
SVA**	37.7	52.6	-14.8	-28.2%

		A. FY17.3 Forecasts	B. FY16.3 Results	A-B
Profit/loss on fuel cost adjustment system	billion yen	12.1	81.7	-69.5
Crude oil price	\$/bbl	47.3***	48.7	-1.4
Exchange rate	yen/\$	108.7***	120.2	-11.4

\* Profit attributable to owners of parent

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

\*\*\* For the period from January 2017 to March 2017, it is assumed that the crude oil price is 55 \$/bbl, and the exchange rate is ¥115/\$.

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

Net sales is expected to decrease by 12.3% to 1 trillion and 159.5 billion yen, operating income is expected to decrease by 34.9% to 95.5 billion yen, and ordinary income to decrease by 31.1% to 93.0 billion yen.

## Forecasts for FY2017.3 - II

Consolidated, billion yen	A. FY17.3 end Forecasts	B. FY16.3 end Results	A-B
Total assets	1,843.4	1,829.7	+13.6
Net worth	936.5	906.6	+29.8
Interest-bearing debt	556.8	567.1	-10.3
Number of employees	21,232	20,844	+388
Equity ratio	50.8%	49.5%	+1.3%
D/E ratio	0.59	0.63	-0.03
	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	94.6	225.7	-131.1
ROA	3.5%	4.6%	-1.1%
ROE	7.0%	9.4%	-2.4%
EPS (yen)	31.0	40.5	-9.5
BPS (yen)	450.3	435.8	+14.5

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



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

ROA and ROE for the entire year are expected to be 3.5% and 7.0%, respectively.

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

This concludes the presentation.

Thank you for your kind attention.



## II. Facts and Figures



# Latest Topics

## ■ New tariffs and new home services “Sumikata Plus”

Applications accepted from	From April 1, 2017
New tariffs	<ul style="list-style-type: none"> <li>• “Gas-toku-plan motto-wari” (mainly for residential customers)</li> <li>• “Gas-toku-plan Akinai-wari” (mainly for commercial customers)</li> </ul>
“Sumikata Plus”	<ul style="list-style-type: none"> <li>• unlimited call outs for emergency residential repairs</li> <li>• living support (subscription to on-line recipes, health consultation and energy saving reports.)</li> </ul> <p>※This service is offered to customers with a Gas-toku-plan contract for a monthly fixed rate of 216 yen per month.</p>

## ■ We provides customers with the total services, the menu of tariffs, high quality safe and reliable , and one-stop services of living.



## Sales Variance for 3<sup>rd</sup> Quarter of FY2017.3 (Year-on-Year)

FY16.3 3Q → FY17.3 3Q (differences)

944.7      807.4      (-137.3)

billion yen

Osaka Gas:-127.0

Gas sales revenues                      -122.6  
 • Profit/loss on fuel cost adjustment      -149.9  
 • Volume change, etc.                      +27.2

Other revenues                      -4.3  
 • Gas appliances sales                      -5.8  
 • Incidental Businesses revenues              +1.9

Subsidiaries:-10.3

• Total of LPG operating companies      -5.0  
 • Osaka Gas USA                      -2.9  
 • Osaka Gas Excellent Agency              -2.5

## Ordinary Income Variance for 3<sup>rd</sup> Quarter of FY2017.3 (Year-on-Year)

+/- signs indicate impact on profit.

FY16.3 3Q → FY17.3 3Q (differences)

103.6

59.5

(-44.0)

billion yen

Osaka Gas:-37.3

Subsidiaries:-6.7

Gross margin of gas sales -39.9  
 • Profit/ loss on fuel cost adjustment -39.6  
 • Volume change, etc. -0.2

Decrease in expenses +0.7

Profit of other sales -5.2  
 • Incidental businesses -8.0  
 • Miscellaneous operating +2.8

Non-operating income / expenses +7.0

• Osaka Gas USA -3.7  
 • Osaka Gas UK -0.8

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

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

1,322.0

1,159.5

(-162.5)

(billion yen)

Osaka Gas: -153.2

Subsidiaries: -9.2

Gas sales -152.6  
 •Impact of fuel cost adjustment -188.8  
 •Volume change, etc. +36.1

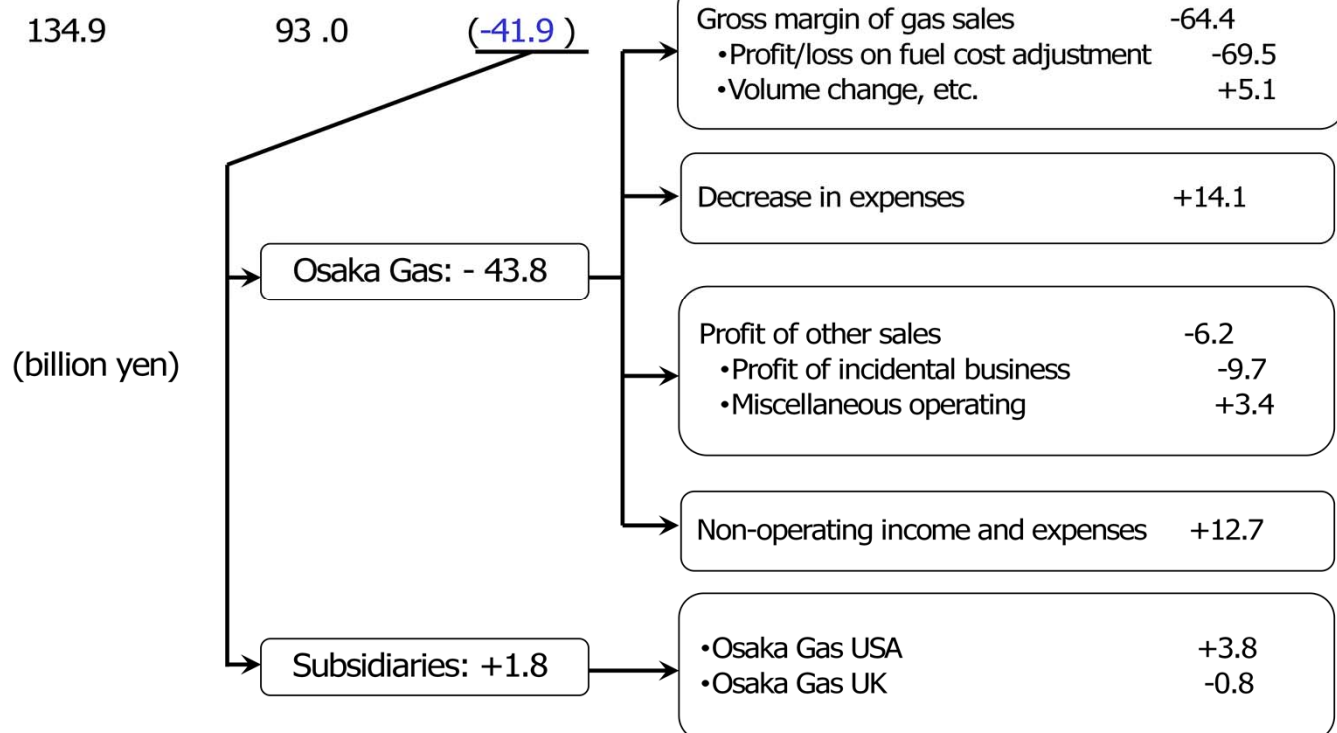
Other revenues -0.5  
 •Miscellaneous operating -11.7  
 •Incidental businesses +11.1  
 (Electricity businesses and LNG sales, etc.)

•Total of LPG operating companies -4.9  
 •Osaka Gas Excellent Agency -3.3

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

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

+/- signs indicate impact on profit.





## Results for 3<sup>rd</sup> Quarter of FY2017.3 by Segment

billion yen	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY17.3 3Q	FY16.3 3Q	FY17.3 3Q	FY16.3 3Q	
Gas	544.2	671.6	32.3	67.7	<u>Net sales</u> : Fall in the gas sales unit price <u>Profit</u> : Decrease in a time-lag profit
LPG, electricity, and other energy	144.3	156.5	14.8	23.3	<u>Net sales</u> : Mainly decrease in LPG businesses due to the LPG sales unit price <u>Profit</u> : Mainly decrease in electricity business
International energy	10.1	12.5	-1.0	1.3	<u>Net sales / Profit</u> : Decrease in energy business in USA, etc. (Mainly impact from Freeport Project)
Life & Business Solutions	153.0	153.3	14.2	12.8	<u>Net sales</u> : Overall, almost same line with the results of previous year <u>Profit</u> : Increase in real estate businesses
Adjustments	-44.4	-49.3	0.3	0.8	
Consolidated	807.4	944.7	60.7	105.9	

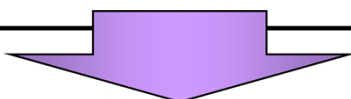
# Forecasts for FY2017.3 by Segment

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	786.9	948.5	49.0	95.7	Net sales: Fall in the gas sales unit price Profit: Decrease in a time-lag profit
LPG, electricity, and other energy	199.0	206.4	19.0	28.8	Net sales: Mainly decrease in LPG businesses due to the LPG sales unit price Profit: Decrease in electricity business and LPG business
International energy	24.4	18.7	8.0	-0.2	Net sales / Profit: Increase in Energy businesses in USA etc. (Mainly impact from Freeport Project)
Life & Business Solutions	215.4	221.7	19.0	18.8	Net sales : Due to transfer of business Profit : Overall, almost same line with the results of previous year
Adjustments	-66.2	-73.3	0.8	-0.9	
Consolidated	1,159.5	1,322.0	95.7	142.1	

# Residential Gas Sales

## FY2017.3 3Q Results

	YoY change	Remarks
Number of customers	+0.8%	
Influence of temperature, etc.	-0.4%	Average annual temperature: 20.8 degrees Celsius (Year-on-Year change: +0.5 degrees Celsius)
Others	-2.6%	Improved efficiency of gas appliance, impact of further energy conservation by customers etc.
Total	-2.2%	



## FY2017.3 Forecasts

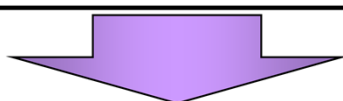
- Full-year result is expected to increase by 8 million m<sup>3</sup> from the previous year, and decrease by 11 million m<sup>3</sup> from the previous forecast\* to 2,091 million m<sup>3</sup>

\* announced on October 26

# Commercial, Public, and Medical Gas Sales

## FY2017.3 3Q Results

	YoY change	Remarks
Demand development	+1.9%	Development of new demand mainly for air conditioning
Influence of temperature, etc.	+3.5%	
Individual factors	-1.0%	Decrease in capacity of customers' facilities due to special factors
Others	-0.8%	Improved efficiency of gas appliance, impact of further energy conservation by customers etc.
Total	+3.4%	



## FY2017.3 Forecasts

- Full-year result is expected to increase by 52 million m<sup>3</sup> from the previous year, and increase by 16 million m<sup>3</sup> from the previous forecast\* to 1,461 million m<sup>3</sup>

\* announced on October 26

# Industrial Gas Sales

## FY2017.3 3Q Results

	YoY change	Remarks
Demand development	+11.1%	Conversion to gas from other fuel, etc.
Increase/decrease of operating rates	+1.9%	Increase in capacity of customers' facilities, etc.
Individual factors	-1.2%	Decrease due to special factors
Others	-0.2%	
Total	+11.6%	

## Breakdown by sector

(45MJ, million m<sup>3</sup>)

	Volume	YoY change
Machinery	231	100.1%
Metal	723	102.0%
Glass	214	96.2%
Chemical	938	105.7%
Food	400	102.5%

## FY2017.3 Forecasts

- Full-year result is expected to increase by 379 million m<sup>3</sup> from the previous year, and increase by 23 million m<sup>3</sup> from the initial plan to 4,438 million m<sup>3</sup>



# Monthly Gas Sales

## Year-on-Year Change FY2016 / FY2015 (%)

	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Total	
Residential	94.8	99.9	100.7	94.2	95.2	92.1	89.9	101.5	104.7	97.8	
Commercial, Public, Medical	95.5	90.2	104.6	102.9	100.0	110.7	119.0	100.3	106.3	103.4	
Industrial	101.5	121.2	112.9	106.0	114.5	116.8	115.6	110.3	107.1	111.6	
By Segment	Machinery	93.8	104.1	95.4	91.4	99.2	101.4	103.6	107.4	107.3	100.1
	Metal	98.2	102.0	99.7	99.9	98.2	101.8	103.7	104.4	110.1	102.0
	Glass	95.4	104.0	98.1	92.8	99.1	95.7	95.7	96.5	97.3	96.2
	Chemical	94.5	109.2	107.4	96.4	100.5	102.2	113.3	126.1	107.5	105.7
	Food	100.0	106.9	102.8	98.2	104.6	104.5	103.7	100.5	101.9	102.5
Wholesale	98.7	120.8	94.6	96.3	109.3	104.2	109.3	104.7	104.7	104.5	
Total	98.3	110.3	108.0	102.9	107.9	111.2	111.0	106.3	106.1	106.7	

# 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. -0.03 billion yen on ordinary income since the 4<sup>th</sup> 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. -0.7 billion yen on ordinary income since the 4<sup>th</sup> 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. 0.5 billion yen on annual consolidated non-operating expenses.