

Financial Report for FY2015.3 (April 2014 – March 2015)

April 2015
Osaka Gas Co., Ltd.

I. Business Results for FY2015.3 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.

Summary of Business Results for FY2015.3 (I)

Year-on-Year Comparison

■ Overview

Consolidated Net sales	Increased to ¥1,528.1 billion, up 1.0% from the previous year.
Consolidated Ordinary income	Increased to ¥108.1 billion, up 2.0% from the previous year due to a rise in gross profit margin for the gas business. Profit on fuel cost adjustment system was ¥12.3 billion (compared with a loss of ¥20.5 billion in the previous year). Non-recurring cost was recorded due to the restructuring of the regasification business in Freeport. Impact on accounting earnings: -¥6.4 billion in FY2015.3; ¥7.7 billion in FY2016.3 (estimate)
Consolidated Net income	Increased to ¥76.7 billion, up 83.8% from the previous year due to sales of investment securities and a reaction to the recognition of an impairment loss in the upstream business in US in the previous year.

■ Gas sales volume

Residential	Decreased to 2,186 million m ³ , down 0.5% from the previous year.
Commercial, public, and medical	Decreased to 1,465 million m ³ , down 4.1% from the previous year due to a decline in air-conditioning demand caused by cooler summer weather.
Industrial	Decreased to 4,133 million m ³ , down 4.5% from the previous year due to a change in the classification associated with the expiry of some IPP contracts (from sales of gas to large customers to self-use) and a decline in customers' capacity utilization.

■ Others

Dividends	Plan to pay ¥0.5 per share as a commemorative dividend (year-end dividend for FY2015.3 and interim and year-end dividends for FY2016.3) to celebrate the 110th anniversary. (FY2015.3: annual dividend of ¥9.5 per share; FY2016.3: annual dividend of ¥10.0 per share)
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Summary of Business Results for FY2015.3 (II)

Comparison with forecasts (announced on March 11, 2015)

■ Overview

Consolidated Net sales	Almost same as the forecasts, at ¥1,528.1 billion .
Consolidated Ordinary income	Increase to ¥108.1 billion, up 5.0% from the forecasts due to a decrease in operating expenses on a non-consolidated basis and an increase in profits of affiliated companies. Profit on fuel cost adjustment system was ¥12.3 billion (compared with profit of ¥14.3 billion in the forecasts).
Consolidated Net income	Increased to ¥76.7 billion, up 7.3% from the forecasts.

■ Gas sales volume

Residential	Decreased to 2,186 million m³, down 1.0% from the forecasts.
Commercial, public, and medical	Increased to 1,465 million m³, up 0.9% from the forecasts.
Industrial	Decreased to 4,133 million m³, down 0.3% from the forecasts.

■ Others

Investment for expansion, greenfield, and M&A	Invested ¥92.4 billion , mainly in international energy businesses and the construction of power stations in Japan.
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Gas Sales Volume Results for 2015.3

45MJ/m³

A. FY15.3

B. FY14.3

A-B

A-B/B
(%)

C. FY15.3
forecast

A-C/C
(%)

Number of meters installed (thousand)

7,196

7,136

+60

+0.8%

7,185

+0.2%

Installation of new meters (thousand)

107

102

+5

+4.6%

108

-0.9%

Monthly gas sales volume per
household (m³/month)

30.9

31.3

-0.3

-1.1%

31.3

-1.1%

Residential use

2,186

2,198

-12

-0.5%

2,209

-1.0%

Commercial, public, and
medical use

1,465

1,528

-63

-4.1%

1,453

+0.9%

Industrial use

4,133

4,329

-195

-4.5%

4,147

-0.3%

Non-residential total

5,599

5,856

-258

-4.4%

5,599

+0.0%

Wholesale

474

469

+4

+1.0%

473

+0.2%

(non-regulated)

(4,755)

(4,988)

(-233)

(-4.7%)

(4,765)

-0.2%

Non-consolidated gas sales volume
total (million m³)

8,259

8,524

-265

-3.1%

8,281

-0.3%

Consolidated gas sales volume total
(million m³)

8,290

8,554

-264

-3.1%

8,312

-0.3%

Results for FY2015.3 - I

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

(billion yen)	A. FY15.3	B. FY14.3	A-B	A-B/B(%)	C. FY15.3 forecast	A-C/C (%)
Net sales	(1.22) 1,528.1	(1.24) 1,512.5	+15.5	+1.0%	1,535.5	-0.5%
Operating income	(1.31) 105.0	(1.64) 99.3	+5.6	+5.7%	103.0	+2.0%
Ordinary income	(1.23) 108.1	(1.53) 106.0	+2.1	+2.0%	103.0	+5.0%
Net income	(1.09) 76.7	(1.67) 41.7	+34.9	+83.8%	71.5	+7.3%
SVA*	42.9	3.0	+39.9	+1332%	38.0	+12.9%

		A. FY15.3	B. FY14.3	A-B	C. FY15.3 forecast	A-C
Profit/ loss on fuel cost adjustment system	billion yen	12.3	-20.5	+32.9	14.3	-2.0
Exchange rate	yen/\$	109.8	100.2	+9.6	109.8	-0.1
Crude oil price	\$/bbl	90.4**	110.0	-19.6	92.0	-1.6
Number of subsidiaries		145	150	-5	---	---

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

**Average of preliminary monthly data up to March.

Results for FY2015.3 - II

(billion yen)	A. FY15.3 end	B. FY14.3 end	A-B	Remarks
Total assets	1,862.2	1,668.3	+193.8	Due to increase in cash and deposit , etc.
Net worth	888.4	798.9	+89.5	
Interest-bearing liabilities	633.9	573.5	+60.3	
Number of employees	20,982	21,250	-268	Due to sales of subsidiaries , etc.
Net worth / Total assets	47.7%	47.9%	-0.2	
D/E ratio	0.71	0.72	-0.00	
	A. FY15.3	B. FY14.3	A-B	Remarks
Capital expenditures	119.3	124.1	-4.7	New gas pipelines opened in previous year.
Depreciation	87.7	83.8	+3.9	
Free cash flow*	112.2	113.1	-0.9	*Cash flows from operating activities - capital expenditures for upgrading existing businesses
ROA	4.3%	2.6%	+1.8	
ROE	9.1%	5.4%	+3.7	
EPS (yen/share)	36.9	20.0	+16.8	
BPS (yen/share)	427.0	383.9	+43.1	

Business Plan for FY2016.3

■ Priority issues

(1) Steady preparation for the reform of electricity and gas industries

- Efforts to expand the energy business: improvement of IT system and organizational system
- Improve the neutrality of the pipeline business: establishment of Consignment Reception Center, Consignment Information Center

(2) Expansion of businesses that are expected to grow in the future

- Electricity business
 - Power generation business: acquisition of new power sources
 - Power sales business: expansion of power retail business
- International energy businesses
 - Upstream: promotion of projects, in which the Company already participated, the acquisition of new interests
 - Downstream: participation in businesses mainly in Southeast Asia and North America
- Material solutions business: product development, streamlining of business operations

Summary of Business Forecast for FY2016.3

■ Overview

Consolidated Net sales	Expected to decrease to ¥1,368.5 billion, down 10.4% from the previous year, reflecting decline in gas, LNG, and electricity prices associated with a fall in LNG prices.
Consolidated Ordinary income	Expected to increase to ¥110.0 billion, up 1.7% from the previous year, reflecting a rise in gas profit margins and profits of affiliated companies, despite a decrease in profit in the electricity business. Profit on fuel cost adjustment system is estimated to ¥40.0 billion (profit on fuel cost adjustment system was ¥12.3 billion in the previous year).
Consolidated Net income*	Expected to decrease to ¥73.5 billion, down 4.2% from the previous year, reflecting a reaction to the posting of extraordinary income in the previous year.

* Net income that belongs to shareholders of the parent company.

■ Gas sales volume

Residential	Expected to increase to 2,202 million m ³ , up 0.7% from the previous year, assuming the same temperature level as in usual years.
Commercial, public, and medical	Expected to decrease to 1,446 million m ³ , down 1.3% from the previous year, assuming the impact of customers' energy conservation efforts.
Industrial	Expected to increase to 4,280 million m ³ , up 3.5% from the previous year, assuming the demand development and an increase in customers' capacity utilization.

■ Other

Investment for expansion, greenfield, and M&A	Plan to invest ¥148.0 billion mainly in the international energy business.
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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)	7,217	7,196	+21	+0.3%
Installation of new meters (thousand)	101	107	-6	-5.3%
Monthly gas sales volume per household (m ³ /month)	31.1	30.9	+0.1	+0.4%
Residential use	2,202	2,186	+16	+0.7%
Commercial, public, and medical use	1,446	1,465	-19	-1.3%
Industrial use	4,280	4,133	+147	+3.5%
Non-residential total	5,727	5,599	+128	+2.3%
Wholesale	498	474	+24	+5.1%
(non-regulated)	(4,890)	(4,755)	(+135)	(+2.8%)
Non-consolidated gas sales volume total (million m ³)	8,427	8,259	+168	+2.0%
Consolidated gas sales volume total (million m ³)	8,459	8,290	+169	+2.0%

Forecasts for FY2016.3 - I

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

(billion yen)		A. FY16.3 forecasts	B. FY15.3 results	A-B	A-B/B (%)
Net sales		(1.29) 1,368.5	(1.22) 1,528.1	-159.6	-10.4%
Operating income		(1.53) 113.5	(1.31) 105.0	+8.4	+8.0%
Ordinary income		(1.31) 110.0	(1.23) 108.1	+1.8	+1.7%
Net income		(1.17) 73.5*	(1.09) 76.7	-3.2	-4.2%
SVA**		40.9	42.9	-1.9	-4.6%
Profit/loss on fuel cost adjustment system	billion yen	40.0	12.3	+27.6	
Exchange rate	yen/\$	120.0	109.8	+10.2	
Crude oil price	\$/bbl	65.0***	90.4	-25.4	

* Net income that belongs to shareholders of the parent company.

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

*** 1Q: 55\$/bbl, 2Q: 65\$/bbl, 3Q and 4Q: 70\$/bbl

Forecasts for FY2016.3 - II

(billion yen)	A. FY16.3 end forecasts	B. FY15.3 end results	A-B
Total assets	1,866.5	1,862.2	+4.2
Net worth	916.7	888.4	+28.2
Interest-bearing liabilities	643.1	633.9	+9.1
Number of employees	21,901	20,982	+919
Net worth / Total assets	49.1%	47.7%	+1.4
D/E ratio	0.70	0.71	-0.01

	A. FY16.3 forecasts	B. FY15.3 results	A-B
Capital expenditures	125.3	119.3	+5.9
Depreciation	84.5	87.7	-3.2
Free cash flow	129.5	112.2	+17.3
ROA	4.0%	4.3%	-0.3
ROE	8.3%	9.1%	-0.8
EPS (yen/share)	35.3	36.9	-1.5
BPS (yen/share)	440.5	427.0	+13.5

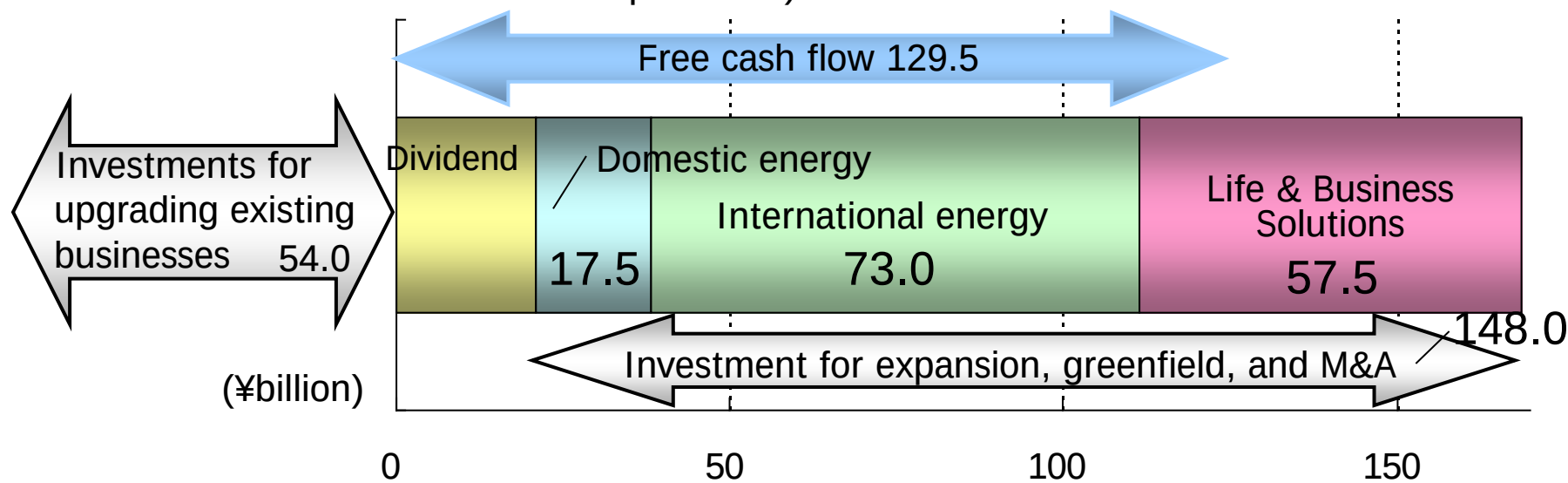
FCF = Cash flows from operating activities - capital expenditures for upgrading existing businesses

Use of Free Cash Flow (FCF) for FY2016.3

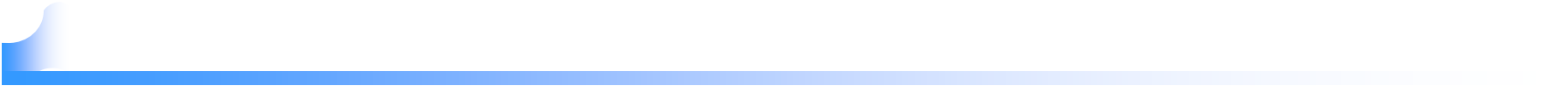
- FCF for FY2016.3 is expected to be ¥129.5 billion, up ¥17.3 billion from the previous year.
- Plan to invest ¥148.0 billion for expansion, greenfield, and M&A.

Domestic energy	Construction of power plants, etc.
International energy	Upstream business development, and investment in middle and downstream businesses, etc.
Life & Business Solutions	Acquisition of income properties, etc.

- Aim to achieve an annual dividend of ¥10 per share (ordinary dividend of ¥9.0 per share, commemorative dividend of ¥1.0 per share).



FCF = Cash flows from operating activities – Ordinary capital expenditures
 (investments for quality improvement of existing businesses).
 The amount of investment differs from that of planned capital expenditures,
 because the former includes both capital expenditures and investments/financing.



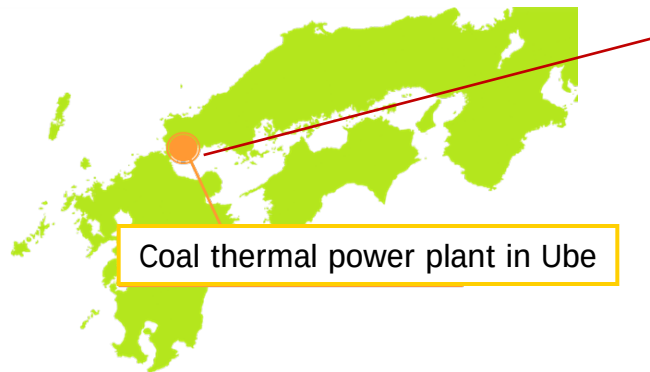
II. Facts and Figures

Recent Topics (I)

- Establishment of Yamaguchi Ube Power Generation Co., Ltd. (announced in Feb.)
 - Joint venture company between Electric Power Development, Osaka Gas, and Ube Industries.
 - A company was set up to examine and prepare the commercialization of the power generation business.

Date of establishment	March 13, 2015
Investment ratio	Electric Power Development Co., Ltd.: 45%, Osaka Gas Co., Ltd.: 45%, and Ube Industries, Ltd.: 10%
Nature of business	Electricity supply business
Generation capacity (planned)	1,200 MW (2 units of 600 MW) coal thermal power plant adopting ultra supercritical boilers.
Start of operation (planned)	First half of 2020s

● Planned construction site of new plant



Photograph: Courtesy of Ube Industries, Ltd.

Recent Topics (II)

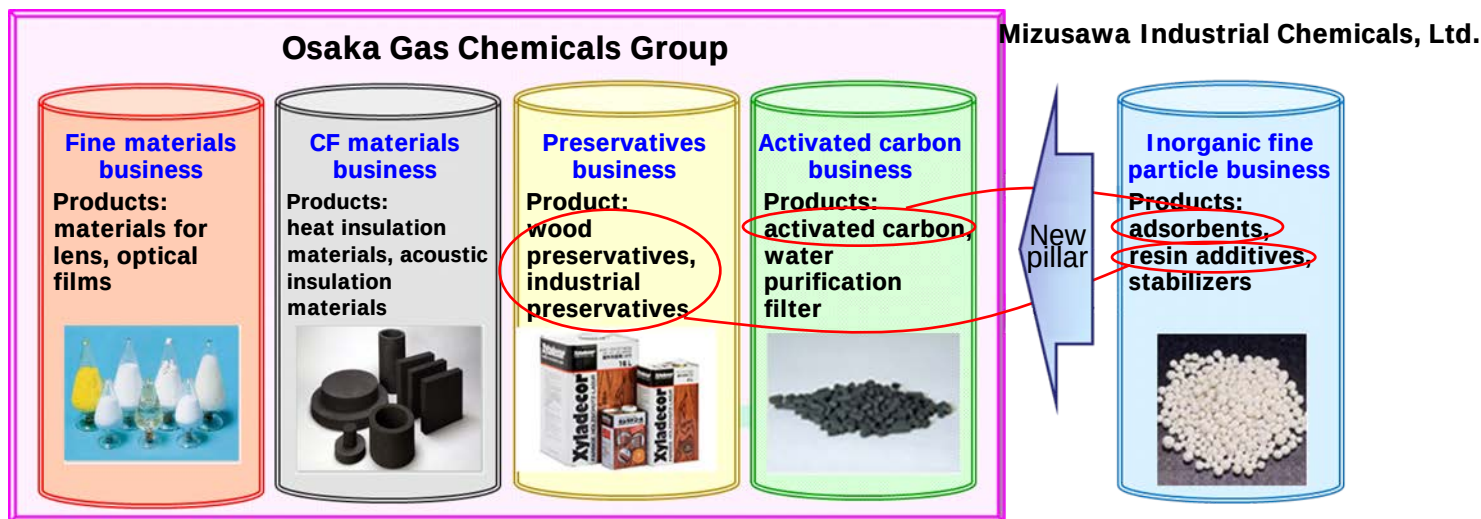
■ Acquisition of equity in Mizusawa Industrial Chemicals, Ltd. (announced in Apr.)

- Osaka Gas Chemicals (“OGC”) acquired a 54.2% interest in Mizusawa Industrial Chemicals from Takeda Pharmaceutical Company and turned it into a subsidiary.

● Mizusawa Industrial Chemicals

Nature of business	Manufacture and sale of adsorbent materials, such as activated clay, stabilizers, and resin additives	
Net sales (FY2013)	¥10.1 billion yen*	* Breakdown of sales: adsorbent materials (44%), stabilizers (28%), resin additives (28%)

- The acquisition is expected to bring a new pillar of business to OGC and create synergy with OGC’s existing businesses.



* Synergy between activated carbon and adsorbent materials, and between preservation agents and resin additives.

Sales variance for FY2015.3 (Year-on-Year)

FY14.3 → FY15.3 (differences)

1,512.5 1,528.1 (+15.5)

(billion yen)

Osaka Gas: +29.9

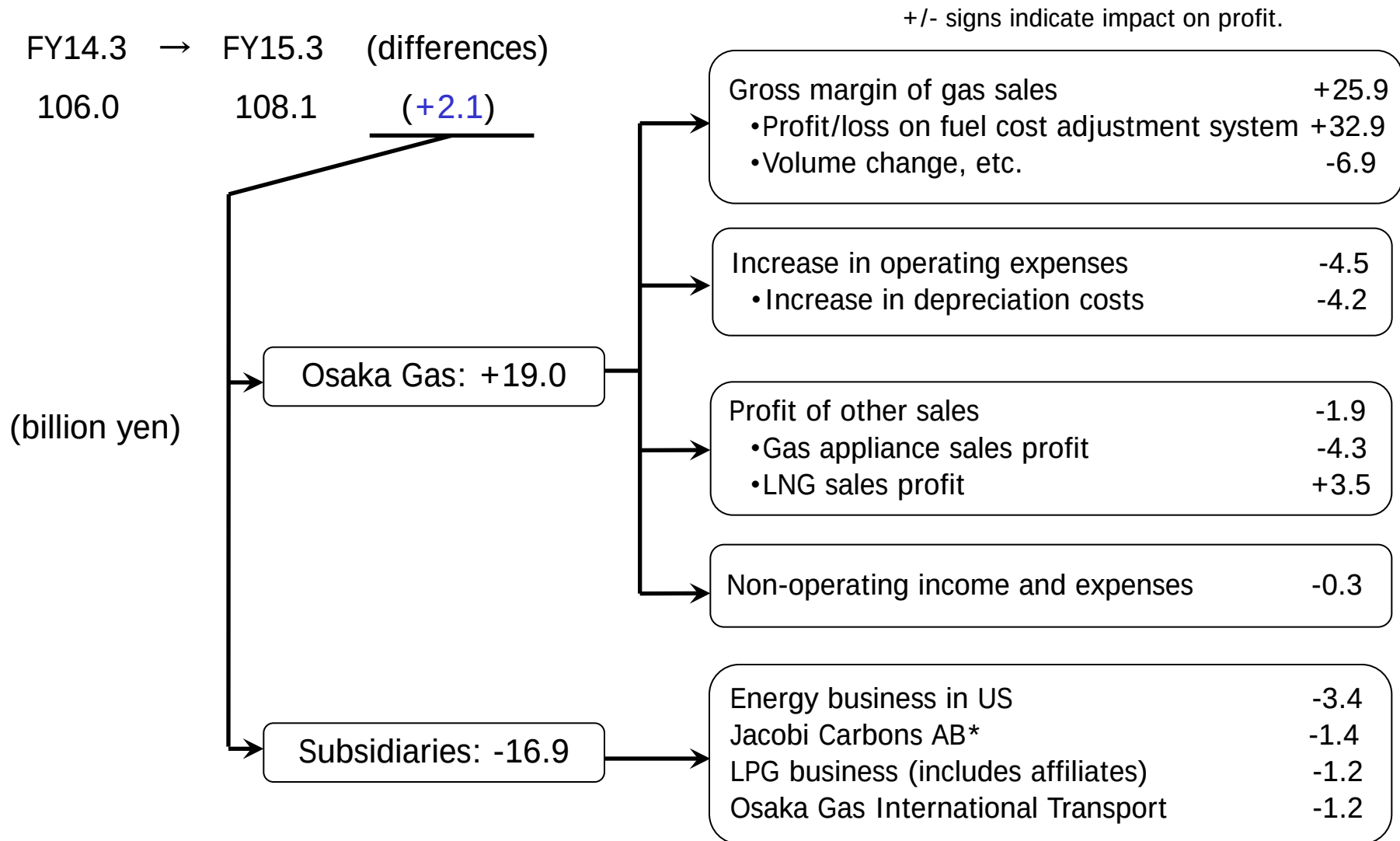
Subsidiaries: -14.4

Gas sales +23.9
 • Impact of fuel cost adjustment +47.1
 • Volume change, etc. -23.1

Other revenues +6.0
 • Electricity business +10.8
 • Gas appliance sales -2.1
 • LNG sales -0.9

LPG business, etc. -9.2
 Osaka Gas Research Institute of
 Behavior Observation -3.8

Ordinary income variance for FY2015.3 (Year-on-Year)



Sales variance for FY2015.3 (with forecasts)

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

1,535.5

1,528.1

(-7.3)

(billion yen)

Osaka Gas: -2.6

Gas sales -2.8
• Impact of fuel cost adjustment -0.7
• Volume change, etc. -2.1

Other revenues +0.1
• Gas appliance sales +0.8
• Incidental businesses -0.4
(Electricity business, etc.)

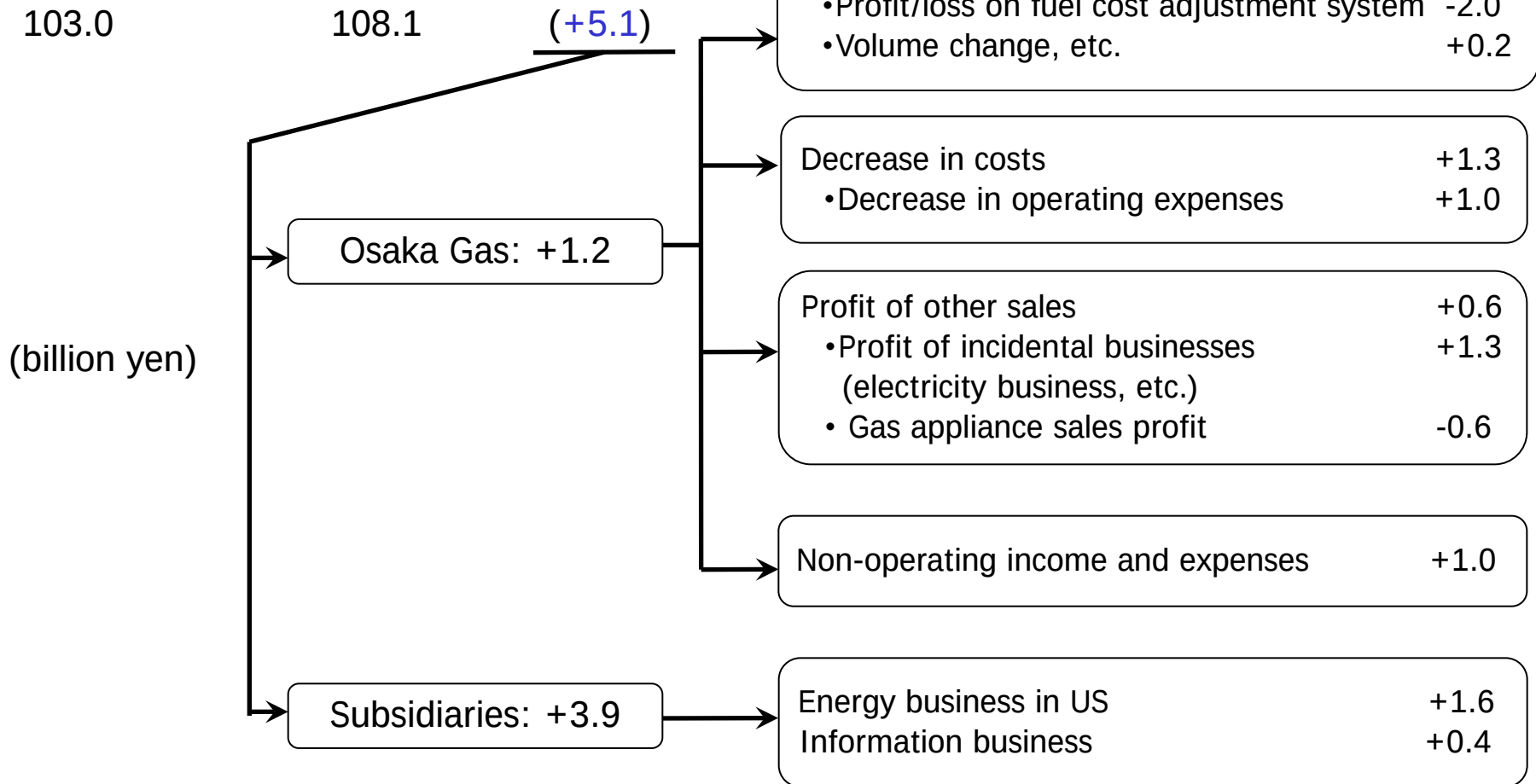
Subsidiaries: -4.6

LPG business -1.3

Ordinary income variance for FY2015.3 (with forecasts)

+/- signs indicate impact on profit.

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



Results for FY2015.3 by Segments

(billion yen)	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY15.3	FY14.3*	FY15.3	FY14.3*	
Gas	1,136.9	1,119.5	50.2	32.0	<u>Net sales</u> : Rise in the price of gas sales <u>Profit</u> : Cancellation of loss on fuel cost adjustment
LPG, electricity, and other energies	243.7	261.0	41.6	45.3	<u>Net sales/Profit</u> : Decrease in LPG business, etc
International energies	13.7	13.3	1.2	8.2	<u>Profit</u> : Temporary cost recorded due to the liquidation of the vaporization business in Freeport
Life & Business Solutions	207.5	196.5	16.5	18.9	<u>Net sales/Profit</u> : New consolidation of Jacobi Carbons AB (Profit decreased due to increase in a temporary cost, etc.)
Elimination/consolidation	-73.7	-77.9	2.2	2.7	
Consolidated	1,528.1	1,512.5	112.0	107.2	

<Classification of the Renewable Energy business> Environment and Non-Energies segment till FY2014.3;

Classified into LPG, Electricity, and Other Energies segment or International Energies segment from FY2015.3 according to the nature of the business.

<Change of segment name> The name of Environment and Non-Energies segment will be changed to Life & Business Solutions segment from FY 2015.3.

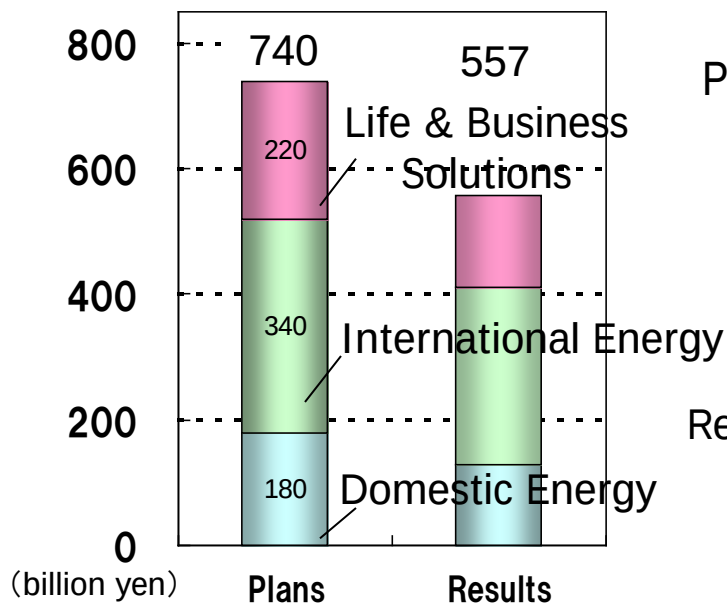
* Provisional figures of FY 2014.3 results based on the above new classification

Results of Investments

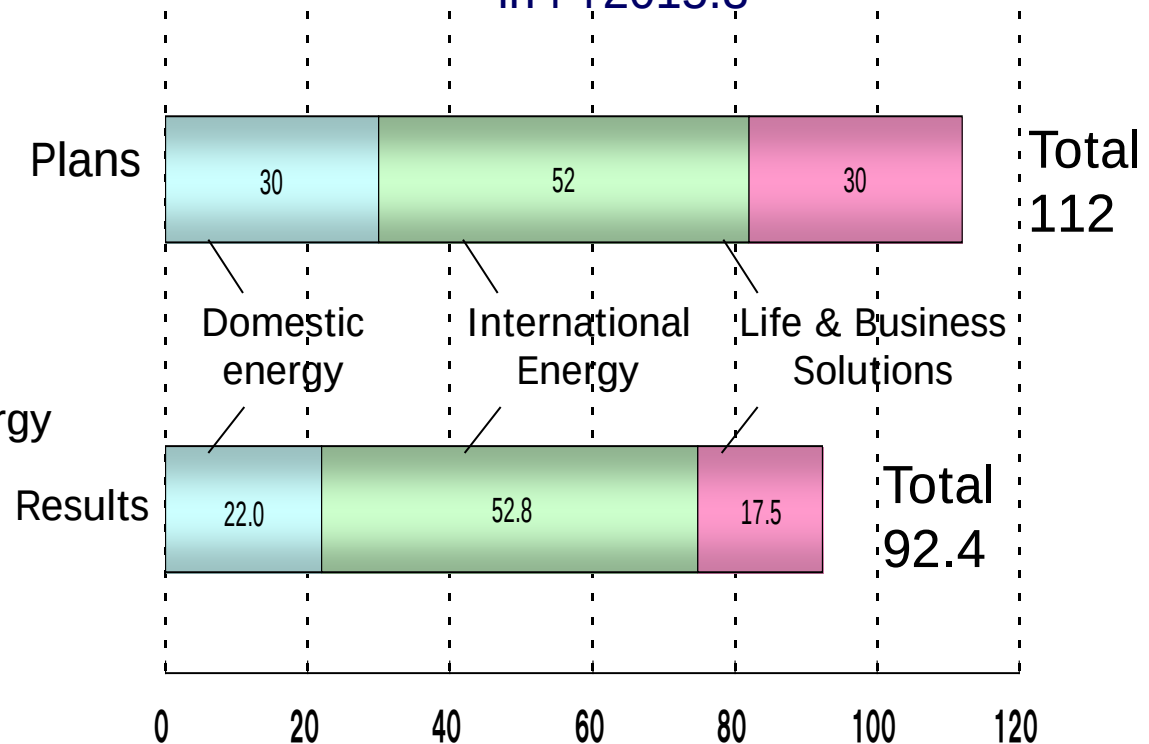
for expansion, greenfield, and M&A in FY2015.3

- Cumulative amount approved for investment from FY2010.3 onwards are **¥557.0 billion** (75% of the amount projected for the period between FY2010.3 and FY2017.3).
- Total investment in FY2015.3 were **¥92.4 billion**. (83% of the plan in FY2015.3)

Cumulative amount approved for invest to date from FY2010.3



Investment for expansion, greenfield, and M&A in FY2015.3

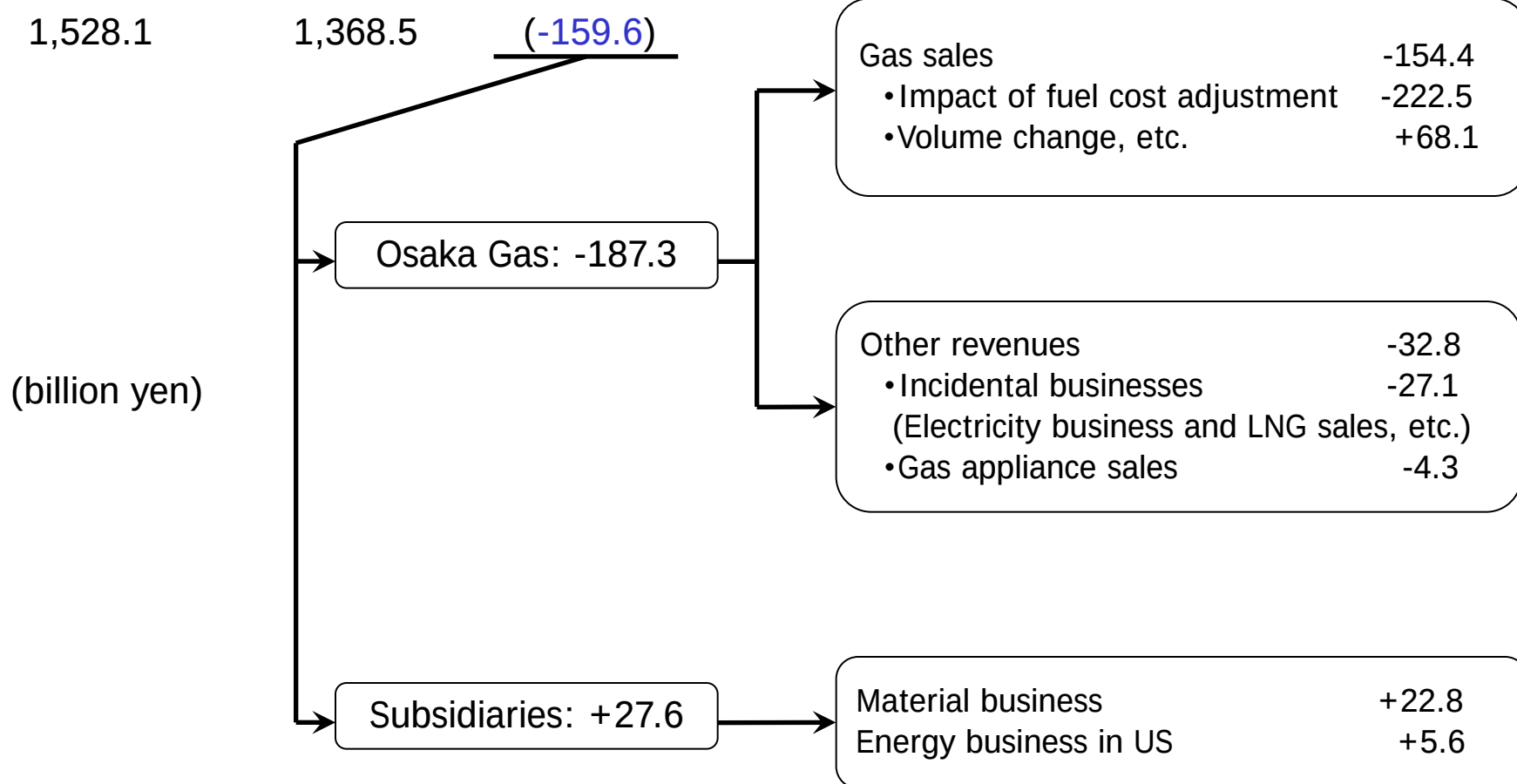


Amounts of investment include both capital expenditure items and investment-and-loan items, and therefore the amounts of investment are different from actual amounts of capital expenditures.

(billion yen)

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

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



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

+/- signs indicate impact on profit.

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

108.1

110.0

(+1.8)

(billion yen)

Osaka Gas: -4.2

Subsidiaries: +6.0

Gross margin of gas sales +10.7
 • Profit/loss on fuel cost adjustment system +27.6
 • Volume change, etc. -16.8

Increase in costs -3.1
 • Increase in operating expenses -3.0

Profit of other sales -13.8
 • Profit of incidental business (Electricity business profit, etc.) -17.7
 • Gas appliance sales profit +4.9

Non-operating income and expenses +1.9

Energy business in US +11.2
 • Accounting impact of Freeport * +14.1

* Impact on accounting earnings: ¥ -6.4 billion in FY2015.3; ¥ 7.7 billion in FY2016.3 (estimate)

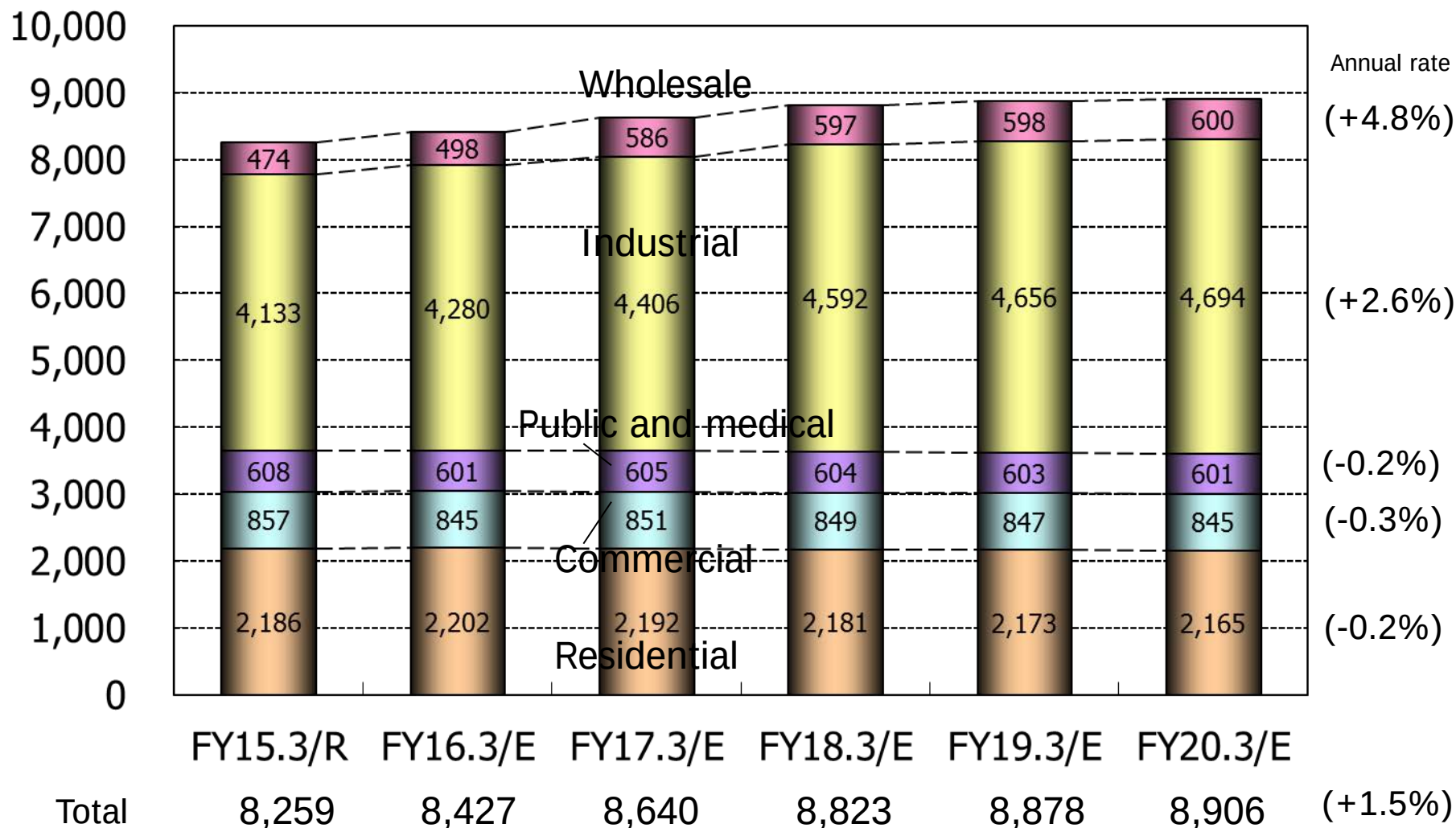
Forecasts for FY2016.3 by Segments

(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	974.0	1,136.9	61.0	50.2	<u>Net sales</u> : Decrease in the price of gas sales <u>Profit</u> : Increase in profit on fuel cost adjustment system
LPG, electricity, and other energies	213.0	243.7	25.5	41.6	<u>Net sales</u> : Decrease in revenues of electricity business and LNG sales <u>Profit</u> : Mainly decrease in electricity business
International energies	21.5	13.7	8.5	1.2	<u>Net sales/Profit</u> : Accounting impact of energy business in US in previous year
Life & Business Solutions	229.5	207.5	20.5	16.5	<u>Net sales/Profit</u> : Increase in material business, etc.
Elimination/consolidation	-69.5	-73.7	2.0	2.2	
Consolidated	1,368.5	1,528.1	117.5	112.0	

Medium-term Forecasts of Gas Sales Volume

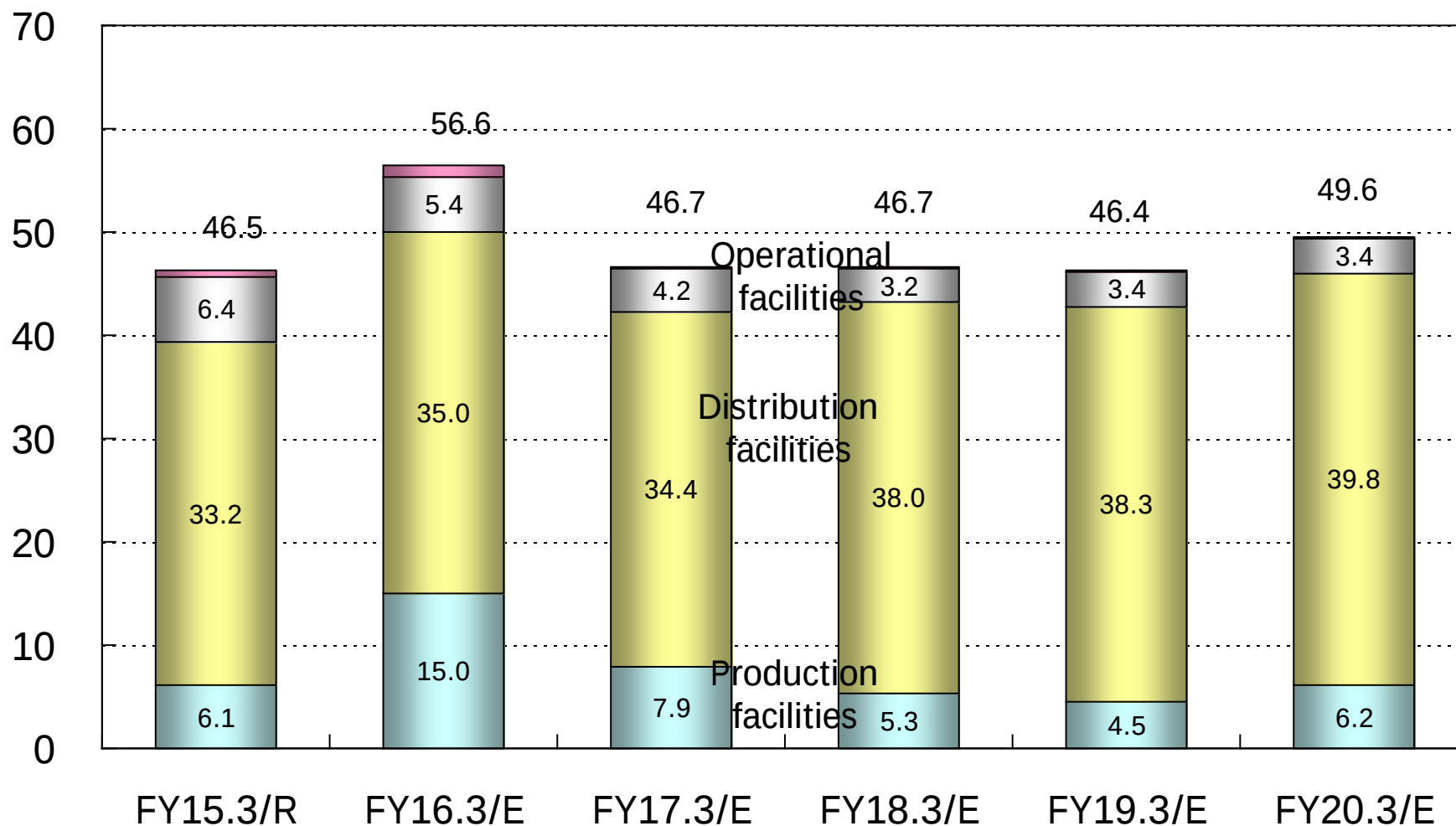
(45MJ, million m³)

Numbers in () to the right of the graph show growth between FY2015.3 and FY2020.3.



Medium-term Forecasts of Capital Expenditures

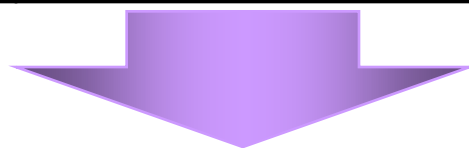
(billion yen)



Residential Gas Sales

FY2015.3 results

	YoY change	Remarks
Number of customers	+0.5%	
Influence of temperature	- 0.4%	Average annual temperature: 16.8 degrees Celsius (17.1 degrees Celsius in FY2014.3)
Others	- 0.7%	
Total	- 0.5%	



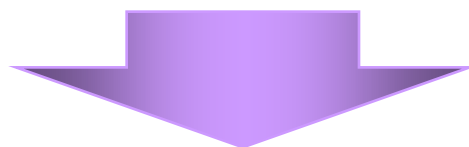
FY2016.3 forecasts

- Residential gas sales volume is expected to increase from the previous year by 16 million m³ (up 0.7% YoY) to 2,202 million m³, assuming that temperatures will be the same as usual years and will increase in gas demand in winter period.

Commercial/Public and medical Gas Sales

FY2015.3 results

	YoY change	Remarks
Demand development	+0.2%	
Impact of temperature / number of days	-2.8%	
Others	-1.5%	Increased/Decreased in operation of customers' facilities and customer's energy-saving consciousness, etc.
Total	-4.1%	



FY2016.3 forecasts

- Commercial/Public and medical gas sales volume is expected to decrease by 19 million m³ (down 1.3% YoY) to 1,446 million m³, assuming that temperatures will be the same as usual years and customers will make energy-saving efforts.

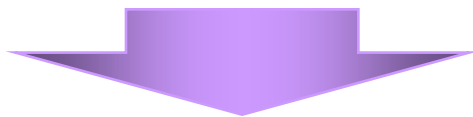
Industrial Gas Sales

FY2015.3 results

	YoY change	Remarks
Demand development	+1.2%	Shift to gas from other fuels, etc.
Increase/decrease of operating rates	-3.1%	
Others	-2.6%	
Total	-4.5%	

Breakdown by sectors (45MJ, million m³)

	Volume	Percentage to total sales volume	Y-o-Y
Machinery	332	8.0%	95.4%
Metal	1,006	24.3%	99.1%
Glass	302	7.3%	89.7%
Chemical	1,190	28.8%	96.9%
Food	516	12.5%	99.5%



FY2016.3 forecasts

- Industrial gas sales volume is expected to increase by 147 million m³ (up 3.5% YoY) to 4,280 million m³, assuming newly created demand and increased operation of customers' facilities.

Monthly Gas Sales for FY2015.3

Change from the same month the previous year (%)

	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total
Residential	99.9	91.5	101.6	99.8	105.4	108.8	105.8	103.9	97.1	98.6	100.4	97.0	99.5
Commercial/ Public and medical	98.0	95.0	95.8	94.9	93.5	90.7	93.4	96.6	94.4	101.3	99.9	97.8	95.9
Industrial	97.4	97.4	101.6	93.3	94.7	95.8	96.0	96.0	97.7	92.7	92.0	92.4	95.5
Machinery	92.3	93.3	104.3	92.1	92.5	97.4	95.2	87.0	100.6	95.8	93.7	100.3	95.4
Metal	102.3	101.7	110.4	100.8	100.2	98.8	98.6	96.0	97.3	93.9	95.6	95.0	99.1
Glass	90.9	89.6	87.2	84.0	90.1	88.9	87.8	88.6	98.2	92.6	89.3	90.9	89.7
Chemical	95.6	97.3	100.7	94.0	100.2	96.6	100.1	98.7	103.1	94.2	90.7	93.4	96.9
Food	99.0	99.4	102.5	97.4	98.3	102.5	99.9	98.8	100.3	96.9	98.5	101.0	99.5
Wholesale	91.5	97.3	121.5	94.3	99.0	103.6	102.4	91.0	113.5	94.9	101.2	106.5	101.0
Total	98.0	95.3	101.6	94.6	95.9	96.5	97.5	97.7	97.9	96.5	96.7	95.5	96.9

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. -0.8 billion yen on annual ordinary income.
- 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. -0.8 billion yen on annual ordinary income.
- Fuel 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. 0.7 billion yen on annual consolidated non-operating expenses.