# Financial Report for FY2017.3 (April 2016 – March 2017)

April 2017

Osaka Gas Co., Ltd.

# I. Business Results for FY2017.3 and Forecasts for FY2018.3

**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 FY2017.3 (I)

## Year-on-Year Comparison

- Overview

| | |
|---|---|
| Consolidated Net sales | Decreased by 10.5% (¥138.1 billion) from the previous year to ¥1,183.8 billion due to the fall in sales unit price of gas driven by lower LNG prices, etc. |
| Consolidated Ordinary income | Decreased by 28.7% (¥38.7 billion) from the previous year to ¥96.2 billion due to decrease in gross profit of gas sales caused by decrease in time-lag profit.<br>Time-lag profit totaled ¥13.7 billion (Time-lag profit* in previous year was ¥81.7 billion). |
| Consolidated Net income ** | Decreased by 27.3% (¥23.0 billion) from the previous year to ¥61.2 billion. |

*Profit on fuel cost adjustment system
** Profit attributable to owners of parent

- Gas Sales Volume (non-consolidated)

| | |
|---|---|
| Residential | Increased by 0.9% (19 million $m^3$) from the previous year to 2,103 million $m^3$ due to lower air and water temperatures in winter, which led to higher demand for hot water and heating, etc. |
| Commercial, public and medical | Increased by 3.7% (52 million $m^3$) from the previous year to 1,462 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 13.5% (550 million $m^3$) from the previous year to 4,609 million $m^3$ due to increase in demand for power generation and higher utilization of customers' equipments, etc. |

# Summary of Business Results for FY2017.3 (II)

## Comparison with forecasts

- Overview

| | |
|---|---|
| Consolidated Net sales | Increased by 2.1% from the forecasts to ¥1,183.8 billion due to increase in gas sales volume which caused increase in gas sales revenue, and the increase in incidental revenue, etc. |
| Consolidated Ordinary income | Increased by 3.5% from the forecasts to ¥96.2 billion due to increase in profit of subsidiaries, etc.<br>Time-lag profit totaled ¥13.7 billion (Time-lag profit* in the forecasts was ¥12.1 billion). |
| Consolidated Net income ** | Decreased by 5.0% from the forecasts to ¥61.2 billion. |

*Profit on fuel cost adjustment system
* Profit attributable to owners of parent

- Gas sales volume (non-consolidated)

| | |
|---|---|
| Residential | Same level as the forecasts to 2,103 million $m^3$. |
| Commercial, public, and medical | Same level as the forecasts to 1,462 million $m^3$. |
| Industrial | Increased by 3.8% from the forecasts to 4,609 million $m^3$ due to increase in higher utilization of customers' equipments, etc. |

- Others

| | |
|---|---|
| Investment for expansion, greenfield, and M&A | Invested ¥85.7 billion, mainly in international energy businesses and businesses in "Life and Business Solution" segment, etc. |

# Gas Sales Volume Results for 2017.3

※As of January 31, 2017

| 45MJ/$m^3$ | A. FY17.3 | B. FY16.3 | A-B | A-B/B (%) | C. FY17.3 forecast* | A-C/C (%) |
|---|---|---|---|---|---|---|
| Number of meters installed (thousand) | 7,310 | 7,252 | +58 | +0.8% | 7,298 | +0.2% |
| Installation of new meters (thousand) | 111 | 109 | +1 | +1.3% | 111 | -0.2% |
| Monthly gas sales volume per household ($m^3$/month) | 29.3 | 29.3 | +0.0 | +0.2% | 29.2 | +0.6% |
| Residential use | 2,103 | 2,083 | +19 | +0.9% | 2,091 | +0.5% |
| Commercial, public, and medical use | 1,462 | 1,410 | +52 | +3.7% | 1,461 | +0.0% |
| Industrial use | 4,609 | 4,059 | +550 | +13.5% | 4,438 | +3.8% |
| Non-residential total | 6,071 | 5,469 | +602 | +11.0% | 5,900 | +2.9% |
| Wholesale | 489 | 469 | +20 | +4.3% | 482 | +1.5% |
| (non-regulated) | 5,218 | (4,647) | (+571) | (+12.3%) | (5,047) | +3.4% |
| Non-consolidated gas sales volume total (million $m^3$) | 8,662 | 8,021 | +642 | +8.0% | 8,473 | +2.2% |
| Consolidated gas sales volume total (million $m^3$) | 8,694 | 8,052 | +642 | +8.0% | 8,505 | +2.2% |



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# Results for FY2017.3 - I

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

| Consolidated, billion yen | A. FY17.3 | B. FY16.3 | A-B | (A-B)/B | C. FY17.3 forecast | (A-C)/C |
|---|---|---|---|---|---|---|
| Net sales | (1.31) 1,183.8 | (1.27) 1,322.0 | -138.1 | -10.5% | 1,159.5 | +2.1% |
| Operating income | (1.76) 97.2 | (1.31) 146.6 | -49.4 | -33.7% | 95.5 | +1.8% |
| Ordinary income | (1.37) 96.2 | (1.19) 134.9 | -38.7 | -28.7% | 93.0 | +3.5% |
| Net income* | (1.12) 61.2 | (1.01) 84.3 | -23.0 | -27.3% | 64.5 | -5.0% |
| SVA** | 33.3 | 52.6 | -19.2 | -36.7% | 37.7 | -11.7% |

| | | A. FY17.3 | B. FY16.3 | A-B | C. FY17.3 forecast | A-C |
|---|---|---|---|---|---|---|
| Profit/ loss on fuel cost adjustment system | billion yen | 13.7 | 81.7 | -67.9 | 12.1 | +1.6 |
| Crude oil price | $/bbl | 47.5*** | 48.7 | -1.2 | 47.3 | +0.2 |
| Exchange rate | yen/$ | 108.3 | 120.2 | -11.8 | 108.7 | -0.4 |
| Number of subsidiaries | | 150 | 149 | +1 | --- | --- |

* Profit attributable to owners of parent

**SVA (Shareholders' value added) = NOPAT – Invested capital × WACC ***Average of preliminary monthly data up to March.



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# Results for FY2017.3 - II

| Consolidated, billion yen | A. FY17.3 end | B. FY16.3 end | A-B | Remarks |
|---|---|---|---|---|
| Total assets | 1,886.5 | 1,829.7 | +56.8 | Increased in non-current assets, etc. |
| Net worth | 961.9 | 906.6 | +55.2 | |
| Interest-bearing liabilities | 540.6 | 567.1 | -26.4 | |
| Number of employees | 20,762 | 20,844 | -82 | Due to selling subsidiaries, etc. |
| Net worth / Total assets | 51.0% | 49.5% | +1.4 | |
| D/E ratio | 0.56 | 0.63 | -0.06 | |

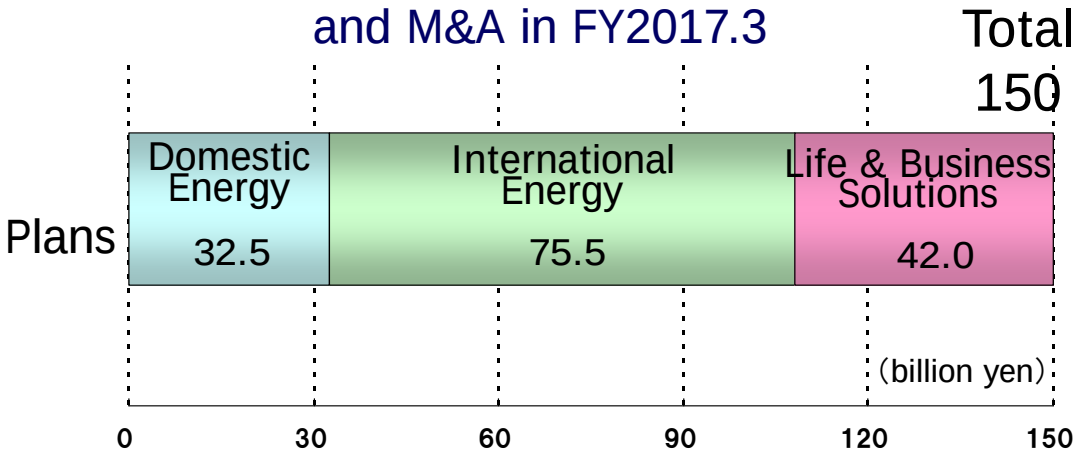
| | A. FY17.3 | B. FY16.3 | A-B | Remarks |
|---|---|---|---|---|
| Capital expenditure | 88.6 | 114.4 | -25.7 | Decreased in investment for upstream businesses overseas, etc. |
| Depreciation | 86.2 | 86.7 | -0.5 | |
| Free cash flow* | 100.5 | 225.7 | -125.2 | Decreased in net income, etc. |
| ROA | 3.3% | 4.6% | -1.3 | |
| ROE | 6.6% | 9.4% | -2.8 | |
| EPS (yen/share) | 29.5 | 40.5 | -11.1 | |
| BPS (yen/share) | 462.5 | 435.8 | +26.7 | |

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

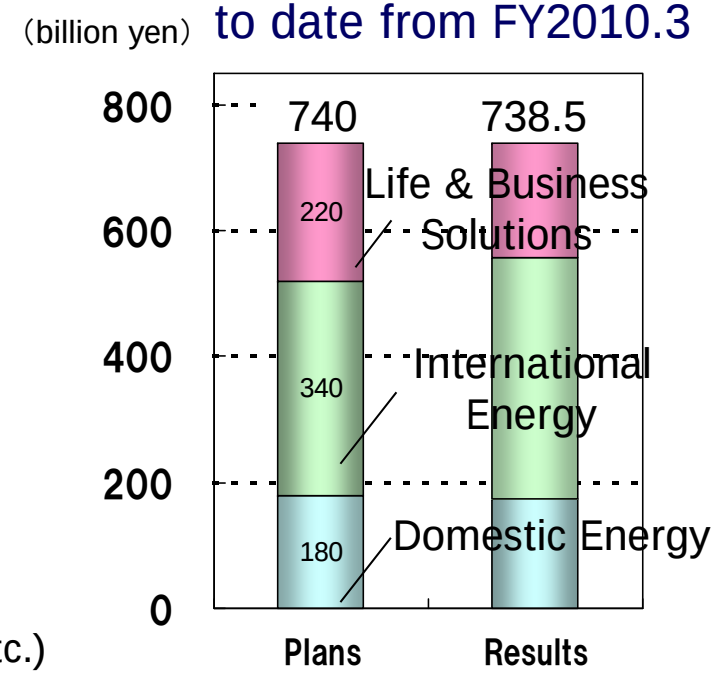
# Results of Investment for Expansion, Greenfield, and M&A in FY2017.3

- Total investment in FY2017.3 were ¥85.7 billion. (57% of the plan in FY2017.3)
- Cumulative amount approved for investment from FY2010.3 onwards are ¥738.5 billion. (99% of the amount planed for the period between FY2010.3 and FY2017.3).

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




## Cumulative amount approved for investment to date from FY2010.3




## FY17.3 Total investment* : ¥85.7 billion

Domestic energy : 11.6 (LPG business, construction of power plants, etc.)

International energy : 56.3 (Upstream business, construction of power plants, etc.)

Life & Business Solutions : 17.7 (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 expenditure.



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# Summary of Business Forecast for FY2018.3

## Overview

| | |
|---|---|
| Consolidated Net sales | Expect to increase by 13.6% from the previous year to ¥1,344.5 billion, based on an assumption of an increase in sales unit price of gas due to increase in LNG price, etc. |
| Consolidated Ordinary income | Expect to decrease by 33.5% from the previous year to ¥64.0 billion, based on an assumption of a decline in gas business due to decrease in gas sales volume, etc.<br>Time-lag profit is estimated to ¥0.9 billion (Time-lag profit* in the previous year was ¥13.7 billion). |
| Consolidated Net income ** | Expect to decrease by 30.6% from the previous year to ¥42.5 billion. |

*Profit on fuel cost adjustment system
** Profit attributable to owners of parent

## Gas sales volume

| | |
|---|---|
| Residential | Expect to increase by 0.4% from the previous year to 2,111 million $m^3$, assuming the same temperature level as in usual years, and lower temperature in 1st of half period. |
| Non-residential | Expect to decrease by 8.4% from the previous year to 6,008 million $m^3$, reflecting a decrease in gas sales volume for power generation due to the change in the classification of gas usage from non-residential sale to self-use and assuming a decrease in demand for power generation and lower utilization of customers' equipments. |

## Other

| | |
|---|---|
| Investment for growth | Plan to invest ¥122.0 billion mainly in international energy business. |

# Gas / Electricity Sales Volume Forecasts for FY2018.3

- Gas Sales Volume

| 45MJ/$m^3$ | A. FY18.3 forecasts | B. FY17.3 results | A-B | (A-B)/B |
|---|---|---|---|---|
| Residential use | 2,111 | 2,103 | +8 | +0.4% |
| Non-residential total | 6,008 | 6,560 | -552 | -8.4% |
| Non-consolidated gas sales volume total (million $m^3$) | 8,118 | 8,662 | -544 | -6.3% |
| Consolidated gas sales volume total (million $m^3$) | 8,150 | 8,694 | -544 | -6.3% |

- Electricity Sales Volume

| | A. FY18.3 forecasts | B. FY17.3 results | A-B | (A-B)/B |
|---|---|---|---|---|
| Consolidated electricity sales volumes total (GWh)<br>*Excluding the sales in overseas | 10,303 | 8,948 | +1,355 | +15.1% |

# Forecasts for FY2018.3 - I

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

| Consolidated, billion yen | | A. FY18.3 forecasts | B. FY17.3 results | A-B | (A-B)/B |
|---|---|---|---|---|---|
| Net sales | | (1.28) 1,344.5 | (1.31) 1,183.8 | +160.6 | +13.6% |
| Operating income | | (2.38) 66.5 | (1.76) 97.2 | -30.7 | -31.6% |
| Ordinary income | | (1.83) 64.0 | (1.37) 96.2 | -32.2 | -33.5% |
| Net income* | | (1.57) 42.5 | (1.12) 61.2 | -18.7 | -30.6% |
| SVA** | | 17.5 | 33.3 | -15.7 | -47.4% |
| Profit/loss on fuel cost adjustment system | billion yen | 0.9 | 13.7 | -12.8 | |
| Crude oil price | $/bbl | 55.0 | 47.5*** | +7.5 | |
| Exchange rate | yen/$ | 115.0 | 108.3 | +6.7 | |

* Profit attributable to owners of parent

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

*** Average of preliminary monthly data up to March.

# Forecasts for FY2018.3 - II

| Consolidated, billion yen | A. FY18.3 end forecasts | B. FY17.3 end results | A-B |
|---|---|---|---|
| Total assets | 1,842.9 | 1,886.5 | -43.6 |
| Net worth | 945.5 | 961.9 | -16.4 |
| Interest-bearing liabilities | 543.3 | 540.6 | +2.6 |
| Number of employees | 21,374 | 20,762 | +612 |
| Net worth / Total assets | 51.3% | 51.0% | +0.3% |
| D/E ratio | 0.57 | 0.56 | +0.01 |

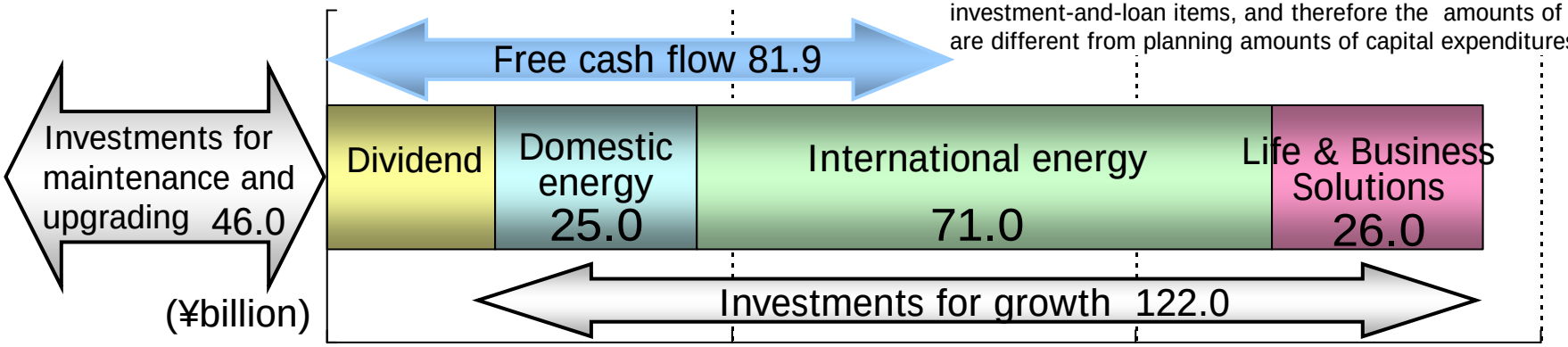
| | A. FY18.3 forecasts | B. FY17.3 results | A-B |
|---|---|---|---|
| Capital expenditure | 92.5 | 88.6 | +3.8 |
| Depreciation | 85.9 | 86.2 | -0.2 |
| Free cash flow * | 81.9 | 100.5 | -18.5 |
| ROA | 2.3% | 3.3% | -1.0% |
| ROE | 4.5% | 6.6% | -2.0% |
| EBITDA | 157.0 | 188.4 | -314 |
| EPS (yen/share) | 102.2** | 29.5 | 72.7 |
| BPS (yen/share) | 2,273.1** | 462.5 | 1,810.6 |

*Cash flows from operating activities - capital expenditures for upgrading existing businesses.
**Reflecting the effect of consolidation of shares.

# Free Cash Flow (FCF)* for FY2018.3

- FCF for FY2018.3 is expected to decrease by ¥18.5 billion from the previous year to ¥81.9 billion.
- Plan to invest ¥122.0 billion for growth.

* FCF = Cash flows from operating activities - Ordinary capital expenditures (investments for maintenance and upgrading).
Amounts of investment include both capital expenditure items and investment-and-loan items, and therefore the amounts of investment are different from planning amounts of capital expenditures.




## Risk management of investment

- Invest for growth to the extent that financial soundness secured.
- Establish standard for investment, and evaluate projects by the specialized department.
- Establish criteria for monitoring invested projects and monitor them annually.
- Invest in international energy business focusing on lower risk projects such as middle and downstream projects and producing upstream projects.

## Mid- to long-term plan of FCF

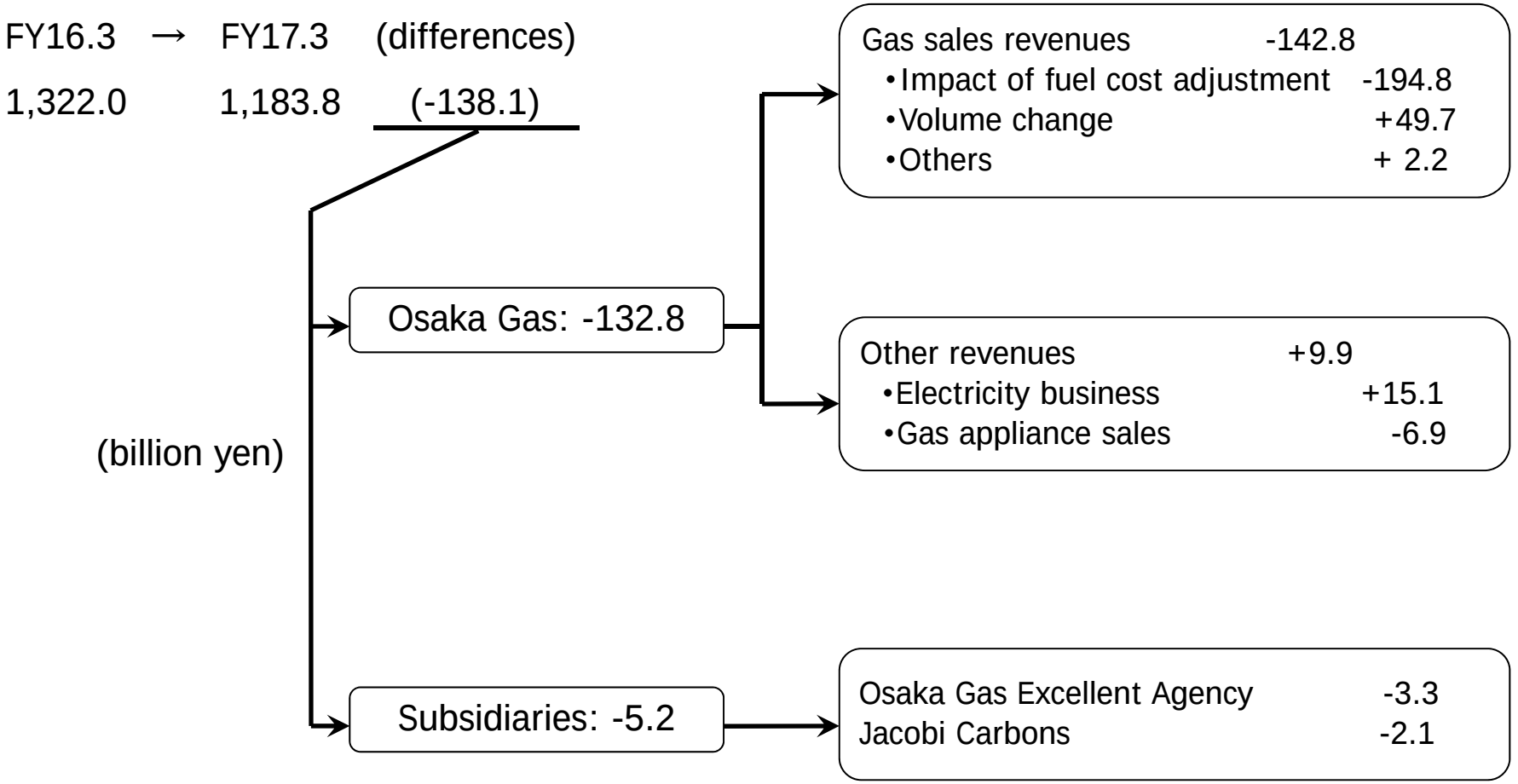
- 2017-first half of the 2020s : FCF ＜ Investment for growth(increase in investment in international energy business and power plant construction)
- Mid 2020s-2030 : FCF ＞ Investment for growth（increase in return from invested projects）
- In the cumulative total of 14 years from 2017 to 2030, FCF plans to exceed the investment for growth.



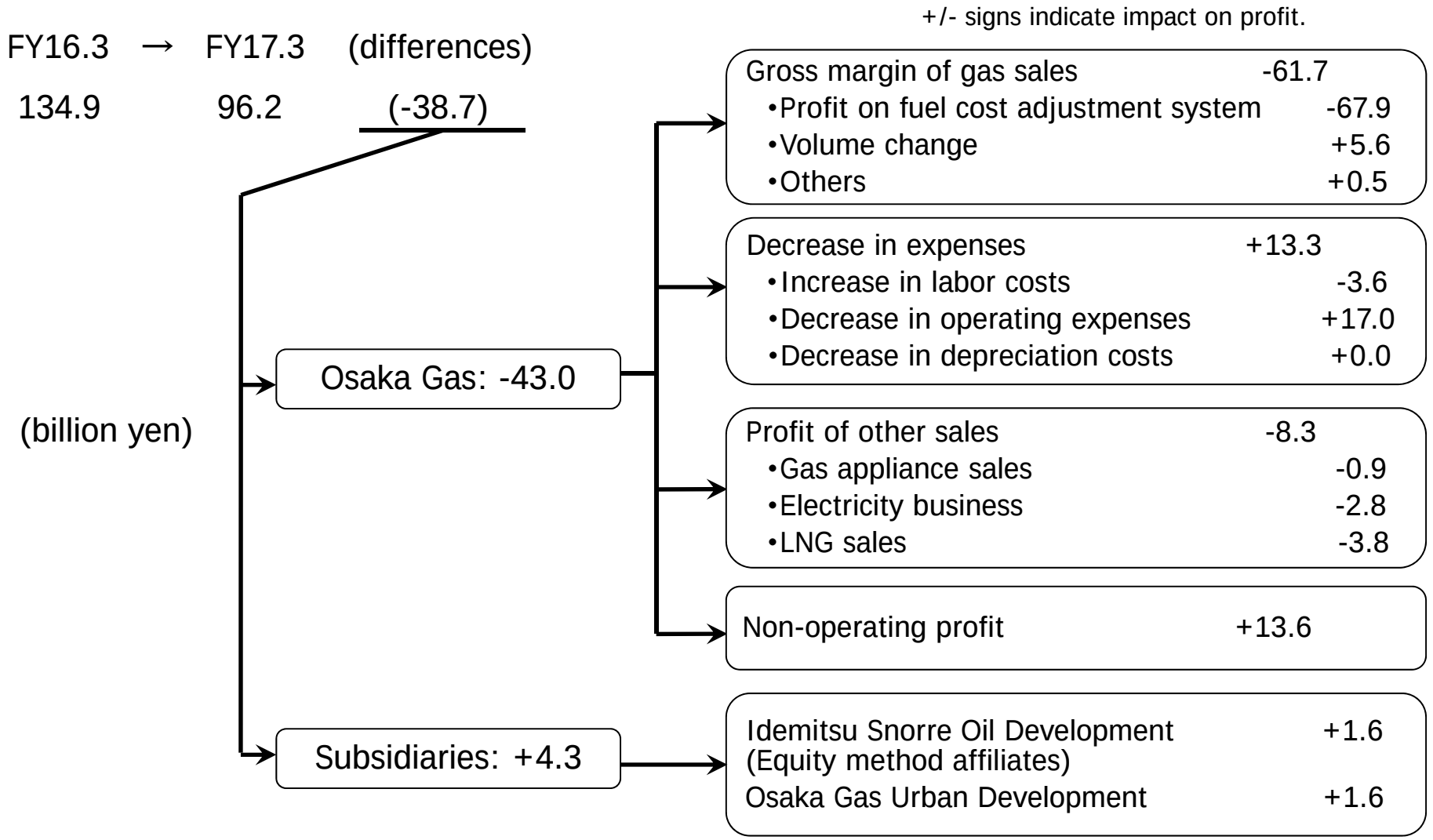
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# II. Facts and Figures

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

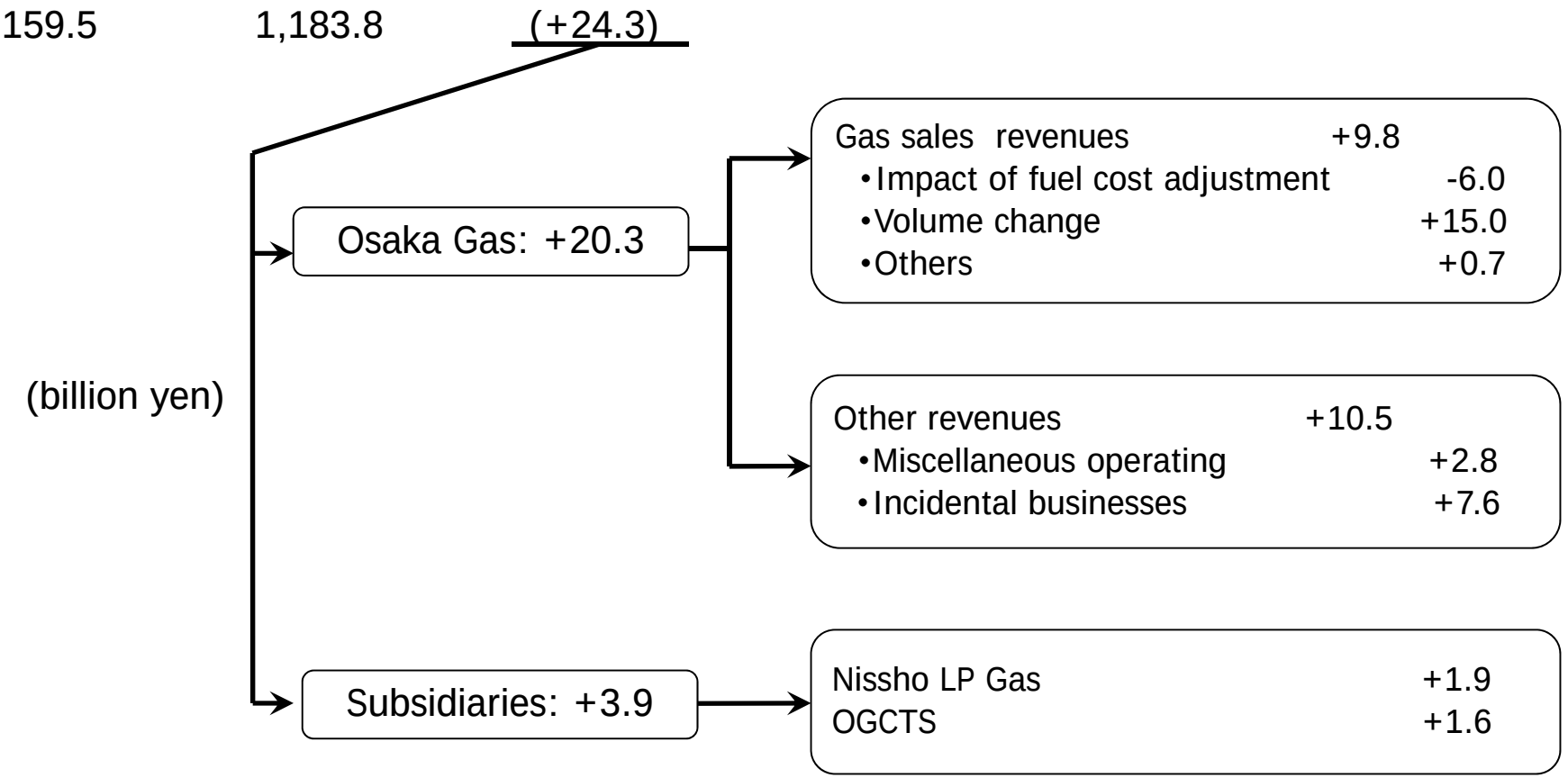


# Ordinary Income Variance for FY2017.3 (Year-on-Year)



# Sales Variance for FY2017.3 (with forecasts)

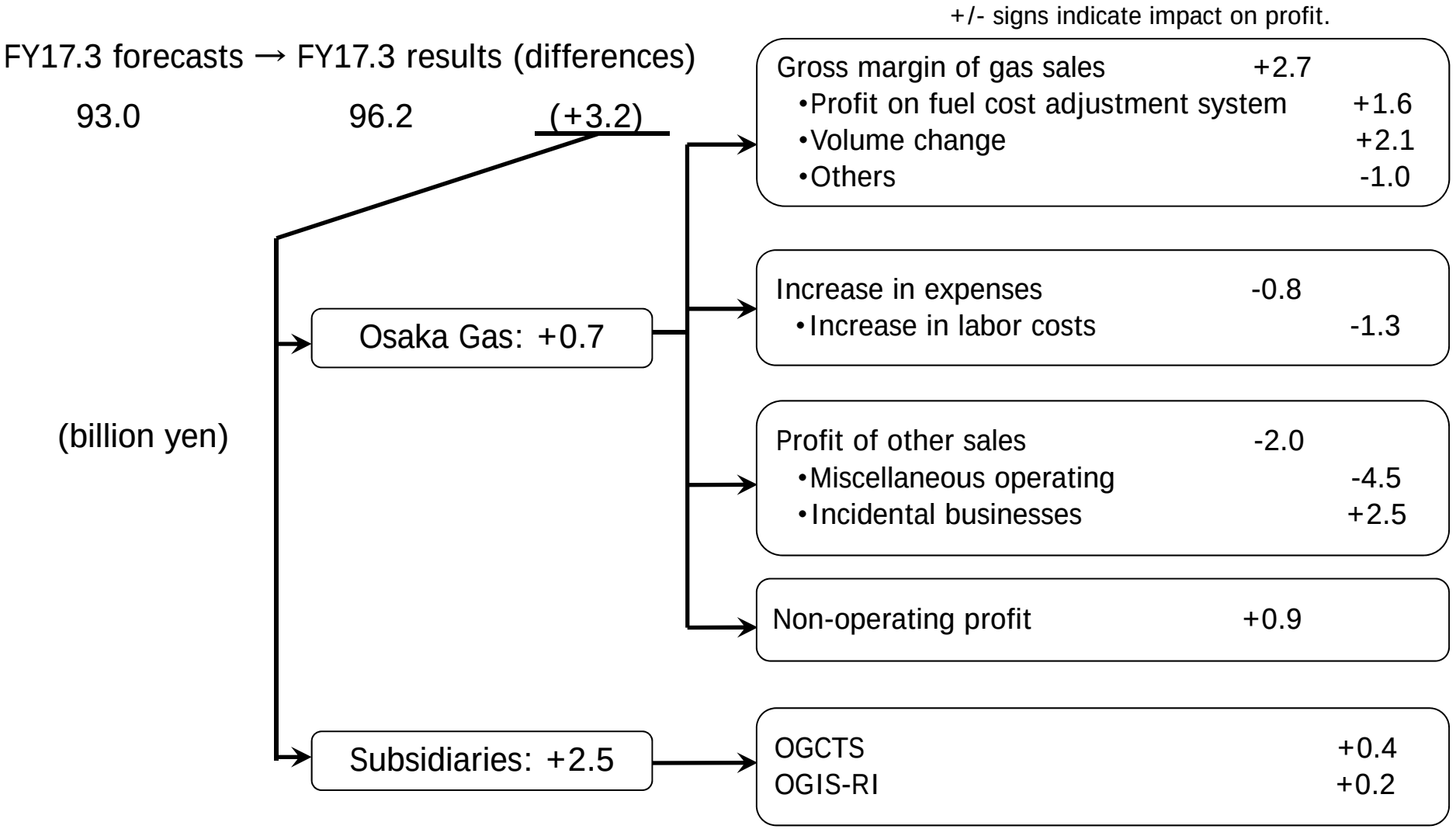
FY17.3 forecasts → FY17.3 results (differences)






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# Ordinary Income Variance for FY2017.3 (with forecasts)






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# Results for FY2017.3 by Segments

| (billion yen) | Net sales | | Operating income + Equity in earnings of affiliates | | Remarks |
|---|---|---|---|---|---|
| | FY17.3 | FY16.3 | FY17.3 | FY16.3 | |
| Gas | 802.3 | 948.5 | 48.1 | 95.7 | Net sales: Fall in the unit price of gas sales, etc.<br>Profit: Decrease in time-lag profit |
| LPG, electricity, and other energy | 209.0 | 206.4 | 22.0 | 28.8 | Net sales: Increase in Electricity business, etc.<br>Profit: Decrease in Electricity business, etc. |
| International energy | 22.6 | 18.7 | 7.4 | -0.2 | Net sales: Increase in the LNG Project in Australia, etc.<br>Profit: Increase in equity in earnings of affiliates, etc. |
| Life & Business Solutions | 217.6 | 221.7 | 20.4 | 18.8 | Net sales: Decrease in material solution business, etc.<br>Profit: Increase in real estate business, etc. |
| Elimination/ consolidation | -67.7 | -73.3 | 0.9 | -0.9 | |
| Consolidated | 1,183.8 | 1,322.0 | 99.0 | 142.1 | |

# Forecasts for FY2018.3 by Segments

From FY18.3, business segments are revised to following 4 segments.
“Domestic energies - Gas”, “Domestic energies - Electricity”, “International energies”, “Life & Business Solutions

| (billion yen) | Net sales | | Operating income + Equity in earnings of affiliates | | Remarks |
|---|---|---|---|---|---|
| | FY18.3 forecasts | FY17.3 results* | FY18.3 forecasts | FY17.3 results* | |
| Domestic energies - Gas | 1,019.5 | 911.2 | 29.0 | 55.2 | Net sales: Increase in the unit price of gas sales, etc.<br>Profit: Decrease in time-lag profit, etc. |
| Domestic energies - Electricity | 167.0 | 107.5 | 14.0 | 16.2 | Net sales: Increase in Electricity sales volume, etc.<br>Profit: Decrease in the unit price of electricity sales, etc. |
| International energies | 25.0 | 22.6 | 4.0 | 8.0 | Net sales: Increase in the LNG Project in Australia, etc.<br>Profit: Decrease in the energy business in U.S., etc. |
| Life & Business Solutions | 208.5 | 208.3 | 19.0 | 18.6 | Net sales/Profit:<br>Almost same level as the previous year |
| Elimination/ consolidation | -75.5 | -65.9 | 2.2 | 0.9 | |
| Consolidated | 1,344.5 | 1,183.8 | 68.2 | 99.0 | |

* The figure are provisional one replaced by new segment basis (from FY18.3).



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# Residential Gas Sales

## FY2017.3 results

| | YoY change | Remarks |
|---|---|---|
| Number of customers | +0.8% | |
| Influence of temperature | +2.1% | Average annual temperature: 17.4 degrees Celsius (Year-on-Year change:+0.0 degrees Celsius) |
| Others | -1.9% | Improved efficiency of gas appliances, impact of further energy conservation by customers, etc. |
| Total | +0.9% | |

## FY2018.3 forecasts

- Residential gas sales volume is expected to increase by 8 million $m^3$ (0.4%) from the previous year to 2,111 million $m^3$, assuming the same temperature level as in usual years and lower temperatures in 1st half period, etc.

# Non-Residential Gas Sales

## FY2017.3 results

| Commercial/Public/Medical | YoY change | Remarks |
|---|---|---|
| Demand development | +1.8% | New demand (mainly air condition) development |
| Impact of temperature, etc. | +3.2% | |
| Individual factor | -0.8% | Decrease in capacity utilization of customers' facilities, due to special factor |
| Others | -0.6% | Improved efficiency of gas appliances, impact of further energy conservation by customers, etc. |
| Total | +3.7% | |

| Industrial | YoY change | Remarks |
|---|---|---|
| Demand development | +12.3% | Huge new demand development, shift to gas from other fuels etc. |
| Capacity utilization of facilities, etc. | +2.8% | |
| Individual factor | -0.8% | |
| Others | -0.8% | |
| Total | +13.5% | |

Breakdown by sectors (45MJ, million $m^3$)

| Industrial | Volume | YoY |
|---|---|---|
| Machinery | 324 | 101.9% |
| Metal | 982 | 102.9% |
| Glass | 288 | 97.7% |
| Chemical | 1,267 | 106.1% |
| Food | 533 | 102.3% |

## FY2018.3 forecasts

- Non-residential gas sales volume is expected to decrease by 552 million $m^3$ (8.4%) from the previous year to 6,008 million $m^3$, reflecting a decrease in gas sales volume for power generation due to the change in the classification of gas used from non-residential to self-use , etc.

# Monthly Gas Sales for FY2017.3

Change from the same month the previous year (%)

| | Apr. | May | Jun. | Jul. | Aug. | Sep. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Residential | 94.8 | 99.9 | 100.7 | 94.2 | 95.2 | 92.1 | 89.9 | 101.5 | 104.7 | 107.1 | 103.4 | 105.8 | 100.9 |
| Commercial/ Public and medical | 95.5 | 90.2 | 104.6 | 102.9 | 100.0 | 110.7 | 119.0 | 100.3 | 106.3 | 106.2 | 102.5 | 104.9 | 103.7 |
| Industrial | 101.5 | 121.2 | 112.9 | 106.0 | 114.5 | 116.8 | 115.6 | 110.3 | 107.1 | 115.2 | 121.5 | 120.1 | 113.5 |
| Machinery | 93.8 | 104.1 | 95.4 | 91.4 | 99.2 | 101.4 | 103.6 | 107.4 | 107.3 | 108.2 | 101.9 | 110.4 | 101.9 |
| Metal | 98.2 | 102.0 | 99.7 | 99.9 | 98.2 | 101.8 | 103.7 | 104.4 | 110.1 | 104.7 | 103.0 | 109.1 | 102.9 |
| Glass | 95.4 | 104.0 | 98.1 | 92.8 | 99.1 | 95.7 | 95.7 | 96.5 | 97.3 | 98.9 | 100.9 | 107.7 | 97.7 |
| Chemical | 94.5 | 109.2 | 107.4 | 96.4 | 100.5 | 102.2 | 113.3 | 126.1 | 107.5 | 111.8 | 105.0 | 105.6 | 106.1 |
| Food | 100.0 | 106.9 | 102.8 | 98.2 | 104.6 | 104.5 | 103.7 | 100.5 | 101.9 | 105.3 | 98.2 | 101.9 | 102.3 |
| Wholesale | 98.7 | 120.8 | 94.6 | 96.3 | 109.3 | 104.2 | 109.3 | 104.7 | 104.7 | 114.9 | 94.7 | 102.8 | 104.3 |
| Total | 98.3 | 110.3 | 108.0 | 102.9 | 107.9 | 111.2 | 111.0 | 106.3 | 106.1 | 110.7 | 110.6 | 111.9 | 108.0 |

# 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. -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 +$1/bbl. change in crude oil prices will have an effect of approx. -1.0 billion yen on annual ordinary income.
- Foreign exchange rate
  - LNG prices are affected by fluctuations in the US$/JPY exchange rate. A +1 yen fluctuation in the US$/JPY exchange rate will have an effect of approx. -0.9 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. -0.4 billion yen on annual consolidated non-operating expenses.