

# Financial Report for 1<sup>st</sup> Quarter of FY2015.3 (April 2014 – June 2014)

July 2014  
Osaka Gas Co., Ltd.

# I. Business Results for 1<sup>st</sup> Quarter of FY2015.3 and Forecasts for FY2015.3

**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 2015, and the forecasts for the full fiscal year.

## Summary of Business Results for 1<sup>st</sup> Quarter of FY2015.3

### ■ overview

Net sales	Increased by 6.6% to ¥362.1 billion due to rise in gas sales unit price resulting from higher LNG price under the fuel cost adjustment system, despite decrease of gas sales volume
Ordinary income	Increased by 39.8% to ¥42.3 billion due to increased gross margin of gas sales caused by the change into a time-lag profit from a time-lag loss under the fuel cost adjustment system
Net income	Increased by 75.1% to ¥36.8 billion due to a gain on sales of investment securities
<b>■ Gas Sales Volume</b>	
Residential	Decreased by 2.8% to 530 million m <sup>3</sup> , due to higher atmospheric and water temperatures in early spring from the previous year
Commercial	Decreased by 3.7% to 299 million m <sup>3</sup> , due to customers' energy conservation trend and shorter meter reading schedules, etc.
Industrial	Decreased by 1.2% to 1,017 million m <sup>3</sup> , due to the expiry of PPA of IPP and change of classification of gas used from non-regulated to self-use
<b>■ Others</b>	
Investments and Optimization of the property	Total investments for expansion, greenfield, M&A of ¥20.1 billion on mainly expenditures for already-decided upstream projects. Conversely, the sale of our whole interest of Bizkaia Energia SL (IPP in Spain) and Osaka Prefectural Urban Development Co., Ltd.

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The first quarter of the fiscal year ending March 2015 resulted in an increase in both net sales and income.

Net sales increased to 362.1 billion yen, up 6.6% from last year due to the rise in gas sales unit price driven by higher LNG prices, despite the decrease of gas sales volume.

Ordinary income increased to 42.3 billion yen, up 39.8% from last year, due to the increase in gross profit of gas sales caused by the change into a time-lag profit from a time-lag loss under the fuel cost adjustment system.

Net income increased to 36.8 billion yen, up 75.1% from last year due to the recognition of a gain on sales of investment securities.

Gas sales volume for residential use decreased by 2.8% to 530 million m<sup>3</sup> due to higher air and water temperatures in early spring than last year.

Gas sales volume for commercial, public and medical uses decreased by 3.7% to 299 million m<sup>3</sup> due to further energy conservation by customers and shorter meter reading schedules.

Regarding industrial use, gas sales volume decreased by 1.2% to 1.017 billion m<sup>3</sup> due to the effect of the change in the classification of gas used from non-regulated to self-use due to the expiry of PPA of IPP.

Investments for expansion, greenfield and M&A in the first quarter of the fiscal year totaled 20.1 billion yen on mainly expenditures for already-decided upstream projects.

Conversely, we also advance the optimization of the property, and sold our whole interest of Bizkaia Energia SL (Ipps in Spain) and Osaka Prefectural Urban Development Co., Ltd..

## Gas Sales Volume Results for 1<sup>st</sup> Quarter of FY2015.3

45MJ/m <sup>3</sup>	A. FY15.3 1Q	B. FY14.3 1Q	A-B	A-B/B (%)
Number of meters installed (thousands)	7,145	7,092	+53	+0.7%
Installation of new meters (thousands)	24	19	+5	+27.5%
Monthly gas sales volume per household (m <sup>3</sup> /month)	30.0	31.0	-1.0	-3.3%
Residential use	530	545	-15	-2.8%
Commercial, public and medical use	299	310	-11	-3.7%
Industrial use	1,017	1,030	-12	-1.2%
Commercial and industrial use	1,316	1,340	-24	-1.8%
Wholesale	110	107	+2	+2.2%
(Non-regulated included)	(1,140)	(1,160)	(-21)	(-1.8%)
Non-consolidated gas sales volume (million m <sup>3</sup> )	1,955	1,992	-37	-1.8%
Consolidated gas sales volume (million m <sup>3</sup> )	1,966	2,002	-36	-1.8%

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This table shows the gas sales volume results for the first quarter of the fiscal year ending March 2015.

The gas sales volume on a non-consolidated basis decreased by 1.8% from the same period of last year, to 1,955 million m<sup>3</sup>.





# Results for 1<sup>st</sup> Quarter of FY2015.3 - II

Consolidated, billion yen	A. FY15.3	FY14.3		A-B	Remarks
	1Q end	1Q end	B. year end		
Total assets	1,680.8	1,582.4	1,668.3	+12.5	Increase in Non-current assets, etc.
Net worth	830.2	774.0	798.9	+31.2	
Interest-bearing liabilities	598.4	560.4	573.5	+24.8	
Number of employees	21,427	20,163	21,250	+177	
Net worth / Total assets	49.4%	48.9%	47.9%	+1.5%	
D/E ratio	0.72	0.72	0.72	+0.00	

	A. 15.3 1Q	B. 14.3 1Q	A-B	Remarks
Capital expenditure	26.8	29.6	-2.8	
Depreciation	21.3	19.8	+1.5	
Free cash flow	-9.3	-10.0	+0.7	

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The results for assets, liabilities, and other major financial indicators are shown in the table on page 6.

Capital expenditure fell by 2.8 billion yen from last year to 26.8 billion yen due to a decline in cash spent on LNG vehicles and major gas pipeline.

## Summary of Revision of Financial Forecasts for 2015.3

### ■ Overview

Revision of Financial forecasts for 2015.3, reflecting a gain on sales of investment securities in 1<sup>st</sup> Quarter

**Expected to increase by ¥8.5 billion from April 2014 forecasts on Consolidated and non-consolidated Net income for 1<sup>st</sup> Half and Full year, respectively**

(No change in Net sales, Operating income and Ordinary income)

P/L (billion yen)		FY2015.3 1 <sup>st</sup> Half (E)			FY2015.3 Full year (E)		
		Revised	Previous	Change	Revised	Previous	Change
Consolidated	Net sales	710.0	710.0	±0.0	1,605.5	1,605.5	±0.0
	Operating income	46.0	46.0	±0.0	99.5	99.5	±0.0
	Ordinary income	48.5	48.5	±0.0	100.0	100.0	±0.0
	Net income	39.5	31.0	+8.5	74.0	65.5	+8.5
Non-consolidated	Net sales	573.0	573.0	±0.0	1,286.5	1,286.5	±0.0
	Operating income	33.5	33.5	±0.0	62.0	62.0	±0.0
	Ordinary income	39.0	39.0	±0.0	67.5	67.5	±0.0
	Net income	37.0	28.5	+8.5	57.0	48.5	+8.5

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Then, we explain for the forecasts of the fiscal year ending March 2015.

We revised an consolidated and non-consolidated financial forecasts for the fiscal year ending March 2015, considering the recognition of a gain on sales of investment securities of 12.4 billion yen as an extraordinary income in 1st Quarter .

Specifically, we upgraded by 8.5 billion yen from its previous forecasts announced on April 2014 on net income for 1st Half and Full year, respectively.

Net sales, Operating income and Ordinary income were not changed.

Further information is available from page 8 onward, including information by segment in the first quarter results and the detail of the full-year forecasts .

These are a brief summary of the first quarterly results of the fiscal year ending March 2015, and the forecasts for the full fiscal year.

## II. Facts and Figures (1)

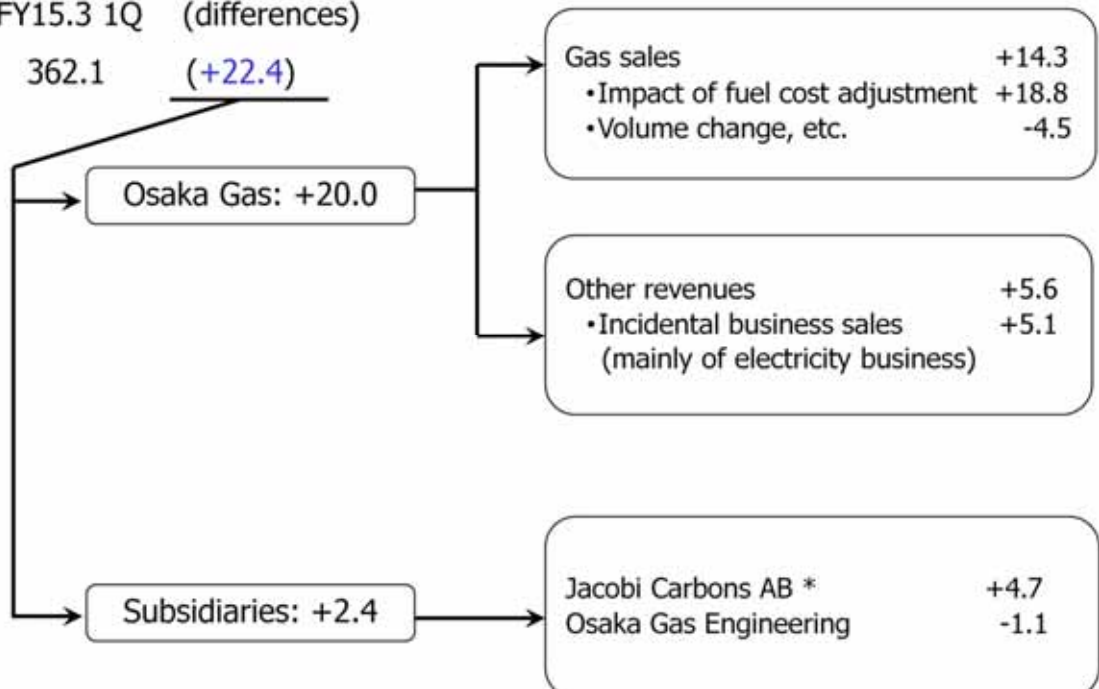


# Sales variance for 1<sup>st</sup> Quarter of FY2015.3 (Year-on-Year)

FY14.3 1Q → FY15.3 1Q (differences)

339.6      362.1      (+22.4)

(billion yen)



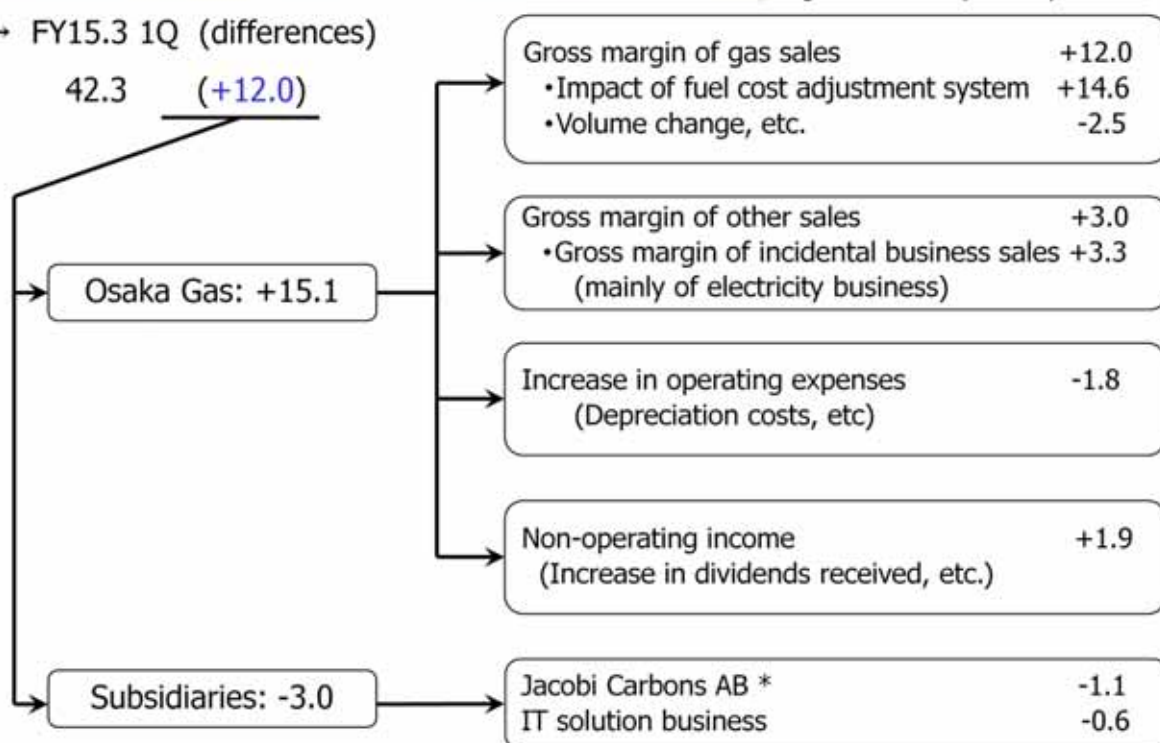
\* Activated carbon company acquired in Jan. 2014

# Ordinary income variance for 1<sup>st</sup> Quarter of FY2015.3 (Year-on-Year)

+/- signs indicate impact on profit.

FY14.3 1Q → FY15.3 1Q (differences)

30.2                      42.3      (+12.0)



\* The operator of an activated carbon business acquired in January 2014  
 Impacts on consolidated income, including goodwill depreciation and increases of temporary expenses due to the step-up of inventories (increases due to mark-to-market evaluation) are reported.

## Results for 1<sup>st</sup> Quarter of FY2015.3 by Segments

billion yen	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY15.3 1Q	FY14.3 1Q (*)	FY15.3 1Q	FY14.3 1Q (*)	
Gas	269.7	255.1	23.1	13.4	<u>Net sales</u> : Rise in the gas sales unit price <u>Income</u> : Cancellation of a time-lag loss on fuel cost adjustment system
LPG, electricity, and other energies	56.5	53.7	12.2	9.7	<u>Net sales/Income</u> : Increase in electricity business, etc.
International energies	3.4	2.9	3.2	1.4	Increase in Equity in earnings of affiliates (North Sea oil field)
Life & Business Solutions	46.4	42.3	2.3	3.9	<u>Net sales/Income</u> : the influence of newly consolidated subsidiary (Jacobi Carbons AB) (Decrease in income due to temporary expenses)
Elimination/consolidation	-13.9	-14.5	0.6	0.6	
Consolidated	362.1	339.6	41.7	29.3	

<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

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## III. Facts and Figures (2)

- Detail of full-year forecasts for FY2015.3

# Gas Sales Volume Forecasts for FY2015.3

Maintaining our full-year forecasts unchanged from the April forecasts

45MJ/m <sup>3</sup>	A. FY15.3 forecasts	B. FY14.3 results	A-B	A-B/B(%)
Number of meters installed (thousand)	7,162	7,136	+27	+0.4%
Installation of new meters (thousand)	99	102	-3	-3.3%
Monthly gas sales volume per household (m <sup>3</sup> /month)	31.4	31.3	+0.1	+0.4%
Residential use	2,215	2,198	+17	+0.8%
Commercial, public, and medical use	1,461	1,528	-67	-4.4%
Industrial use	4,296	4,329	-32	-0.7%
Non-residential total	5,758	5,856	-99	-1.7%
Wholesale	479	469	+10	+2.1%
(non-regulated)	(4,929)	(4,988)	(-59)	(-1.2%)
Non-consolidated gas sales volume total (million m <sup>3</sup> )	8,452	8,524	-72	-0.8%
Consolidated gas sales volume total (million m <sup>3</sup> )	8,483	8,554	-72	-0.8%



# Forecasts for FY2015.3 - I

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

(billion yen)	FY15.3 forecasts		C.FY14.3 results	Change	
	A. Revised	B. Previous		A-B	A-C
Net sales	(1.25) 1,605.5	(1.25) 1,605.5	(1.24) 1,512.5	±0.0	+92.9
Operating income	(1.60) 99.5	(1.60) 99.5	(1.64) 99.3	±0.0	+0.1
Ordinary income	(1.48) 100.0	(1.48) 100.0	(1.53) 106.0	±0.0	-6.0
Net income	(1.30) 74.0	(1.35) 65.5	(1.67) 41.7	+8.5	+32.2
SVA ※1	41.5	32.9	3.0	+8.6	+38.5
Profit/loss on fuel cost adjustment system	billion yen 4.7	4.7	-20.5	±0.0	+25.2
Crude oil price ※2	\$/bbl 109.9	110	110.0	-0.1	-0.1
Exchange rate ※2	yen/\$ 104.3	105	100.2	-0.7	+4.1

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

※2 For the period from July 2014 to March 2015, it is assumed that the crude oil price is 110 \$/bbl, and the exchange rate is ¥105/\$.

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# Forecasts for FY2015.3 - II

(billion yen)	FY15.3 end forecasts		C. FY14.3 end results	Change	
	A. Revised	B. Previous		A-B	A-C
Total assets	1,789.9	1,781.4	1,668.3	+8.5	+121.5
Net worth	832.7	824.2	798.9	+8.5	+33.7
Interest-bearing liabilities	660.4	660.4	573.5	±0.0	+86.8
Number of employees	21,448	21,448	21,250	±0	+198
Net worth / Total assets	46.5%	46.3%	47.9%	+0.3%	-1.4%
D/E ratio	0.79	0.80	0.72	-0.01	+0.08

	FY15.3 forecasts		C. FY14.3 Results	Change	
	A. Revised	B. Previous		A-B	A-C
Capital expenditure	128.0	128.0	124.1	±0.0	+3.9
Depreciation	85.3	85.3	83.8	±0.0	+1.5
Free cash flow	89.8	89.8	113.1	±0.0	-23.3
ROA	4.3%	3.8%	2.6%	+0.5%	+1.7%
ROE	9.1%	8.2%	5.4%	+0.9%	+3.7%
EPS (yen/share)	35.6	31.5	20.0	+4.1	+15.5
BPS (yen/share)	400.1	395.9	383.9	+4.2	+16.2

FCF = CF from operating activities - (OP after tax + depreciation and other non-cash expenses) - capital expenditure Design Your Energy 夢をかなるガス

# Forecasts for FY2015.3 by Segments

Maintaining our full-year forecasts unchanged from the April forecasts

(billion yen)	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY15.3 forecasts	FY14.3 results (*)	FY15.3 forecasts	FY14.3 results (*)	
Gas	1,148.5	11,195	38.0	32.0	<u>Net sales</u> : Rise in the price of gas sales <u>Income</u> : Cancellation of loss on fuel cost adjustment system
LPG, electricity, and other energies	296.5	261.0	40.5	45.3	<u>Net sales</u> : Increase in revenues of LNG and LPG sales, electricity business, etc. <u>Income</u> : Decrease in profit of electricity business, etc.
International energies	16.5	13.3	8.0	8.2	
Life & Business Solutions	221.0	196.5	17.0	18.8	<u>Net sales/Income</u> : newly consolidated subsidiary (Jacobi Carbons AB), etc.
Elimination/ consolidation	-77.0	-77.9	2.0	2.7	
Consolidated	1,605.5	1,512.5	105.5	107.2	

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

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

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# 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 2<sup>nd</sup> 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. 1.3 billion yen on ordinary profit since the 2<sup>nd</sup> 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. 700 million yen on annual consolidated non-operating expenses.