



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

October 2014  
Osaka Gas Co., Ltd.

# I. Business Results for 1<sup>st</sup> Half 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/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.

# Summary of the Results for 1<sup>st</sup> Half of FY2015.3 - I

## Year-on-Year Comparison

### ■ Overview

Consolidated Net sales	Increased to 697.6 billion yen, up 4.1% (27.3 billion yen) due mainly to the rise in gas sales price based on the fuel cost adjustment system, along with the rise in LNG price, despite of decrease in gas sales volume
Consolidated Ordinary income	Increased to 57.8 billion yen, up 21.3% (10.1 billion yen) due mainly to the increase in gross margin of gas sales caused by the change into a time-lag profit from a time-lag loss (-9.6 billion yen → +7.1 billion yen) under the fuel cost adjustment system
Consolidated Net income	Increased to 47.5 billion yen, up 50.1% (15.8 billion yen) due mainly to a gain on sales of investment securities

### ■ Gas Sales Volume

Residential	Decreased to 785 million m <sup>3</sup> , down 0.6% (5 million m <sup>3</sup> )
Commercial, public and medical	Decreased to 730 million m <sup>3</sup> , down 5.7% (44 million m <sup>3</sup> ) due mainly to cooling demand decrease caused by lower temperatures in summer than last year and further energy conservation by customers, despite expansion of new demand
Industrial	Decreased to 2,060 billion m <sup>3</sup> , down 3.4% (72 million m <sup>3</sup> ) due mainly to the decrease in customers' facility utilization according to the expiry of PPA of IPP and change of classification of gas used from non-regulated to self-use

# Summary of the Results for 1<sup>st</sup> Half of FY2015.3 - II

## Comparison with Targets

### ■ Overview

Consolidated Net sales	697.6 billion yen, 1.7% (12.3 billion yen) below the target due mainly to the decrease in the revenues of gas sales
Consolidated Ordinary income	57.8 billion yen, 19.3% (9.3 billion yen) above the target due mainly to the increase in gross margin of gas sales caused by the rise in time-lag profit (+1.2 billion yen → +7.1 billion yen) under the fuel cost adjustment system and to lower expenses

### ■ Gas Sales Volume

Residential	785 million m <sup>3</sup> , 1.5% (12 million m <sup>3</sup> ) below the target due mainly to higher water temperatures in early spring than initially forecasted, which caused the decrease of hot water demand
Commercial, public and medical	730 million m <sup>3</sup> , 1.3% (10 million m <sup>3</sup> ) below the target due mainly to lower temperatures in summer than initially forecasted, which caused cooling demand decrease
Industrial	2,060 million m <sup>3</sup> , 2.8% (60 million m <sup>3</sup> ) below the target due mainly to the decrease in customers' facilities utilization.

### ■ Investments

Investment for expansion, greenfield, and M&A	Total investments made in the first half of the FY amount to 39.0 billion yen (35% of annual budget) with a focus on already-decided overseas upstream projects and domestic power businesses
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# Gas Sales Volume Results for 1<sup>st</sup> Half of FY2015.3

45MJ/m <sup>3</sup>	A. FY15.3 1 <sup>st</sup> Half	B. FY14.3 1 <sup>st</sup> Half	A-B	(A-B)/B	C. FY15.3 1H target *1	(A-C)/C
Number of meters installed (thousand)	7,158	7,101	+57	+0.8%	7,139	+0.3%
Installation of new meters (thousand)	45	40	+6	+14.3%	39	+17.7%
Monthly gas sales volume per household (m <sup>3</sup> /month)	22.2	22.5	-0.3	-1.1%	22.6	-1.6%
Residential use	785	789	-5	-0.6%	797	-1.5%
Commercial, public, and medical use	730	774	-44	-5.7%	739	-1.3%
Industrial use	2,060	2,132	-72	-3.4%	2,120	-2.8%
Non-residential total	2,790	2,906	-117	-4.0%	2,859	-2.4%
Wholesale	221	220	+1	+0.5%	224	-1.2%
(non-regulated)	(2,384)	(2,485)	(-101)	(-4.0%)	(2,455)	(-2.9%)
Non-consolidated gas sales volume total (million m <sup>3</sup> )	3,795	3,916	-120	-3.1%	3,880	-2.2%
Consolidated gas sales volume total (million m <sup>3</sup> )	3,812	3,932	-120	-3.0%	3,896	-2.2%

\*1 Announced on July 29, 2014 (not changed from the original plan announced on April 25, 2014)

# Results for 1<sup>st</sup> Half of FY2015.3 - I

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

Consolidated, billion yen	A. FY15.3 1 <sup>st</sup> Half	B. FY14.3 1 <sup>st</sup> Half	A-B	(A-B)/B	C. FY15.3 1H target *1	(A-C)/C
Net sales	(1.22) 697.6	(1.23) 670.3	+27.3	+4.1%	710.0	-1.7%
Operating income	(1.31) 53.8	(1.58) 44.7	+9.0	+20.2%	46.0	+17.0%
Ordinary income	(1.25) 57.8	(1.46) 47.7	+10.1	+21.3%	48.5	+19.3%
Net income	(1.12) 47.5	(1.38) 31.6	+15.8	+50.1%	39.5	+20.3%
SVA	31.5	23.7	+7.7	+32.9%	23.3	+34.7%

		A. FY15.3 1 <sup>st</sup> Half	B. FY14.3 1 <sup>st</sup> Half	A-B	C. FY15.3 1H target *1	A-C
Profit/ loss on fuel cost adjustment system	billion yen	7.1	-9.6	+16.7	1.2	+5.9
Crude oil price *2	\$/bbl	109.5	107.7	+1.8	109.8	-0.3
Exchange rate	yen/\$	103.0	98.9	+4.2	103.6	-0.6
Number of subsidiaries		147	129	+18	---	---

\*1 Announced on July 29, 2014

\*2 Average of preliminary monthly data up to September.

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

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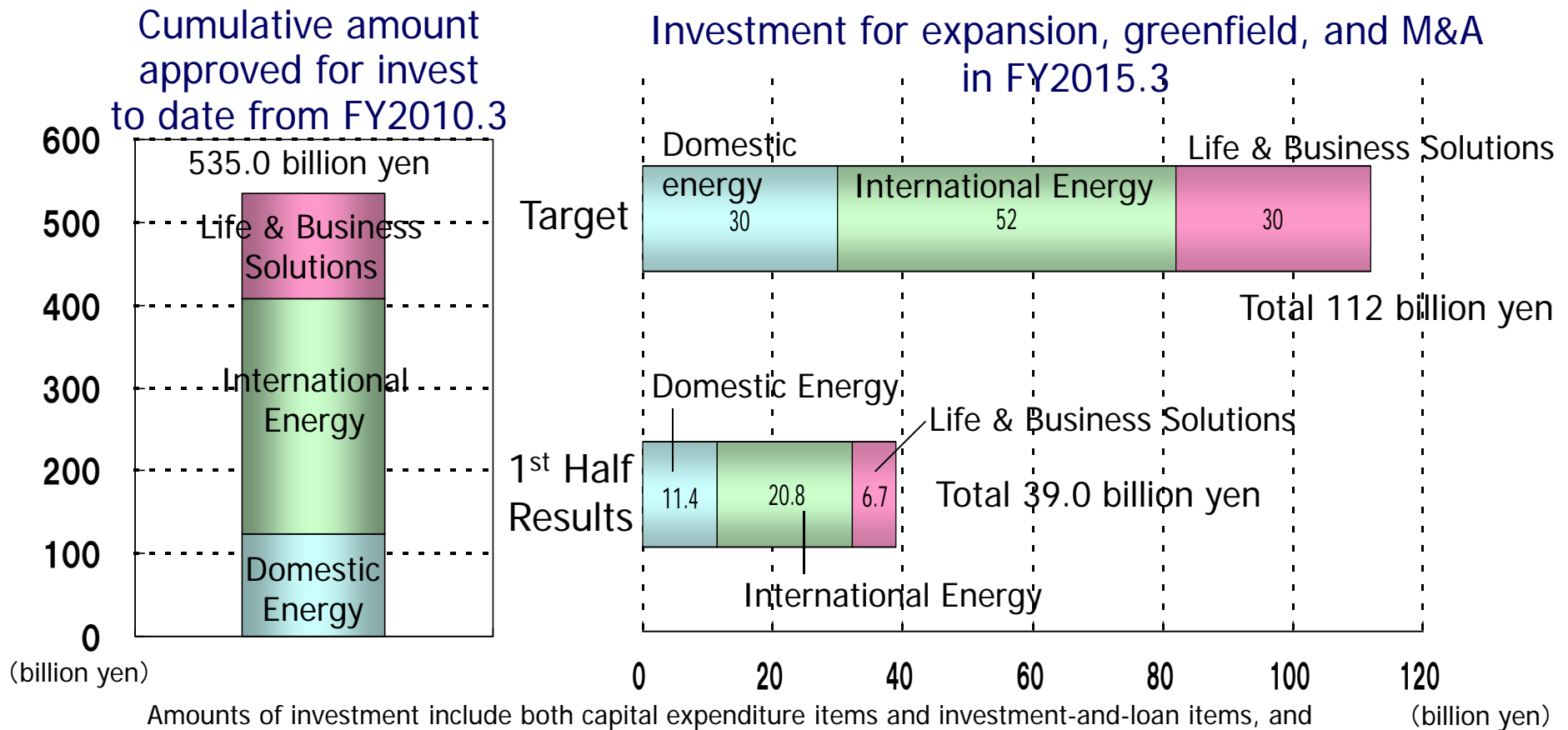
# Results for 1<sup>st</sup> Half of FY2015.3 - II

Consolidated, billion yen	A. FY15.3 1H end	FY14.3 1H end	B. Year end	A-B	Remarks
Total assets	1,677.5	1,593.7	1,668.3	+9.2	Increase in non-current assets, etc.
Net worth	832.8	798.6	798.9	+33.8	Increase in retained earnings, etc.
Interest-bearing debt	568.3	542.4	573.5	-5.2	
Number of employees	21,395	20,212	21,250	+145	
Equity ratio	49.6%	50.1%	47.9%	+1.8%	
D/E ratio	0.68	0.68	0.72	-0.04	
	A. FY15.3 1H	B. FY14.3 1H	A-B	Remarks	
Capital expenditure	55.8	57.0	-1.1		
Depreciation	42.8	41.0	+1.8		
Free cash flow	36.8	32.1	+4.6	Increase in income before income taxes and minority interests	
ROA	2.8%	2.0%	+0.8%		
ROE	5.8%	4.1%	+1.7%		
EPS (yen)	22.8	15.2	+7.6		
BPS (yen)	400.2	383.6	+16.6		

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 1<sup>st</sup> Half of FY2015.3

- Investments made in the first half of the fiscal year amount to 39.0 billion yen with a focus on already-decided overseas upstream projects and domestic power businesses
- Cumulative amount approved for invest to date from FY 2010.3 are 535.0 billion yen (47% of the originally projected for the period between FY 2010.3 and FY 2021.3)



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.



# Summary of Modifications to Forecasts for FY 2015.3

			A. Revised Forecasts	B. Initial Forecasts	A-B	Remarks
Assumed factors for 2 <sup>nd</sup> Half	Crude oil price	\$/bbl	105	110	-5	
	Exchange rate	yen/\$	110	105	+5	
Non-consolidated gas sales volume (45MJ/m <sup>3</sup> )	Residential use		(1,418) 2,203	(1,418) 2,215	(0) -12	No change to initial forecasts for the 2 <sup>nd</sup> half
	Commercial, industrial, and other use		(3,116) 6,127	(3,154) 6,237	(-38) -110	Considering decrease in customers' facilities utilization
P/L	Consolidated net sales		1,581.5	1,605.5	-24.0	
(billion yen)	Gross margin of gas sales		331.0	335.0	-4.0	Decrease in gas sales volume, Decrease in a time-lag profit
	Profit of other sales		38.7	35.2	+3.5	Increase in profit of power business
	Operating expenses, labor costs, and depreciation		307.7	308.2	-0.5	
	Profit of subsidiaries		36.0	37.5	-1.5	
	Consolidated operating income		98.0	99.5	-1.5	
	Consolidated non-operating income / expenses		2.0	0.5	+1.5	Increase in equity in earnings of affiliates
	Consolidated ordinary income		100.0	100.0	±0.0	

Gas sales volume figures in parentheses in the upper row are figures for the 2<sup>nd</sup> half of FY2015.3

# Gas Sales Volume Forecasts for FY2015.3

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)	106	102	+3	+3.4%
Monthly gas sales volume per household (m <sup>3</sup> /month)	31.2	31.3	-0.1	-0.2%
Residential use	2,203	2,198	+5	+0.2%
Commercial, public, and medical use	1,449	1,528	-79	-5.2%
Industrial use	4,200	4,329	-129	-3.0%
Commercial and industrial use	5,649	5,856	-208	-3.5%
Wholesale	478	469	+9	+1.9%
(Non-regulated included)	(4,819)	(4,988)	(-169)	(-3.4%)
Non-consolidated gas sales volume (million m <sup>3</sup> )	8,330	8,524	-194	-2.3%
Consolidated gas sales volume (million m <sup>3</sup> )	8,361	8,554	-194	-2.3%

# Forecasts for FY2015.3 - I

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

Consolidated, billion yen	A. FY15.3 Forecasts	B. FY14.3 Results	A-B	(A-B)/B
Net sales	(1.24) 1,581.5	(1.24) 1512.5	+68.9	+4.6%
Operating income	(1.58) 98.0	(1.64) 99.3	-1.3	-1.4%
Ordinary income	(1.48) 100.0	(1.53) 106.0	-6.0	-5.7%
Net income	(1.30) 74.0	(1.67) 41.7	+32.2	+77.3%
SVA *1	41.5	3.0	+38.5	+1285.6%

		A. FY15.3 Forecasts	B. FY14.3 Results	A-B
Profit/loss on fuel cost adjustment system	billion yen	3.6	-20.5	+24.2
Crude oil price *2	\$/bbl	107.3	110.0	-2.7
Exchange rate *2	yen/\$	106.5	100.2	+6.3

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

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

# Forecasts for FY2015.3 - II

Consolidated, billion yen	A. FY15.3 end Forecasts	B. FY14.3 end Results	A-B
Total assets	1,789.9	1,668.3	+121.5
Net worth	832.7	798.9	+33.7
Interest-bearing debt	660.4	573.5	+86.8
Number of employees	21,448	21,250	+198
Equity ratio	46.5%	47.9%	-1.4%
D/E ratio	0.79	0.72	+0.08
	A. FY15.3 Forecasts	B. FY14.3 Results	A-B
Capital expenditure	128.0	124.1	+3.9
Depreciation	85.3	83.8	+1.5
Free cash flow	89.8	113.1	-23.3
ROA	4.3%	2.6%	+1.7%
ROE	9.1%	5.4%	+3.7%
EPS (yen)	35.6	20.0	+15.5
BPS (yen)	400.1	383.9	+16.2

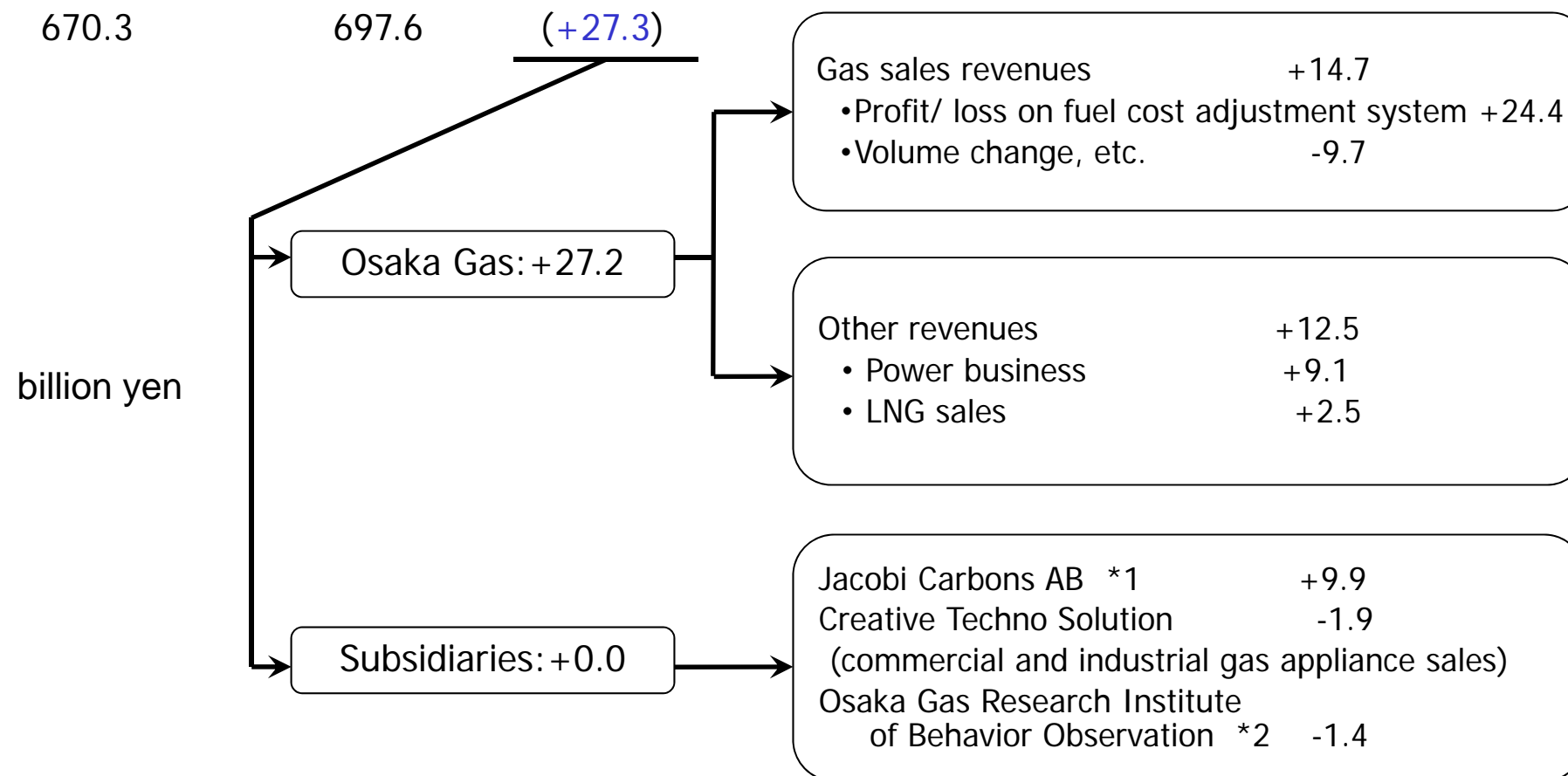
FCF = CF from operating activities - (OP after tax + depreciation and other non-cash expenses) - capital expenditure *Design Your Energy* 夢ある明日を



## II. Facts and Figures

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

FY14.3 1<sup>st</sup> Half → FY15.3 1<sup>st</sup> Half (differences)



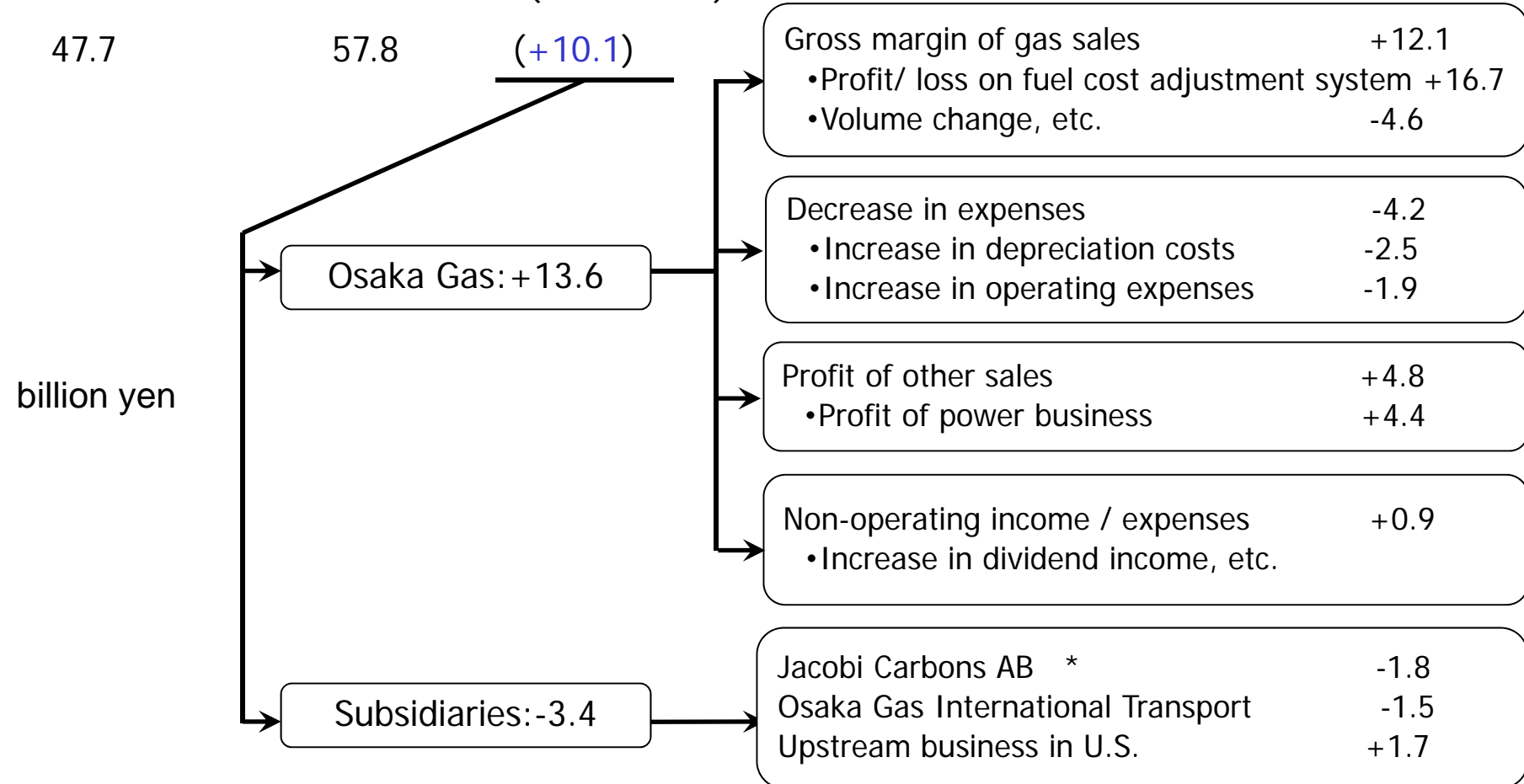
\*1 Activated carbon company acquired in January 2014

\*2 A free paper enterprise was sold off in June 2014, and the company name was changed from L-NET

# Ordinary Income Variance for 1<sup>st</sup> Half of FY2015.3 (Year-on-Year)

FY14.3 1<sup>st</sup> Half → FY15.3 1<sup>st</sup> Half (differences)

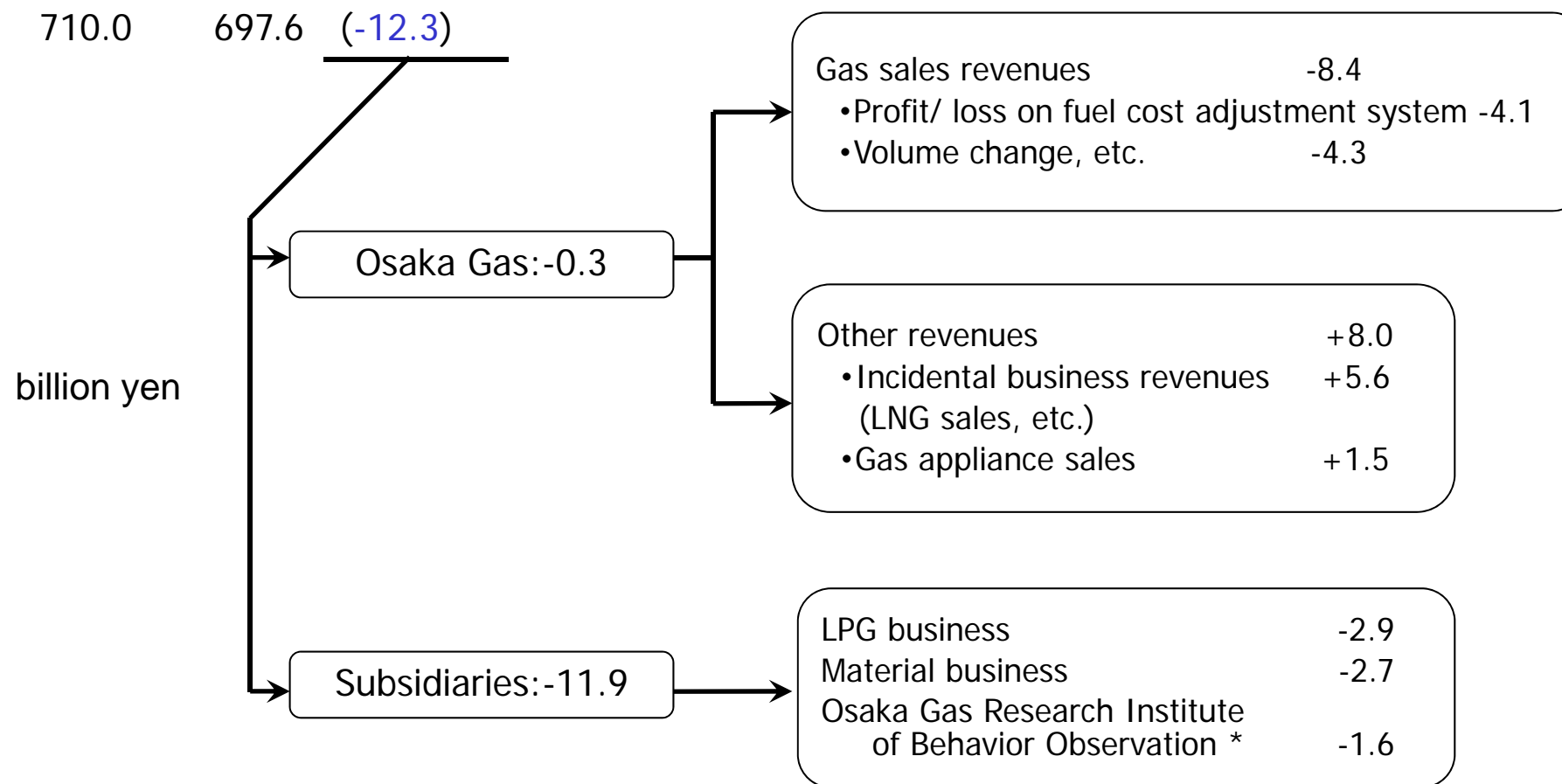
+/- signs indicate impact on profit.



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

# Sales Variance for 1<sup>st</sup> Half of FY2015.3 (with targets)

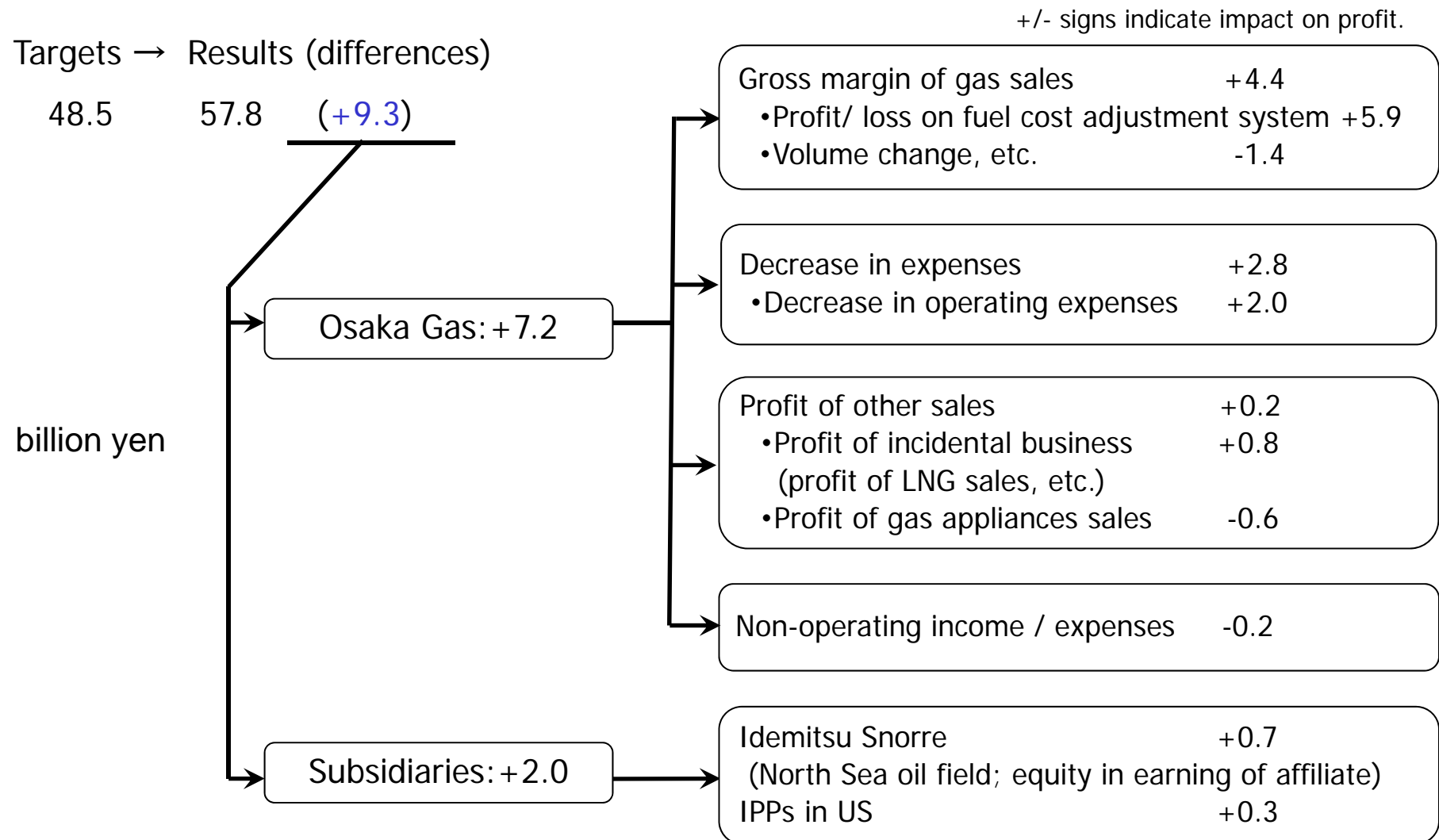
Targets → Results (differences)



\* A free paper enterprise was sold off in June 2014, and company name was changed from L-NET



# Ordinary Income Variance for 1<sup>st</sup> Half of FY2015.3 (with targets)



# Results for FY2015.3 by Segment

billion yen	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY15.3 1st Half	FY14.3 1st Half (*)	FY15.3 1st Half	FY14.3 1st Half (*)	
Gas	510.3	496.7	21.2	14.3	<u>Net sales</u> : Rise in gas sales price <u>Profit</u> : Cancellation of a time-lag loss on fuel cost adjustment system
LPG, electricity, and other energy	119.4	114.5	25.7	22.0	<u>Net sales / Profit</u> : Increase in power business, etc. Profit of power business (**) FY14.3 1H: 15.8, FY15.3 1H: 20.2
International energy	6.5	6.0	4.9	3.3	<u>Profit</u> : Decrease in depreciation costs in US Upstream business
Life & Business Solutions	93.3	86.8	5.3	7.9	<u>Net sales / Profit</u> : the influence of newly consolidated subsidiary (Jacobi Carbons AB) (decrease in income due to temporary expenses)
Adjustments	-32.0	-33.9	1.2	1.3	
Consolidated	697.6	670.3	58.6	48.9	

<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

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

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# Forecasts for FY2015.3 by Segment

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	1,140.0	1,119.5	34.5	32.0	<u>Net sales</u> : Rise in gas sales price <u>Profit</u> : Cancellation of a time-lag loss on fuel cost adjustment system
LPG, electricity, and other energy	301.0	261.0	42.0	45.3	<u>Net sales</u> : Increase in power and LNG sales <u>Profit</u> : Decrease in profit of power business and LPG business, etc.
International energy	17.0	13.3	9.5	8.2	<u>Profit</u> : Decrease in depreciation costs in US Upstream business
Life & Business Solutions	212.0	196.5	17.0	18.8	<u>Net sales / Profit</u> : the influence of newly consolidated subsidiary (Jacobi Carbons AB) (decrease in income due to temporary expenses)
Adjustments	-88.5	-77.9	2.0	2.7	
Consolidated	1,581.5	1,512.5	105.0	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

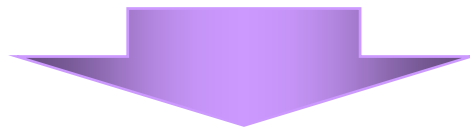
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# Residential Gas Sales

## FY2015.3 1<sup>st</sup> Half Results

	YoY change	Remarks
Number of customers	+0.5%	
Influence of temperature	+0.4%	Average annual temperature: 23.0 degrees Celsius (Year-on-Year change: -0.7 degrees Celsius)
Others	-1.5%	Improved efficiency of gas appliance, impact of further energy conservation by customers etc.
Total	-0.6%	



## FY2015.3 Forecasts

- Results in the 1<sup>st</sup> half fell below the targets by 12 million m<sup>3</sup>
- No change in the initial forecasts for the 2<sup>nd</sup> half
- Full-year result is expected to fall below the initial forecasts by 12 million m<sup>3</sup>, which is an increase of 5 million m<sup>3</sup> from the previous year to 2,203 million m<sup>3</sup>

# Commercial, Public, and Medical Gas Sales

## FY2015.3 1<sup>st</sup> Half Results

	YoY change	Remarks
Demand development	+1.9%	Marketing efforts to develop new demand for air conditioning
Influence of temperature, etc.	-4.4%	Decrease in demand for air conditioning due to cooler weather in summer
Others	-3.2%	Improved efficiency of gas appliance, impact of further energy conservation by customers etc.
Total	-5.7%	



## FY2015.3 Forecasts

- Results in the 1<sup>st</sup> half fell below the targets by 10 million m<sup>3</sup>
- Sales for the 2<sup>nd</sup> half is expected to fall below the initial forecasts by 2 million m<sup>3</sup>
- Full-year result is expected to fall below the initial forecasts by 12 million m<sup>3</sup>, which is a decrease of 79 million m<sup>3</sup> from the previous year to 1,449 million m<sup>3</sup>

# Industrial Gas Sales

## FY2015.3 1<sup>st</sup> Half Results

	YoY change	Remarks
Demand development	+1.2%	Shift to gas from other fuels, etc.
Increase/decrease of operating rates	-4.6%	Expiry of PPA of IPP*, Decrease in utilization of customers' facilities, etc.
Total	-3.4%	

## Breakdown by sector (45MJ, million m<sup>3</sup>)

	Volume	YoY change
Machinery	160	95.1%
Metal	504	102.3%
Glass	153	88.4%
Chemical	608	97.3%
Food	257	99.8%

\*Classification of gas used was changed from non-regulated to self-use

## FY2015.3 Forecasts

- Results in the 1<sup>st</sup> half fell below the targets by 60 million m<sup>3</sup>.
- Considering the 1<sup>st</sup> half results, we expect that sales for the 2<sup>nd</sup> half will also be lower than the initial forecasts (by 37 million m<sup>3</sup>). Accordingly, we expect the full-year result will fall below the initial forecasts by 97 million m<sup>3</sup>, which is an decrease of 129 million m<sup>3</sup> from the previous year to 4,200 million m<sup>3</sup>.

# Monthly Gas Sales

## Year-on-Year Change 2014/2013 (%)

		Apr.	May	Jun.	Jul.	Aug.	Sep.	1 <sup>st</sup> Half Total
Residential use		99.9	91.5	101.6	99.8	105.4	108.8	99.4
Commercial, public, and medical use		98.0	95.0	95.8	94.9	93.5	90.7	94.3
Industrial use		97.4	97.4	101.6	93.3	94.7	95.8	96.6
By sector	Machinery	92.3	93.3	104.3	92.1	92.5	97.4	95.1
	Metal	102.3	101.7	110.4	100.8	100.2	98.8	102.3
	Glass	90.9	89.6	87.2	84.0	90.1	88.9	88.4
	Chemical	95.6	97.3	100.7	94.0	100.2	96.6	97.3
	Food	99.0	99.4	102.5	97.4	98.3	102.5	99.8
Wholesale		91.5	97.3	121.5	94.3	99.0	103.6	100.5
Total		98.0	95.3	101.6	94.6	95.9	96.5	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. 0.9 billion yen on ordinary income since the 3<sup>rd</sup> 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. 1.4 billion yen on ordinary income since the 3<sup>rd</sup> 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. 700 million yen on annual consolidated non-operating expenses.