

# Financial Report for 3<sup>rd</sup> Quarter of FY2011.3 (April 2010 – December 2010)

January 2011  
Osaka Gas Co., Ltd.

# I. Business Results for 3<sup>rd</sup> Quarter of FY2011.3

**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.

Now, I would like to briefly explain the business results for the third quarter of the fiscal year ending March 2011.

# Business Results for 3<sup>rd</sup> Quarter of FY2011.3 - Highlights

## ■ Overview

Consolidated operating revenues	Revenues grew 8.2% year-on-year to ¥819.8 billion, resulting from the increase in gas sales on the back of the economic recovery in Japan, the contribution of all units of Senboku Natural Gas Power Plant going into operation, and increased sales of consolidated subsidiaries, including real estate business, etc.
Consolidated operating profit	Profits declined 22.1% year-on-year to ¥54.6 billion because of the reduction of gross margin of gas sales due to higher fuel costs with the rise in LNG prices, despite an increase in operating profit of the power generation business. Profit on fuel cost adjustment system amounting to ¥0.3 billion (vs. profit of ¥26.3 billion for the previous year).

## ■ Gas sales volume

Residential	Total of 1,336 million m <sup>3</sup> , almost the same as the preceding fiscal year.
Commercial and Industrial	Sales grew 7.3% year-on-year to 4,247 million m <sup>3</sup> due to an increase of customers' active facilities in association with the economic recovery in Japan.

## ■ Other topics

Full-year outlook	The forecast issued in Oct. 2010 remains the same because there has been no significant deviation in the third quarter actual results.
Share buy-back	Completion of share buy-back of ¥19,999 million (63,724,000 shares).

Our third quarter results for the fiscal year ending March 2011 showed lower profits on higher revenues.

The consolidated operating revenues were ¥819.8 billion, an 8.2% increase from the preceding fiscal year resulting from the increase in gas sales on the back of the economic recovery in Japan, the contribution of all units of Senboku Natural Gas Power Plant going into operation, and increased sales of consolidated subsidiaries, including real estate business.

The consolidated operating profit was ¥546 million, a 22.1% decline from the preceding fiscal year because of the lower gross margin of gas sales due to higher fuel costs with the rise in LNG prices, despite an increase in operating profit of the electric power business with all units of Senboku Natural Gas Plant starting operation. For your information, profits on the fuel cost adjustment system of ¥0.3 billion were accrued.

Total sales of gas for residential was 1,336 million m<sup>3</sup>, almost the same as the preceding fiscal year.

Total sales of gas for business use was 424,700 million m<sup>3</sup>, up 7.3% from the preceding fiscal year due to an increase in capacity utilization in customers' facilities in association with the economic recovery in Japan.

The full-year forecast issued in October 2010 remains the same because the third quarter actual results showed no significant deviation.

Concerning the share buy-back that we announced in October 2010, we have completed the acquisition of 63.72 million stocks for approximately ¥20.0 billion. These acquired stocks will be amortized following a resolution by the board of directors.

No new project requiring extensive investment has been proposed since the announcement of the second quarter financial results.

# Gas Sales for 3<sup>rd</sup> Quarter of FY2011.3

45MJ/m <sup>3</sup>	A. FY11.3 3Q	B. FY10.3 3Q	A-B	A-B/B (%)
Number of meters installed (thousand)	6,997	6,963	+34	+0.5%
Installation of new meters (thousand)	50	53	-4	-6.8%
Monthly gas sales volume per household (m <sup>3</sup> /month)	25.6	25.6	0	0.0%
Residential use	1,336	1,334	+1	+0.1%
Commercial, public and medical use	1,195	1,132	+64	+5.6%
Industrial use	3,051	2,826	+226	+8.0%
Commercial and industrial use	4,247	3,957	+290	+7.3%
Wholesale	347	321	+26	+8.0%
(Non-regulated included)	(3,608)	(3,354)	(+254)	(+7.6%)
Non-consolidated gas sales volume (million m <sup>3</sup> )	5,929	5,613	+316	+5.6%
Consolidated gas sales volume (million m <sup>3</sup> )	5,954	5,637	+318	+5.6%

The non-consolidated gas sales volume of Osaka Gas increased 5.6% from the preceding year to 5,929 million m<sup>3</sup>.

As I explained earlier, this is mainly due to the growth of gas sales for industrial use.

According to the breakdown, the gas sales for commercial, public and medical use rose by 5.6% from the preceding year and reached 1,195 million m<sup>3</sup> due mainly to higher energy demand for air-conditioning during the extreme heat of last summer and the development of new demand.

The gas sales for industrial use grew by 8% from the preceding year to 3,051 million m<sup>3</sup>. This sales volume is 92% of the third quarter of the fiscal year ending March 2008, which hit a peak before the “Lehman shock”, indicating that the Japanese economy is still on the road to recovery.

# Results for 3<sup>rd</sup> Quarter of FY2011.3 I

(Consolidated, billion yen) Figures in parentheses are ratios of consolidated results to non-consolidated results.

	A. 11.3 3Q	B. 10.3 3Q	A-B	A-B/B	Remarks
Operating revenues	(1.30) 819.8	(1.31) 757.9	+61.8	+8.2%	Increase in gas sales volume, increase in revenue from electric power business, increase in sales of real estate subsidiaries, etc.
Operating profit	(1.81) 54.6	(1.48) 70.1	-15.4	-22.1%	Decrease in gross margin of gas sales, etc.
Ordinary profit	(1.63) 52.3	(1.32) 66.2	-13.8	-20.9%	Increase in earnings of equity method affiliates
Net income	(1.46) 29.7	(1.25) 39.5	-9.7	-24.7%	

		A. 11.3 3Q	B. 10.3 3Q	A-B
Consolidated gas sales volume	million m <sup>3</sup>	5,954	5,637	+318
Profit/loss on fuel cost adjustment system	billion yen	+0.3	+26.3	-26.0
Exchange rate	yen/\$	86.9	93.6	-6.8
Crude oil price	\$/bbl	79.7*	66.5	+13.2
Number of subsidiaries		129	128	+1

(\*) Average of preliminary monthly data up to December.

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As I explained earlier, in comparison to the same period of the previous year, operating revenues grew by 61.8 billion yen to 819.8 billion yen, and operating profit decreased by 15.4 billion yen to 54.6 billion yen.

As indicated in the chart at the bottom, last year, profit on fuel cost adjustment system decreased by 26 billion yen. In other words, we believe, operating profit for the third quarter of this fiscal year, when computed without these effects, shows growth of about 10 billion yen.

Business results for the third quarter has progressed on the way of the assumption based on our full-year forecast issued in October 2010.

Now, we have finished our presentation on the business results for the third quarter of the fiscal year ending March 2011.

# Results for 3<sup>rd</sup> Quarter of 2011.3 II

(billion yen)	A. FY11.3 3Q end	FY10.3 3Q end	B. Year end	A-B	Remarks
Total assets	1,391.7	1,436.7	1,483.8	-92.1	Decrease in cash and deposits, etc.
Net worth	650.0	653.9	666.6	-16.6	
Interest-bearing debt	542.0	543.8	539.0	+2.9	
Number of employees	20,022	19,343	19,268	+754	
Equity ratio	46.7%	45.5%	44.9%	+1.8%	

	A. FY11.3 3Q	B. FY10.3 3Q	A-B	Remarks
Capital expenditure	49.5	66.3	-16.7	Construction of Senboku power plant/ LNG vessel completed
Depreciation	71.8	69.9	+1.8	Increase in depreciation of Senboku power plant
Free cash flow	-13.2	109.2	-122.4	

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

## Completion of Repurchase of Treasury Shares

- Decision made to acquire the Company's treasury shares with the following purpose and particulars (announced in October 2010)
  - Purpose: To provide returns to shareholders by improving per-share indicators, and increase in capital efficiency
  - Total number of shares to be acquired: Up to 72 million shares (3.35% of the total number of shares outstanding)
  - Total acquisition cost: Up to 20 billion yen
  - Acquisition period: November 1, 2010 - February 28, 2011
  - \*Acquisition will cease when either the total number of shares acquired or the total acquisition cost reaches the above figure.
  - Treatment of shares acquired: When the process of acquisition of treasury shares is completed, such shares are scheduled to be cancelled following a resolution of the Board of Directors.



- Results of acquisition
  - Total number of shares acquired: 63,724 thousand shares (2.97% of the total number of shares outstanding)
  - Total acquisition cost: 19,999 million yen (Average price of acquisition per share: about 313.8 yen)
  - Acquisition period: November 1, 2010 – January 5, 2011
  - Treatment of shares acquired: Scheduled to be cancelled following a resolution of the Board of Directors



## II. Forecast for FY2011.3

Maintaining our full-year forecast  
unchanged from the October forecast



# Gas Sales Forecast for FY2011.3

- Maintaining our full-year forecast unchanged from the October forecast

45MJ/m <sup>3</sup>	A. FY11.3 forecast	B. FY10.3 results	A-B	A-B/B(%)
Number of meters installed (thousand)	7,014	6,980	+34	+0.5%
Installation of new meters (thousand)	76	85	-9	-10.5%
Monthly gas sales volume per household (m <sup>3</sup> /month)	32.5	32.3	+0.2	+0.6%
Residential use	2,259	2,244	+16	+0.7%
Commercial, public and medical use	1,576	1,543	+33	+2.1%
Industrial use	4,086	3,877	+208	+5.4%
Commercial and Industrial	5,662	5,420	+241	+4.4%
Wholesale	471	455	+16	+3.4%
(Non-regulated included)	(4,801)	(4,576)	(+225)	(+4.9%)
Non-consolidated gas sales volume (million m <sup>3</sup> )	8,392	8,119	+272	+3.4%
Consolidated gas sales volume (million m <sup>3</sup> )	8,424	8,150	+273	+3.4%

# Forecast for FY2011.3 I

■ Our full-year forecast remains unchanged from the October forecast (\*)

(Consolidated, billion yen) Figures in parentheses are ratios of consolidated results to non-consolidated results.

		A. FY11.3 forecast	B. FY10.3 results	A-B	A-B/B (%)
Operating revenues		(1.30) 1,170.0	(1.30) 1,096.6	+73.3	+6.7%
Operating profit		(1.63) 84.5	(1.51) 91.1	-6.6	-7.3%
Ordinary profit		(1.51) 80.0	(1.32) 84.8	-4.8	-5.7%
Net income		(1.34) 45.0	(1.21) 48.3	-3.3	-7.0%
SVA		12.4	14.0	-1.5	-11.1%
Consolidated gas sales volume	million m <sup>3</sup>	8,424	8,150	+273	
Profit/loss on fuel cost adjustment system	billion yen	-7.3	26.7	-34.1	
Exchange rate	yen/\$	86.4	92.9	-6.5	Assumed exchange rate for 4Q: ¥85/\$
Crude oil price	\$/bbl	81.0	69.4	+11.6	Assumed exchange rate for 4Q: \$85/bbl

(\*) Only the exchange rate and crude oil price are replaced by the forecasts reflecting the actual record of the period between October and December 2010. SVA (Shareholders' value added) = NOPAT – Invested capital × WACC

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# Forecast for FY2011.3 II

- Maintaining our full-year forecast unchanged from the October forecast

(Consolidated, billion yen)	A. 11.3 end forecast	B. 10.3 end results	A-B
Total assets	1,477.6	1,483.8	-6.2
Net worth	670.5	666.6	+3.8
Interest-bearing debt	549.7	539.0	+10.6
Number of employees	19,546	19,268	+278
Equity ratio	45.4%	44.9%	+0.4%
	A. 11.3 forecast	B. 10.3 results	A-B
Capital expenditure	83.6	98.2	-14.5
Depreciation	98.4	95.4	+3.0
Free cash flow	59.5	175.4	-115.8
ROA	3.0%	3.3%	-0.3%
ROE	6.7%	7.6%	-0.8%
EPS (yen)	21.1	22.5	-1.3
BPS (yen)	323.0	310.4	+12.6

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

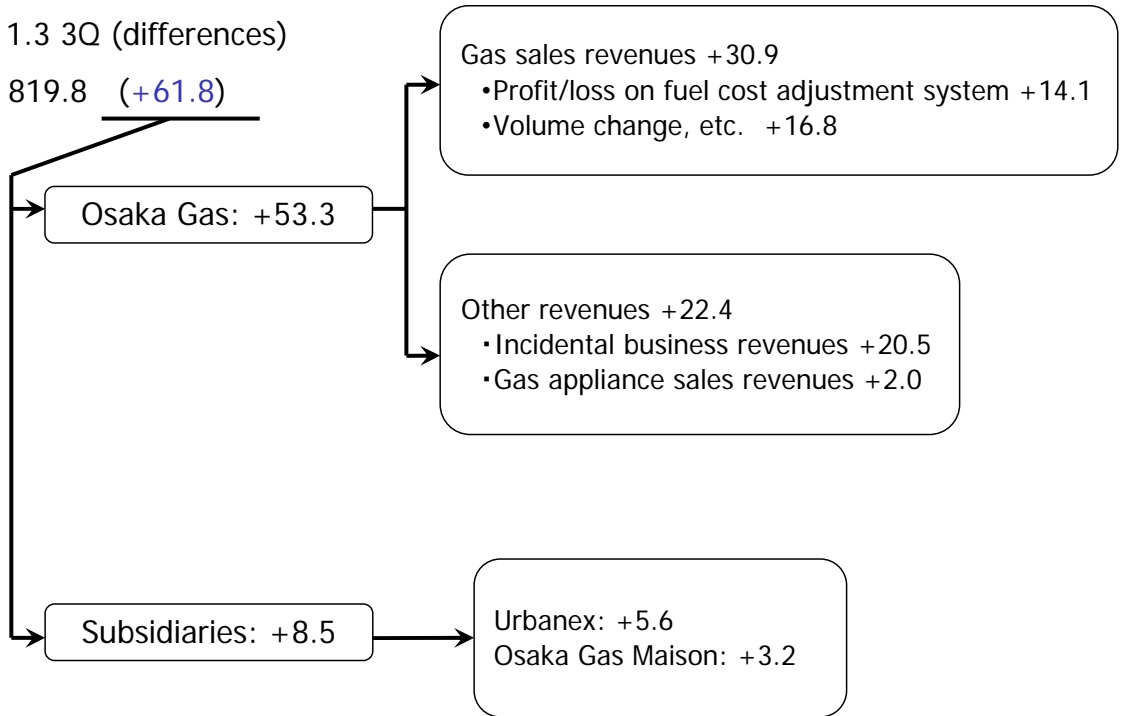
# III. Facts and Figures

# Sales Variance for 3<sup>rd</sup> Quarter of FY2011.3 (vs.FY2010.3)

FY10.3 3Q → FY11.3 3Q (differences)

757.9      819.8    (+61.8)

(billion yen)



# Ordinary Profit Variance for 3<sup>rd</sup> Quarter of FY2011.3 (vs. FY2010.3)

FY10.3 3Q → FY11.3 3Q (differences)

66.2      52.3      (-13.8)

(billion yen)

Osaka Gas: -17.9

Subsidiaries: +4.0

Gross margin of gas sales: -22.5

- Profit/loss on fuel cost adjustment system: -26.0
- Volume change, etc.: +3.4

Increase in operating expenses: -0.7  
(Sales promotion expenses etc.)

Gross margin of other sales: +6.1

- Gross margin of incidental business: +5.1

Idemitsu Snorre: +1.5

(North Sea oil field: Equity method affiliates)

Urbanex: +0.5

Osaka Gas Maison: +0.4

# Results by Segment

Billion yen	Operating revenues		Operating profit + equity method earnings		Remarks
	11.3 3Q	10.3 3Q	11.3 3Q	10.3 3Q	
Gas	602.4	564.1	22.9	45.6	Revenues: Increase in gas sales volume Profit: Profits on fuel cost adjustments dissolved
LPG, electricity, and other energy businesses	122.1	100.4	16.8	11.2	Revenues: Increase in incidental business revenues, etc. Profit: Increase in margin of incidental business, etc.
International energy	8.3	8.3	3.9	2.9	Increase in earnings of equity method affiliates (North Sea oil field)
Environment and non-energy	129.7	123.7	10.5	9.6	Revenues: Increase in sales of real estate subsidiaries Profit: Increase in profits of real estate subsidiaries, etc.
Elimination and consolidation	-42.8	-38.7	1.8	1.1	
Consolidated	819.8	757.9	56.2	70.6	

The Company changed its business segments in FY2011.3, and FY2010.3 results represent the values after reclassification into new segments.

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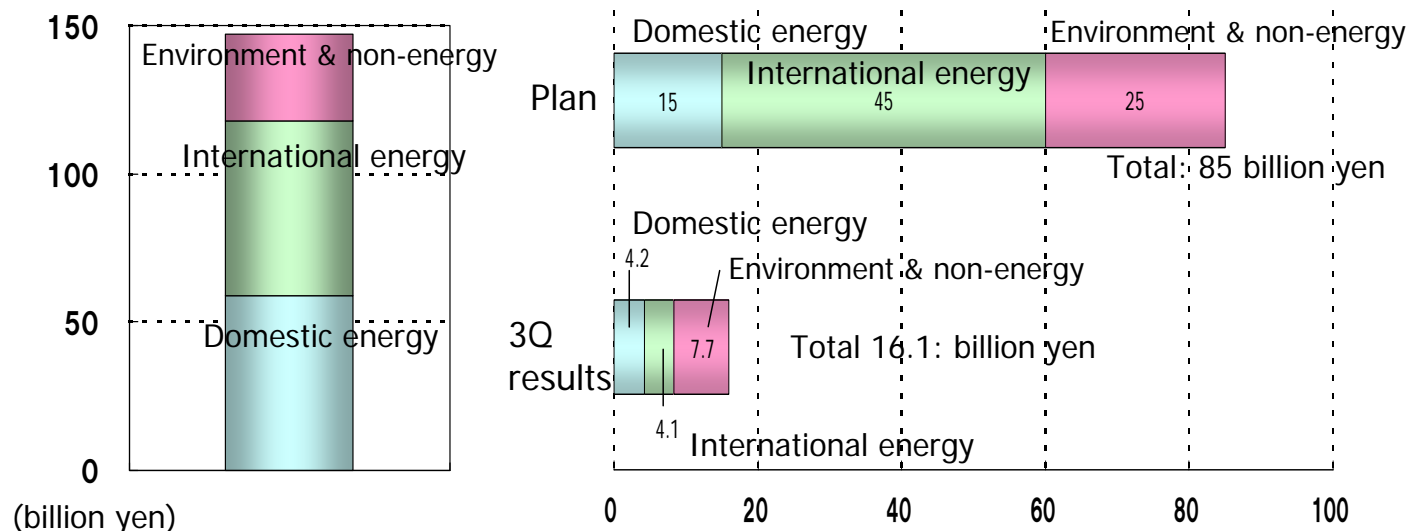
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# Results of Investment for Incubation and Expansion in 3<sup>rd</sup> Quarter of FY2011.3

- Cumulative amount approved to be invested from FY2010.3 onwards: **about 150 billion yen** (37% of the amount originally projected for the period between FY2010.3 and FY2014.3)
- Cumulative cashed-out amount since FY2010.3 is about 61.0 billion yen.

Cumulative amount approved for investment from FY2010.3 onwards:

Investment for incubation and expansion in FY2011.3



The investment amount, which includes both facility investment projects and investment & loan projects, differs from the actual amount of facility investment.

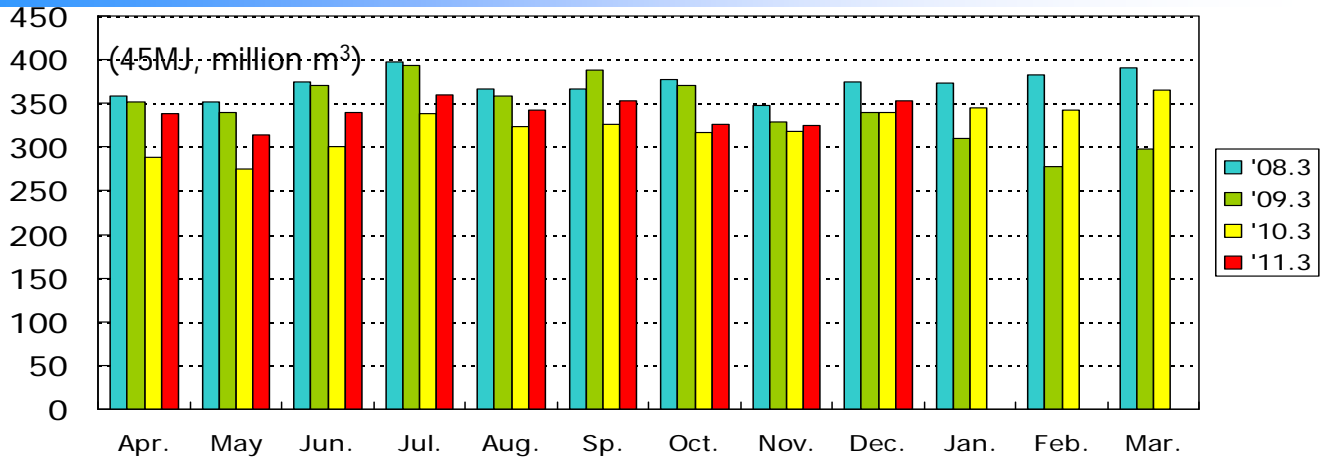


## Analysis of Year-to-Year Difference in Gas Sales Volume

	Residential	Commercial, public and medical	Industrial
Change in number of customers	+0.1%	--	--
Differences in metering schedule	-0.4%	+0.0%	--
Influence of temperature	+0.7%	+4.2%	--
Demand development	} -0.3%	+2.5%	+3.5%
Increase/decrease of facility operations, etc.		-1.0%	+4.5%
Total	+0.1%	+5.6%	+8.0%

- Commercial, public and medical
  - Although capacity utilization of customers' sites decreased due to their efforts to conserve energy, the increase in energy demand for air-conditioning during the extreme heat of last summer, and the development of large-scale commercial projects and public utility projects contributed to the growth of sales volume.
- Industrial
  - The increase of capacity utilization of customers' sites in association with the economic recovery, and the development of new demand such as for fuel conversion contributed to the growth of sales volume.

# Monthly Industrial Gas Sales



	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total
FY10.3 monthly comparison	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total
vs. FY08.3 (%)	80.5	78.5	80.5	85.1	88.2	89.2	83.8	91.8	90.4	92.4	92.4	93.5	87.0
vs. FY09.3 (%)	82.0	81.1	81.1	86.0	90.4	84.0	85.1	96.8	99.6	111.3	122.8	122.6	93.9
FY11.3 monthly comparison	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.				Total
vs. FY08.3 (%)	94.5	89.6	90.9	90.7	93.1	96.7	86.5	93.6	94.2	...	...	...	92.2
vs. FY10.3 (%)	117.4	114.2	112.9	106.6	105.5	108.3	103.2	102.0	104.2	...	...	...	108.0

- Although gas sales have continued to exceed the results of the previous year since January 2010, they still have not returned to the level before the "Lehman Shock" (FY2008.3).

# Risk Factors Affecting Forecast of Annual Results

- Atmospheric and water temperatures
  - A 1 degree Celsius change in atmospheric and water temperatures will impact the residential gas sales volume (with an approx. 5% increase/decrease in spring and autumn, an approx. 6% change in summer, and an approx. 4% change in winter).
- Crude oil price
  - LNG price is linked to crude oil price. A \$1/bbl change in crude oil price will have an effect of approximately 100 million yen on gross profit for the rest 4<sup>th</sup> quarter (Jan. thru. Mar.) of this fiscal year.
- Foreign exchange rate
  - LNG price is affected by the fluctuation of the U.S. dollar/Japanese yen exchange rate. A 1 yen fluctuation in the U.S. dollar/Japanese yen exchange rate will have an effect of approximately 900 million yen on gross profit for the rest 4<sup>th</sup> quarter (Jan. thru. Mar.) of this fiscal year.
- Fuel costs
  - Although the fuel cost adjustment system allows us to reflect changes in fuel costs in gas rates in the medium and long terms, an increase in fuel costs is likely to affect the business results due to a time lag in reflecting cost fluctuations, and depending on the composition of fuel suppliers.
- Interest rate
  - A 1% change in the interest rate will have an effect of approximately 100 million yen on consolidated non-operating expenses for the rest 4<sup>th</sup> quarter (Jan. thru. Mar.) of this fiscal year.