

Financial Report for 1st Quarter of FY2014.3 (April 2013 – June 2013)

July 2013

Osaka Gas Co., Ltd.

I. Business Results for 1st Quarter of FY2014.3

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/m³.

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 Business Results for 1st Quarter of FY2014.3

■ overview

Net sales	Increased by 3.4% to ¥339.6 billion due to the increase in the gas sales unit price under the fuel cost adjustment system resulting from the LNG price increase, etc.
Ordinary income	Decreased by 16.7% to ¥30.2 billion due to the decrease in the gross margin of gas sales caused by a decrease in gas sales volume and an increase in time-lag loss under the fuel cost adjustment system resulting from higher LNG prices. Loss on fuel cost adjustment system was ¥12.1 billion (compared with a loss of ¥9.1 billion in the same period of the previous year).

■ Gas Sales Volume

Residential	Decreased by 5.6% to 545 million m ³ , due to higher atmospheric and water temperatures.
Commercial	Decreased by 1.4% to 310 million m ³ , due to our customers' energy conservation trend, etc.
Industrial	Decreased by 1.5% to 1,030 million m ³ , due to decrease in capacity utilization of our customers' facilities.

■ Others

Investments for expansion, greenfield, M&A	Decided on investments in condensate and gas development project in Papua New Guinea. Total investment of ¥20.7 billion was made during the 1Q of FY2013.
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Gas Sales Volume Results for 1st Quarter of FY2014.3

45MJ/m³

	A. FY14.3 1Q	B. FY13.3 1Q	A-B	A-B/B (%)
Number of meters installed (thousand)	7,092	7,049	+43	+0.6%
Installation of new meters (thousand)	19	17	+2	+9.7%
Monthly gas sales volume per household (m ³ /month)	31.0	33.0	-2.0	-6.0%
Residential use	545	577	-32	-5.6%
Commercial, public and medical use	310	315	-4	-1.4%
Industrial use	1,030	1,046	-16	-1.5%
Commercial and industrial use	1,340	1,360	-20	-1.5%
Wholesale	107	111	-4	-3.3%
(Non-regulated included)	(1,160)	(1,176)	(-16)	(-1.3%)
Non-consolidated gas sales volume (million m ³)	1,992	2,048	-56	-2.7%
Consolidated gas sales volume (million m ³)	2,002	2,058	-56	-2.7%

Results for 1st Quarter of FY2014.3 - I

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

Consolidated, yen	billion	A. FY14.3 1Q	B. FY13.3 1Q	A-B	A-B/B	Remarks
Net sales		(1.22) 339.6	(1.22) 328.5	+11.1	+3.4%	Rise in the gas sales unit price, etc.
Operating income		(1.45) 28.0	(1.33) 33.1	-5.0	-15.2%	Decrease in gross margin of gas sales, etc.
Ordinary income		(1.28) 30.2	(1.21) 36.3	-6.0	-16.7%	Decrease in Equity in earnings of affiliates, etc.
Net income		(1.23) 21.0	(1.11) 23.6	-2.5	-11.0%	

		A. FY14.3 1Q	B. FY13.3 1Q	A-B
Consolidated gas sales volume	million m ³	2,002	2,058	-56
Profit/ loss on fuel cost adjustment system	billion yen	-12.1	-9.1	-2.9
Crude oil price	\$/bbl	107.7	122.6	-14.9
Exchange rate	yen/\$	98.8	80.2	+18.6

(*) Average of preliminary monthly data up to June.

Results for 1st Quarter of FY2014.3 - II

Consolidated, billion yen	A. FY14.3	FY13.3		A-B	Remarks
	1Q end	1Q end	B. year end		
Total assets	1,582.4	1,463.1	1,566.8	+15.5	Increase in noncurrent assets, etc.
Shareholders' equity	774.0	705.7	747.8	+26.2	
Interest-bearing debt	560.4	543.9	540.1	+20.2	
Number of employees	20,163	19,926	19,870	+293	
Equity ratio	48.9%	48.2%	47.7%	+1.2	
D/E ratio	0.72	0.77	0.72	+0.00	
	A. 14.3 1Q	B. 13.3 1Q	A-B	Remarks	
Capital expenditure	29.6	37.5	-7.8	Upstream businesses	
Depreciation and amortization	19.8	20.2	-0.4		
Free cash flow	-10.0	2.4	-12.5	Accompanied by decrease in income	



II. Facts and Figures

Sales variance for 1st Quarter of FY2014.3 (Year-on-Year)

FY13.3 1Q → FY14.3 1Q (differences)

328.5

339.6

(+11.1)

(billion yen)

Osaka Gas: +9.4

Subsidiaries: +1.7

Gas sales +7.6
 • Impact of fuel cost adjustment +13.2
 • Volume change, etc. -5.5

Other revenues +1.8
 • Gas appliances sales +0.7
 • Incidental business sales +0.7
 (Electricity sales, etc.)

Osaka Gas Engineering +1.2
 Osaka Gas Chemicals group +1.1

Ordinary income variance for 1st Quarter of FY2014.3 (Year-on-Year)

FY13.3 1Q → FY14.3 1Q (differences)

36.3

30.2

(-6.0)

Osaka Gas: -6.4

Subsidiaries: +0.3

Gross margin of gas sales -6.5
 • Impact of fuel cost adjustment system -2.9
 • Volume change, etc. -3.6

Gross margin of other sales -0.4
 • Gross margin of incidental business sales -0.4
 (mainly of electricity business)

Decrease in operating expenses +1.5
 • Decrease in labor costs +1.1
 (Decrease in retirement allowance)

Non-operating income -0.9
 (Decrease in Gain from sales of securities, etc.)

Osaka Gas Chemicals group +0.4

+/- signs indicate impact on profit.

Results for 1st Quarter of FY2014.3 by Segments

billion yen	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY14.3 1Q	FY13.3 1Q	FY14.3 1Q	FY13.3 1Q	
Gas	255.1	246.4	13.4	18.2	<u>Net sales</u> : Rise in the gas sales unit price <u>Income</u> : Decrease in gas sales volume, and Increase in time-lag loss
LPG, electricity, and other energies	53.1	51.7	9.4	9.7	<u>Net sales</u> : Rise in the electricity sales unit price
International energies	2.9	2.6	1.4	2.3	Decrease in earnings of equity method affiliates (North Sea oil field)
Environment and non- energies	43.0	41.2	4.3	3.9	<u>Net sales</u> : Increase in sales of Engineering and Material business <u>Income</u> : Increase in profit of Material business
Elimination/ consolidation	-14.5	-13.6	0.6	0.6	
Consolidated	339.6	328.5	29.3	34.9	

FY14.3 Topics

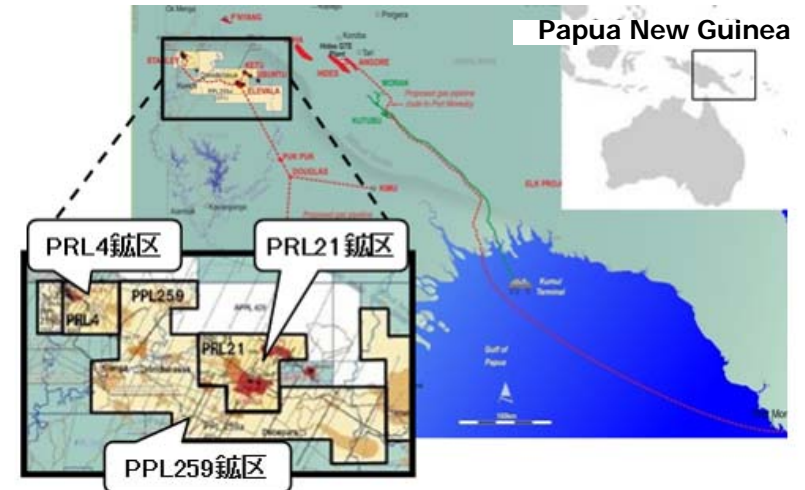
Participation in the Condensate Gas Development Project in Papua New Guinea

- In May 2013, it was decided to participate in the condensate gas development project in Papua New Guinea.

Project outline

- Location: Western Province in Papua New Guinea
- Participants: Horizon Oil (operator), etc.
- Ownership ratio: 10-20% (depending on the mining lot)
- Yielding resource: Condensate (ultra-light crude oil) gas
- Start of production: Scheduled to be around 2015
- Investigating the possibility of future LNG development with Horizon Oil and other existing partners

* Acquisition of ownership will be completed upon approval of the Papua New Guinean government and the consent of existing partners in the project.





III. Facts and Figures (2)

- Forecasts for FY2014.3

Maintaining our full-year forecast
unchanged from the March forecast

Gas Sales Volume Forecasts for FY2014.3

45MJ/m ³	A. FY14.3 forecasts	B. FY13.3 results	A-B	A-B/B(%)
Number of meters installed (thousand)	7,112	7,086	+26	+0.4%
Installation of new meters (thousand)	98	91	+6	+7.1%
Monthly gas sales volume per household (m ³ /month)	31.6	32.5	-0.8	-2.6%
Residential use	2,222	2,272	-51	-2.2%
Commercial, public, and medical use	1,481	1,540	-59	-3.8%
Industrial use	4,390	4,222	+169	+4.0%
Non-residential total	5,871	5,761	+110	+1.9%
Wholesale	466	469	-3	-0.7%
(non-regulated)	(5,053)	(4,894)	(+159)	(+3.2%)
Non-consolidated gas sales volume total (million m ³)	8,559	8,503	+56	+0.7%
Consolidated gas sales volume total (million m ³)	8,589	8,534	+55	+0.6%

Forecasts for FY2014.3 - I

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

(billion yen)	A. FY14.3 forecasts	B. FY13.3 results	A-B	A-B/B (%)
Net sales	(1.26) 1,508.0	(1.24) 1,380.0	+127.9	+9.3%
Operating income	(1.75) 100.0	(1.84) 84.7	+15.2	+18.0%
Ordinary income	(1.61) 100.0	(1.63) 90.1	+9.8	+11.0%
Net income	(1.52) 64.5	(1.49) 52.4	+12.0	+22.9%
SVA	27.4	18.6	+8.7	+46.9%
Consolidated gas sales volume	million m ³	8,589	8,534	+55
Profit/loss on fuel cost adjustment system	billion yen	-10.3	-20.7	+10.4
Crude oil price	\$/bbl	113.2	113.9	-0.7
Exchange rate	yen/\$	95.9	83.1	+12.8

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

※2 For the period from July 2013 to March 2014, it is assumed that the crude oil price is 115 \$/bbl, and the exchange rate is ¥95/\$.

Forecasts for FY2014.3 - II

(billion yen)	A. FY14.3 end forecasts	B. FY13.3 end results	A-B
Total assets	1,625.8	1,566.8	+58.9
Shareholders' equity	767.3	747.8	+19.4
Interest-bearing debt	607.0	540.1	+66.8
Number of employees	20,201	19,870	+331
Equity ratio	47.2%	47.7%	-0.5
D/E ratio	0.79	0.72	+0.07
	A. FY14.3 forecasts	B. FY13.3 results	A-B
Capital expenditure	134.7	112.9	+21.7
Depreciation and amortization	80.1	82.8	-2.7
Free cash flow	88.9	85.0	+3.8
ROA	4.1%	3.4%	+0.6
ROE	8.6%	7.3%	+1.3
EPS (yen/share)	31.0	25.2	+5.8
BPS (yen/share)	368.5	359.2	+9.4

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

Forecasts for FY2014.3 by Segments

(billion yen)	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY14.3 forecasts	FY13.3 results	FY14.3 forecasts	FY13.3 results	
Gas	1,084.0	1,038.5	34.3	23.3	<u>Net sales</u> : Rise in the price of gas sales <u>Income</u> : Decrease in loss on fuel cost adjustment system
LPG, electricity, and other energies	258.0	215.5	38.9	38.2	<u>Net sales</u> : Rise in the price of LNG and LPG sales, etc. <u>Income</u> : Increase in gross margin of LNG and LPG sales, etc.
International energies	17.5	10.7	9.4	7.6	Mainly increase in profit from upstream businesses
Environment and non-energies	199.5	185.6	20.1	19.0	<u>Net sales</u> : Increase in sales of real estate business, etc. <u>Income</u> : Increase in profit of IT business, etc.
Elimination/consolidation	-51.0	-70.4	2.9	2.7	
Consolidated	1,508.0	1,380.0	105.6	91.1	

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 2nd 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. 1.2 billion yen on ordinary profit since the 2nd 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. 500 million yen on annual consolidated non-operating expenses.