

# Financial Report for 1<sup>st</sup> Quarter of FY2014.3 (April 2013 – June 2013)

July 2013  
Osaka Gas Co., Ltd.

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

We would like to explain briefly the business results of Osaka Gas for the first quarter ended June 30, 2013.

# Summary of Business Results for 1<sup>st</sup> 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 <sup>3</sup> , due to higher atmospheric and water temperatures.
Commercial	Decreased by 1.4% to 310 million m <sup>3</sup> , due to our customers' energy conservation trend, etc.
Industrial	Decreased by 1.5% to 1,030 million m <sup>3</sup> , 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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Revenue grew but profit declined in the first quarter of fiscal 2014.3.

Net sales increased to 339.6 billion yen, up 3.4% from last year due mainly to the rise in gas sales price driven by higher LNG prices.

Ordinary income dropped to 30.2 billion yen, down 16.7% from last year, due mainly to the decline in gross profit caused by a decrease in gas sales and an increase in time-lag loss. The incurred time-lag loss was 12.1 billion yen, up 2.9 billion yen compared with the same period last year.

Gas sales volume for residential use decreased by 5.6% to 545 million m<sup>3</sup> due mainly to higher atmospheric and water temperatures than last year.

Gas sales volume for commercial, public and medical uses decreased by 1.4% to 310 million m<sup>3</sup> due mainly to further energy conservation by customers.

Regarding industrial use, gas sales volume decreased by 1.5% to 1.03 billion m<sup>3</sup> due mainly to a decrease in the operation of customer facilities.

Regarding investments in business expansion, we decided to invest in a condensate gas development project in Papua New Guinea.

Investments made in the first quarter of the fiscal year totaled 20.7 billion yen.

## Gas Sales Volume Results for 1<sup>st</sup> Quarter of FY2014.3

45MJ/m <sup>3</sup>	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 <sup>3</sup> /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 <sup>3</sup> )	1,992	2,048	-56	-2.7%
Consolidated gas sales volume (million m <sup>3</sup> )	2,002	2,058	-56	-2.7%

This table shows the gas sales volume results for the first quarter of fiscal 2014.3.

The gas sales volume on a non-consolidated basis decreased by 2.7% from the same period of last year, to 1,992 million m<sup>3</sup>.

# Results for 1<sup>st</sup> 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 <sup>3</sup>	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.

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Please see the financial results for the first quarter of fiscal 2014.3, summarized on page 5.

Net sales increased by 11.1 billion yen from last year to 339.6 billion yen due mainly to the rise in gas sales unit price.

As shown in the table, the operating income decreased by 5.0 billion yen from last year to 28.0 billion yen, and the ordinary income decreased by 6.0 billion yen to 30.2 billion yen, due mainly to the decline in gross profit caused by the decrease in gas sales and the increase in time-lag loss.

# Results for 1<sup>st</sup> 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	

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

Capital expenditure fell by 7.8 billion yen from last year to 29.6 billion yen due to a decline in cash spent on upstream projects.

Further information is available from page 7 onward, including information by segment in the first quarter results and matters related to investments in business expansion, which have been decided since April.

We maintain our full-year forecast unchanged from the March forecast.

These are a brief summary of the first quarterly results of fiscal 2014.3 of our company.

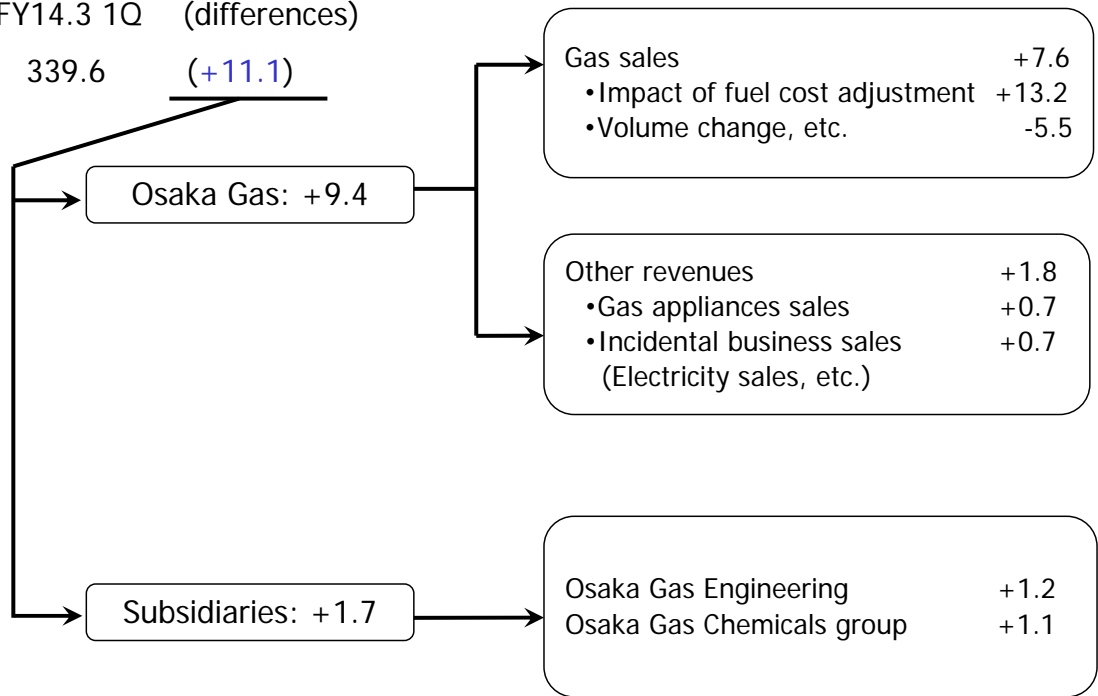
## II. Facts and Figures

# Sales variance for 1<sup>st</sup> Quarter of FY2014.3 (Year-on-Year)

FY13.3 1Q → FY14.3 1Q (differences)

328.5      339.6      (+11.1)

(billion yen)





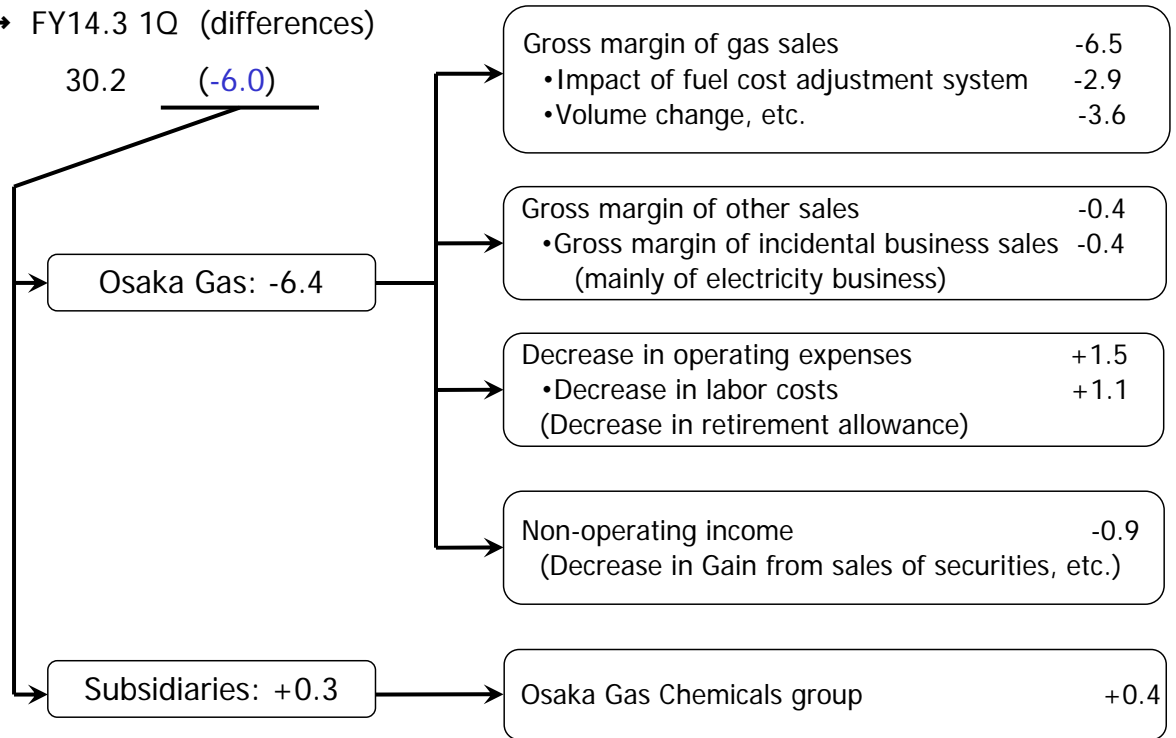
# Ordinary income variance for 1<sup>st</sup> Quarter of FY2014.3 (Year-on-Year)

FY13.3 1Q → FY14.3 1Q (differences)

36.3

30.2

(-6.0)



+/- signs indicate impact on profit.

## Results for 1<sup>st</sup> 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	

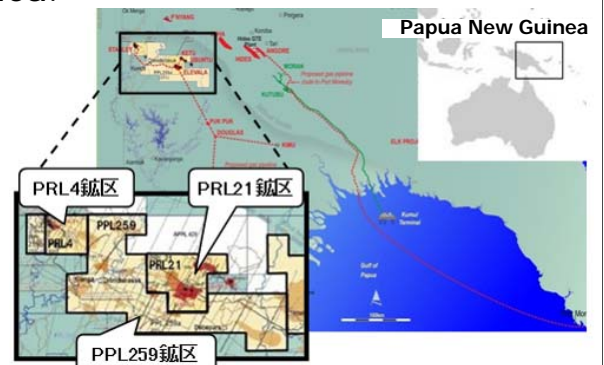
## Participation in the Condensate Gas Development Project in Papua New Guinea

- 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.



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## 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 <sup>3</sup>	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 <sup>3</sup> /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 <sup>3</sup> )	8,559	8,503	+56	+0.7%
Consolidated gas sales volume total (million m <sup>3</sup> )	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 <sup>3</sup>	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 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. 1.2 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.