



Financial Report for 1st Half of FY2014.3 (April 2013 – September 2013)

October 2013
Osaka Gas Co., Ltd.

I. Business Results for 1st Half of FY2014.3 and Forecasts for 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/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/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 the Results for 1st Half of FY2014.3 - I

Year-on-Year Comparison

■ Overview

Consolidated Net sales	Increased to 670.3 billion yen, up 6.4% (40.4 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.
Consolidated Ordinary income	Decreased to 47.7 billion yen, down 1.2% (0.5 billion yen) due mainly to the fall in gas sales gross margin caused by the increase in time-lag loss (7.3 billion yen → 9.6 billion yen) and the decrease in gas sales volume.

■ Gas Sales Volume

Residential	Decreased to 789 million m ³ , down 5.1% (42 million m ³) due mainly to higher temperatures of the air and water than last year, which caused the decrease of hot water and heating demand.
Commercial, public and medical	Decreased to 774 million m ³ , down 0.4% (3 million m ³) due mainly to higher temperatures in summer than last year, which caused cooling demand increase, slowed down by further energy conservation by customers.
Industrial	Increased to 2.132 billion m ³ , up 0.5% (10 million m ³) due mainly to our marketing effort to develop new demand.

Summary of the Results for 1st Half of FY2014.3 - II

Comparison with targets

■ Overview

Consolidated Net sales	670.3 billion yen, 2.0% (13.6 billion yen) below the target due mainly to the decrease in the revenues of consolidated subsidiaries.
Consolidated Ordinary income	47.7 billion yen, 15.0% (6.2 billion yen) above the target due mainly to the increase in profit of the Power business and to lower expenses.

■ Gas Sales Volume

Residential	789 million m ³ , 4.8% (39 million m ³) below the target due mainly to higher temperatures of the air and water than initially forecasted, which caused the decrease of hot water and heating demand.
Commercial, public and medical	774 million m ³ , 1.7% (13 million m ³) above the target due mainly to higher temperatures in summer than initially forecasted, which caused cooling demand increase.
Industrial	2,132 million m ³ , 1.4% (31 million m ³) below the target due mainly to the decrease in operation of customer facilities.

■ Investments

Investment for expansion, greenfield, and M&A	Decided to acquire shares of a UK water supply and distribution holding Company in 2 nd Quarter of the FY. Total investments made in the first half of the FY equal 43.1 billion yen (31% of annual budget).
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Gas Sales Volume Results for 1st Half of FY2014.3

45MJ/m ³	A. FY14.3 1 st Half	B. FY13.3 1 st Half	A-B	A-B/B (%)	C. FY14.3 1H target	A-C/C (%)
Number of meters installed (thousand)	7,101	7,057	+44	+0.6%	7,090	+0.2%
Installation of new meters (thousand)	40	37	+3	+7.8%	40	-2.0%
Monthly gas sales volume per household (m ³ /month)	22.5	23.8	-1.3	-5.5%	23.6	-4.8%
Residential use	789	831	-42	-5.1%	829	-4.8%
Commercial, public, and medical use	774	777	-3	-0.4%	761	+1.7%
Industrial use	2,132	2,122	+10	+0.5%	2,164	-1.4%
Non-residential total	2,906	2,899	+7	+0.2%	2,924	-0.6%
Wholesale	220	222	-2	-0.9%	221	-0.5%
(non-regulated)	(2,485)	(2,479)	(+6)	(+0.2%)	(2,518)	(-1.3%)
Non-consolidated gas sales volume total (million m ³)	3,916	3,953	-37	-0.9%	3,974	-1.5%
Consolidated gas sales volume total (million m ³)	3,932	3,970	-38	-1.0%	3,991	-1.5%

Results for 1st Half of FY2014.3 - I

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

Consolidated, billion yen	A. FY14.3 1 st Half	B. FY13.3 1 st Half	A-B	A-B/B(%)	C. FY14.3 1H target	A-C/C(%)
Net sales	(1.23) 670.3	(1.24) 629.8	+40.4	+6.4%	684.0	-2.0%
Operating income	(1.58) 44.7	(1.59) 44.8	-0.1	-0.2%	40.0	+12.0%
Ordinary income	(1.46) 47.7	(1.43) 48.3	-0.5	-1.2%	41.5	+15.0%
Net income	(1.38) 31.6	(1.32) 30.8	+0.7	+2.5%	27.0	+17.2%
SVA	23.7	14.8	+8.8	+60.0%	7.7	+205.6%

		A. FY14.3 1 st Half	B. FY13.3 1 st Half	A-B	C. FY14.3 1H target	A-C
Consolidated gas sales volume	million m ³	3,932	3,970	-38	3,991	-59
Profit/ loss on fuel cost adjustment system	billion yen	-9.6	-7.3	-2.2	-11.9	+2.3
Crude oil price	\$/bbl	107.7	114.0	-6.3	115.0	-7.3
Exchange rate	yen/\$	98.9	79.4	+19.5	95.0	+3.9
Number of subsidiaries		129	129	±0		

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Average of preliminary monthly data up to September.

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

Results for 1st Half of FY2014.3 - II

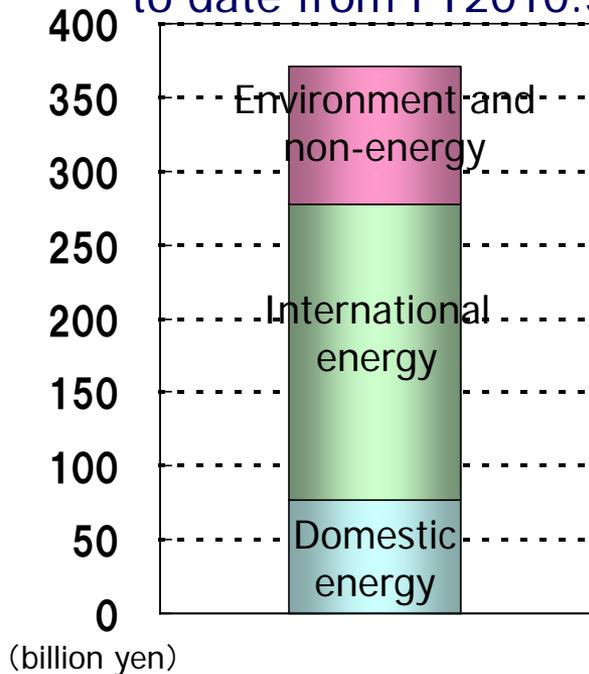
Consolidated, billion yen	A. FY14.3 1H end	FY13.3 1H end	B. Year end	A-B	Remarks
Total assets	1,593.7	1,464.7	1,566.8	+26.8	
Net worth	798.6	700.2	747.8	+50.8	Increased in Retained earnings, Valuation difference on available- for-sale securities, and Foreign currency translation adjustment, etc.
Interest-bearing debt	542.4	550.2	540.1	+2.2	
Number of employees	20,212	19,935	19,870	+342	
Equity ratio	50.1%	47.8%	47.7%	+2.4	
D/E ratio	0.68	0.79	0.72	-0.04	
	A. FY14.3 1H	B. FY13.3 1H	A-B	Remarks	
Capital expenditure	57.0	56.3	+0.6		
Depreciation	41.0	40.9	+0.0		
Free cash flow	32.1	5.0	+27.0	Decrease / increase in inventories, etc.	
ROA	2.0%	2.1%	-0.1		
ROE	4.1%	4.5%	-0.4		
EPS (yen)	15.2	14.8	+0.4		
BPS (yen)	383.6	336.3	+47.3		

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

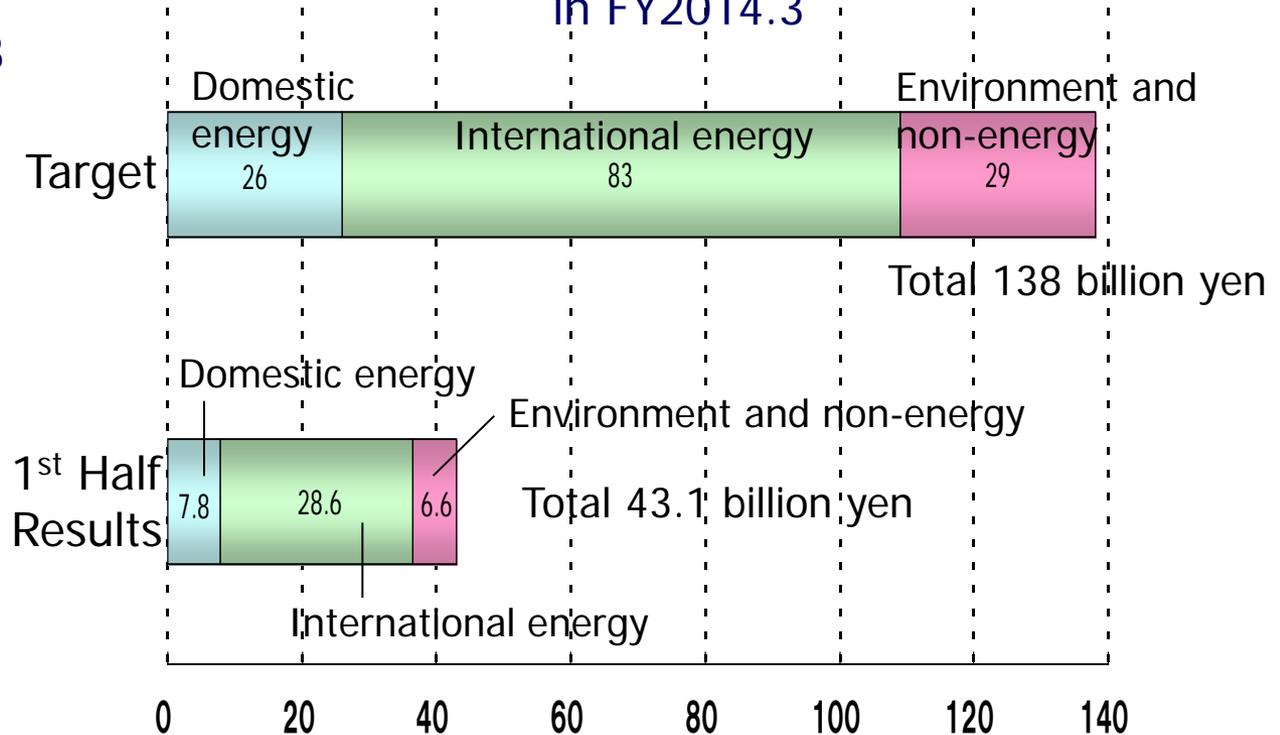
Results of Investment for expansion, greenfield, and M&A in 1st Half of FY2014.3

- Decided investments in condensate and gas development project in Papua New Guinea and water supply business in UK.
- Cumulative amount approved for invest to date from FY 2010.3 are **370.5 billion yen** (93% of the originally projected for the period between FY 2010.3 and FY 2014.3)

Cumulative amount approved for invest to date from FY2010.3



Investment for expansion, greenfield, and M&A in FY2014.3



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. (billion yen)

Summary of modifications to forecasts for FY 2014.3

			A. Revised Forecasts	B. Initial Forecasts	A-B	Remarks
Assumed factors for 2 nd Half	Crude oil price	\$/bbl	110	115	-5	
	Exchange rate	yen/\$	100	95	+5	
Non-consolidated gas sales volume (45MJ/m ³)	Residential use		(1,393)	(1,393)	(0)	No change to initial forecasts for the 2 nd half
	Commercial, industrial, and other use		2,182	2,222	-39	
P/L (billion yen)	Consolidated net sales		(3,172)	(3,191)	(-20)	Considering decrease in operation of customer facilities
	Gross margin of gas sales		6,298	6,337	-39	
	Profit of other sales		1,504.5	1,508.0	-3.5	
	Operating expenses, labor costs, and depreciation		318.5	321.5	-3.0	Decrease in gas sales volume
	Profit of subsidiaries		36.3	33.3	+3.0	Increase in profit of Power business
	Consolidated operating income		295.8	297.8	-2.0	Decrease in Operating expenses and Depreciation costs
	Consolidated ordinary income		40.0	43.0	-3.0	Decrease in profit of upstream business in U.S. , etc.

Gas sales volume figures in parentheses in the upper row are figures for the 2nd half of FY2014.3

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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)	100	91	+9	+9.8%
Monthly gas sales volume per household (m ³ /month)	31.1	32.5	-1.4	-4.4%
Residential use	2,182	2,272	-90	-4.0%
Commercial, public, and medical use	1,486	1,540	-53	-3.5%
Industrial use	4,350	4,222	+128	+3.0%
Commercial and industrial use	5,836	5,761	+75	+1.3%
Wholesale	462	469	-7	-1.6%
(Non-regulated included)	(5,000)	(4,894)	(+106)	(+2.2%)
Non-consolidated gas sales volume (million m ³)	8,480	8,503	-22	-0.3%
Consolidated gas sales volume (million m ³)	8,510	8,534	-24	-0.3%

Forecasts for FY2014.3 - I

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

Consolidated, billion yen	A. FY14.3 Forecasts	B. FY13.3 Results	A-B	A-B/B (%)
Net sales	(1.26) 1,504.5	(1.24) 1,380.0	+124.4	+9.0%
Operating income	(1.68) 99.0	(1.84) 84.7	+14.2	+16.8%
Ordinary income	(1.54) 100.0	(1.63) 90.1	+9.8	+11.0%
Net income	(1.43) 64.5	(1.49) 52.4	+12.0	+22.9%
SVA	26.9	18.6	+8.2	+44.0%

		A. FY14.3 Forecasts	B. FY13.3 Results	A-B
Consolidated gas sales volume	million m ³	8,510	8,534	-24
Profit/loss on fuel cost adjustment system	billion yen	-10.9	-20.7	+9.8
Crude oil price	\$/bbl	108.8	113.9	-5.1
Exchange rate	yen/\$	99.4	83.1	+16.3

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

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Forecasts for FY2014.3 - II

Consolidated, billion yen	A. FY14.3 end Forecasts	B. FY13.3 end Results	A-B
Total assets	1,656.8	1,566.8	+89.9
Net worth	802.3	747.8	+54.4
Interest-bearing debt	607.0	540.1	+66.8
Number of employees	20,201	19,870	+331
Equity ratio	48.4%	47.7%	+0.7
D/E ratio	0.76	0.72	+0.03
	A. FY14.3 Forecasts	B. FY13.3 Results	A-B
Capital expenditure	134.7	112.9	+21.7
Depreciation	79.3	82.8	-3.5
Free cash flow	88.1	85.0	+3.0
ROA	4.0%	3.4%	+0.6
ROE	8.3%	7.3%	+1.0
EPS (yen)	31.0	25.2	+5.8
BPS (yen)	385.4	359.2	+26.2

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

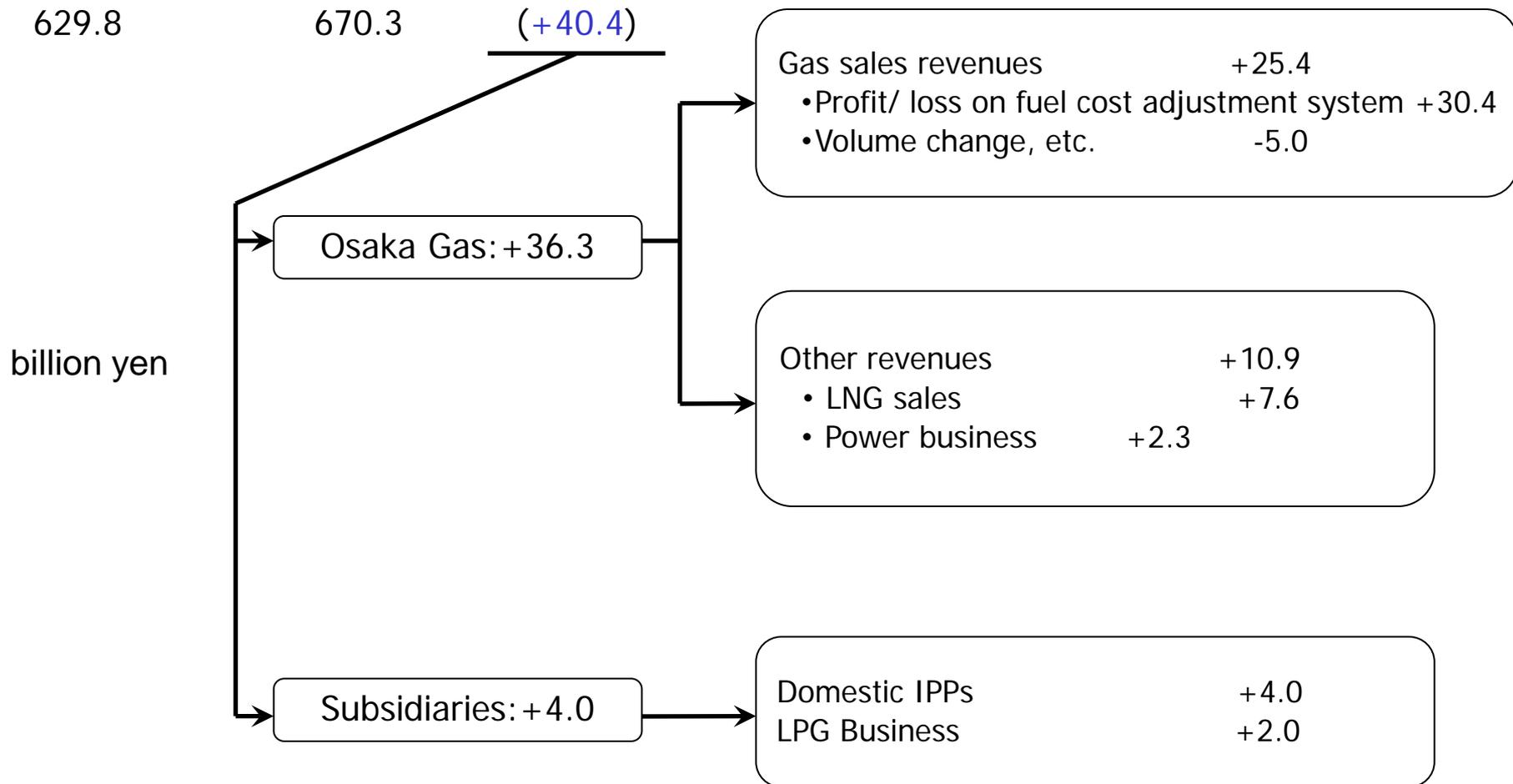
Topics in FY2014.3

- Acquisition of interest in a water supply and distribution business holding company in the UK (announced in Sept.)
 - Agreement reached to acquire from Sumitomo Corporation interest in Summit Water UK Limited, a holding company of Sutton and East Surrey Water plc (SESW)
(Ownership after acquisition: Sumitomo Corporation 50%, Osaka Gas 50%)
 - SESW: Established in 1862 and privatized in 1989.
Supplies water to approx. 280,000 accounts in southeast London.
- Acquisition of interest in a Swedish activated carbon business (announced in Sept.)
 - Agreement reached to acquire 100% of Jacobi Carbons AB's shares from AddSorb Holding AB.
 - Jacobi Carbons AB: Established in 1916. Currently produces activated carbon at its factories in 10 countries, and markets to 111 countries.
 - This acquisition will make the Osaka Gas Group the third largest activated carbon production/distribution business in the world, and the leading business for high value-added coconut activated carbon.



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

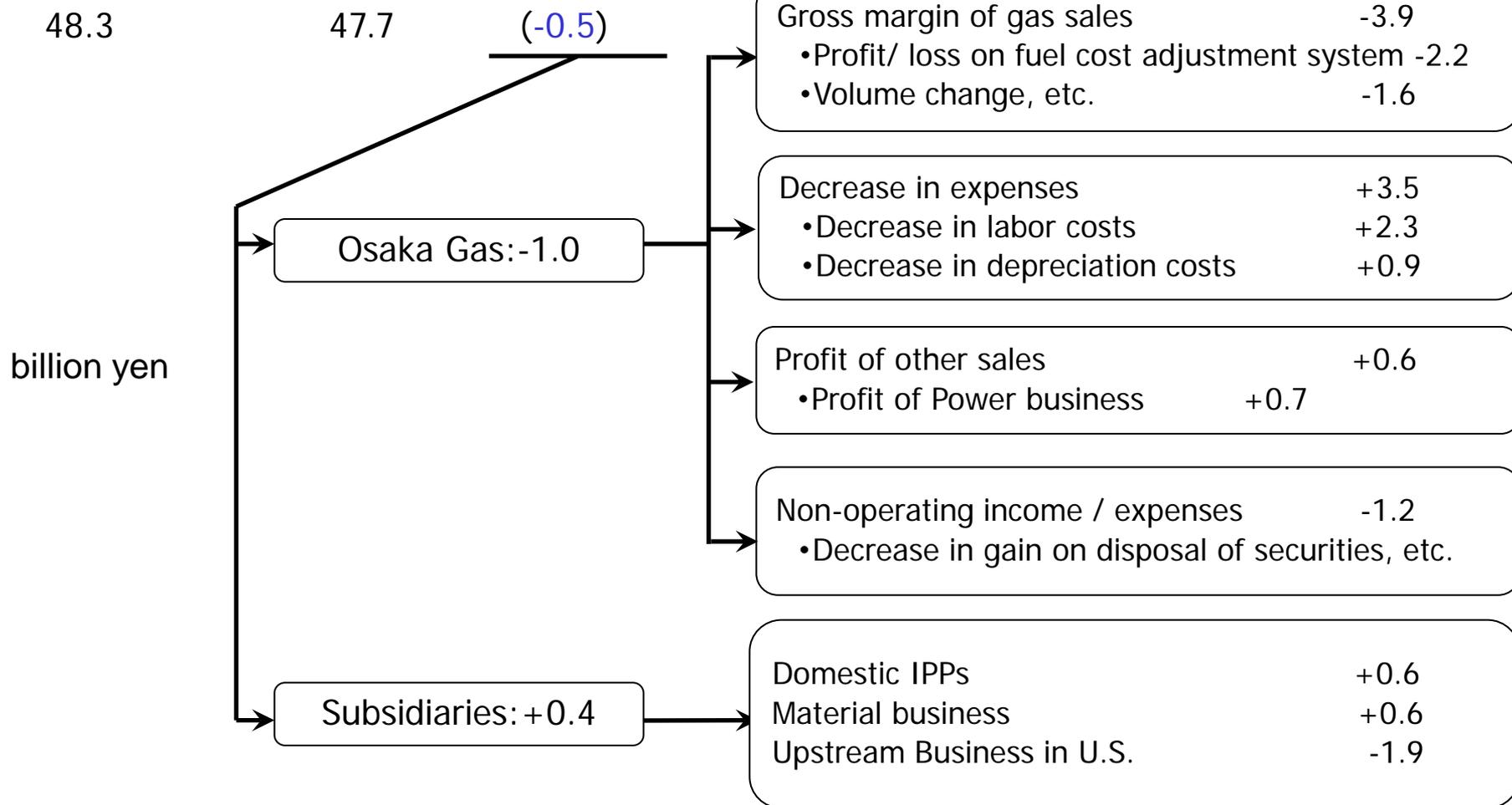
FY13.3 1st Half → FY14.3 1st Half (differences)



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

FY13.3 1st Half → FY14.3 1st Half (differences)

+/- signs indicate impact on profit.

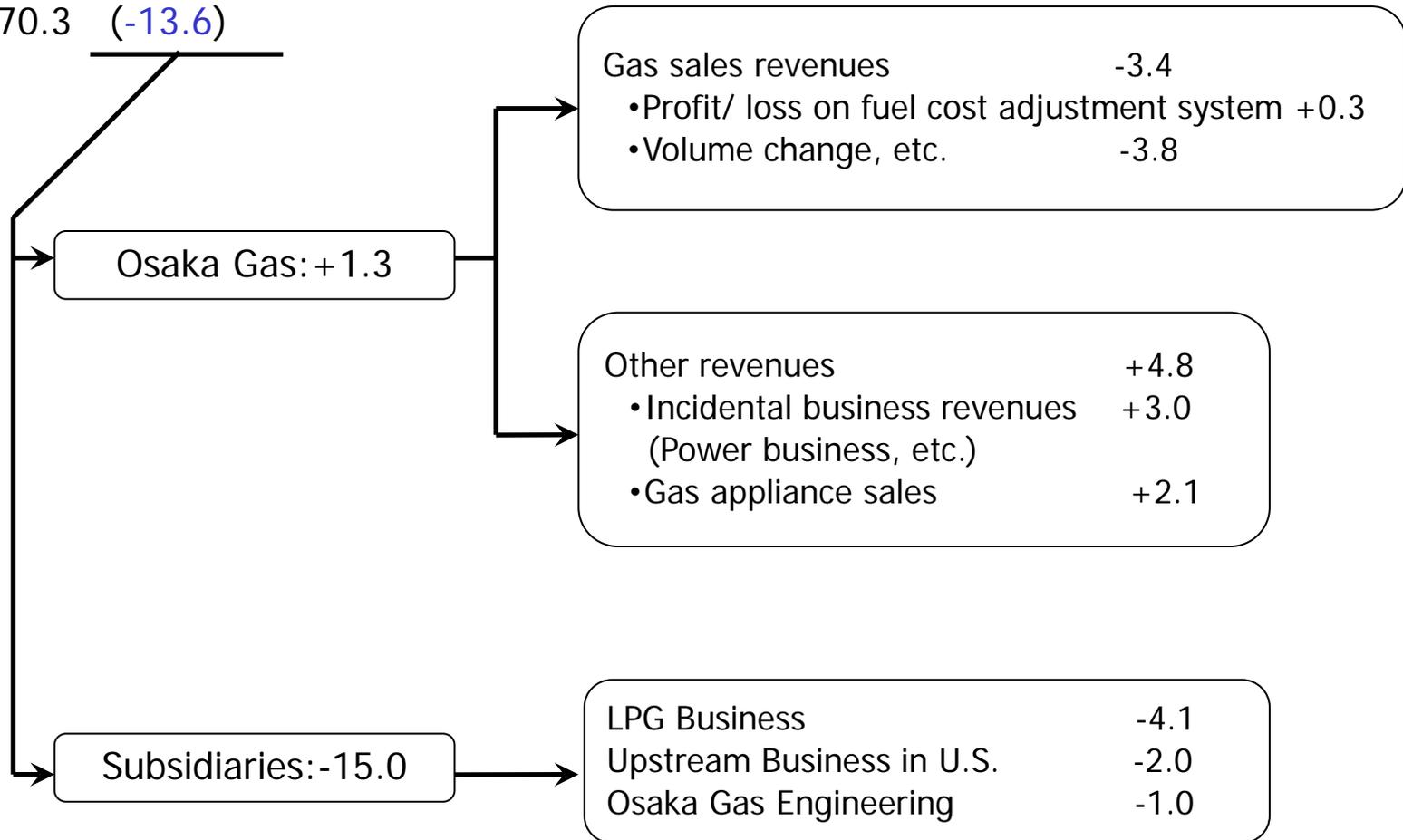


Sales variance for 1st Half of FY2014.3 (with targets)

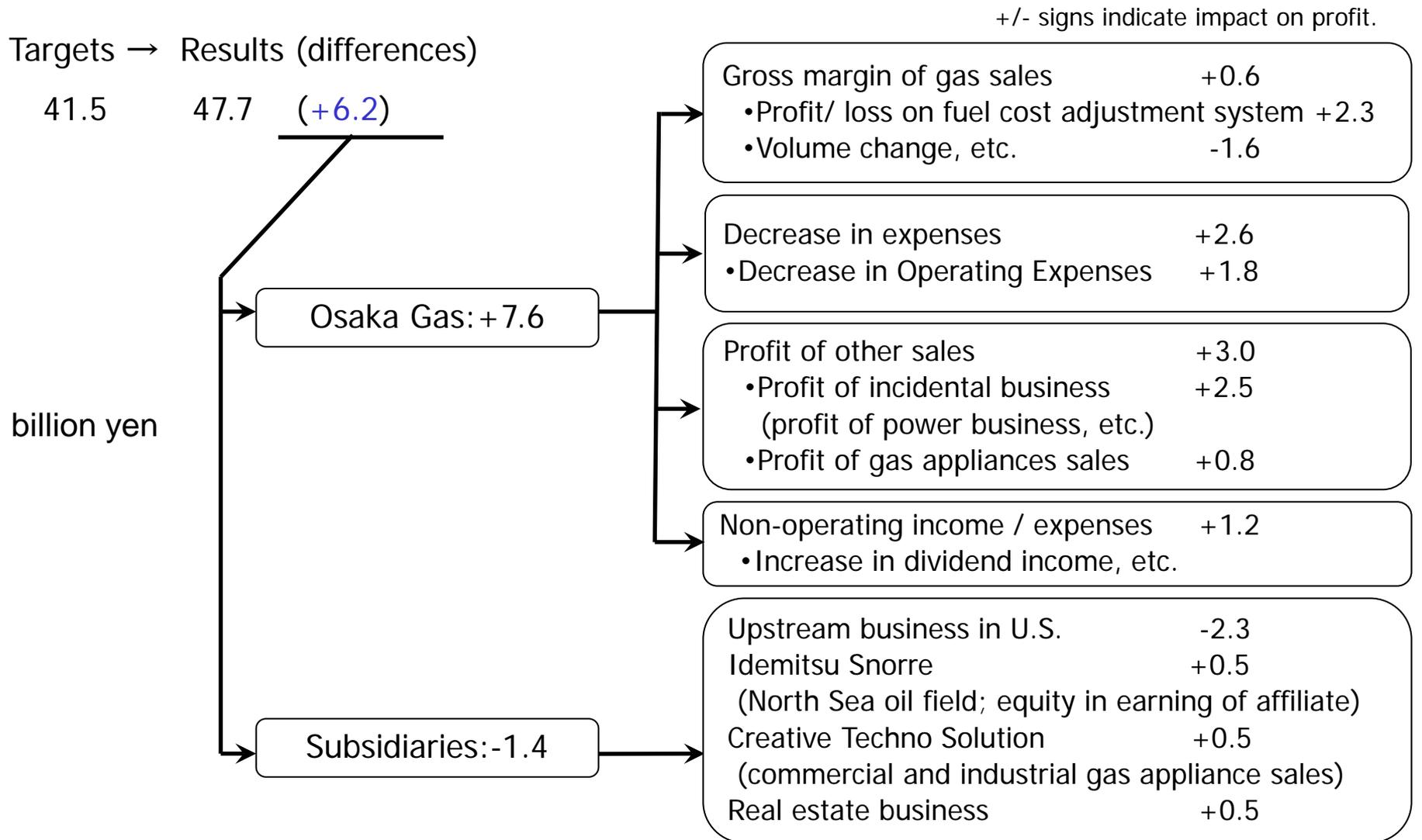
Targets → Results (differences)

684.0 670.3 (-13.6)

billion yen



Ordinary income variance for 1st Half of FY2014.3 (with targets)



Results for FY2014.3 by Segment

billion yen	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY14.3 1st Half	FY13.3 1st Half	FY14.3 1st Half	FY13.3 1st Half	
Gas	496.7	471.3	14.3	14.6	<u>Net sales</u> : Rise in gas sales price
LPG, electricity, and other energy	113.4	98.9	21.6	20.1	<u>Net sales</u> : Increase in LNG sales and Power sales <u>Profit</u> : Increase in profit of Power business <u>Profit of Power business</u> (*) FY13.3 1H: 15.1, FY14.3 1H: 15.8
International energy	6.0	5.2	3.0	4.6	<u>Profit</u> : Decrease in profit of Upstream business in U.S.
Environment and non-energy	88.0	84.3	8.6	7.7	<u>Net sales</u> : Increase in sales of Engineering business, etc. <u>Profit</u> : Increase in profit of Material business, etc.
Adjustments	-33.9	-30.0	1.3	1.3	
Consolidated	670.3	629.8	48.9	48.5	

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

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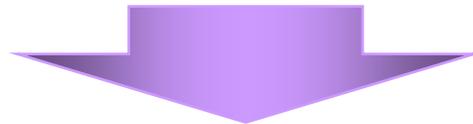
Forecasts for FY2014.3 by Segment

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	1,093.5	1,038.5	34.5	23.3	<u>Net sales</u> : Rise in gas sales price <u>Profit</u> : Decrease in loss on fuel cost adjustment system
LPG, electricity, and other energy	260.0	215.5	42.5	38.2	<u>Net sales</u> : Increase in LNG, LPG, and Power sales <u>Profit</u> : Increase in profit of Power business, etc.
International energy	13.0	10.7	5.0	7.6	<u>Profit</u> : Decrease in profit of Upstream business in U.S.
Environment and non-energy	204.5	185.6	21.5	19.0	<u>Net sales</u> : Increase in sales of Real estate business, etc. <u>Profit</u> : Increase in profits of IT and Real estate business, etc.
Adjustments	-66.5	-70.4	3.0	2.7	
Consolidated	1,504.5	1,380.0	106.5	91.1	

Residential Gas Sales

FY2014.3 1st Half Results

	YoY change	Remarks
Number of customers	+0.4%	
Influence of temperature	-4.2%	Average annual temperature: 23.7 degrees Celsius (Year-on-Year change: +0.2 degrees Celsius)
Others	-1.3%	
Total	-5.1%	



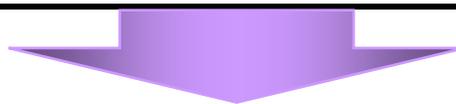
FY2014.3 Forecasts

- Results in the 1st half fell below the targets by 39 million m³.
- No change in the initial forecasts for the 2nd half
- Full-year result is expected to fall below the initial forecasts by 39 million m³, which is a decrease of 90 million m³ from the previous year to 2,182 million m³.

Commercial, public, and medical Gas Sales

FY2014.3 1st Half Results

	YoY change	Remarks
Demand development	+1.9%	Marketing effort to develop new demand for air conditioning
Influence of temperature, etc.	+1.0%	Increase in demand for air conditioning due to hotter weather in summer
Others	-3.3%	Impact of further energy conservation by customers
Total	-0.4%	



FY2014.3 Forecasts

- Results in the 1st half exceeded the targets by 13 million m³.
- Sales for the 2nd half is expected to fall below the initial forecasts by 8 million m³.
- Full-year result is expected to exceed the initial forecasts by 5 million m³, which is a decrease of 53 million m³ from the previous year to 1,486 million m³.

Industrial Gas Sales

FY2014.3 1st Half Results

	YoY change	Remarks
Demand development	+3.1%	Shift to gas from other fuels, etc.
Increase/decrease of operating rates	-2.6%	Decrease in operation of customer facilities, etc.
Total	+0.5%	

Breakdown by sector (45MJ, million m³)

	Volume	YoY change
Machinery	168	86.3%
Metal	493	93.2%
Glass	173	102.1%
Food	257	98.5%
Chemical	625	106.0%

FY2014.3 Forecasts

- Results in the 1st half fell below the targets by 31 million m³.
- Considering the 1st half results, we expect that sales for the 2nd half will also be lower than the initial forecasts (by 9 million m³). Accordingly, we expect the full-year result will fall below the initial forecasts by 40 million m³, which is an increase of 128 million m³ from the previous year to 4,350 million m³.

Monthly gas sales

Year-on-Year Change 2012/2011 (%)

		Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total
Industrial by S e c t o r	Industrial	99.6	102.8	100.6	102.4	96.7	96.1	98.3	99.2	98.9	88.7	88.7	93.9	96.9
	Machinery	121.2	109.2	111.2	118.4	104.6	105.4	106.4	104.5	95.3	94.1	81.0	75.2	100.6
	Metal	96.4	102.5	104.3	102.6	96.9	95.1	88.6	85.0	86.0	85.8	82.9	90.9	92.9
	Glass	100.5	97.1	99.4	100.0	99.5	100.9	94.8	107.0	101.6	100.2	95.1	99.7	99.6
	Food	99.6	100.5	99.2	104.1	103.3	100.2	102.6	102.0	103.3	101.1	94.3	96.0	100.5
	Chemical	96.1	102.5	101.0	105.8	102.3	102.0	96.8	99.0	119.2	101.3	102.9	103.1	102.6

Year-on-Year Change 2013/2012 (%)

		Apr.	May	Jun.	Jul.	Aug.	Sep.	1 st Half Total
Industrial by S e c t o r	Industrial	100.6	97.6	97.3	103.0	99.7	104.6	100.5
	Machinery	87.1	87.4	77.9	89.1	85.8	89.9	86.3
	Metal	97.7	91.1	87.7	92.9	90.6	99.5	93.2
	Glass	100.9	102.0	102.0	107.8	101.4	98.3	102.1
	Food	101.0	96.0	98.7	100.2	95.3	99.5	98.5
	Chemical	110.4	103.5	104.0	107.0	100.9	110.4	106.0

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. 1.0 billion yen on ordinary income since the 3rd 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. 1.6 billion yen on ordinary income since the 3rd 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. 500 million yen on annual consolidated non-operating expenses.