

Financial Report for 3rd Quarter of FY2014.3 (April 2013 – December 2013)

January 2014
Osaka Gas Co., Ltd.

I. Business Results for 3rd 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/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 Business Results for 3rd Quarter of FY2014.3

■ Overview

Net sales	Increased to 1,034.3 billion yen, up 7.4% (70.8 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.
Ordinary income	Decreased to 65.2 billion yen, down 8.2% (5.7 billion yen) due mainly to the fall in gas sales gross margin caused by the increase in time-lag loss (1.5 billion yen → 12.1 billion yen) and the decrease in gas sales volume.
Net income	Decreased to 14.3 billion yen, down 68.6% (31.4 billion yen) due to recognizing an impairment loss in equity-holding US upstream business

■ Gas Sales Volume (non-consolidated)

Residential	Decreased to 1.269 billion m ³ , down 5.5% (74 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	Decreased to 1.102 billion m ³ , down 0.9% (10 million m ³) due to the decrease in operation of customer facilities (cogeneration systems).
Industrial	Increased to 3.193 billion m ³ , up 1.5% (47 million m ³) due mainly to our marketing effort to develop new demand.

■ Others

Full-year Outlook	Previous forecasts on consolidated and non-consolidated net income downgraded on December 20
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Gas Sales Volume Results for 3rd Quarter of FY2014.3

45MJ/m ³	A. FY14.3 3Q	B. FY13.3 3Q	A-B	A-B/B (%)
Number of meters installed (thousand)	7,111	7,067	+45	+0.6%
Installation of new meters (thousand)	63	57	+6	+10.3%
Monthly gas sales volume per household (m ³ /month)	24.1	25.6	-1.5	-5.9%
Residential use	1,269	1,342	-74	-5.5%
Commercial, public, and medical use	1,102	1,112	-10	-0.9%
Industrial use	3,193	3,146	+47	+1.5%
Non-residential total	4,296	4,259	+37	+0.9%
Wholesale	332	337	-5	-1.4%
(non-regulated)	(3,683)	(3,647)	(+36)	(+1.0%)
Non-consolidated gas sales volume (million m ³)	5,897	5,938	-41	-0.7%
Consolidated gas sales volume (million m ³)	5,920	5,962	-42	-0.7%

Results for 3rd Quarter of FY2014.3 - II

Consolidated, billion yen	A.	FY13.3		A-B	Remarks
	FY14.3 3Q end	3Q end	B. year end		
Total assets	1,682.1	1,498.8	1,566.8	+115.2	
Net worth	773.3	716.2	747.8	+25.5	
Interest-bearing debt	638.5	555.9	540.1	+98.3	Allocated for investments and working capital
Number of employees	20,370	20,174	19,870	+500	
Equity ratio	46.0%	47.8%	47.7%	-1.8%	
D/E ratio	0.83	0.78	0.72	+0.10	
	A. 14.3 3Q	B. 13.3 3Q	A-B	Remarks	
Capital expenditure	87.3	81.5	+5.8	Increase in investment for constructing LNG tankers	
Depreciation	62.0	61.3	+0.7		
Free cash flow	38.8	17.8	+21.0	Increase in notes and accounts payable-trade, etc.	

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. Forecast for FY2014.3

Gas Sales Volume Forecasts for FY2014.3

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

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	FY14.3 Forecasts		C. 13.3	A-B	A-C	
	A. Dec.	B. Oct.	Results			
Net sales	(1.26) 1,504.5	(1.26) 1,504.5	(1.24) 1,380.0	±0	+124.4	
Operating income	(1.68) 99.0	(1.68) 99.0	(1.84) 84.7	±0	+14.2	
Ordinary income	(1.54) 100.0	(1.54) 100.0	(1.63) 90.1	±0	+9.8	
Net income	(1.69) 35.5	(1.43) 64.5	(1.49) 52.4	-29.0	-16.9	
SVA	-2.7	26.9	18.6	-29.6	-21.4	
Consolidated gas sales volume	million m ³	8,510	8,510	8,534	±0	-24
Profit/loss on fuel cost adjustment system	billion yen	-10.9	-10.9	-20.7	±0	+9.8
Crude oil price	\$/bbl	109.5*	108.8	113.9	+0.6	-4.4
Exchange rate	yen/\$	99.5*	99.4	83.1	+0.1	+16.4

* Only the crude oil price and the exchange rate are replaced by the forecasts reflecting the actual record of the period between October and December 2013.

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

Forecasts for FY2014.3 - II

Consolidated, billion yen	FY14.3 end Forecasts		C. FY13.3 end Results	A-B	A-C
	A. Dec.	B. Oct.			
Total assets	1,627.7	1,656.8	1,566.8	-29.1	+60.8
Net worth	784.0	802.3	747.8	-18.3	+36.1
Interest-bearing debt	580.0	607.0	540.1	-27.0	+39.8
Number of employees	21,401	20,201	19,870	+1,200	+1,531
Equity ratio	48.2%	48.4%	47.7%	-0.3%	+0.4%
D/E ratio	0.74	0.76	0.72	-0.02	+0.02

	FY14.3 Forecasts		C. FY13.3 Results	A-B	A-C
	A. Dec.	B. Oct.			
Capital expenditure	134.7	134.7	112.9	±0	+21.7
Depreciation	79.3	79.3	82.8	±0	-3.5
Free cash flow	88.1	88.1	85.0	±0	+3.0
ROA	2.2%	4.0%	3.4%	-1.8%	-1.2%
ROE	4.6%	8.3%	7.3%	-3.7%	-2.7%
EPS (yen)	17.1	31.0	25.2	-13.9	-8.1
BPS (yen)	376.6	385.4	359.2	-8.8	+17.4

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



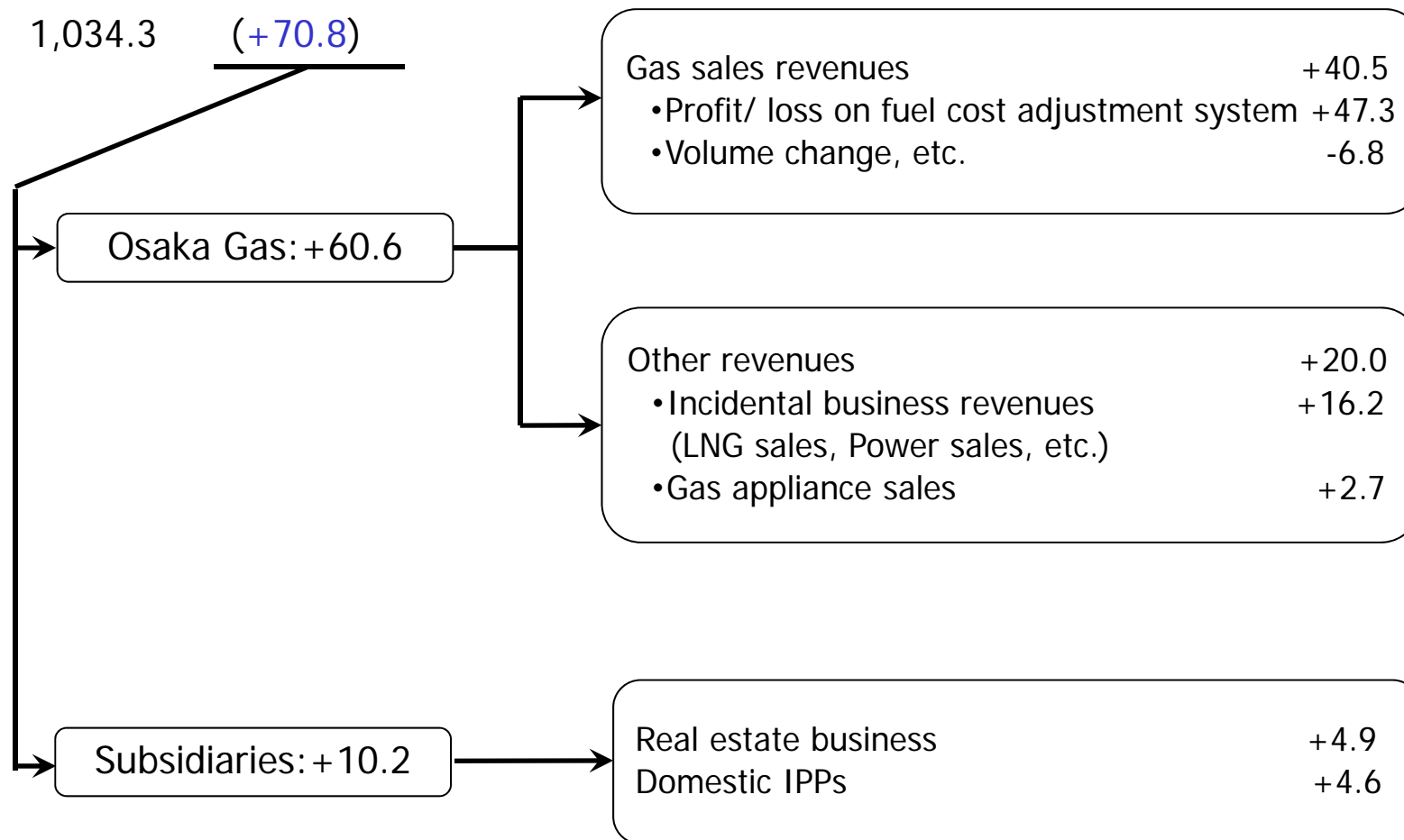
III. Facts and Figures

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

FY13.3 3Q → FY14.3 3Q (differences)

963.5 1,034.3 (+70.8)

billion yen



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

FY13.3 3Q → FY14.3 3Q (differences)

+/- signs indicate impact on profit.

71.0

65.2

(-5.7)

billion yen

Osaka Gas: -6.2

Subsidiaries: +0.4

Gross margin of gas sales -14.7
 • Profit/ loss on fuel cost adjustment system -10.5
 • Volume change, etc. -4.1

Decrease in expenses +6.4
 • Decrease in labor costs +3.5

Profit of other sales +2.2
 • Profit of incidental business (profit of power business, etc.) +1.2
 • Profit of gas appliances sales +0.5

Idemitsu Snorre (North Sea oil field; equity method affiliate) +1.3
 IPPs in U.S. +0.8
 Domestic wind power business +0.6
 US upstream business -3.4

Results for 3rd Quarter of FY2014.3 by Segments

billion yen	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY14.3 3Q	FY13.3 3Q	FY14.3 3Q	FY13.3 3Q	
Gas	763.8	719.7	12.7	21.3	<u>Net sales</u> : Rise in the gas sales unit price <u>Profit</u> : Increase in time-lag loss
LPG, electricity, and other energy	174.5	154.2	31.0	29.3	<u>Net sales</u> : Increase in LNG sales and Power sales <u>Profit</u> : Increase in profit of Power business
International energy	9.5	7.8	5.2	6.2	<u>Profit</u> : Decrease in profit of US upstream business
Environment and non-energy	138.0	129.2	14.4	13.3	<u>Net sales</u> : Increase in sales of Real estate business, etc. <u>Profit</u> : Increase in profit of Domestic wind power business
Adjustments	-51.6	-47.6	1.9	2.0	
Consolidated	1,034.3	963.5	65.3	72.3	

Forecasts for FY2014.3 by Segment

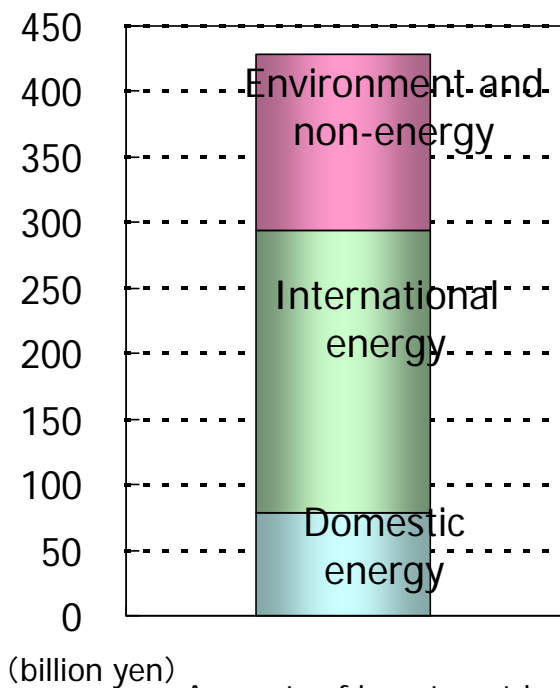
- Maintaining our full-year forecasts unchanged from the October forecasts

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 US upstream business
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	

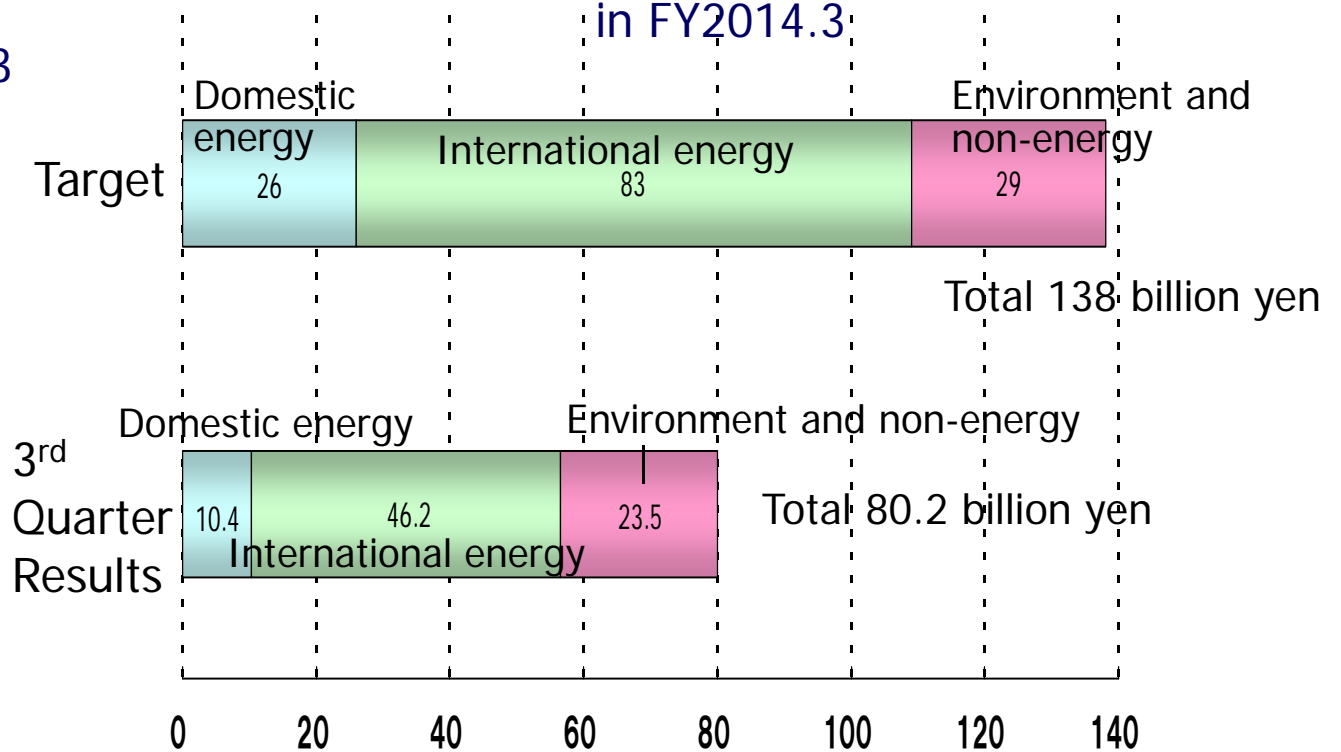
Results of Investment for expansion, greenfield, and M&A in 3rd Quarter of FY2014.3

- Cumulative amount approved for invest to date from FY 2010.3 are **429.0 billion yen.** (107% of the originally projected for the period between FY 2010.3 and FY 2014.3)
- Total investments made in the 3rd quarter of the FY 2014.3 equal **80.2 billion yen.** (58% of annual budget)

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.

Analysis of Year-on-Year Difference in Gas Sales Volume

	Residential	Commercial, public and medical	Industrial
Change in number of customers	+0.5%	--	--
Differences in the numbers of metering days	-1.3%	--	--
Influence of temperature	-3.8%	+0.5% (Including differences in the numbers of metering days)	--
Demand development	} -0.8%	+2.2%	+3.0%
Increase/decrease in operation of customer facilities, etc.		-3.5%	-1.5%
Total	-5.5%	-0.9%	+1.5%

Monthly gas sales for 3rd Quarter of FY 2014.3

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

	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Total	Remarks	
Residential	89.5	103.7	90.6	92.9	92.8	104.1	104.6	91.9	91.0	94.5	Influence of temperature and difference in metering schedule	
Commercial	91.9	98.2	107.5	103.7	101.1	96.8	97.3	103.1	94.4	99.1		
Industrial	100.6	97.6	97.3	103.0	99.7	104.6	105.0	102.7	103.1	101.5		
Segment by	Machinery	87.1	87.4	77.9	89.1	85.8	89.9	95.4	98.0	99.7	89.8	Decrease in operation of customers' cogeneration systems, due to subsiding of power saving
	Metal	97.7	91.1	87.7	92.9	90.6	99.5	106.5	110.0	108.7	97.9	Increase in demand since OCT. due to economic recovery from the previous year
	Glass	100.9	102.0	102.0	107.8	101.4	98.3	105.5	98.5	94.2	101.2	
	Food	101.0	96.0	98.7	100.2	95.3	99.5	99.4	99.8	100.7	99.0	
	Chemical	110.4	103.5	104.0	107.0	100.9	110.4	112.1	104.9	98.9	105.7	Demand development, etc.
Wholesale	109.2	94.1	86.9	103.0	94.9	106.9	95.5	102.2	95.7	98.6		
Total	95.9	99.2	96.9	101.5	98.9	102.5	102.7	99.9	97.4	99.3		

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. 10 million yen on ordinary income since the 4th quarter (Jan. 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 4th quarter (Jan. 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.