

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.

We would like to explain briefly the business results of Osaka Gas for the first nine months of the year ending March 2014.

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
-------------------	----------------------------------------------------------------------------------------------

In the nine-month period under review, net sales grew but profit declined from the previous year.

Net sales increased to 1,034.3 billion yen, up 7.4% or 70.8 billion yen, as a result of the increase in gas sales price due to the rise in LNG price, and also increase in sales of LNG and Electricity business.

Ordinary income decreased to 65.2 billion yen, down 8.2% or 5.7 billion yen, due mainly to the decline in gross margin of gas sales caused by the increase in time-lag loss, and by the decrease in gas sales volume.

Net income decreased to 14.3 billion yen, down 68.6% or 31.4 billion yen, due to recognizing an impairment loss in Pearsall shale gas and oil development project in U.S. in light of the production situation of economically unfeasible oil and gas extraction without a prospect of significant productivity improvement.

Residential-use gas sales volume decreased by 5.5% from the previous year to 1.269 billion m³ on the back of decreased hot water and heating demand arising out of colder air and water temperatures compared to the previous year.

Commercial, public and medical-use gas sales volume decreased by 0.9% from the previous year to 1.12 billion.

Industrial-use gas sales volume increased by 1.5% from the previous year to 3.193 billion m³ due to our marketing effort to develop new demand.

For our full-year outlook, we downgraded its previous forecasts on consolidated and non-consolidated net income, due to the expectation of recognizing the extraordinary loss in upstream business.

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%

On page four, you will find the gas sales volume results that I have just explained.

Non-consolidated gas sales volume fell by 0.7% on the previous year, to 5.897 billion m³.

The 3rd quarter of FY2014 ended with gas sales volume as projected in the forecasts announced in October.

Results for 3rd Quarter of FY2014.3 - I

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

Consolidated, billion yen	A. FY14.3 3Q	B. FY13.3 3Q	A-B	A-B/B	Remarks
Net sales	(1.23) 1,034.3	(1.24) 963.5	+70.8	+7.4%	Rise in the gas sales unit price, and increase in incidental business sales, etc.
Operating income	(1.74) 59.5	(1.67) 67.4	-7.8	-11.7%	Decrease in gross margin of gas sales, etc.
Ordinary income	(1.61) 65.2	(1.52) 71.0	-5.7	-8.2%	Increase in earnings of equity method affiliates, etc.
Net income	(2.64) 14.3	(1.43) 45.8	-31.4	-68.6%	Including an impairment loss
		A. FY14.3 3Q	B. FY13.3 3Q	A-B	
Consolidated gas sales volume	million m ³	5,920	5,962	-42	
Profit/ loss on fuel cost adjustment system	billion yen	-12.1	-1.5	-10.5	
Crude oil price	\$/bbl	109.3*	114.0	-4.7	
Exchange rate	yen/\$	99.4	80.0	+19.4	
Number of subsidiaries		130	131	-1	

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

Design Your Energy 夢ある明日を


Please turn to page five for the financial results.

During the first nine months of this fiscal year ending March 2014, profits exceeded our earlier forecasts by a small margin. However, given the recent depreciation of the yen, we expect the gross margin on gas sales to decrease as time-lag loss expands in the fourth quarter. Accordingly, we have decided to maintain our full-year outlook, announced in December.

Results for 3rd Quarter of FY2014.3 - II

Consolidated, billion yen	A. FY14.3 3Q end	FY13.3		A-B	Remarks
		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

Shown on page six are our assets and liabilities.

Capital expenditures rose by 5.8 billion yen over the previous year to 87.3 billion yen, , which went into construction of major domestic pipelines, development of upstream businesses, and building of LNG carriers.

From page seven on, you will find detailed analyses of variances in figures, segment information, progress on investment projects, and our full-year outlook. Please take a look at them.

That concludes explanation of our business results for the first nine months of the year ending March 2014.

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%

Design Your Energy 夢ある明日を

 OSAKA GAS

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

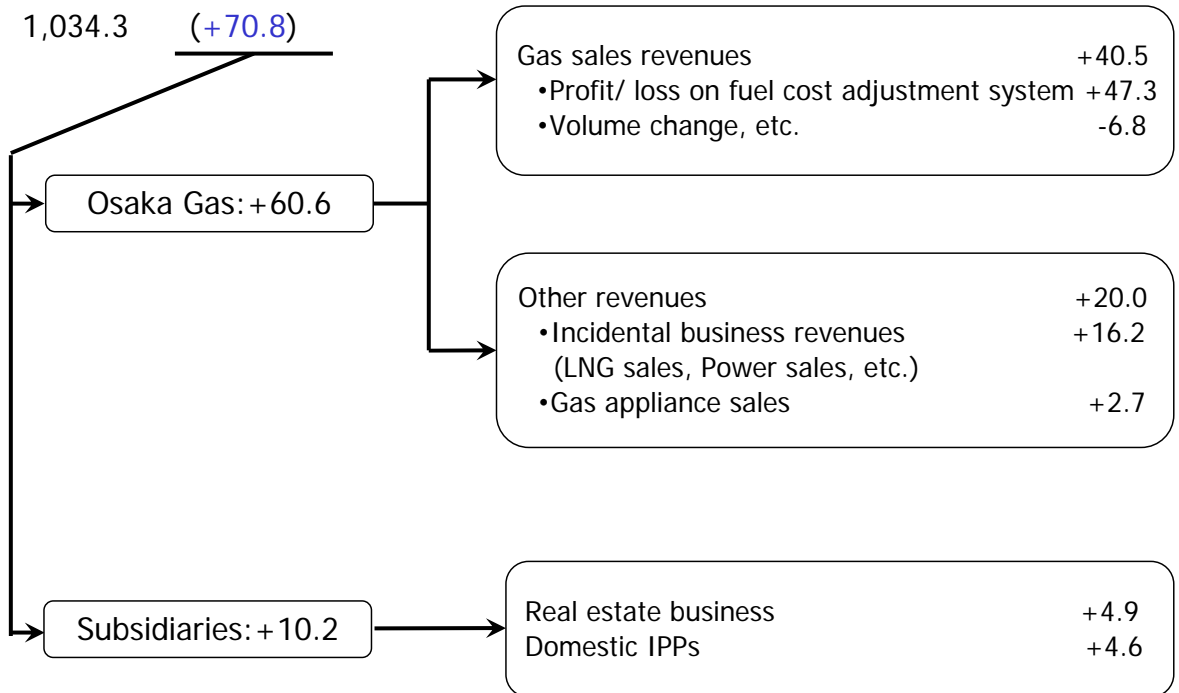
III. Facts and Figures

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)

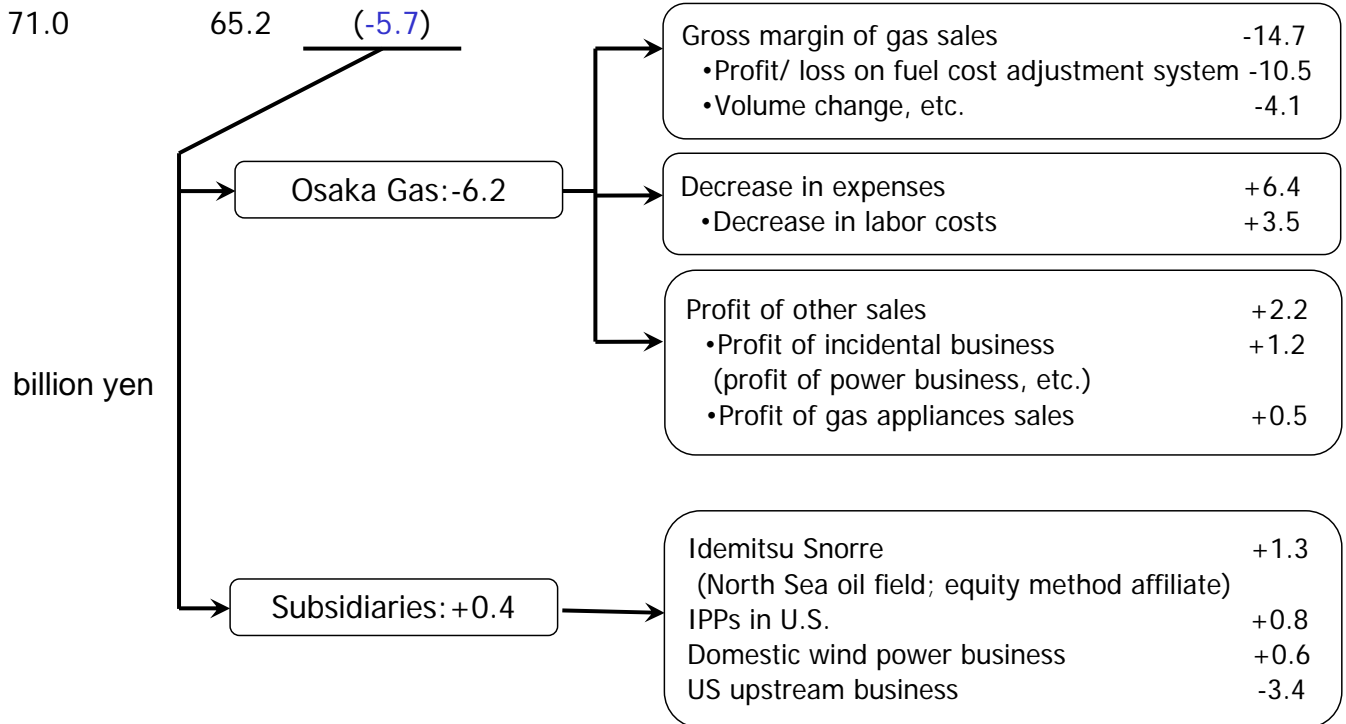
billion yen



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

FY13.3 3Q → FY14.3 3Q (differences)

+/- signs indicate impact on profit.



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

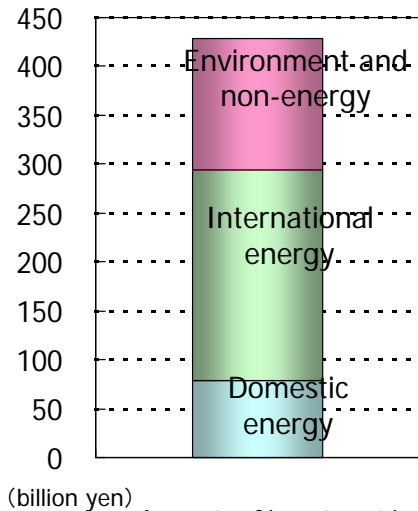
- Maintaining our full-year forecasts unchanged from the October forecasts

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	

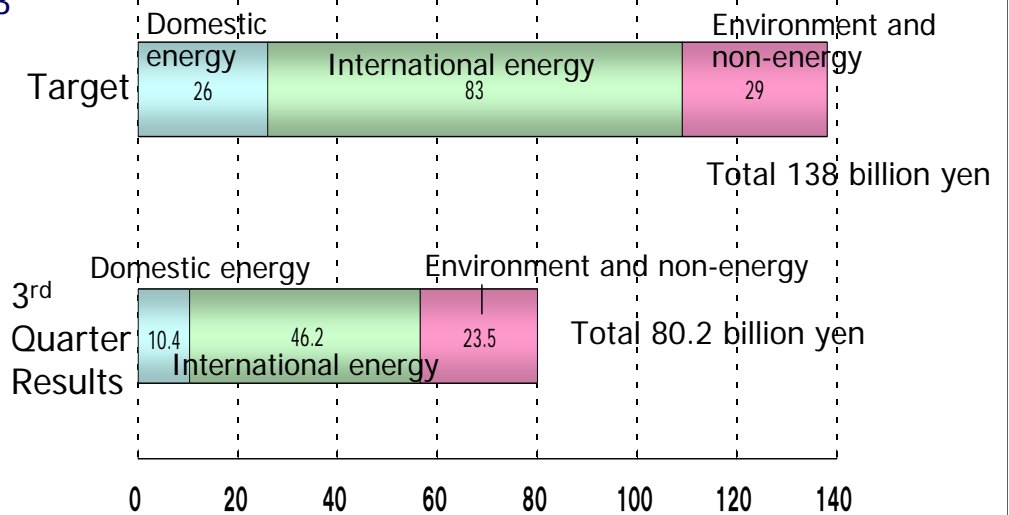
Results of Investment for expansion, greenfield, and M&A in 3rd Quarter of FY2014.3

- 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	}	+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		
by S e g m e n t	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.