

Financial Report for 1st Quarter of FY2015.3 (April 2014 – June 2014)

July 2014

Osaka Gas Co., Ltd.

I. Business Results for 1st Quarter of FY2015.3 and Forecasts for FY2015.3

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 FY2015.3

■ overview

Net sales	Increased by 6.6% to ¥362.1 billion due to rise in gas sales unit price resulting from higher LNG price under the fuel cost adjustment system, despite decrease of gas sales volume
Ordinary income	Increased by 39.8% to ¥42.3 billion due to increased gross margin of gas sales caused by the change into a time-lag profit from a time-lag loss under the fuel cost adjustment system
Net income	Increased by 75.1% to ¥36.8 billion due to a gain on sales of investment securities

■ Gas Sales Volume

Residential	Decreased by 2.8% to 530 million m ³ , due to higher atmospheric and water temperatures in early spring from the previous year
Commercial	Decreased by 3.7% to 299 million m ³ , due to customers' energy conservation trend and shorter meter reading schedules, etc.
Industrial	Decreased by 1.2% to 1,017 million m ³ , due to the expiry of PPA of IPP and change of classification of gas used from non-regulated to self-use

■ Others

Investments and Optimization of the property	Total investments for expansion, greenfield, M&A of ¥20.1 billion on mainly expenditures for already-decided upstream projects. Conversely, the sale of our whole interest of Bizkaia Energia SL (IPP in Spain) and Osaka Prefectural Urban Development Co., Ltd.
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Gas Sales Volume Results for 1st Quarter of FY2015.3

45MJ/m³

	A. FY15.3 1Q	B. FY14.3 1Q	A-B	A-B/B (%)
Number of meters installed (thousands)	7,145	7,092	+53	+0.7%
Installation of new meters (thousands)	24	19	+5	+27.5%
Monthly gas sales volume per household (m ³ /month)	30.0	31.0	-1.0	-3.3%
Residential use	530	545	-15	-2.8%
Commercial, public and medical use	299	310	-11	-3.7%
Industrial use	1,017	1,030	-12	-1.2%
Commercial and industrial use	1,316	1,340	-24	-1.8%
Wholesale	110	107	+2	+2.2%
(Non-regulated included)	(1,140)	(1,160)	(-21)	(-1.8%)
Non-consolidated gas sales volume (million m ³)	1,955	1,992	-37	-1.8%
Consolidated gas sales volume (million m ³)	1,966	2,002	-36	-1.8%

Results for 1st Quarter of FY2015.3 - II

Consolidated, billion yen	A. FY15.3 1Q end	FY14.3 1Q end	B. year end	A-B	Remarks
Total assets	1,680.8	1,582.4	1,668.3	+12.5	Increase in Non-current assets, etc.
Net worth	830.2	774.0	798.9	+31.2	
Interest-bearing liabilities	598.4	560.4	573.5	+24.8	
Number of employees	21,427	20,163	21,250	+177	
Net worth / Total assets	49.4%	48.9%	47.9%	+1.5%	
D/E ratio	0.72	0.72	0.72	+0.00	

	A. 15.3 1Q	B. 14.3 1Q	A-B	Remarks
Capital expenditure	26.8	29.6	-2.8	
Depreciation	21.3	19.8	+1.5	
Free cash flow	-9.3	-10.0	+0.7	

Summary of Revision of Financial Forecasts for 2015.3

■ Overview

Revision of Financial forecasts for 2015.3, reflecting a gain on sales of investment securities in 1st Quarter

Expected to increase by ¥8.5 billion from April 2014 forecasts on Consolidated and non-consolidated Net income for 1st Half and Full year, respectively

(No change in Net sales, Operating income and Ordinary income)

P/L (billion yen)		FY2015.3 1 st Half (E)			FY2015.3 Full year (E)		
		Revised	Previous	Change	Revised	Previous	Change
Consolidated	Net sales	710.0	710.0	±0.0	1,605.5	1,605.5	±0.0
	Operating income	46.0	46.0	±0.0	99.5	99.5	±0.0
	Ordinary income	48.5	48.5	±0.0	100.0	100.0	±0.0
	Net income	39.5	31.0	+8.5	74.0	65.5	+8.5
Non-consolidated	Net sales	573.0	573.0	±0.0	1,286.5	1,286.5	±0.0
	Operating income	33.5	33.5	±0.0	62.0	62.0	±0.0
	Ordinary income	39.0	39.0	±0.0	67.5	67.5	±0.0
	Net income	37.0	28.5	+8.5	57.0	48.5	+8.5



II. Facts and Figures (1)

Sales variance for 1st Quarter of FY2015.3 (Year-on-Year)

FY14.3 1Q → FY15.3 1Q (differences)

339.6

362.1

(+22.4)

(billion yen)

Osaka Gas: +20.0

Subsidiaries: +2.4

Gas sales +14.3
 • Impact of fuel cost adjustment +18.8
 • Volume change, etc. -4.5

Other revenues +5.6
 • Incidental business sales +5.1
 (mainly of electricity business)

Jacobi Carbons AB * +4.7
 Osaka Gas Engineering -1.1

* Activated carbon company acquired in Jan. 2014

Ordinary income variance for 1st Quarter of FY2015.3 (Year-on-Year)

+/- signs indicate impact on profit.

FY14.3 1Q → FY15.3 1Q (differences)

30.2

42.3

(+12.0)

Osaka Gas: +15.1

Subsidiaries: -3.0

Gross margin of gas sales +12.0
 • Impact of fuel cost adjustment system +14.6
 • Volume change, etc. -2.5

Gross margin of other sales +3.0
 • Gross margin of incidental business sales +3.3
 (mainly of electricity business)

Increase in operating expenses -1.8
 (Depreciation costs, etc)

Non-operating income +1.9
 (Increase in dividends received, etc.)

Jacobi Carbons AB * -1.1
 IT solution business -0.6

* The operator of an activated carbon business acquired in January 2014
 Impacts on consolidated income, including goodwill depreciation and increases of temporary expenses due to the step-up of inventories (increases due to mark-to-market evaluation) are reported.

Results for 1st Quarter of FY2015.3 by Segments

billion yen	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY15.3 1Q	FY14.3 1Q (*)	FY15.3 1Q	FY14.3 1Q (*)	
Gas	269.7	255.1	23.1	13.4	<u>Net sales</u> : Rise in the gas sales unit price <u>Income</u> : Cancellation of a time-lag loss on fuel cost adjustment system
LPG, electricity, and other energies	56.5	53.7	12.2	9.7	<u>Net sales/Income</u> : Increase in electricity business, etc.
International energies	3.4	2.9	3.2	1.4	Increase in Equity in earnings of affiliates (North Sea oil field)
Life & Business Solutions	46.4	42.3	2.3	3.9	<u>Net sales/Income</u> : the influence of newly consolidated subsidiary (Jacobi Carbons AB) (Decrease in income due to temporary expenses)
Elimination/consolidation	-13.9	-14.5	0.6	0.6	
Consolidated	362.1	339.6	41.7	29.3	

<Classification of the Renewable Energy business> Environment and Non-Energies segment till FY2014.3;

Classified into LPG, Electricity, and Other Energies segment or International Energies segment from FY2015.3 according to the nature of the business.

<Change of segment name> The name of Environment and Non-Energies segment will be changed to Life & Business Solutions segment from FY 2015.3.

(*) Provisional figures of FY 2014.3 results based on the above new classification

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III. Facts and Figures (2)

- Detail of full-year forecasts for FY2015.3

Gas Sales Volume Forecasts for FY2015.3

Maintaining our full-year forecasts unchanged from the April forecasts

45MJ/m ³	A. FY15.3 forecasts	B. FY14.3 results	A-B	A-B/B(%)
Number of meters installed (thousand)	7,162	7,136	+27	+0.4%
Installation of new meters (thousand)	99	102	-3	-3.3%
Monthly gas sales volume per household (m ³ /month)	31.4	31.3	+0.1	+0.4%
Residential use	2,215	2,198	+17	+0.8%
Commercial, public, and medical use	1,461	1,528	-67	-4.4%
Industrial use	4,296	4,329	-32	-0.7%
Non-residential total	5,758	5,856	-99	-1.7%
Wholesale	479	469	+10	+2.1%
(non-regulated)	(4,929)	(4,988)	(-59)	(-1.2%)
Non-consolidated gas sales volume total (million m ³)	8,452	8,524	-72	-0.8%
Consolidated gas sales volume total (million m ³)	8,483	8,554	-72	-0.8%

Forecasts for FY2015.3 - I

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

(billion yen)		FY15.3 forecasts		C.FY14.3 results	Change	
		A. Revised	B. Previous		A-B	A-C
Net sales		(1.25) 1,605.5	(1.25) 1,605.5	(1.24) 1,512.5	±0.0	+92.9
Operating income		(1.60) 99.5	(1.60) 99.5	(1.64) 99.3	±0.0	+0.1
Ordinary income		(1.48) 100.0	(1.48) 100.0	(1.53) 106.0	±0.0	-6.0
Net income		(1.30) 74.0	(1.35) 65.5	(1.67) 41.7	+8.5	+32.2
SVA	※1	41.5	32.9	3.0	+8.6	+38.5
Profit/loss on fuel cost adjustment system	billion yen	4.7	4.7	-20.5	±0.0	+25.2
Crude oil price	※2 \$/bbl	109.9	110	110.0	-0.1	-0.1
Exchange rate	※2 yen/\$	104.3	105	100.2	-0.7	+4.1

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

※2 For the period from July 2014 to March 2015, it is assumed that the crude oil price is 110 \$/bbl, and the exchange rate is ¥105/\$.

Forecasts for FY2015.3 - II

(billion yen)	FY15.3 end forecasts		C. FY14.3 end results	Change	
	A. Revised	B. Previous		A-B	A-C
Total assets	1,789.9	1,781.4	1,668.3	+8.5	+121.5
Net worth	832.7	824.2	798.9	+8.5	+33.7
Interest-bearing liabilities	660.4	660.4	573.5	±0.0	+86.8
Number of employees	21,448	21,448	21,250	±0	+198
Net worth / Total assets	46.5%	46.3%	47.9%	+0.3%	-1.4%
D/E ratio	0.79	0.80	0.72	-0.01	+0.08

	FY15.3 forecasts		C. FY14.3 Results	Change	
	A. Revised	B. Previous		A-B	A-C
Capital expenditure	128.0	128.0	124.1	±0.0	+3.9
Depreciation	85.3	85.3	83.8	±0.0	+1.5
Free cash flow	89.8	89.8	113.1	±0.0	-23.3
ROA	4.3%	3.8%	2.6%	+0.5%	+1.7%
ROE	9.1%	8.2%	5.4%	+0.9%	+3.7%
EPS (yen/share)	35.6	31.5	20.0	+4.1	+15.5
BPS (yen/share)	400.1	395.9	383.9	+4.2	+16.2

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

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Forecasts for FY2015.3 by Segments

Maintaining our full-year forecasts unchanged from the April forecasts

(billion yen)	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY15.3 forecasts	FY14.3 results (*)	FY15.3 forecasts	FY14.3 results (*)	
Gas	1,148.5	11,195	38.0	32.0	<u>Net sales</u> : Rise in the price of gas sales <u>Income</u> : Cancellation of loss on fuel cost adjustment system
LPG, electricity, and other energies	296.5	261.0	40.5	45.3	<u>Net sales</u> : Increase in revenues of LNG and LPG sales, electricity business, etc. <u>Income</u> : Decrease in profit of electricity business, etc.
International energies	16.5	13.3	8.0	8.2	
Life & Business Solutions	221.0	196.5	17.0	18.8	<u>Net sales/Income</u> : newly consolidated subsidiary (Jacobi Carbons AB), etc.
Elimination/ consolidation	-77.0	-77.9	2.0	2.7	
Consolidated	1,605.5	1,512.5	105.5	107.2	

<Classification of the Renewable Energy business> Environment and Non-Energies segment till FY2014.3;

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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. 1.3 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. 700 million yen on annual consolidated non-operating expenses.