

Financial Report for 3rd Quarter of FY2015.3 (April 2014 – December 2014)

January 2015
Osaka Gas Co., Ltd.

I. Business Results for 3rd Quarter of 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.

We would like to explain briefly the business results of Osaka Gas for the first nine months of the year ending March 2015.

Summary of Business Results for 3rd Quarter of FY2015.3

■ Overview (Consolidated)

Net sales	Increased to ¥1,055.3 billion, up 2.0% (¥20.9 billion) due mainly to rise in gas sales unit price resulting from higher LNG price under the fuel cost adjustment system, despite decrease in gas sales volume
Ordinary income	Decreased to ¥58.1 billion, down 10.8% (¥7.0 billion) due mainly to increase in expenses of gas business
Net income	Increased to ¥47.5 billion by 230.7% (¥33.1 billion) due mainly to a recognition of a gain on sales of investment securities in this year and an impairment loss in upstream business in US in previous year.

■ Gas Sales Volume (Non-consolidated)

Residential	Almost the same as the previous year at 1,269 million m ³ .
Commercial	Decreased to 1,041 million m ³ , down 5.6% (61 million m ³) due mainly to cooling demand decrease caused by lower temperatures in summer than the previous year
Industrial	Decreased to 3,085 million m ³ , down 3.4% (109 million m ³) due mainly to the decrease in customers' facility utilization and the effect of the change in the classification of gas used from non-regulated to self-use due to the expiry of PPA of IPP.

■ Others

Full-year Outlook | The forecast issued in October 2014 remains the same.

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In the nine-month period under review, net sales and net income went up but ordinary income declined from the previous year.

Net sales increased to 1,055.3 billion yen, up 2.0% or 20.9 billion yen, as a result of the increase in gas sales price due to the rise in LNG price, despite the decreased gas sales volume.

Ordinary income decreased to 58.1 billion yen, down 10.8% or 7.0 billion yen, due mainly to the increase in depreciation costs and operating expenses of gas business.

Net income increased to 47.5 billion yen, up 230.7% or 33.1 billion yen, due to recognizing a gain on sales of investment securities this year and an impairment loss in upstream project in U.S. in the previous year.

Overview of the non-consolidated gas sales volume is as follows:

Residential-use gas sales volume was almost the same as the previous year at 1.269 billion m³.

Commercial, public and medical-use gas sales volume decreased by 5.6% to 1.041 billion m³ due to decreased cooling demand owing to lower temperatures in summer than the previous year.

For industrial sector, gas sales volume decreased by 3.4% to 3.085 billion m³ due mainly to the decrease in customers' facility utilization and the effect of the changed classification of gas used from non-regulated to self-use according to the expiry of PPA of IPP.

We have decided to maintain the full-year outlook as announced in October.

Gas Sales Volume Results for 3rd Quarter of FY2015.3

45MJ/m ³	A. FY15.3 3Q	B. FY14.3 3Q	A-B	(A-B)/B
Number of meters installed (thousands)	7,171	7,111	+59	+0.8%
Installation of new meters (thousands)	70	63	+7	+11.0%
Monthly gas sales volume per household (m ³ /month)	24.0	24.1	-0.1	-0.5%
Residential use	1,269	1,269	+0	+0.0%
Commercial, public and medical use	1,041	1,102	-61	-5.6%
Industrial use	3,085	3,193	-109	-3.4%
Commercial and industrial use	4,126	4,296	-170	-4.0%
Wholesale	336	332	+4	+1.1%
(Non-regulated included)	(3,539)	(3,683)	(-144)	(-3.9%)
Non-consolidated gas sales volume (million m ³)	5,731	5,897	-166	-2.8%
Consolidated gas sales volume (million m ³)	5,755	5,920	-165	-2.8%

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

Consolidated gas sales volume fell by 2.8% on the previous year, to 5.755 billion m³.

In industrial sector, we plan to develop new demand through expanded use of cogeneration systems, and by encouraging users to switch their fuel to natural gas while watching closely the industrial trends.

Results for 3rd Quarter of FY2015.3 - I

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

Consolidated, billion yen	A. FY15.3 3Q	B. FY14.3 3Q	A-B	(A-B)/B	Remarks
Net sales	(1.22) 1,055.3	(1.23) 1,034.3	+20.9	+2.0%	Rise in the gas sales unit price, etc.
Operating income	(1.65) 53.4	(1.74) 59.5	-6.0	-10.2%	Increase in expenses of gas business, etc.
Ordinary income	(1.50) 58.1	(1.61) 65.2	-7.0	-10.8%	
Net income	(1.27) 47.5	(2.64) 14.3	+33.1	+230.7%	FY2015.3 3Q : Recognition of gain on sales of investment securities FY2014.3 3Q : Recognition of an impairment loss
			A. FY15.3 3Q	B. FY14.3 3Q	A-B
Profit/ loss on fuel cost adjustment system	billion yen		-3.9	-12.1	+8.1
Crude oil price	\$/bbl		103.2*	109.5	-6.2
Exchange rate	yen/\$		106.7	99.4	+7.4
Number of subsidiaries			146	130	+16

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

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Please turn to page five for the financial results.

During the first nine months of this fiscal year ending March 2015, profits fell slightly below our earlier forecasts due to increased time-lag loss under the fuel cost adjustment system and the weaker yen. While profits was affected by gas tariff revisions of small customer segments effective this January, given the recent low price of crude oil, we expect the gross margin on gas sales to increase as time-lag profit expands in the fourth quarter. Accordingly, we have decided to maintain our full-year outlook as announced in October.

Results for 3rd Quarter of FY2015.3 - II

Consolidated, billion yen	A. FY15.3	FY14.3		A-B	Remarks
	3Q end	3Q end	B. Year end		
Total assets	1,780.7	1,682.1	1,668.3	+112.4	
Net worth	834.0	773.3	798.9	+35.0	
Interest-bearing liabilities	655.3	638.5	573.5	+81.7	Allocated for investments and working capital
Number of employees	21,566	20,370	21,250	+316	
Net worth / Total assets	46.8%	46.0%	47.9%	-1.1%	
D/E ratio	0.79	0.83	0.72	+0.07	
	A. 15.3 3Q	B. 14.3 3Q	A-B	Remarks	
Capital expenditure	82.6	87.3	-4.7	Completion of major pipeline in previous year	
Depreciation	64.7	62.0	+2.6		
Free cash flow	25.8	38.8	-13.0	Increase in inventories, etc.	

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

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Shown on page six are our assets and liabilities.

Capital expenditure fell by 4.7 billion yen from the previous year's level to 82.6 billion yen mainly due to the construction completion of Mie-Shiga pipeline and Himeji-Okayama pipeline in the previous fiscal year when we were promoting investment for power plants, upstream business and LNG carriers.

For the detailed analyses of variances in figures, segment information, progress on investment projects, and our full-year outlook, please see the following pages.

That concludes explanation of our business results for the first nine months of the year ending March 2015.

We announced yesterday the Board's decision to appoint Mr. Ozaki, the current president, as Chairman of the Board, and Mr. Honjo, Executive Vice President, as President to succeed Ozaki. The appointments will take effect on April 1 this year. Upon this announcement, Mr. Honjo expressed his determination to deliver successful results from the long-term management vision, "Field of Dreams 2020", and the current medium-term management plan "Catalyze Our Dreams" both of which Ozaki formulated, as Osaka Gas targets to develop into a global comprehensive energy company. We look forward to your continued understanding and support.

Thank you.



II. Forecast for FY2015.3

Gas Sales Volume Forecasts for FY2015.3

Maintaining our full-year forecasts unchanged from the October 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)	106	102	+3	+3.4%
Monthly gas sales volume per household (m ³ /month)	31.2	31.3	-0.1	-0.2%
Residential use	2,203	2,198	+5	+0.2%
Commercial, public, and medical use	1,449	1,528	-79	-5.2%
Industrial use	4,200	4,329	-129	-3.0%
Commercial and industrial use	5,649	5,856	-208	-3.5%
Wholesale	478	469	+9	+1.9%
(Non-regulated included)	(4,819)	(4,988)	(-169)	(-3.4%)
Non-consolidated gas sales volume (million m ³)	8,330	8,524	-194	-2.3%
Consolidated gas sales volume (million m ³)	8,361	8,554	-194	-2.3%

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Forecasts for FY2015.3 - I

Maintaining our full-year forecasts unchanged from the October forecasts

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

Consolidated, billion yen	A. FY15.3 Forecasts	B. FY14.3 Results	A-B	(A-B)/B
Net sales	(1.24) 1,581.5	(1.24) 1512.5	+68.9	+4.6%
Operating income	(1.58) 98.0	(1.64) 99.3	-1.3	-1.4%
Ordinary income	(1.48) 100.0	(1.53) 106.0	-6.0	-5.7%
Net income	(1.30) 74.0	(1.67) 41.7	+32.2	+77.3%
SVA *1	41.5	3.0	+38.5	+1285.6%

		A. FY15.3 Forecasts	B. FY14.3 Results	A-B
Profit/loss on fuel cost adjustment system	billion yen	3.6	-20.5	+24.2
Crude oil price *2	\$/bbl	103.7	110.0	-6.3
Exchange rate *2	yen/\$	107.6	100.2	+7.4

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

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

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Forecasts for FY2015.3 - II

Maintaining our full-year forecasts unchanged from the October forecasts

Consolidated, billion yen	A. FY15.3 end Forecasts	B. FY14.3 end Results	A-B
Total assets	1,789.9	1,668.3	+121.5
Net worth	832.7	798.9	+33.7
Interest-bearing debt	660.4	573.5	+86.8
Number of employees	21,448	21,250	+198
Equity ratio	46.5%	47.9%	-1.4%
D/E ratio	0.79	0.72	+0.08
	A. FY15.3 Forecasts	B. FY14.3 Results	A-B
Capital expenditure	128.0	124.1	+3.9
Depreciation	85.3	83.8	+1.5
Free cash flow	89.8	113.1	-23.3
ROA	4.3%	2.6%	+1.7%
ROE	9.1%	5.4%	+3.7%
EPS (yen)	35.6	20.0	+15.5
BPS (yen)	400.1	383.9	+16.2

FCF = CF from operating activities - (OP after tax + depreciation and other non-cash expenses) - capital expenditure *Design Your Energy* 基本説明書

III. Facts and Figures

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

FY14.3 3Q → FY15.3 3Q (differences)

1,034.3

1,055.3

(+20.9)

(billion yen)

Osaka Gas: +25.0

Subsidiaries: -4.1

Gas sales +16.2
 • Impact of fuel cost adjustment system +28.5
 • Volume change, etc. -12.2

Other revenues +8.8
 • Incidental business sales +8.3
 (mainly of electricity business)

Osaka Gas Engineering -2.7
 Osaka Gas Research Institute
 of Behavior Observation * -2.6

* A free paper enterprise was sold off in June 2014, and the company name was changed from L-NET

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

+/- signs indicate impact on profit.

FY14.3 3Q → FY15.3 3Q (differences)

65.2

58.1

(-7.0)

(billion yen)

Osaka Gas: -1.6

Subsidiaries: -5.4

Gross margin of gas sales +2.6
 • Impact of fuel cost adjustment system +8.1
 • Volume change, etc. -5.5

Increase in expenses -6.4
 • Depreciation costs -3.7
 • Operating expenses -3.1

Profit of other sales +1.9
 • Profit of gas appliances sales -0.9
 • Profit of incidental business (mainly of electricity business) +3.0

Jacobi Carbons AB * -1.6
 Osaka Gas International Transport -1.4

* 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.

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Results for FY2015.3 by Segment

billion yen	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY15.3 3Q	FY14.3 3Q (*)	FY15.3 3Q	FY14.3 3Q (*)	
Gas	777.8	763.8	8.4	12.7	Net sales: Rise in gas sales price Profit: Increase in expenses of gas business
LPG, electricity, and other energy	174.6	176.6	32.0	31.9	Profit: Increase in power business, despite of decrease in LPG business
International energy	10.2	9.5	8.3	5.8	Profit: Decrease in depreciation costs in US Upstream business
Life & Business Solutions	141.6	135.9	9.9	12.9	Net sales / Profit: the influence of newly consolidated subsidiary (Jacobi Carbons AB) (decrease in income due to temporary expenses)
Adjustments	-49.0	-51.6	1.8	1.9	
Consolidated	1,055.3	1,034.3	60.7	65.3	

<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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Forecasts for FY2015.3 by Segment

Maintaining our full-year forecasts unchanged from the October forecasts

billion yen	Net sales		Operating income + Equity in earnings of affiliates		Remarks
	FY15.3 forecasts	FY14.3 results (*)	FY15.3 forecasts	FY14.3 results (*)	
Gas	1,140.0	1,119.5	34.5	32.0	Net sales: Rise in gas sales price Profit: Cancellation of a time-lag loss on fuel cost adjustment system
LPG, electricity, and other energy	301.0	261.0	42.0	45.3	Net sales: Increase in power and LNG sales Profit: Decrease in profit of power business and LPG business, etc.
International energy	17.0	13.3	9.5	8.2	Profit: Decrease in depreciation costs in US Upstream business
Life & Business Solutions	212.0	196.5	17.0	18.8	Net sales / Profit: the influence of newly consolidated subsidiary (Jacobi Carbons AB) (decrease in income due to temporary expenses)
Adjustments	-88.5	-77.9	2.0	2.7	
Consolidated	1,581.5	1,512.5	105.0	107.2	

<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.

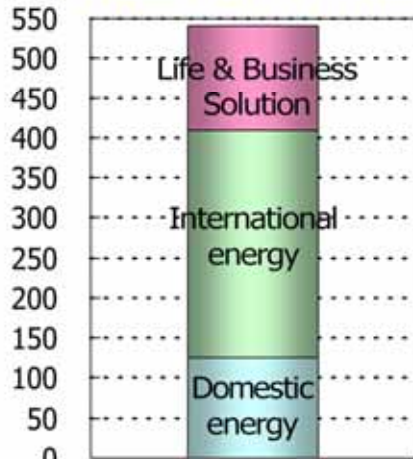
(*) Provisional figures of FY 2014.3 results based on the above new classification

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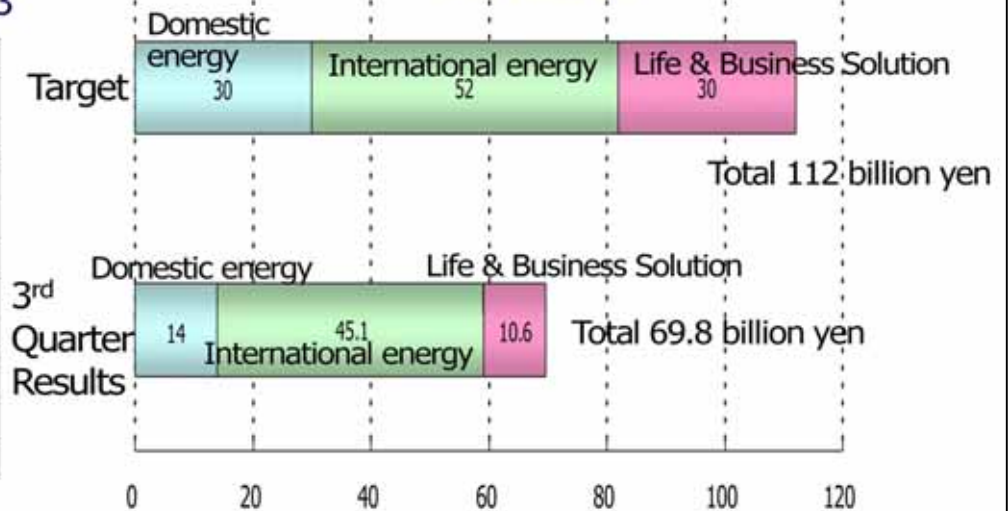
Results of Investment for expansion, greenfield, and M&A in 3rd Quarter of FY2015.3

- Cumulative amount approved for invest to date from FY 2010.3 are **540.0 billion yen**. (47% of the originally projected for the period between FY 2010.3 and FY 2021.3)
- Total investments made in the 3rd quarter of the FY 2015.3 equal **69.8 billion yen**. (62% of annual budget)

Cumulative amount approved for invest to date from FY2010.3



Investment for expansion, greenfield, and M&A in FY2015.3



(billion yen)

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)

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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	+0.3%	--	--
Influence of temperature	+0.4%	-3.7% (Including differences in the numbers of metering days)	--
Demand development	}	+1.6%	+1.2%
Increase/decrease in operation of customer facilities, etc.		-3.5%	-4.6%
Total	+0.0%	-5.6%	-3.4%

Monthly gas sales for 3rd Quarter of FY 2015.3

Year-on-Year Change 2014/2013 (%)

	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Total	
Residential	99.9	91.5	101.6	99.8	105.4	108.8	105.8	103.9	97.1	100.0	
Commercial	98.0	95.0	95.8	94.9	93.5	90.7	93.4	96.6	94.4	94.4	
Industrial	97.4	97.4	101.6	93.3	94.7	95.8	96.0	96.0	97.7	96.6	
by S e g m e n t	Machinery	92.3	93.3	104.3	92.1	92.5	97.4	95.2	87.0	100.6	94.9
	Metal	102.3	101.7	110.4	100.8	100.2	98.8	98.6	96.0	97.3	100.6
	Glass	90.9	89.6	87.2	84.0	90.1	88.9	87.8	88.6	98.2	89.3
	Chemical	95.6	97.3	100.7	94.0	100.2	96.6	100.1	98.7	103.1	98.4
	Food	99.0	99.4	102.5	97.4	98.3	102.5	99.9	98.8	100.3	99.8
Wholesale	91.5	97.3	121.5	94.3	99.0	103.6	102.4	91.0	113.5	101.1	
Total	98.0	95.3	101.6	94.6	95.9	96.5	97.5	97.7	97.9	97.2	

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 profit 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. -1.0 billion yen on ordinary profit 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. 700 million yen on annual consolidated non-operating expenses.