



# Financial Report for FY2011.3 (April 2010-March 2011)

April 2011

Osaka Gas Co., Ltd.

# I. Business Results for FY2011.3 and Forecast for FY2012.3

**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](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/m<sup>3</sup>.

## **Note regarding consolidated gas sales volume**

The fiscal year of Nabari Kintetsu Gas, Toyooka Energy, and Shingu Gas ends on December 31.

# Business Results for FY2011.3 - Highlights

## ■ Overview

Consolidated operating revenues	Revenues increased 8.3% year-on-year to ¥1,187.1 billion, resulting from the increase in gas sales on the back of economic recovery in Japan, the contribution of all Semboku Natural Gas Power Plant units going into operation, and increased sales of consolidated subsidiaries, including real estate businesses.
Consolidated operating profit	Profit declined 2.8% year-on-year to ¥88.5 billion as a result of the decrease in gross margin of gas sales due to higher fuel costs with the rise in LNG prices, despite the decrease in operating expenses and increase in operating profit of the electric power business. Loss on fuel cost adjustments amounted to ¥8.5 billion (vs. profit of ¥26.7 billion for the previous year)

## ■ Gas sales volume

Residential	2,275 million m <sup>3</sup> , a year-on-year increase of 1.4%, due to lower atmospheric and water temperatures during the winter months compared to the previous year
Commercial and industrial	5,765 million m <sup>3</sup> , a year-on-year increase of 6.3%, due to expansion of new demand and higher utilization at customers' facilities on the back of economic recovery

## ■ Other topics

Dividends	Increase of ¥1 per share (to ¥8 per share)
Share buy-back	Shares in the amount of ¥20.0 billion (63,724,000 shares) acquired and canceled
Investments for incubation/expansion	Decisions made on investments in Sagunto LNG Terminal (Spain) and Shuweihat IWPP (UAE). Total investments for incubation/expansion amounted to ¥26.3 billion.

# Gas Sales for FY2011.3

45MJ/m <sup>3</sup>		FY11.3 (A)	FY10.3 (B)	A-B	(A-B)/B(%)
Non-consolidated	Number of meters installed (thousand)	7,012	6,980	+33	+0.5%
	Installation of new meters (thousand)	79	85	-5	-6.3%
	Monthly gas sales volume per household (m <sup>3</sup> /month)	32.7	32.3	+0.4	+1.3%
	Residential use	2,275	2,244	+32	+1.4%
	Commercial, public and medical use	1,624	1,543	+81	+5.2%
	Industrial use	4,141	3,877	+263	+6.8%
	Non-residential total	5,765	5,420	+344	+6.3%
	Wholesale	488	455	+33	+7.2%
	(Non-regulated)	(4,874)	(4,576)	(+298)	(+6.5%)
	Gas sales volume (million m <sup>3</sup> )	8,528	8,119	+408	+5.0%
Consolidated gas sales volume		8,560	8,150	+409	+5.0%

# Consolidated Results of FY2011.3 - I

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

(billion yen)	FY11.3 (A)	FY10.3 (B)	A-B	(A-B)/B(%)	Remarks
Operating revenues	(1.29) 1,187.1	(1.30) 1,096.6	+90.5	+8.3%	Increase in gas sales volume, increase in revenues from electric power business, increase in sales of real estate subsidiaries, etc.
Operating profit	(1.68) 88.5	(1.51) 91.1	-2.5	-2.8%	Decrease in gas sales gross margin, etc.
Ordinary profit	(1.49) 82.3	(1.32) 84.8	-2.4	-2.9%	
Net income	(1.33) 45.9	(1.21) 48.3	-2.4	-5.0%	
SVA*1	13.2	14.0	-0.8	-6.0%	

		FY11.3 (A)	FY10.3 (B)	A-B
Consolidated gas sales volume	million m <sup>3</sup>	8,560	8,150	+409
Profit/loss on fuel cost adjustment system	billion yen	-8.5	26.7	-35.2
Exchange rate	yen/\$	85.7	92.9	-7.2
Crude oil price	\$/bbl	84.1*2	69.4	+14.7
Number of subsidiaries		131	128	+3

\*1Shareholders' value added: NOPAT - Invested capital x WACC \*2Average of preliminary monthly data up to March 2011.

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# Consolidated Results of FY2011.3 - II

(billion yen)	End of 11.3 (A)	End of 10.3 (B)	A-B	Remarks
Total assets	1,437.2	1,483.8	-46.5	
Net worth	664.9	666.6	-1.7	
Interest-bearing debt	532.4	539.0	-6.5	
Number of employees	19,684	19,268	+416	
Equity ratio	46.3%	44.9%	+1.4	
D/E ratio	0.80	0.81	-0.01	
	End of 11.3 (A)	End of 10.3 (B)	A - B	Remarks
Capital expenditure	69.6	98.2	-28.6	Construction of Semboku Natural Gas Power Plant completed in the previous year
Depreciation	97.5	95.4	+2.1	Increase in depreciation of Semboku Natural Gas Power Plant
Free cash flow*	72.7	175.4	-102.6	Decrease in operating CFs due to increase in trade receivables
ROA	3.1%	3.3%	-0.1	
ROE	6.9%	7.6%	-0.7	
EPS (yen/share)	21.6	22.5	-0.9	
BPS (yen/share)	319.3	310.4	+8.9	

\* CF from operating activities – (CP after tax + depreciation and other non-cash expenses) – capital expenditure

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# Participation in Shuweihat IWPP (UAE)

- Agreed to acquire stakes in a special purpose company (10%) and an operation and maintenance company (25%), in which Marubeni Corporation has a stake, for the Shuweihat S2 independent water and power producing project currently under way in the UAE
- Generating capacity: 1,500 MW (natural gas-powered)  
Water generating capacity: 454,000 m<sup>3</sup>/day
- Construction began in December 2008. Commercial operation scheduled for autumn 2011
- Electricity and water to be sold to Abu Dhabi Water and Electricity Authority for 25 years



Concept image

# Business Plan for FY2012.3

## ■ Guiding Policy

### “Boost Up”

- Accelerate measures to realize the “Field of Dreams 2020” long-term management vision and medium-term business plan

## ■ Priority Initiatives

### (1) CS enhancement and contribution to the realization of a low-carbon society

- Greater diffusion and advanced applications of natural gas
- Spread of household generation (ENE-FARM, ECOWILL) and high-efficiency water heaters
- Greater diffusion of renewable energy (photovoltaic power generation, solar thermal collectors, biogas)

### (2) Investment in growth and expansion of business

- International Energy Value Chain business
- Expand domestic electric power business supply area
- Affiliates (real estate, IT, advanced materials, LPG and industrial gases, lifestyle services)

### (3) Ensuring stable supply/safety and fulfillment of CSR

### (4) “Smart work” initiatives



# Business Forecasts for FY2012.3 - Highlights

## ■ Overview

Consolidated operating revenues	¥1,267.0 billion (up 6.7% YoY), taking into account an increase in gas unit prices based on the assumption that crude oil prices will rise.
Consolidated operating profit	¥74.0 billion (down 16.5% YoY), assuming a decrease in gross margin on gas sales due to higher materials costs following a rise in crude oil prices, and an increase in operating expenses. Loss on fuel cost adjustments assumed to be ¥19.1 billion

## ■ Gas sales volume

Residential	2,237 million m <sup>3</sup> (down 1.7% YoY), assuming average annual temperature
Commercial and industrial	5,720 million m <sup>3</sup> (down 0.8% YoY), factoring in a decrease in demand for air conditioning in reaction to last year's summer heat wave, despite expansion of new demand

## ■ Other topics

Investments for incubation and expansion	¥97.0 billion, including investments in the International Energy Businesses along the Energy Value Chain
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# Gas Sales Forecast for FY2012.3

45MJ/m<sup>3</sup>

	FY12.3 forecast (A)	FY11.3 results (B)	A-B	(A-B)/B (%)	
Non-consolidated	Numbers of meters installed (thousand)	7,050	7,012	+37	+0.5%
	Installation of new meters (thousand)	79	79	-0	-0.5%
	Monthly gas sales volume per household (m <sup>3</sup> /month)	32.2	32.7	-0.6	-1.7%
	Residential use	2,237	2,275	-38	-1.7%
	Commercial, public and medical use	1,552	1,624	-72	-4.4%
	Industrial use	4,168	4,141	+27	+0.6%
	Non-residential total	5,720	5,765	-45	-0.8%
	Wholesale	491	488	+3	+0.6%
	(Non-regulated)	(4,878)	(4,874)	(+4)	(+0.1%)
	Gas sales volume (million m <sup>3</sup> )	8,448	8,528	-80	-0.9%
Consolidated gas sales volume	8,480	8,560	-80	-0.9%	

# Forecast for FY2012.3 - I

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

(billion yen)		FY12.3 forecast (A)		FY11.3 results (B)	A-B	(A-B)/B (%)
Operating revenues	(1.27)	1,267.0	(1.29)	1,187.1	+79.8	+6.7%
Operating profit	(1.72)	74.0	(1.68)	88.5	-14.5	-16.5%
Ordinary profit	(1.59)	70.0	(1.49)	82.3	-12.3	-15.0%
Net income	(1.40)	43.5	(1.33)	45.9	-2.4	-5.4%
SVA*		10.0		13.2	-3.2	-24.2%
				FY12.3 forecast (A)	FY11.3 results (B)	A-B
Consolidated gas sales volume	million m <sup>3</sup>			8,480	8,560	-80
Profit/loss on fuel cost adjustment system	billion yen			-19.1	-8.5	-10.6
Exchange rate	yen/\$			85	85.7	-0.7
Crude oil price	\$/bbl			100	84.1	+15.9

\*Shareholders' value added: NOPAT - Invested capital x WACC

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# Forecast for FY2012.3 - II

(billion yen)	End of FY12.3 forecast (A)	End of FY11.3 results (B)	A-B
Total assets	1,519.2	1,437.2	+81.9
Total net worth	693.6	664.9	+28.6
Interest-bearing debt	571.8	532.4	+39.3
Number of employees	20,330	19,684	+646
Total net worth ratio	45.7%	46.3%	-0.6
D/E ratio	0.82	0.80	+0.02
	FY12.3 forecast (A)	FY11.3 results (B)	A-B
Capital expenditure	90.8	69.6	+21.2
Depreciation	96.8	97.5	-0.7
Free cash flow*	70.8	72.7	-1.9
ROA	2.9%	3.1%	-0.2
ROE	6.2%	6.9%	-0.7
EPS (yen/share)	20.9	21.6	-0.7
BPS (yen/share)	333.1	319.3	+13.8

\* CF from operating activities – (CP after tax + depreciation and other non-cash expenses) – capital expenditure

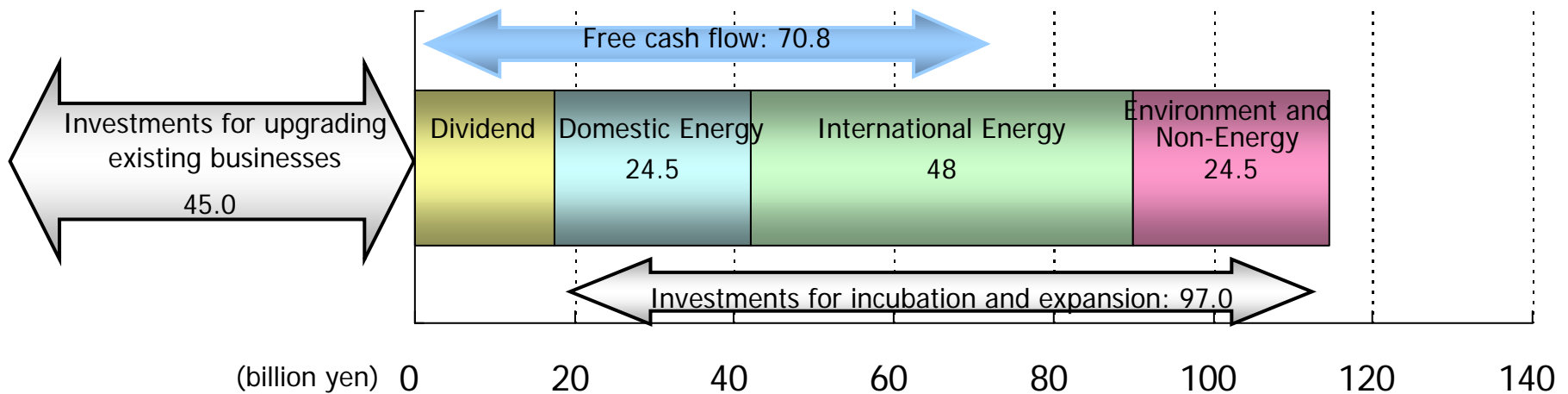
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# Use of FCF for FY12.3

- FCF for FY2012.3: ¥70.8 billion (down by ¥1.9 billion YoY)
- Investments for incubation and expansion: ¥97.0 billion

International Energy Businesses along the Energy Value Chain	Expenditures for investments decided Exploration/acquisition of new opportunities
Domestic Energy Businesses	Construction of trunk pipelines
Environmental and Non-Energy Business	Acquisition of profit-earning real estate

- Annual dividend target: ¥8 per share (unchanged from FY11.3)



FCF = Operating cash flows – capital expenditures. Capital expenditures do not include investments for quality improvement of existing businesses. The amount of investment differs from that of capital expenditures, as the former includes both capital expenditures and investments / financing.



## II. Facts and Figures

# Sales Variance between FY11.3 and FY10.3

FY10.3 → FY11.3 (differences)  
 1,096.6 → 1,187.1 (+90.5)  
 (billion yen)

Osaka Gas: +74.0

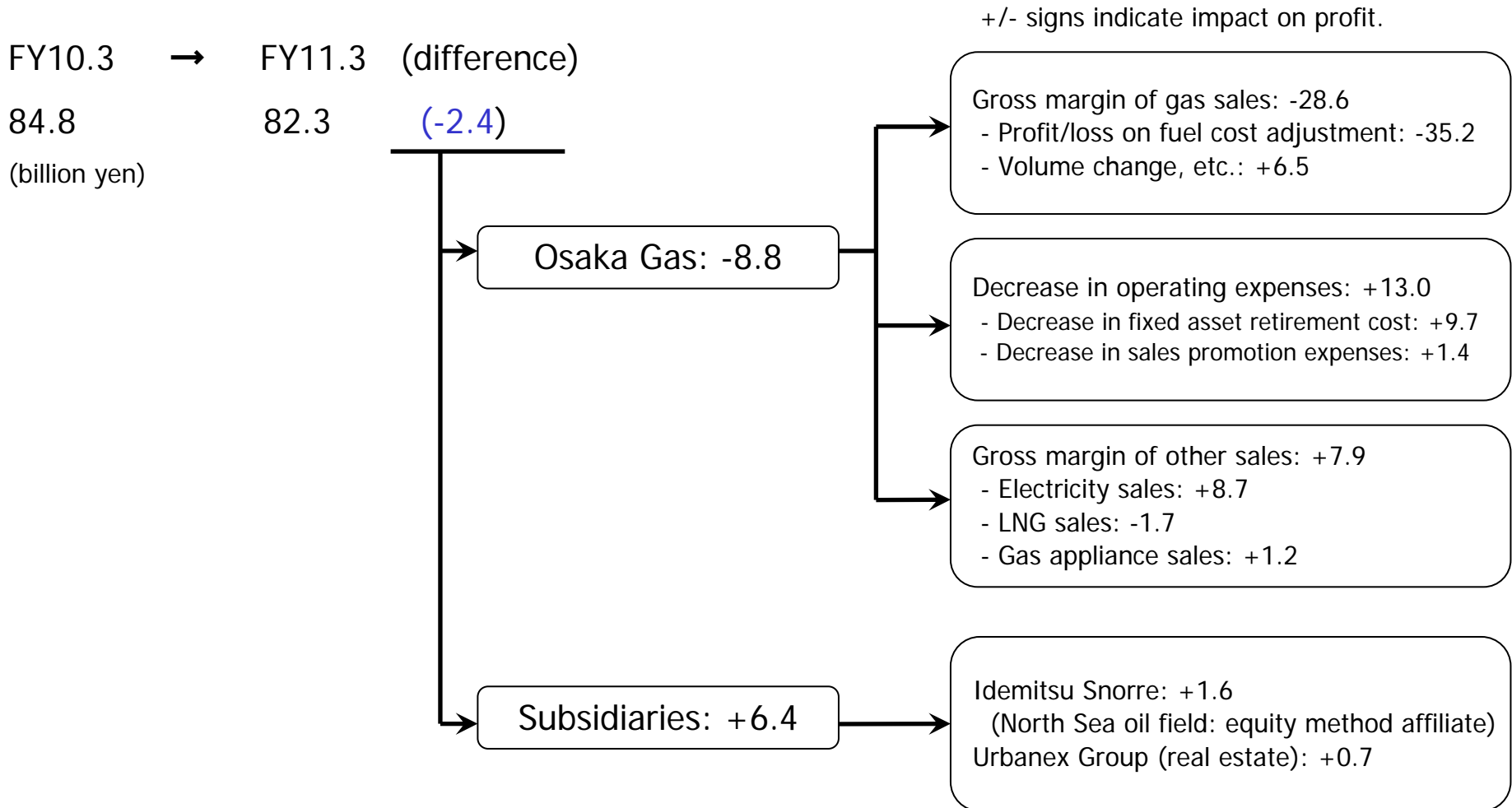
Gas sales revenues: +43.3  
 - Materials cost adjusted: +21.4  
 - Volume change, etc.: +21.9

Other revenues: +30.6  
 - Electricity sales: +21.5  
 - Gas appliance sales: +5.8  
 - LNG sales: +2.3

Subsidiaries: +16.4

Urbanex (real estate): +7.1  
 Osaka Gas Maison (real estate): +4.5  
 Nissho Propane Sekiyu (LPG): +2.6

# Ordinary Profit Variance between FY11.3 and FY10.3





# FY11.3 Results by Segments

(billion yen)	Operating revenues		Ordinary profit + equity method earnings* <sup>1</sup>		Remarks R: Operating revenues, OP: Operating profit
	FY11.3	FY10.3	FY11.3	FY10.3	
Gas	879.8	825.5	41.9	57.3	R: Increase in gas sales volume OP: Occurrence of loss on fuel cost adjustments
LPG, electricity, and other energy businesses	174.7	143.4	25.6	14.8	R: Increase in electricity revenues, etc. OP: Increase in margin of electricity business, etc. <a href="#">Profit of electric power business</a> * <sup>2</sup> : FY10.3: 3.6, FY11.3: 12.3
International energy	11.1	11.1	4.9	4.2	Increase in earnings of equity method affiliates (North Sea oil field)
Environment and non-energy	185.4	175.6	15.6	14.0	R: Increase in real estate sales, etc. OP: Increase in real estate profit, etc.
Elimination and consolidation	-64.0	-59.1	2.5	1.8	
Consolidated	1,187.1	1,096.6	90.7	92.4	

\*1 Operating profit + Equity method investment gains

\*2 The operating profit of Osaka Gas's supplementary electricity business is shown here. The Company changed its business segments in FY11.3, and FY10.3 results represent the values after reclassification into new segments.

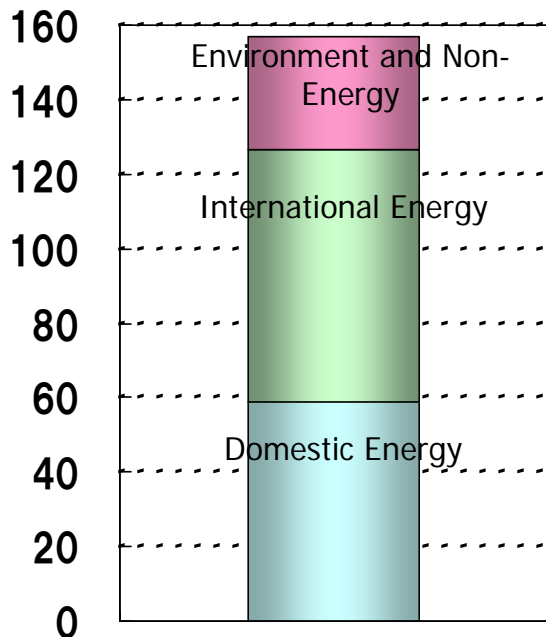
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# FY11.3 Results of Investment for Incubation and Expansion

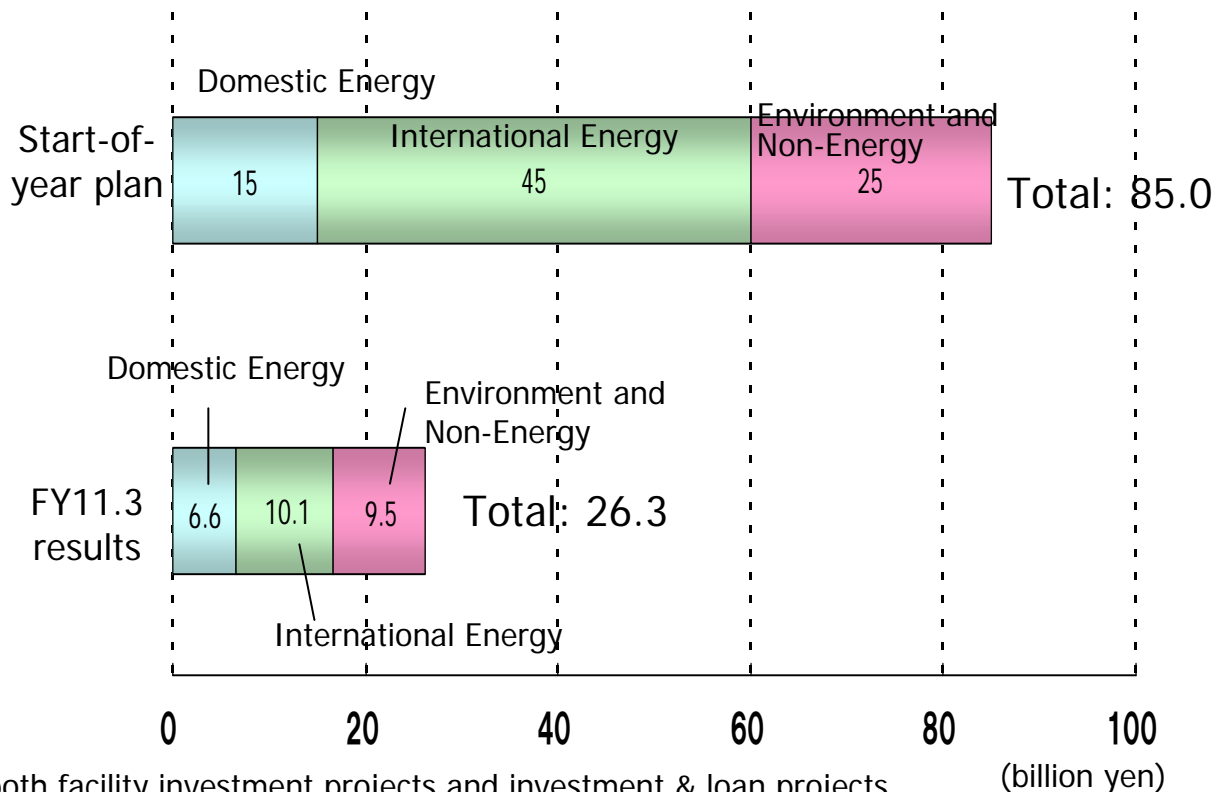
- Cumulative amount approved to be invested from FY10.3 onwards: **¥157.0 billion** (39% of the amount originally projected for the period between FY10.3 and FY14.3)
- Cumulative cashed-out amount since FY10.3 is ¥71.3 billion.

Cumulative amount approved for investment from FY10.3 onwards

(billion yen)



Investment for incubation and expansion in FY11.3



The investment amount, which includes both facility investment projects and investment & loan projects, differs from the actual amount of facility investment.

(billion yen)

# Sales Variance between FY12.3 Forecast and FY11.3 Results

FY11.3 results → FY12.3 forecast (difference)

1,187.1  
(billion yen)

1,267.0 (+79.8)

Osaka Gas: +83.4

Subsidiaries: -3.5

Gas sales revenues: +79.0  
- Materials cost adjusted: +87.2  
- Volume change, etc.: -8.2

Other revenues: +4.4  
- Incidental business: +7.4  
- Gas appliance sales: -2.0

Osaka Gas Maison (real estate): -7.2  
Urbanex (real estate): -2.4  
Domestic IPPs: +3.0  
Nissho Petroleum Gas (LPG): +2.3  
Osaka Gas Chemicals: +1.2

# Ordinary Profit Variance between FY12.3 Forecast and FY11.3 Results

FY11.3 results → FY12.3 forecast (difference)

82.3  
(billion yen)

70.0

(-12.3)

+/- signs indicate impact on profit.

Osaka Gas: -11.2

Gross margin of gas sales: -7.1  
- Profit/loss on fuel cost adjustment: -10.6  
- Volume change, etc.: +3.4

Increase in expenses: -2.0  
- Decrease in labor costs: +1.2  
- Increase in operating expenses: -3.4

Non-operating balance: -1.6  
- Increase in interest expenses: -1.2

Subsidiaries: -1.1

Domestic IPP: -1.4

# FY12.3 Forecast by Segments

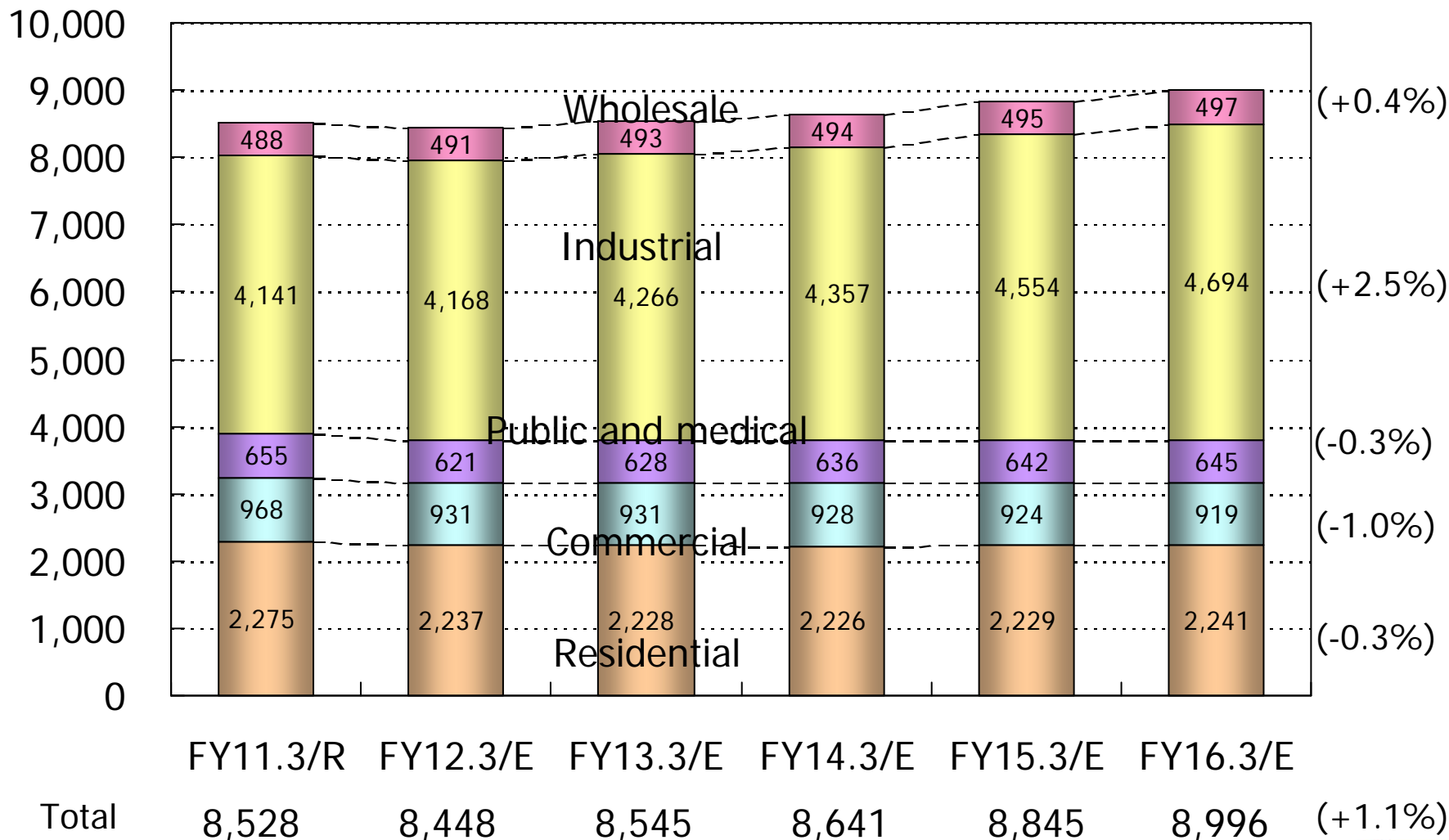
(billion yen)	Operating revenues		Operating profit + equity method earnings*		Remarks R: Operating revenues, OP: Operating profit
	FY12.3 forecast	FY11.3 results	FY12.3 forecast	FY11.3 results	
Gas	951.0	879.8	31.5	41.9	R: Rise in gas rates OP: Increase in loss on fuel cost adjustment
LPG, electricity, and other energy businesses	192.5	174.7	22.5	25.6	R: Increase in revenues from electricity and LNG sales, rise in LPG unit prices, etc. OP: Decrease in profit of domestic IPPs, etc.
International energy	11.0	11.1	6.0	4.9	Increase in earnings of equity method affiliates (North Sea oil field, Spanish IPP)
Environment and non-energy	170.5	185.4	15.0	15.6	R: Decrease in real estate sales, etc. OP: Decrease in profit of advanced materials, etc.
Elimination and consolidation	-58.0	-64.0	2.0	2.5	
Consolidated	1,267.0	1,187.1	77.0	90.7	

\* Operating profit + Equity method investment gains

# Medium-term Gas Sales Forecast (Non-consolidated)

(45MJ, million m<sup>3</sup>)

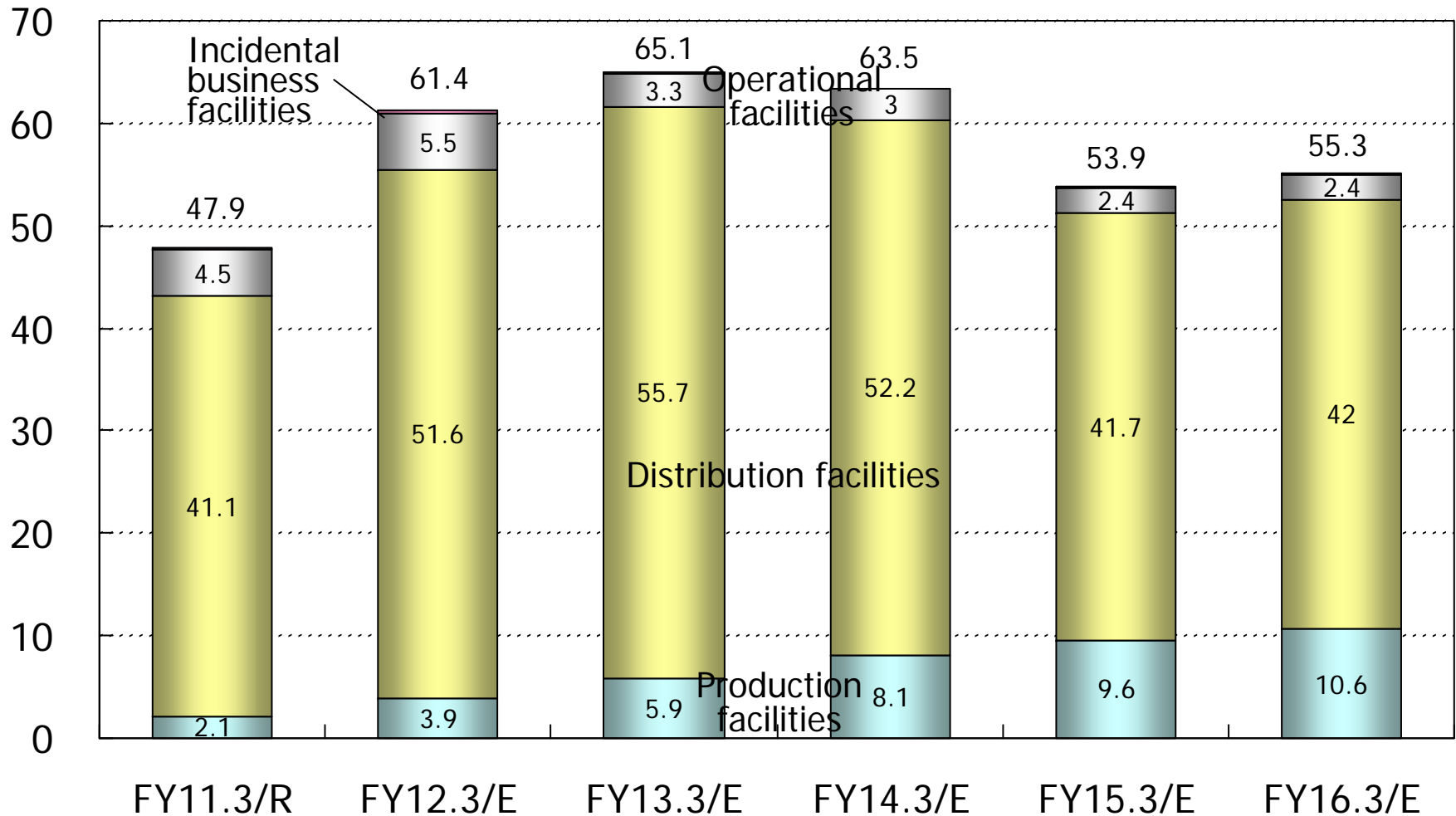
Numbers in ( ) to the right of the graph show growth between FY11.3 and FY16.3



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# Medium-term Capex Forecast

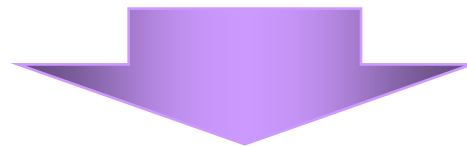
Consolidated, billion yen



# Residential Gas Sales

## FY11.3 Results

	YoY change	Remarks
Change in number of customers	+0.1%	
Influence of temperature	+2.2%	Avg. annual temperature of 17.0 degrees Celsius (17.0 degrees Celsius in FY10.3) Avg. winter temperature of 7.2 degrees Celsius (8.0 degrees Celsius in FY10.3)
Others	-0.9%	
Total	+1.4%	



## FY12.3 Forecast

- Residential gas sales are expected to decrease by 38 million m<sup>3</sup> (down 1.7% YoY) to 2,237 million m<sup>3</sup>, assuming an average annual temperature and winter temperature higher than the previous year's.



# Commercial, Public, and Medical Gas Sales

## FY11.3 Results

	YoY change	Remarks
Demand expansion	+2.6%	Newly created demand from public facilities and medical facilities
Influence of temperature and change in meter-reading intervals	+3.8%	Increased demand for air conditioning due to higher temperatures during the summer months
Others	-1.2%	Customers' drive to save energy, etc.
Total	+5.2%	

## FY12.3 Forecast

- Commercial, public, and medical gas sales are expected to decrease by 72 million m<sup>3</sup> (down 4.4% YoY) to 1,552 million m<sup>3</sup>, assuming average annual temperature and factoring in customers' drive to save energy.

# Industrial Gas Sales

## FY11.3 Results

	YoY change	Remarks
Demand expansion	+3.5%	Contributions from new customers
Change in customers' utilization, etc.	+3.3%	Higher utilization of customers' capacity, etc.
Total	+6.8%	

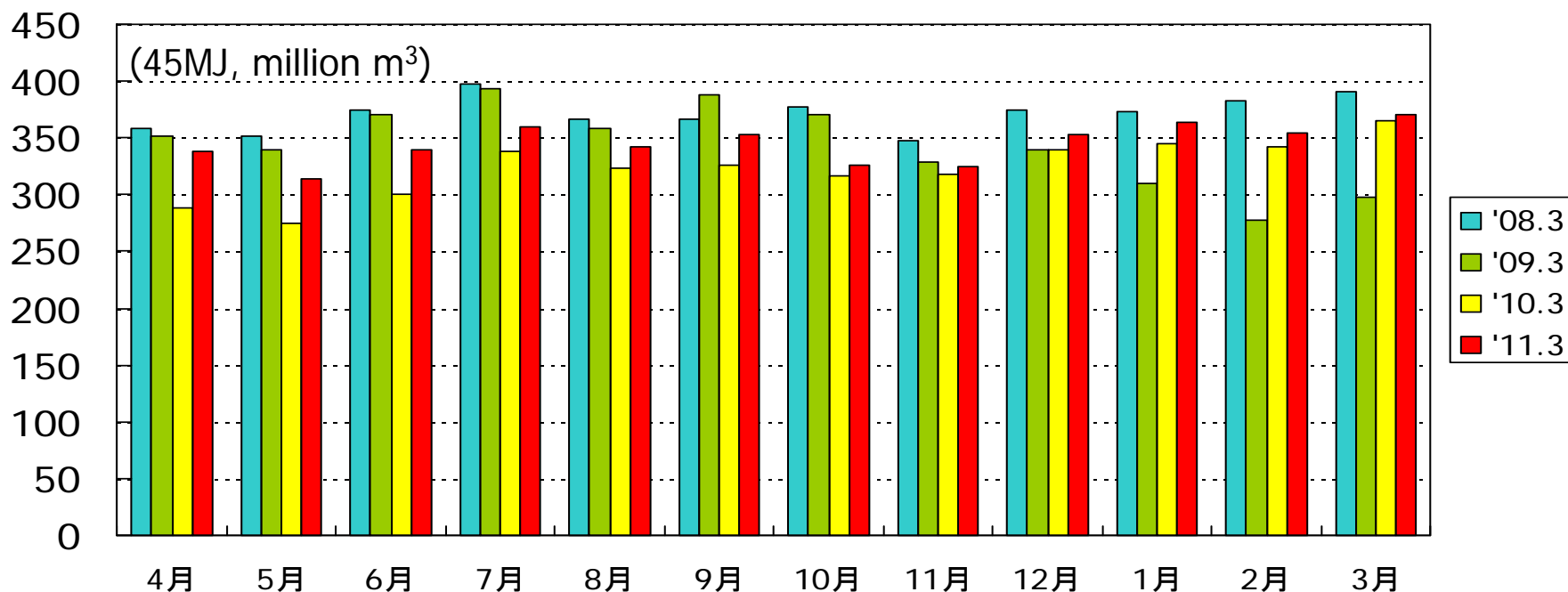
## Breakdown by sector (45MJ, million m<sup>3</sup>)

	Volume	vs. FY10.3	vs. FY08.3
Chemical	1,134	102.8%	90.9%
Metal	1,027	114.5%	89.2%
Food	505	102.7%	98.4%
Machinery	369	101.9%	75.8%
Glass	314	124.2%	195.5%

## FY12.3 Forecast

- Industrial gas sales are expected to edge up by 27 million m<sup>3</sup> (up 0.6% YoY) to 4,168 million m<sup>3</sup>, resulting from the ongoing expansion of new demand via our continued efforts to encourage customers to shift from oil and other fuels to natural gas, as well as our expectations of a pickup in customers' capacity utilization.

# Monthly Industrial Gas Sales



FY10.3 (%)	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total
vs. FY08.3	80.5	78.5	80.5	85.1	88.2	89.2	83.8	91.8	90.4	92.4	92.4	93.5	87.0
vs. FY09.3	82.0	81.1	81.1	86.0	90.4	84.0	85.1	96.8	99.6	111.3	122.8	122.6	93.9

FY11.3 (%)	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total
vs. FY08.3	94.5	89.6	90.9	90.7	93.1	96.7	86.5	93.6	94.2	97.7	96.1	94.6	92.9
vs. FY10.3	117.4	114.2	112.9	106.6	105.5	108.3	103.2	102.0	104.2	105.7	104.0	101.1	106.8

- YoY growth has occurred since January 2010, but monthly sales have yet to reach pre-Lehman Shock levels (FY08.3).

# 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. 900 million yen on annual gross profit.
- Forex 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. 1.2 billion yen on annual gross profit.
- Materials costs
  - Although the materials cost adjustment system allows us to reflect changes in materials costs in gas rates in the medium- and long-term, an increase in materials costs is likely to affect business results due to a time lag in reflecting cost fluctuations, and also depends on the composition of materials suppliers.
- Interest rate
  - A 1% change in the interest rate will have an effect of approx. 600 million yen on annual consolidated non-operating expenses.