



# Financial Report for FY2012.3 (April 2011 – March 2012)

April 2012

Osaka Gas Co., Ltd.

# I. Business Results for FY2012.3 and Forecasts for FY2013.3

**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.

# Summary of Business Results for FY2012.3

## ■ Overview

Consolidated operating revenues	Increased by 9.1% to ¥1,294.7 billion from the previous year supported by the increased gas sales price adjusted in response to the increase in LNG price and increased electric power sales.
Consolidated operating profit	Decreased by 12.8% to ¥77.2 billion due to the decrease in the gas sales gross margin affected by the increase in raw material costs resulting from the LNG price increase, while electric power business profit increased. Loss on fuel cost adjustment system was ¥30.7 billion (compared with a loss of ¥8.5 billion the previous year).

## ■ Gas Sales Volume

Residential	Almost the same as the previous year at 2,271 million m <sup>3</sup> .
Commercial	Decreased by 3.0% to 1,575 million m <sup>3</sup> mainly due to the decreased use of air-conditioning systems affected by the social trend of saving electricity.
Industrial	Increased by 5.2% to 4,355 million m <sup>3</sup> mainly due to the newly created demand and increased operation of customers' facilities.

## ■ Others

Investments for expansion, greenfield, M&A	Decided to make investments in the shale gas development project in Canada, the Ichthys LNG project in Australia, LNG vessels and others. Invested ¥64.2 billion in total.
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# Gas Sales Volume Results for 2012.3

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

	A. FY12.3	B. FY11.3	A-B	A-B/B(%)
Number of meters installed (thousand)	7,045	7,012	+33	+0.5%
Installation of new meters (thousand)	81	79	+2	+2.0%
Monthly gas sales volume per household (m <sup>3</sup> /month)	32.6	32.7	-0.1	-0.4%
Residential use	2,271	2,275	-4	-0.2%
Commercial, public, and medical use	1,575	1,624	-49	-3.0%
Industrial use	4,355	4,141	+214	+5.2%
Non-residential total	5,930	5,765	+165	+2.9%
Wholesale	480	488	-7	-1.5%
(non-regulated)	(5,062)	(4,874)	(+188)	(+3.9%)
Non-consolidated gas sales volume total (million m <sup>3</sup> )	8,681	8,528	+154	+1.8%
Consolidated gas sales volume total (million m <sup>3</sup> )	8,711	8,560	+152	+1.8%

# Results for FY2012.3 - I

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

(billion yen)	A. FY12.3	B. FY11.3	A-B	A-B/B(%)	Remarks
Operating revenues	(1.25) 1,294.7	(1.29) 1,187.1	+107.6	+9.1%	Rise in the price of gas sales, and increase in electric power sales, etc.
Operating profit	(1.96) 77.2	(1.68) 88.5	-11.3	-12.8%	Decrease in gas sales gross margin, etc.
Ordinary profit	(1.84) 75.6	(1.49) 82.3	-6.6	-8.1%	
Net income	(1.76) 45.2	(1.33) 45.9	-0.7	-1.7%	
SVA	11.9	13.2	-1.2	-9.4%	

		A. FY12.3	B. FY11.3	A-B
Consolidated gas sales volume	million m <sup>3</sup>	8,711	8,560	+152
Profit/ loss on fuel cost adjustment system	billion yen	-30.7	-8.5	-22.2
Exchange rate	yen/\$	79.1	85.7	-6.7
Crude oil price	\$/bbl	114.2	84.1	+30.1
Number of subsidiaries		133	131	+2

Average of preliminary monthly data up to March. SVA (Shareholders' value added) = NOPAT – Invested capital × WACC

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# Results for FY2012.3 - II

(billion yen)	A. FY12.3 end	B. FY11.3 end	A-B	Remarks
Total assets	1,475.7	1,437.2	+38.4	Increase in current assets, etc.
Net worth	684.5	664.9	+19.6	
Interest-bearing debt	541.3	532.4	+8.8	Issuance of corporate bonds, etc.
Number of employees	19,818	19,684	+134	
Equity ratio	46.4%	46.3%	+0.1	
D/E ratio	0.79	0.80	-0.01	

	A. FY12.3	B. FY11.3	A-B	Remarks
Capital expenditure	87.1	69.6	+17.5	Construction of Himeji-Okayama pipeline and LNG vessels, etc.
Depreciation	93.6	97.5	-3.9	Decrease in depreciation costs related to the Semboku Natural Gas Power Plant
Free cash flow	79.0	72.7	+6.2	
ROA	3.1%	3.1%	-0.0	
ROE	6.7%	6.9%	-0.2	
EPS (yen/share)	21.7	21.6	+0.1	
BPS (yen/share)	328.8	319.3	+9.4	

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

# Business Plan for FY2013.3

## ■ Activity Policy

### “Change & Challenge”

- Respond to changes that arose after the Great East Japan Earthquake and challenge the reforms.

## ■ Priority Issues

### (1) More advanced safety and security for all customers

- Stable procurement of raw materials
- Strengthening and multiplexing of production/supply facilities and implementation of disaster control

### (2) New world with natural gas and distributed energy systems

- Promoting diffusion of co-generation systems, “smart house” and gas heating/air-conditioning systems

### (3) New business models and further expansion of investments

- Electric power business: LNG wholesales to wider areas in Japan
- International energy businesses along the energy value chain
- Affiliated companies (real estate, advanced material solutions, IT, LPG/industrial gas, life-related services)

### (4) Stronger connection with society and community

# Summary of Business Forecasts for FY2013.3

## ■ Overview

Consolidated operating revenues	Expected to <b>increase by 5.3% from the previous year</b> to ¥1,363 billion supported by an increase in the gas sales price, which will be adjusted in response to the increase in LNG price, and increase in LNG sales volume, although the tariff revision may have some negative impact.
Consolidated operating profit	Expected to <b>increase by 16.5% to ¥90 billion</b> . The gas sales gross margin will increase since the loss on fuel cost adjustment system will decrease, and depreciation costs will decrease as a result of the completion of the five-year equal depreciation of assets whose residual value was 5%. <b>Loss on fuel cost adjustment system is expected to be ¥3.1 billion.</b>

## ■ Gas Sales Volume

Residential	Expected to <b>decrease by 1.7% to 2,232 million m<sup>3</sup></b> , assuming the same temperature level as in usual years.
Commercial	Expected to <b>decrease by 4.0% to 1,512 million m<sup>3</sup></b> , reflecting the impact of customers' energy-saving consciousness.
Industrial	Expected to <b>increase by 1.1% to 4,404 million m<sup>3</sup></b> , reflecting newly created demands and increased operation of customers' facilities.

## ■ Others

Investments for expansion, greenfield, M&A	Plans to make <b>¥120 billion investment</b> , mainly in international energy businesses along the energy value chain.
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# Gas Sales Volume Forecasts for FY2013.3

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

	A. FY13.3 forecasts	B. FY12.3 results	A-B	A-B/B(%)
Number of meters installed (thousand)	7,078	7,045	+32	+0.5%
Installation of new meters (thousand)	81	81	-0	-0.6%
Monthly gas sales volume per household (m <sup>3</sup> /month)	32.0	32.6	-0.6	-1.9%
Residential use	2,232	2,271	-39	-1.7%
Commercial, public, and medical use	1,512	1,575	-62	-4.0%
Industrial use	4,404	4,355	+49	+1.1%
Non-residential total	5,916	5,930	-14	-0.2%
Wholesale	474	480	-7	-1.4%
(non-regulated)	(5,083)	(5,062)	(+21)	(+0.4%)
Non-consolidated gas sales volume total (million m <sup>3</sup> )	8,621	8,681	-60	-0.7%
Consolidated gas sales volume total (million m <sup>3</sup> )	8,652	8,711	-59	-0.7%

# Forecasts for FY2013.3 - I

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

(billion yen)	A. FY13.3 forecasts	B. FY12.3 forecasts	A-B	A-B/B (%)
Operating revenues	(1.25) 1,363.0	(1.25) 1,294.7	+68.2	+5.3%
Operating profit	(1.57) 90.0	(1.96) 77.2	+12.7	+16.5%
Ordinary profit	(1.43) 90.0	(1.84) 75.6	+14.3	+18.9%
Net income	(1.31) 57.0	(1.76) 45.2	+11.7	+26.1%
SVA	23.8	11.9	+11.8	+99.3%

		A. FY13.3 forecasts	B. FY12.3 forecasts	A-B
Consolidated gas sales volume	million m <sup>3</sup>	8,652	8,711	-59
Profit/loss on fuel cost adjustment system	billion yen	-3.1	-30.7	+27.6
Exchange rate	yen/\$	80	79.1	+0.9
Crude oil price	\$/bbl	115	114.2	+0.8

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

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# Forecasts for FY2013.3 - II

(billion yen)	A. FY13.3 end forecasts	B. FY12.3 end forecasts	A-B
Total assets	1,571.5	1,475.7	+95.7
Net worth	721.3	684.5	+36.7
Interest-bearing debt	584.0	541.3	+42.6
Number of employees	19,992	19,818	+174
Equity ratio	45.9%	46.4%	-0.5
D/E ratio	0.80	0.79	+0.01
	A. FY13.3 forecasts	B. FY12.3 forecasts	A-B
Capital expenditure	101.1	87.1	+13.9
Depreciation	84.8	93.6	-8.7
Free cash flow	79.1	79.0	+0.0
ROA	3.7%	3.1%	+0.6
ROE	8.1%	6.7%	+1.4
EPS (yen/share)	27.4	21.7	+5.6
BPS (yen/share)	346.2	328.8	+17.4

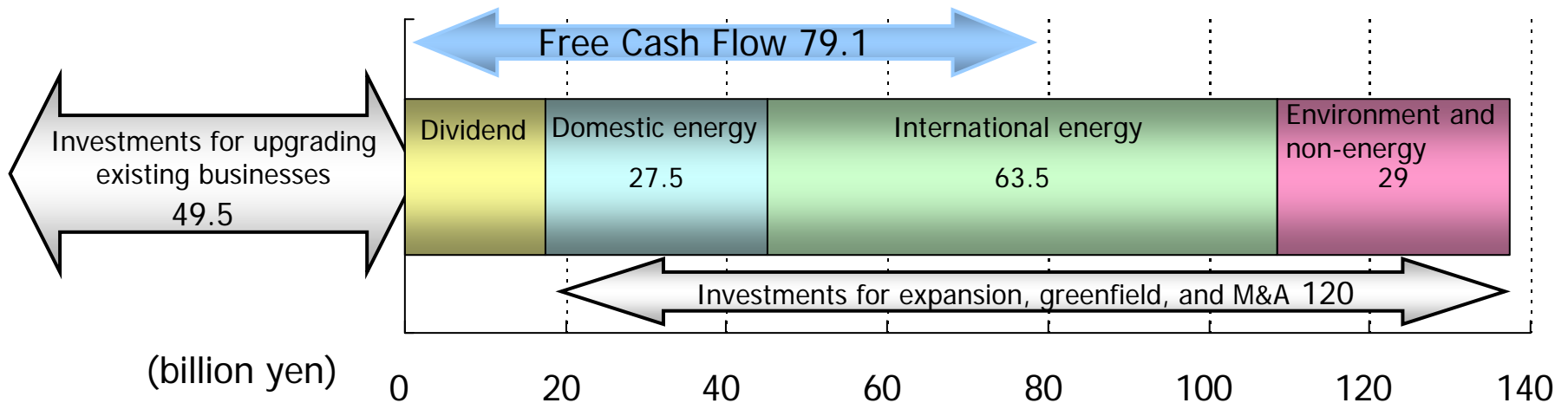
FCF = CF from operating activities - (OP after tax + depreciation and other non-cash expenses) - capital expenditure *Design Your Energy* 夢ある明日を

# Use of Free Cash Flow for FY2013.3

- FCF for FY 2013.3 is expected to be at the same level as previous year at ¥79.1 billion.
- Plans to make ¥120 billion investment for expansion, greenfield, and M&A.

Domestic energy businesses	Construction of major pipelines, etc.
International energy businesses	Expenditures for already-decided projects
along the energy value chain	Exploration for and acquisition of new projects
Environment and non-energy businesses	Exploration for and acquisition of profit-earning real estate properties and new projects

- Aims to achieve an annual dividend of ¥8 per share, following FY 2012.3.

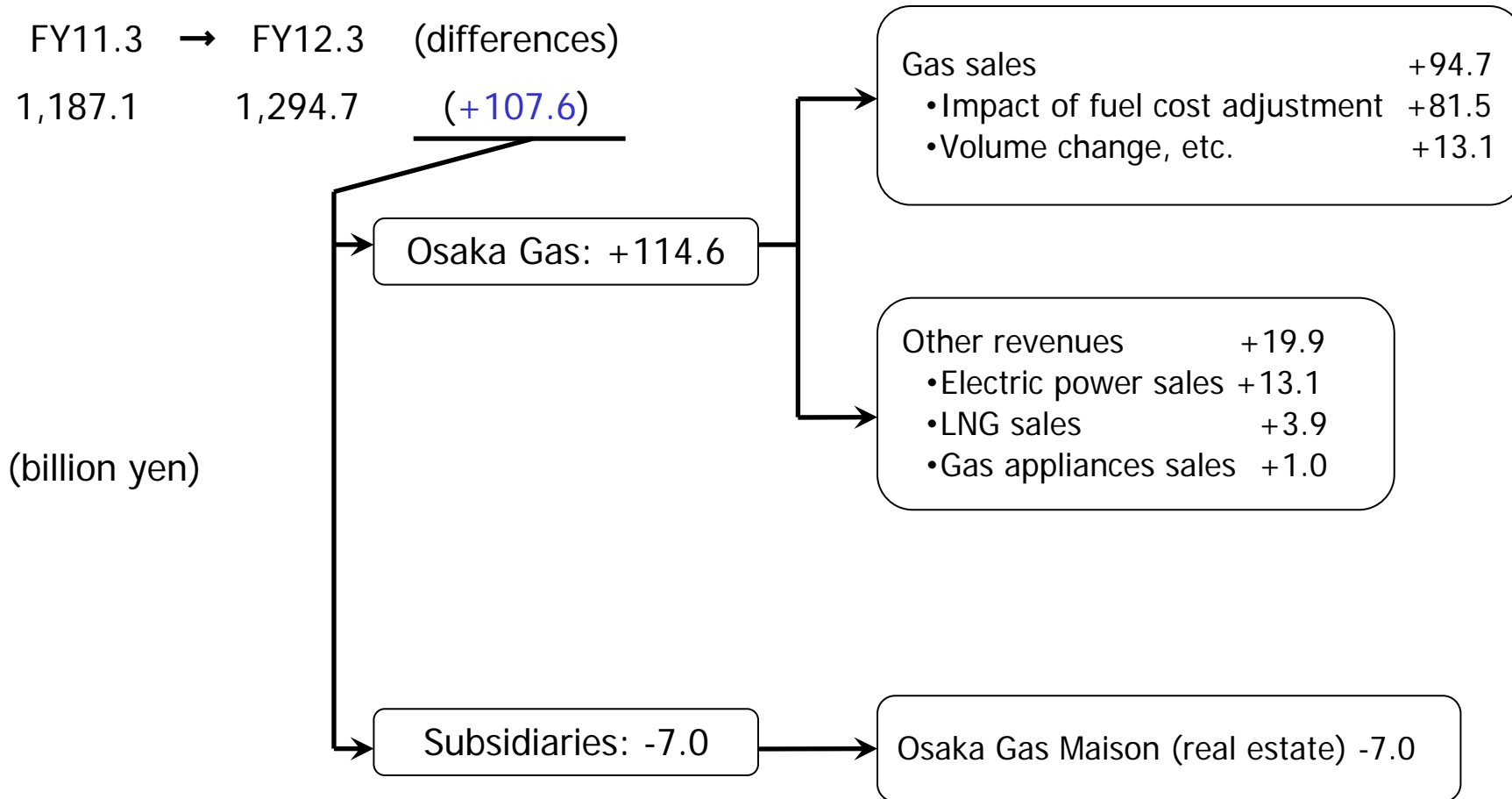


FCF = Operating cash flows – capital expenditures. Capital expenditures do not include investments for quality improvement of existing businesses. The amount of investment differs from that of capital expenditures, as the former includes both capital expenditures and investments / financing.



## II. Facts and Figures

# Change in sales in 2012.3 from previous year



# Change in ordinary income in 2012.3 from previous year

+/- signs indicate impact on profit.

FY11.3 → FY12.3 (differences)

82.3      75.6      (-6.6)

(billion yen)

Osaka Gas: -14.0

Subsidiaries: +7.3

Gross margin of gas sales -19.9  
 • Profit/loss on fuel cost adjustment system -22.2  
 • Volume change, etc. +2.3

Increase in operating expenses -1.1  
 • Increase in tax -1.3

Gross margin of other sales +7.8  
 • Gross margin of electric power sales +8.3

Idemitsu Snorre  
 (North Sea oil field; equity method affiliate) +0.9  
 IPP in Spain (equity method affiliate) +0.9  
 Urbanex group (real estate) +0.8  
 OGIS-RI group (IT) +0.5

# Results for FY2012.3 by Segments

(billion yen)	Operating revenues		Operating profit + equity method earnings		Remarks
	FY12.3	FY11.3	FY12.3	FY11.3	
Gas	976.5	879.8	20.9	41.9	<u>Revenues</u> : Rise in the price of gas sales <u>Profit</u> : Increase in loss on fuel cost adjustment system
LPG, electricity, and other energies	198.0	174.7	32.4	25.6	<u>Revenues/Profit</u> : Increase in electric power sales, etc. <u>Electric power business profit</u> <sup>(*)</sup> FY11.3:12.3, FY12.3:20.6
International energies	11.1	11.1	8.6	4.9	Increase in earnings of equity method affiliates (North Sea oil field, IPP in Spain, etc.)
Environment and non-energies	184.5	185.4	18.5	15.6	<u>Revenues</u> : Decrease in sales of real estate business, etc. <u>Profit</u> : Increase in profit of real estate business, etc.
Elimination/consolidation	-75.5	-64.0	2.2	2.5	
Consolidated	1,294.7	1,187.1	82.9	90.7	

(\*) Profit from electricity business represents operating income earned by Osaka Gas's related electricity business.

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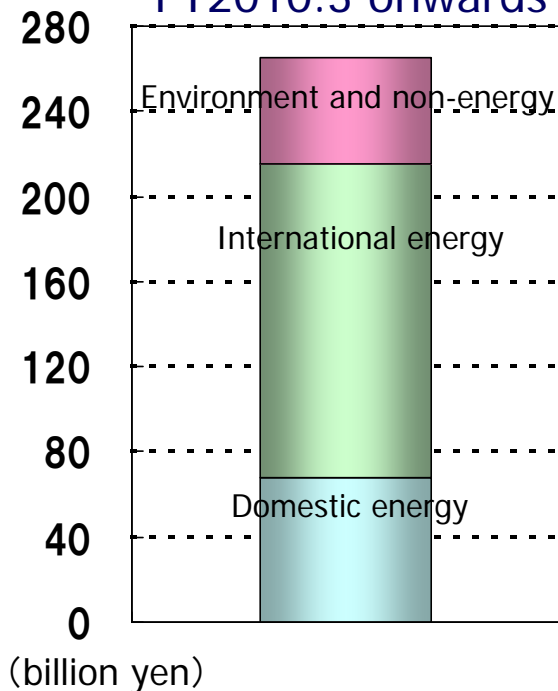


# Results of Investments

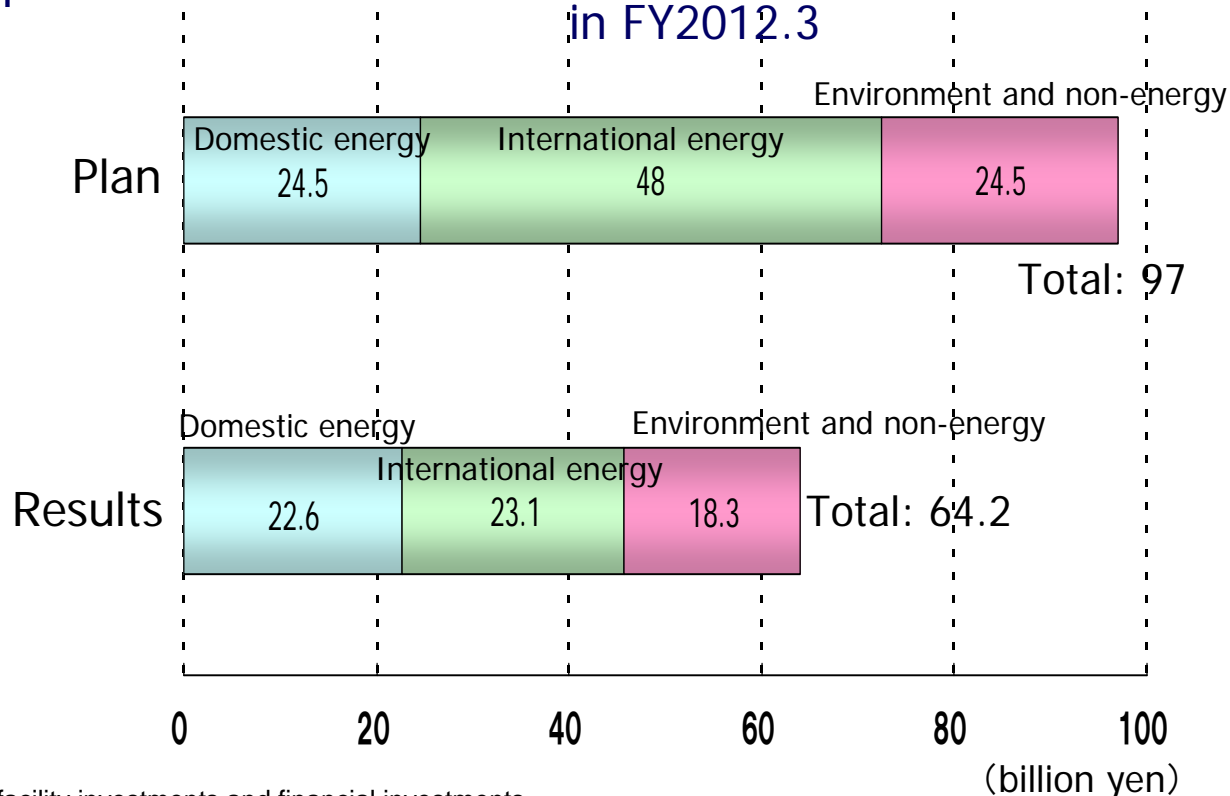
## for expansion, greenfield, and M&A in FY2012.3

- Cumulative amount approved for investment from FY2010.3 onwards are **¥266 billion** (67% of the amount originally projected for the period between FY2010.3 and FY2014.3).
- Total investment in FY2012.3 were ¥64.2 billion.

Cumulative amount approved for invest from FY2010.3 onwards



Investments for expansion, greenfield, and M&A in FY2012.3



Since investment amounts include both facility investments and financial investments, they differ from the actual facility investment amounts.

# Change in sales in 2013.3 from previous year

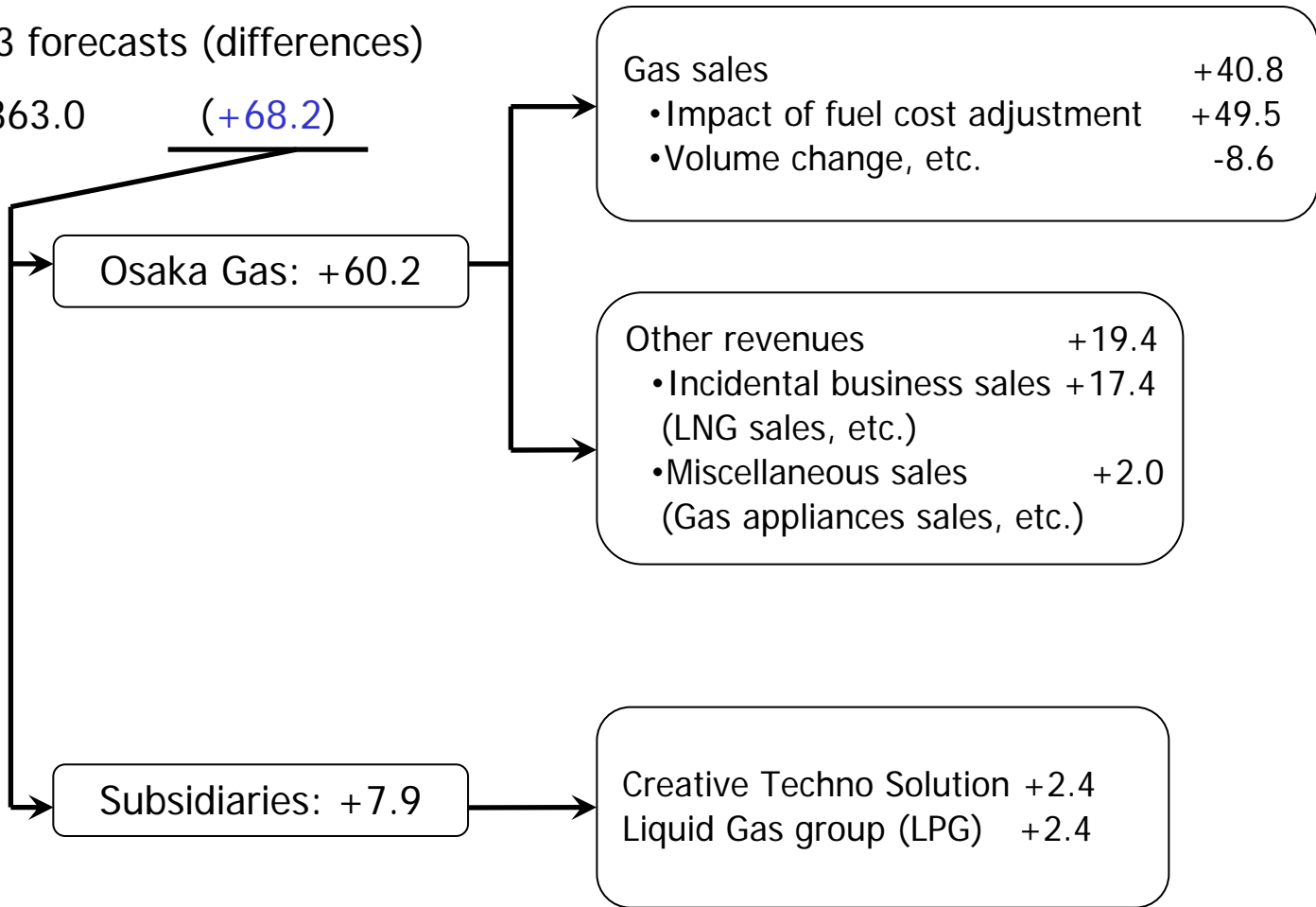
FY12.3 results → FY13.3 forecasts (differences)

1,294.7

1,363.0

(+68.2)

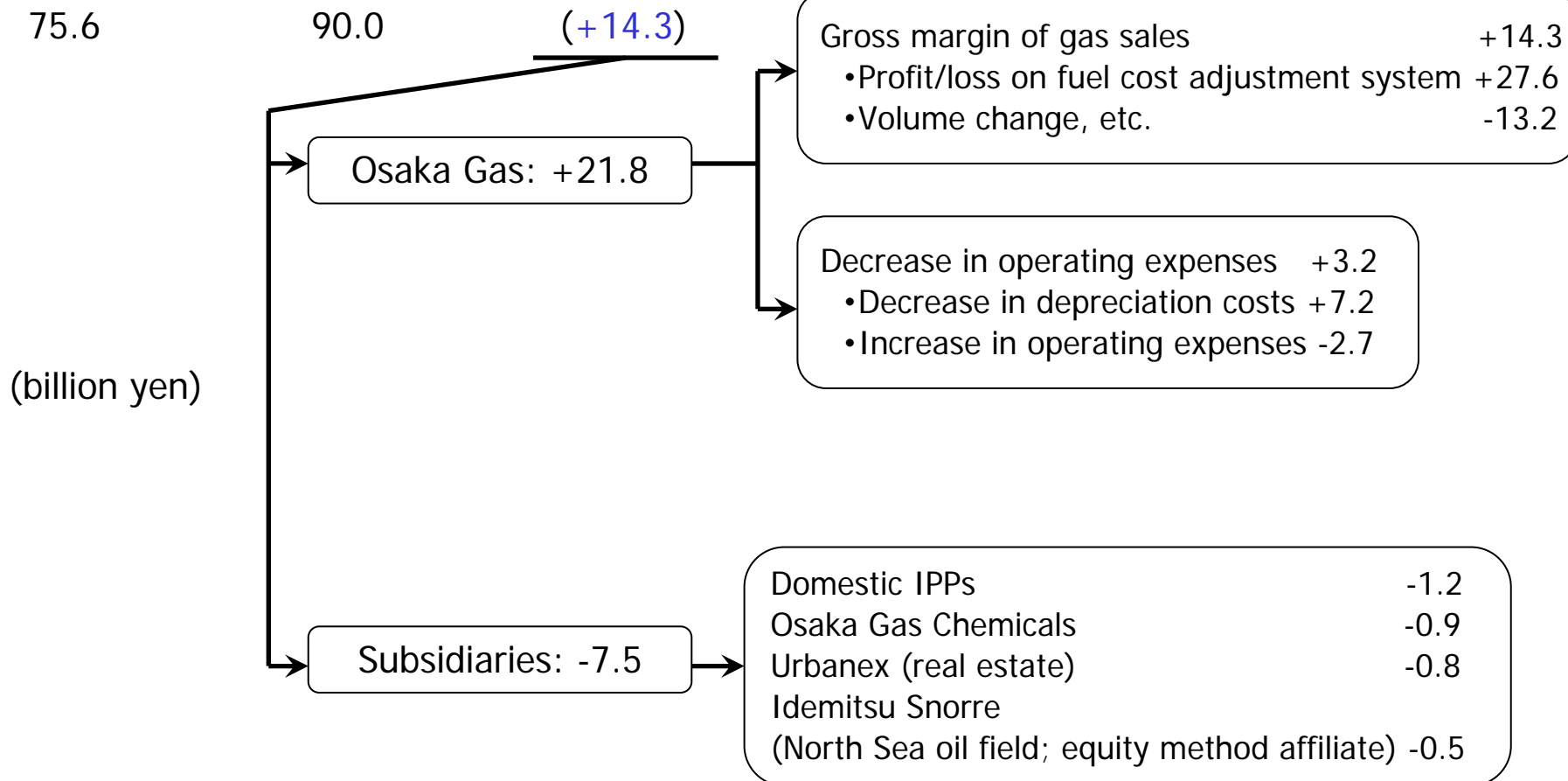
(billion yen)



# Change in ordinary income in 2013.3 from previous year

FY12.3 results → FY13.3 forecasts (differences)

+/- signs indicate impact on profit.



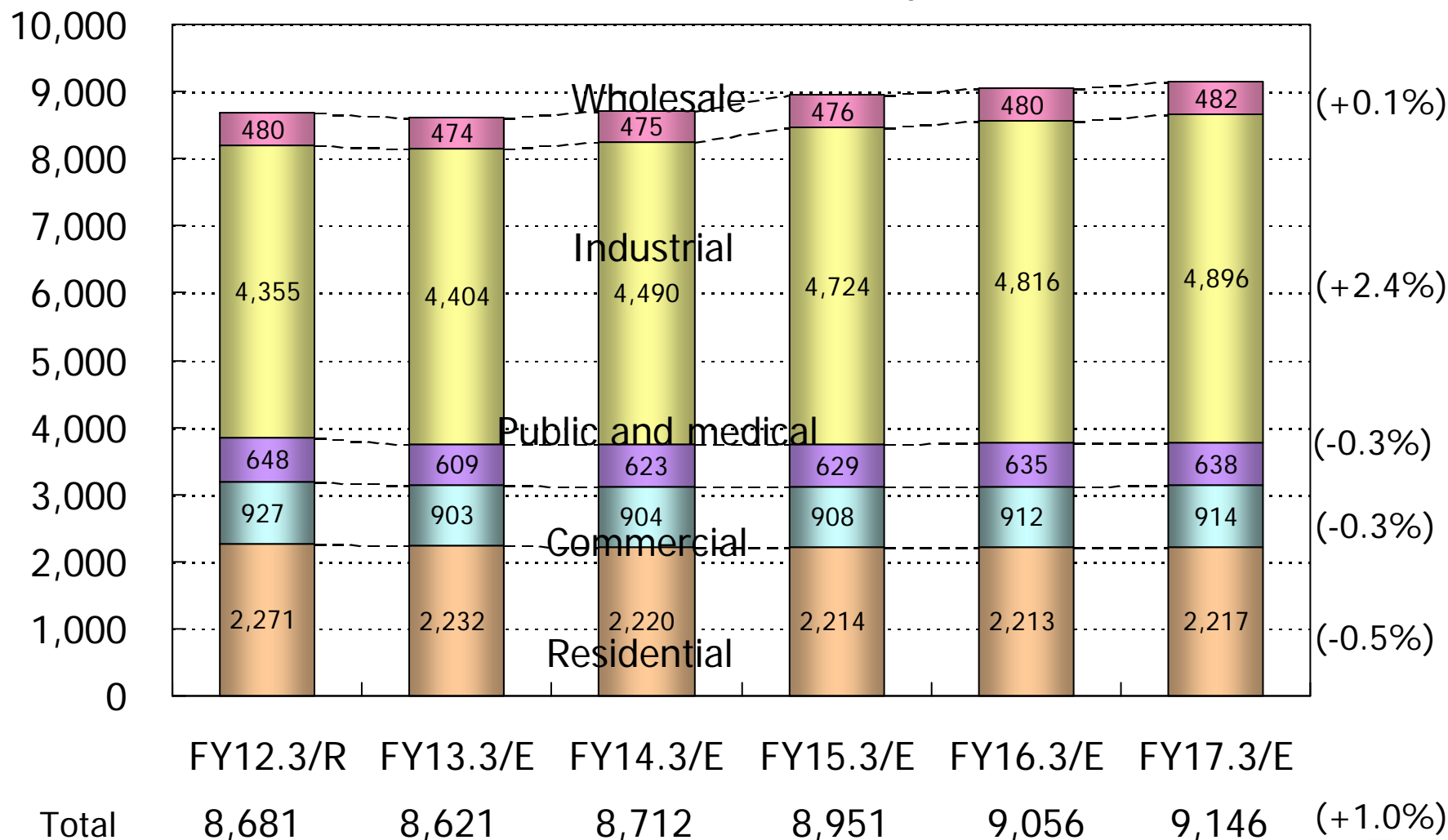
# Forecasts for FY2013.3 by Segments

(billion yen)	Operating revenues		Operating profit + equity method earnings		Remarks
	FY13.3 forecasts	FY12.3 results	FY13.3 forecasts	FY12.3 results	
Gas	1,016.0	976.5	37.5	20.9	<u>Revenues</u> : Rise in the price of gas sales <u>Profit</u> : Decrease in loss on fuel cost adjustment system
LPG, electricity, and other energies	228.5	198.0	33.5	32.4	<u>Revenues</u> : Increase in LNG sales and LPG sales, etc. <u>Profit</u> : Increase in gross margin of LNG sales, etc.
International energies	11.0	11.1	5.5	8.6	Decrease in earnings of equity method affiliates (North Sea oil field, IPP in Spain, etc.)
Environment and non-energies	170.0	184.5	15.5	18.5	<u>Revenues</u> : Decrease in sales of real estate business, etc. <u>Profit</u> : Decrease in profit of advanced materials business, etc.
Elimination/consolidation	-62.5	-75.5	1.5	2.2	
Consolidated	1,363.0	1,294.7	93.5	82.9	

# Medium-term Forecasts of Gas Sales Volume

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

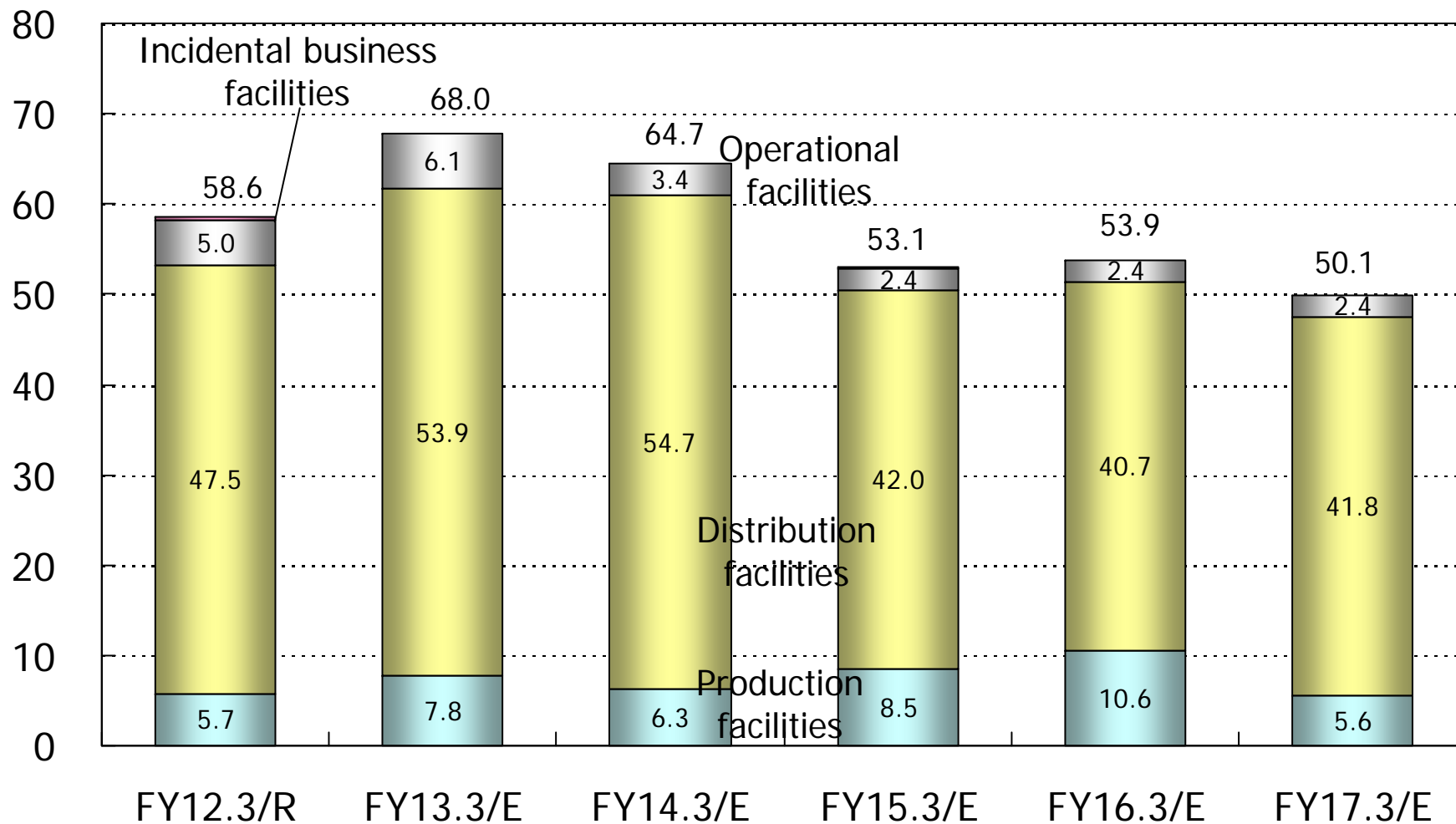
Numbers in ( ) to the right of the graph show growth between FY2012.3 and FY2017.3.



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# Medium-term Forecasts of Capital Expenditures

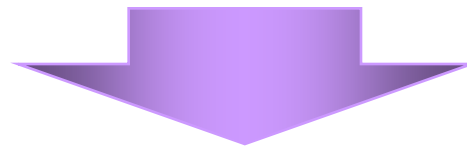
(billion yen)



# Residential Gas Sales

## FY2012.3 results

	YoY change	Remarks
Number of customers	+0.2%	
Influence of temperature	+0.1%	Average annual temperature: 16.9 degrees Celsius (17.0 degrees Celsius in FY2011.3)
Others	-0.5%	
Total	-0.2%	



## FY2013.3 forecasts

- Residential gas sales volume is expected to decrease from the previous year by 39 million m<sup>3</sup> (down 1.7% YoY) to 2,232 million m<sup>3</sup>, assuming that temperatures will be the same as usual years and will become higher than the previous year.

# Commercial Gas Sales

## FY2012.3 results

	YoY change	Remarks
Demand development	+3.0%	New contracts with public/medical institutions
Impact of change in number of hot/cold days	-0.8%	Decreased demand for air-conditioning due to milder summer compared with extreme heat last summer
Others	-5.2%	Customer's energy-saving consciousness and decreased operation of air-conditioning facilities probably affected by electricity-savings trend
Total	-3.0%	



## FY2013.3 forecasts

- Commercial gas sales volume is expected to decrease by 62 million m<sup>3</sup> (down 4.0% YoY) to 1,512 million m<sup>3</sup>, assuming that temperatures will be the same as usual years and customers will make energy-saving efforts.



# Industrial Gas Sales

## FY2012.3 results

	YoY change	Remarks
Demand development	+1.9%	New contracts
Increase/decrease of operating rates	+3.3%	Increased operation of customers' facilities, etc.
Total	+5.2%	

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

	Volume	Percentage to total sales volume	Y-o-Y
Machinery	374	8.6%	100.3%
Metal	1,088	25.0%	106.0%
Glass	337	7.7%	107.3%
Chemical	1,137	26.1%	98.9%
Food	517	11.9%	102.3%

## FY2013.3 forecasts

- Industrial gas sales volume is expected to increase by 49 million m<sup>3</sup> (up 1.1% YoY) to 4,404 million m<sup>3</sup> supported by the development of new demand by continuing to encourage customers to shift from oil and other fuels to natural gas, and increased operation of customers' facilities.

# Monthly Gas Sales for FY2012.3

Change from the same month the previous year (%)

	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Total
Residential	101.5	96.2	100.7	94.7	99.4	116.9	106.9	92.5	94.8	99.3	98.1	106.1	99.8
Commercial	102.4	94.8	103.7	97.4	91.7	90.4	92.7	90.7	97.7	99.5	98.9	108.3	97.0
Industrial	103.3	107.5	102.5	102.6	106.4	102.1	107.1	102.1	100.9	108.3	111.4	107.7	105.2
Machinery	87.9	95.7	99.3	95.6	99.0	96.9	94.0	86.6	99.8	101.0	121.8	123.2	100.3
Metal	104.6	106.4	100.6	104.0	111.4	105.0	112.5	108.7	105.8	105.4	111.0	97.5	106.0
Glass	114.3	115.8	105.9	110.0	109.7	114.7	114.9	101.9	105.3	100.1	101.1	96.8	107.3
Chemical	101.6	110.9	98.5	96.2	98.1	94.6	100.6	99.5	87.2	102.0	100.2	99.0	98.9
Food	101.8	106.0	105.7	100.3	100.6	101.9	101.9	101.2	99.5	102.1	107.3	100.1	102.3
Wholesale	101.0	108.3	100.8	94.0	102.5	97.6	105.6	86.8	92.6	99.8	102.3	93.1	98.5
Total	102.4	102.1	102.2	99.6	101.1	100.1	103.6	96.8	98.1	102.9	104.0	106.5	101.8

# 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. 1.1 billion yen on annual gross profit.
- 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 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. 500 million yen on annual consolidated non-operating expenses.