

# Operating Performance in Fiscal 2012: A Three-Minute Overview

## Before Analyzing the Figures

### [ Factors That Affect Our Earnings ]

Gross profits in the gas business are determined by the increase in gas sales volume (volume difference) and the gap between the selling and purchase prices (price difference).

### Gas Sales Volume

The Company's net sales depend on sales of city gas, which account for around 70% of the Company's total. Therefore, changes in selling volume directly impact net sales. Factors that have a major effect on selling volume are temperature and economic and other fluctuations.

### [ Temperature ]

Demand in the residential sector stems mainly from demand for hot water and indoor heating, so selling volume declines when winters are warm, resulting in lower sales and income. In the commercial sector, gas is used mainly for air conditioning, so cool summers and warm winters cause gas sales volume to decrease, reducing sales and income.

### [ Economic and Other Trends ]

Economic and other trends affect business in the industrial and commercial sectors. In the industrial sector, plant utilization rates fall when economic conditions are sluggish, reducing sales volumes. In the commercial sector, meanwhile, lackluster economic performance can, for example, lower hotel utilization rates, and commercial facilities may shorten hours of operation, lowering sales volume.

### Raw Materials

Raw material costs account for a substantial portion of the Company's operating expenses. These costs tend to fluctuate in line with gas sales volumes and be affected by changes in crude oil prices and exchange rates.

### [ Crude Oil Prices ]

The price of LNG, which is the raw material of city gas, is linked to the crude oil price. Therefore, fluctuations in the crude oil price may affect resource prices.

### [ Exchange Rates ]

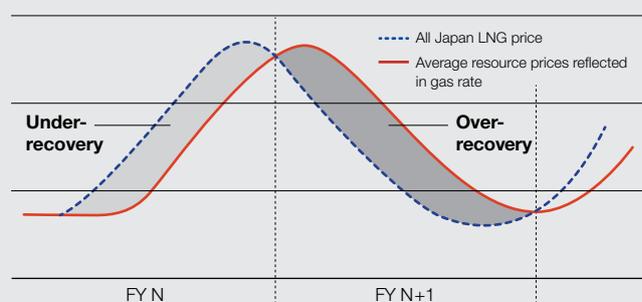
LNG purchase contracts are denominated in U.S. dollars. Accordingly, yen appreciation against the U.S. dollar causes raw material costs to decline on a yen basis. Conversely, yen depreciation against the U.S. dollar pushes raw material costs upward.

### Gas Rate Adjustment System and Slide Time Lag

To increase the transparency of gas rates and encourage providers to be clear about their efforts to achieve higher business efficiencies, the gas rate adjustment system was introduced. Through this system, average raw material prices over a three-month period according to trade statistics are compared to the raw material cost that is used as the standard (standard average raw material cost), and the gas rates are adjusted using a defined calculation method based on the differences. Under this system, the impact of changes in raw material costs on a gas company's earnings is essentially neutral. However, a time lag of up to five months (called a slide time lag) exists between the payment of raw material costs and the reflection of such changes in gas rates. Consequently, fluctuations in crude oil prices and exchange rates may result in the under-recovery or over-recovery of raw material costs if this lag cuts across a fiscal year, thereby affecting income.

### ► How the Slide Time Lag in Rates Works

The average raw material price over the past three months is calculated every month, and then reflected in the gas rate three months later. (Example: The average raw material cost for January through March is reflected in the June gas rate.)



### Pension Actuarial Differences

Actuarial differences arise from differences between expected and actual investment returns on pension assets, as well as on differences between expected and actual retirement benefits. These costs are written off as a lump sum in the fiscal year following the year in which they arise and are posted as operating expenses. Accordingly, major actuarial differences can have a substantial impact on revenues and expenses in the following fiscal year.

**Liquefied natural gas (LNG):** LNG is produced by cooling gas (natural gas) composed primarily of methane (CH<sub>4</sub>) down to around minus 162°C, thereby liquefying the gas. Liquefaction reduces the volume down to 1/600 that of the gas, allowing large amounts to be transported by tanker.

## Performance

### Results in Fiscal 2012: Increases in Both Sales and Income

#### Gas Sales Volume: **Up 1.3%**

Gas sales volume rose 200 million m<sup>3</sup> year on year, or 1.3%, to 15,390 million m<sup>3</sup>, following a substantial increase in industrial demand centered on demand for power generation applications.

#### Net Sales: **Up 9.2%**

Net sales increased ¥161.4 billion, or 9.2%, to ¥1,915.6 billion, due to higher gas sales volume, a rise in city gas sales that resulted from the gas rate adjustment system, and favorable sales of electricity.

#### Net Income: **Up 120.7%**

Net income was up ¥55.6 billion, or 120.7%, to ¥101.6 billion, following higher operating income due to increases that resulted from the slide time lag effect as well as improvements in the balances of non-operating and extraordinary items.

#### Shareholder Returns in Fiscal 2012

Dividend payments amounted to ¥25.7 billion and treasury stock with a total value of ¥36.0 billion was acquired. The total payout ratio—60.7% of net income—**remained above 60%**. Dividends were **raised to ¥10 per share, up ¥1** per share from the previous fiscal year's ¥9 per share.

## Major Initiatives

### Reducing Resource Costs and Expanding Overseas Operations

**March 2013** **Acquired first upstream interests in the U.S.** through participation in a shale gas development joint venture in the Barnett basin

**April 2013** Concluded a Heads of Agreement for Sale and Purchase regarding the procurement of natural gas from the Cove Point LNG Project, **the Company's first long-term agreement employing a Henry Hub index linked price formula**

**June 2012** Acquired a 26.66% stake in a natural gas-fired thermal power plant with generation capacity of 425 MW in Belgium  
→ Investment abroad business operating income: Up ¥3.7 billion (–% year on year)

### Building a Production and Supply Infrastructure to Cultivate Demand

**March 2012** Completed the Chiba–Kashima Line in March 2012 followed by the Kashima Waterfront Line in May 2012 and commenced supply to TEPCO's Kashima Thermal Power Station, etc  
→ Captured new demand for 405 million m<sup>3</sup> of gas in the Kashima area

**July 2012** **Began constructing the Hitachi LNG Terminal** in Hitachi City, Ibaraki Prefecture, to be the Company's 4th LNG receiving terminal (scheduled to commence operations in fiscal 2015)

**February 2013** **Decided plans to accelerate natural gas infrastructure development in Ibaraki**, including joint construction of a new pipeline into the Mito area with Tobu Gas, approval of construction plans for the Koga–Moka Line, and examination of land and submarine routes for the Hitachi–Kashima Line (provisional name)

### Providing Diverse Energy Solutions

**October 2012** Decided on construction of **a third unit at the Ohgishima Power Station** and commenced construction in November 2012

**April 2013** Launched new “ENE-FARM” systems  
→ Electric power business operating income: Up ¥11.2 billion (+140.7% year on year)

▶ For details, see P.40 Management's Discussion and Analysis

### ▶ Summary of Operating Results

	Fiscal 2012	Fiscal 2011	Change	Billions of yen
Gas sales volume (Million m <sup>3</sup> , 45MJ/m <sup>3</sup> )	15,390	15,190	+200	%
Net sales	1,915.6	1,754.2	+161.4	+1.3
Operating expenses	1,770.0	1,677.1	+92.9	+9.2
Operating income	145.6	77.0	+68.6	+5.5
Ordinary income	147.4	75.6	+71.8	+88.9
Net income	101.6	46.0	+55.6	+95.0
				+120.7

### ▶ Economic Frame

	JCC (\$/bbl)	Exchange rate (¥/\$)	Average temperature (°C)
Fiscal 2012	113.9	82.9	16.7
Fiscal 2011	114.2	79.1	16.4

### ▶ Pension Investment (non-consolidated)

	Investment yield (costs deducted)	Discount rate	Year-end assets (Billions of yen)
Fiscal 2012	6.10%	1.4%	276.0
Fiscal 2011	5.13%	1.7%	254.0
Fiscal 2010	2.70%	2.0%	235.0