



# Southwest Gas<sup>™</sup>

## HOLDINGS

### Southwest Gas Corporation Reports Second Quarter 2012 Results

August 7, 2012

LAS VEGAS, Aug. 7, 2012 /PRNewswire/ -- Southwest Gas Corporation (NYSE: SWX) recorded a net loss of \$0.08 per share for the second quarter of 2012, compared to net income of \$0.09 per basic share for the second quarter of 2011. Consolidated net loss was \$3.7 million for the second quarter of 2012, compared to consolidated net income of \$4.1 million for the prior-year quarter. The loss during the current quarter was primarily due to the recognition by the construction services segment of \$13 million of costs in excess of revenues (pretax) associated with a large fixed-price pipe replacement contract. Due to the seasonal nature of the Company's businesses, results for quarterly periods are not generally indicative of earnings for a complete twelve-month period.

According to Jeffrey W. Shaw, President and Chief Executive Officer, "Recognition of a \$13 million loss on a large NPL contract reduced earnings by approximately \$0.18 per share in the second quarter of 2012. This contract, which is limited to a single operating area, was over 80% complete at June 30, 2012 and the total expected loss on the contract has been recognized. NPL's other operating areas continued to perform very well." As it relates to the natural gas segment, Shaw noted that "Operating income for the natural gas segment improved by \$2.1 million, or 15%, compared to the prior-year quarter. However, this operating improvement was more than offset by a decline in the cash surrender values of COLI policies in the second quarter of 2012, due to unfavorable stock market returns." Shaw concluded by saying "During the second half of the year, we anticipate that NPL will get back on track and the gas segment will continue to benefit from recently granted rate relief. In addition, our rate case in Nevada remains on schedule and should conclude prior to year end."

For the twelve months ended June 30, 2012, consolidated net income was \$114.9 million, or \$2.50 per basic share, compared to \$112.8 million, or \$2.47 per basic share, during the twelve-month period ended June 30, 2011. The current twelve-month period reflects a \$13 million pretax loss on the NPL fixed-price contract and an \$800,000 decline in cash surrender values (net of recognized death benefits) related to company-owned life insurance ("COLI") policies. The prior twelve-month period included a \$16.7 million (\$0.37 per share) increase in COLI cash surrender values and net death benefits.

#### Natural Gas Operations Segment Results

##### **Second Quarter**

Operating margin, defined as operating revenues less the cost of gas sold, increased \$8 million in the second quarter of 2012 compared to the second quarter of 2011. Rate relief in Arizona provided an approximate \$5 million increase in operating margin. Weather changes between quarters accounted for a \$2 million increase as warmer-than-normal temperatures were experienced in the prior-year quarter. With a new rate decoupling mechanism in Arizona, effective January 2012, weather is not expected to be a significant factor in operating margin overall. New customers contributed an incremental \$1 million in operating margin during the second quarter of 2012, as approximately 19,000 net new customers were added during the last twelve months.

Operating expenses for the quarter rose \$5.5 million, or 4%, compared to the second quarter of 2011, primarily due to increases in general costs, employee-related costs including pension expense, and depreciation expense resulting from additional plant in service, partially offset by lower property taxes.

Other income, which principally includes changes in the cash surrender values of COLI policies and non-utility expenses, declined \$4.3 million between periods. In the current quarter, cash surrender values of COLI policies declined \$1.9 million (\$0.04 per share), while the prior-year quarter included a net positive impact of \$2.6 million (\$0.06 per share) on other income, resulting from net death benefits recognized and COLI cash surrender value changes. Net interest deductions increased \$873,000 between quarters. In March 2012, Southwest issued \$250 million of 3.875% Senior Notes primarily for the purpose of repaying \$200 million of 7.625% Senior Notes that matured in May 2012. Both borrowings were outstanding for a period during the second quarter of 2012 (prior to the due date of the maturing notes), which temporarily increased borrowing costs.

##### **Twelve Months to Date**

Operating margin increased \$33 million between periods primarily due to \$27 million of rate relief in Arizona. Customer growth contributed \$4 million toward the increase. Other net differences, including weather impacts, accounted for \$2 million of the increase in operating margin.

Operating expenses increased \$14.8 million, or 3%, between periods, principally due to an increase in depreciation expense resulting from additional plant in service. Higher general costs and employee-related costs including pension expense, as well as higher Arizona property taxes, contributed to the increase. These cost increases were partially offset by favorable claims experience under Southwest's self-insured medical plan during the fourth quarter of 2011.

Other income declined \$15 million between periods, primarily due to a significant decrease in COLI-related income. Net interest deductions decreased \$4.4 million between the twelve-month periods primarily due to cost savings from debt refinancing, and reduced interest rates associated with variable-rate debt (including reductions relating to an interest tracking mechanism).

Southwest Gas Corporation provides natural gas service to 1,858,000 customers in Arizona, Nevada, and California.

*This press release may contain statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation*

Reform Act of 1995 (Reform Act). All such forward-looking statements are intended to be subject to the safe harbor protection provided by the Reform Act. A number of important factors affecting the business and financial results of the Company could cause actual results to differ materially from those stated in the forward-looking statements. These factors include, but are not limited to, the impact of weather variations on customer usage, customer growth rates, the effects of regulation/deregulation, the timing and amount of rate relief, changes in rate design, results of NPL fixed-price contracts, and the impacts of stock market volatility.

**SOUTHWEST GAS CONSOLIDATED EARNINGS DIGEST**  
(In thousands, except per share amounts)

<b><u>QUARTER ENDED JUNE 30,</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Consolidated Operating Revenues	\$ 409,768	\$ 388,505
Net Income (Loss)	\$ (3,676)	\$ 4,055
Average Number of Common Shares Outstanding	46,114	45,864
Basic Earnings (Loss) Per Share	\$ (0.08)	\$ 0.09
Diluted Earnings (Loss) Per Share	\$ (0.08)	\$ 0.09
<b><u>SIX MONTHS ENDED JUNE 30,</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Consolidated Operating Revenues	\$ 1,067,413	\$ 1,016,945
Net Income	\$ 75,243	\$ 72,604
Average Number of Common Shares Outstanding	46,091	45,814
Basic Earnings Per Share	\$ 1.63	\$ 1.58
Diluted Earnings Per Share	\$ 1.62	\$ 1.57
<b><u>TWELVE MONTHS ENDED JUNE 30,</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Consolidated Operating Revenues	\$ 1,937,656	\$ 1,792,740
Net Income	\$ 114,926	\$ 112,766
Average Number of Common Shares Outstanding	45,996	45,656
Basic Earnings Per Share	\$ 2.50	\$ 2.47
Diluted Earnings Per Share	\$ 2.48	\$ 2.45

SOURCE Southwest Gas Corporation

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