

Interview with the President



Takehiro Honjo
President

“We will expand our business into diverse areas and global fields.”

Evolving into a comprehensive energy business

Q.1 What were the performance highlights for the fiscal year ended March 31, 2015?

In this fiscal year, the Group's businesses were influenced by dramatically lowered oil prices, continued depreciation of the yen and an anticipated decline in gas demand subsequent to the last-minute rise in demand prior to the consumption tax hike introduced at the beginning of the fiscal year.

In terms of performance, industrial demand fell due to the expiration of contracts with certain independent power producers, the change in accounting method from large-volume to small-volume supply and decreases

in running operations of customers' facilities. These and other factors led to a year-on-year decrease of 3.1% in consolidated gas sales.

This fiscal year, the time lag gain of 12.3 billion yen in gas business resulted in an all-time high of 108.1 billion yen in ordinary income. The sale of investment securities also played a role in achieving 76.7 billion yen in current net income, with both ROA and ROE significantly increased from the previous year.

Performance (Consolidated)

	2014.3	2015.3
Sales (billion yen)	1,512.5	1,528.1
Operating income (billion yen)	99.3	105.0
Ordinary income (billion yen)	106.0	108.1
Current net income (billion yen)	41.7	76.7
Time-lag gain/loss* (billion yen)	-20.5	12.3
ROA	2.6%	4.3%
ROE	5.4%	9.1%

* Time lag gain/loss is derived from the fuel cost adjustment system due to the time difference between the time of change in LNG price and that of its reflection in gas tariffs.

Gas Sales

45 MJ/m ³		2014.3	2015.3	Change	Percentage change
Non-consolidated	No. of customers (thousand)	7,136	7,196	+60	+0.8%
	No. of new constructions (thousand)	102	107	+5	+4.6%
	Sales volume per household (m ³ /month)	31.3	30.9	-0.3	-1.1%
	Residential	2,198	2,186	-12	-0.5%
	Commercial/public/healthcare	1,528	1,465	-63	-4.1%
	Industrial	4,329	4,133	-195	-4.5%
	Commercial and industrial total	5,856	5,599	-258	-4.4%
	To other gas providers	469	474	+4	+1.0%
	[Large-volume customers]	[4,988]	[4,755]	[-233]	[-4.7%]
	Total gas sales volume (million m ³)	8,524	8,259	-265	-3.1%
Consolidated gas sales volume	8,554	8,290	-264	-3.1%	

Q.2 What led to the lowering of gas tariffs in January 2015?

Having profited from enhanced business efficiencies achieved in the past three years since the previous rate revision and in prospect of further gain from our future efforts, we lowered the rates for small-volume customers by an average of 1.26% as a way to return the profits to our customers.

This cut in gas rates was possible thanks to the capital built by lowering fixed costs and enhancing business efficiencies. Specifically, in addition to business

improvements, we have achieved greater personnel efficiency by outsourcing on-site work, accounting and other functions. We have also lowered costs through better management of construction schedules, specifications, etc.

Going forward, we plan to continue to further operational optimization and new gas demand development.

“To remain a winner in the more severe market environments, we want to build a competitive edge.”

Q.3 How will the Group cope with the full liberalization of the gas retail market?

At present, groundwork leading up to the full liberalization of the gas retail market is in progress, and many companies are looking into the opportunity to enter the market by offering new services.

To remain a winner in the more severe market

environments, we want to build a competitive edge by evolving into a comprehensive energy company serving various needs of customers with the supply of energy and energy-saving solutions while continuing to lower the cost of LNG procurement at the company.

Q.4 How will unbundling affect the transmission/distribution business?

In establishing a competitive market environment that is fair and highly transparent, we need to enhance the neutrality of our transmission/distribution business to a higher level.

In accordance with the Osaka Gas Group's business plan for FY2015, we are taking steps on a voluntary basis to establish greater neutrality and boost the convenience of our transportation services. One effort is the establishment of a Transportation Services Reception Center to consolidate our contact points

both internally and externally. The center will allow us to handle other gas suppliers' applications for transportation services as well as requests for more information disclosure on our gas transportation operations. With the reform bill to the Gas Business Act passed and enacted in the Diet stipulating the legal unbundling of the transmission/distribution business, we will get actively involved in the process of examining the details of the new system and regulations so that a stable supply and security will be ensured.



Q.5 How do you view the full deregulation of the electricity retail market in April 2016?

In March 2015, Osaka Gas filed an application with the Ministry of Economy, Trade and Industry to start business operations as a power producer and supplier. We will be developing various new services that meet customers' needs while offering energy management, maintenance, and financing schemes, which we have developed through our experience in our natural gas business, proposing energy solutions to customers.

In terms of securing power sources, we have acquired both small- and large-scale power sources

primarily in Western Japan and are looking to expand the capacity of our energy sources. We will not only acquire gas-fired thermal power plants for middle-to-peak load generation, but also coal-fired thermal power plants as a base load power source. We also aim to build a supply portfolio consisting of a number of different sources, including renewables and procurement from other companies.

Q.6 What is the Osaka Gas Group's policy on alliances with other companies?

We plan to discuss and deliberate the opportunities of mutually beneficial alliances with other companies that will contribute to the strategic growth of the Osaka Gas Group.

One example would be a limited tie-up with other companies to procure natural gas at competitive prices

while another would be a partnership in the power retail market with other businesses across a wide range of industries to provide the best services to our customers.

Q.7 What impact has been seen in the Osaka Gas Group's performance due to the drop in crude oil prices since mid-2014?

We have assessed that every \$1/barrel decrease in the price of crude oil at an annual average will increase the Osaka Gas Group's consolidated ordinary income by 800 million yen in the fiscal year ending March 31, 2016.



In the gas business, we forecast a growth in gas demand in the industrial sector due to the spurring of new demand with the introduction of gas equipment such as cogeneration and gas air conditioning systems, as well as expected increases in operation of existing facilities.

In the power business, since the market price at the Japan Electric Power Exchange (JEPX) is expected to fall due to the drop in crude oil prices, we foresee a decrease in profits year-on-year in the fiscal year ending March 31, 2016.

In the international energy segment, despite an expected decline in income from our upstream businesses, we can keep costs within reasonable limits to minimize any ill effects by taking measures such as stretching out exploration schedules.

The Osaka Gas Group conducts business in a variety of fields, which allows us to offset the effects of a drop in income by expanding profits in other businesses and acquiring new gas demand. Through such efforts, we aim to achieve our targets in our medium-term business plan.

“We are expanding our fields of business to adapt ourselves flexibly to changes in the economic environment.”

Q.8 What is the status of the Group's business activities in non-energy fields?

The Osaka Gas Group is engaging in various unique fields of business outside of the energy sector.

By developing businesses in which we are able to fully utilize our technologies and expertise accumulated through our energy businesses, we are able to boost our business value, disperse risk and heighten synergies to build up a robust business portfolio.

In the material solutions segment, we acquired Sweden-based Jacobi Carbons AB in January 2014 to strengthen our activated carbon business, and

Mizusawa Industrial Chemicals Co., Ltd. became our wholly owned subsidiary in April 2015, establishing a new pillar of business in inorganic particles.

For further growth of the Osaka Gas Group, while optimizing the Group's assets and divesting unprofitable businesses as prudent, we strive to increase the value of our existing businesses and expand businesses in the domains of material solutions, information solutions, real estate and life services.

Q.9 What is the Group's investment strategy for growth?

Our eight-year new business investment plan calls for the investment of 740 billion yen between the fiscal years ending March 31, 2010 and 2017, which is proceeding smoothly so far at the end of the fiscal year ended March 31, 2015, 557 billion yen has been invested (on a commitment decision basis), marking 75% achievement.

In the domestic energy business, we continue constructing gas transportation trunk lines and new power plants. In the international energy business, we promote the development of our growth-oriented investments in upstream projects such as the Gorgon, Ichthys, and

Freeport LNG projects, as well as downstream projects including the St. Charles natural gas-fired power plant in Maryland, USA. In life & business solutions (non-energy business), we are engaging in major acquisitions, mainly in material solutions.

The Osaka Gas Group is planning to invest 148 billion yen in new business expansion in the fiscal year ending March 31, 2016. We are also cashing out on past investment decisions and steadily promoting projects while continuing acquisition of sound businesses that will lead to future growth.

Q.10 Please give us your thoughts on returning profits to shareholders and capital policies for the future.

The electricity and gas industry regulatory reforms are likely to increase the uncertainty surrounding our domestic energy business. Under these circumstances, I believe it is necessary for us to increase capital and maintain a highly sound financial position to move our businesses forward in a sustained manner and to carry out investments.

Based on this approach, we have set our financial soundness targets for the fiscal year ending March 31, 2017 at a D/E ratio of approximately 0.7 and shareholders' equity ratio of 50% or more.

With regard to shareholder returns, we have set a consolidated payout ratio target of 30% or more on a basis that excludes factors that affect short-term profits. We also anticipate profit contributions from international upstream projects in which we have invested.

The Osaka Gas Group will continue its commitment

to increasing profits to ensure that the fruits of such growth can be passed on to its shareholders through increases in the dividend amount.

In addition, we will repurchase our own stock in a flexible manner by comprehensively taking into account the factors including cash flow, financial conditions, and the extent of our investment.

In celebration of the Osaka Gas Group's 110th anniversary in 2014, we have decided to add a commemorative dividend of 0.5 yen/share to the year-end dividend for the fiscal year ended March 31, 2015 and to both the interim and year-end dividends for the fiscal year ending March 31, 2016. I would like to thank all our shareholders for the support we have been given over the years and express our gratitude for their continued patronage.

Annual Dividends per Share (Yen)

