

Interview with the President



President
Takehiro Honjo

Q1 What are the highlights of the company's performance for the fiscal year ended March 31, 2017?

A This was the year when the electricity retail market was fully deregulated, and in the meantime, a year in which we were preparing for the full deregulation of gas retailing, which took effect in April 2017.

In the gas business, our ordinary income was down 28.7% from the previous year to 96.2 billion yen due to the effect of significant decrease in time-lag profit. However, the actual ordinary income excluding the time-lag effect increased year-on-year. Also, our gas

sales volume increased and we have been steadily acquiring electricity contracts, so the company's performance is not as bad as the figures might suggest.

Nevertheless, the domestic energy market, including gas and electricity, is shrinking, and the full deregulation of gas retailing as an external environmental factor forces us to establish a business structure that can earn an even higher level of revenue to achieve sustainable growth.

Performance (Consolidated)

	2016.3	2017.3	Change	Percentage change
Net sales (billion yen)	1,322.0	1,183.8	-138.1	-10.5%
Operating income (billion yen)	146.6	97.2	-49.4	-33.7%
Ordinary income (billion yen)	134.9	96.2	-38.7	-28.7%
Profit attributable to owners of parent (billion yen)	84.3	61.2	-23.0	-27.3%
Time-lag gain/loss* (billion yen)	81.7	13.7	-67.9	—
ROA	4.6%	3.3%	-1.3	—
ROE	9.4%	6.6%	-2.8	—

* The Fuel Cost Adjustment System in the gas business cause a gain or loss in profit due to the time lag between a change in LNG prices and its reflection in gas rate.

Consolidated gas sales volume

45MJ/m ³	2016.3	2017.3	Change	Percentage change
Residential	2,083	2,103	+19	+0.9%
Non-Residential	5,937	6,560	+622	+10.5%
Total gas sales volume (million m ³)	8,021	8,662	+642	+8.0%
Consolidated gas sales volume (million m ³)	8,052	8,694	+642	+8.0%

Consolidated electricity sales volume

	2016.3	2017.3	Change	Percentage change
Number of low-voltage electricity supply (thousand)	—	305	—	—
Retail	—	995	—	—
Wholesale, etc.	—	7,954	—	—
Total electricity sales volume (million kWh)	8,503	8,948	+445	+5.2%

Q2 What are your thoughts on the state of the fully deregulated retail electricity and gas markets and your strategy going forward?

A The domestic electricity retail market was fully deregulated in April 2016, and by the end of the year, Osaka Gas had gained over 300,000 customers in the residential electricity segment. This accomplishment far exceeded our target of 200,000 customers, resulting in the top share among new electricity providers in the Kansai area. I attribute the achievement to our face-to-face communication with our customers. Representatives from our nearly 200 Osaka Gas service chain partners in the gas supply area visited customers and carried out price simulations, carefully explaining the cost advantages of switching to Osaka Gas as a provider. This effort, I feel, coupled with a feeling of security is what has led to such a large gain in the number of electricity customers. The feeling of security based on our over 110 years of stable energy supply to the Kansai area is what has led to so many applications in the number of electricity customers.

Full deregulation of the gas retail market just began in April 2017, but I feel that competition in the Kansai area has grown incredibly fierce in a short period of time. If we are to survive, we must understand

customer's diverse needs and provide the best solutions. That is how we can increase the number of customer accounts and strengthen our ties to customers.

Osaka Gas has been providing customers with same-day completion of repairs and safety/security support services by utilizing our extensive equipment maintenance know-how. In May 2016, we began offering home services known as "Sumikata Services" as a one-stop solution for various problems that customers have, and we continue to expand the scope of those services.

In addition, this April we began providing a new service, "Sumikata Plus," offering unlimited call-outs for emergency repairs and other living support services for a fixed monthly rate for customers subscribing to our "Gas-Toku" plans such as "Motto-Wari." Committed to supplying added value to our customers, we will continue evolving into a next-generation energy marketer beyond being a one-stop shop for energy needs, aiming to be customers' number one choice.



Start of Service	Type of Service
up to May 2016	Renovation, safety/security support
May 2016	Plumbing repair
July 2016	Air conditioning repair
October 2016	Home repair, housecleaning, home water delivery

Q3 Please talk about the company's investment policy and cash flow.

A As we aim to achieve our targets set for FY2030, we will carry out a growth investing and M&A strategy in our three core business domains, which will entail a cumulative total investment of 1.45 trillion yen over a 14-year period from FY2017 to FY2030.

In the domestic energy business, we will invest primarily in power generation facilities to expand our electric power business, which will include power sources based on natural gas, coal and renewables.

In the international energy business, we are already investing in the Ichthys Project, Freeport Project, and several IPP projects in the United States. We are also planning to participate in upstream and downstream projects in North America and Southeast Asia.

In Life & Business Solutions, we are investing in and pursuing M&A in real estate, IT and materials.

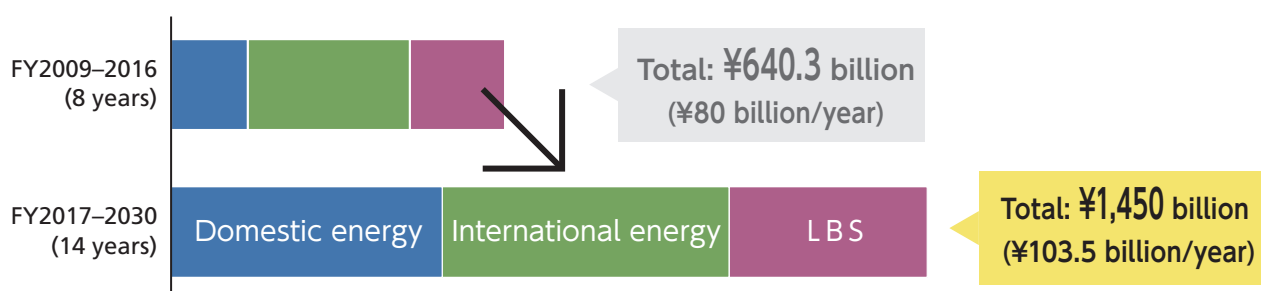
Additionally, we will be investing in the development of new businesses other than the above three domains.

In terms of the balance between growth investing and free cash flow, we will be carrying out investment plans in the international energy business and in large-scale power plants from 2016 to the first half of the 2020s, during which our growth investing is projected to exceed our free cash flow.

Starting around the mid-2020s, however, returns from our growth investments are expected to increase, resulting in much larger free cash flows than our growth investments.

Overall, between FY2017 and FY2030, we expect that our free cash flows will surpass our growth investments.

* Free cash flows = Cash flows from operating activities - Quality Improvement Investing



Q4 Please speak about investment risk management.

A As we continue to pursue growth investing to achieve sustainable growth, we will be managing risks with greater care than ever by ensuring the following four points.

The first point is to confirm an investment from the viewpoint of financial soundness. We quantify all possible post-investment risks to invest in growth to the extent that we are able to assure a degree of financial soundness when facing the risks.

The second point is to perform strict evaluations and deliberations at the investment consideration stage through our Investment Risk Management Dept. and Investment Review Committee.

The third point is to conduct annual follow-ups on all past investments, judging them against investment monitoring standards, and work to improve their business viability or consider selling off or withdrawing from those investments that are becoming unprofitable or making no progress.

The fourth point is to shift to investments with relatively low risk in order to achieve a greater certainty or investment returns. These include downstream projects, an area in which we have built up a wealth of experience in the market in Japan, and upstream projects that are already in production.

Q5 What is your thinking on new power sources, in particular coal-fired thermal power?

A To expand our electric power business, we need to boost our domestic and overseas power sources to 9 million kW and build a competitive power source portfolio by FY2030.

In Japan, we are planning to increase approximately 5.5 million kW of power sources, about 3.5 million kW of which will be through ownership of our own power sources while the rest will be procured from the market and other companies. It is conceivable, however, that the percentage of procurement from the market and other companies could rise. This depends on the government's energy policy and schemes covering the base load power market, which are currently under consideration, and on future fluctuations in supply and demand.

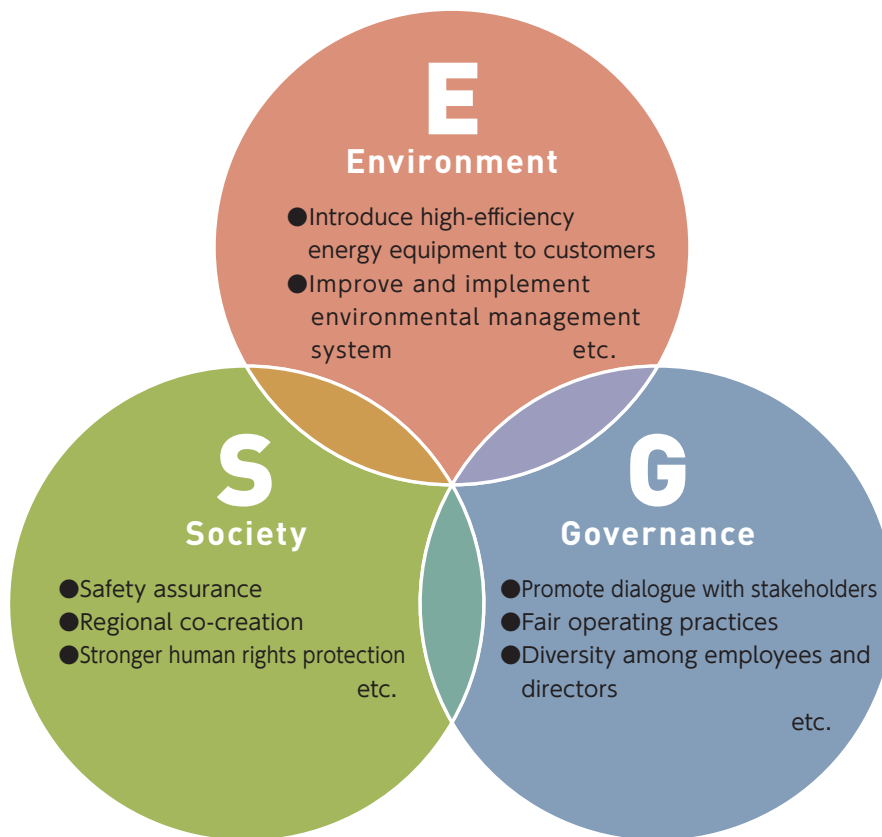
In overseas business, we want to strengthen our downstream businesses that are not subject to crude oil price fluctuations. One particular focus is IPP projects, through which we aim to own around 3.5 million kW in overseas power sources.

With regard to coal-fired thermal power, we are fully aware of trends toward decarbonising, especially in Europe. However for a resource-deficient country like Japan, coal-fired thermal power offers excellent supply stability. It is positioned as a key base load power source according to the national government's energy mix established in July 2015, and at least some use of coal will remain in the composition of power sources in 2030.

As our electric power business expands, we will require low-cost power that can be supplied stably as a base load power source. As government study of the base load power supply market has begun, we plan to make decisions based on such factors as demand trends and recent updates to the government's energy policy and schemes. It is also a given that when deciding to employ coal-fired thermal facilities, we make concerted efforts to minimize CO₂ emissions through cutting-edge power generation technologies. This includes using supercritical pressure boilers that offer the highest efficiency as a commercial unit for power plants.

Besides coal-fired thermal power, we also plan to continue pursuing renewable energy, including wind, solar and biomass. Additionally, we are working to reduce residential carbon emissions by promoting more widespread use of energy-saving equipment such as our ENE-FARM fuel cell system. Our goal in such efforts, as presented in our long-term management vision, is to help lower CO₂ emissions by approximately 70 million tons cumulatively between FY2017 and FY2030, both in Japan and overseas as part of our environmental management.





Q6 Can you explain the company's ESG efforts?

A We have been making progress in management that is in consideration of ESG, and we continue observing international rules and standards as we implement our medium-term and long-term plans.

《E (Environment)》

To mitigate global warming, we are promoting more widespread use of natural gas, which has the lowest CO₂ emissions of any fossil fuel, and high-efficiency energy technologies such as fuel cells and cogeneration systems that utilize natural gas. We also have an environmental policy in place and are improving and implementing an environmental management system. We plan to extend efforts throughout the entire Osaka Gas Group value chain to ascertain, reduce and disclose environmental impact, and carry out management that takes into account business

opportunities and risks related to climate change.

《S (Society)》

We continue actively working to ensure safety in our operations, contribute to the development of local communities and enhance value for our employees. We also plan to work with our business partners to promote human rights activities.

《G (Governance)》

We have been steadily improving our internal control and risk management mechanisms (appointment of directors, establishment of committees, etc.). We aim to further strengthen governance through dialogue with stakeholders and taking measures to ensure fair operating practices, information security and employee and director diversity.

Q7 How important is the international energy business?

A We have positioned the international energy business as a growth area in our efforts to become what we aim to be in FY2030. Focusing on strategic, targeted regions around the world, we are building up a business structure that can bring in well-balanced earnings from operations overseas as well as in Japan, which will lead to sustainable growth.

As an energy provider, we have long been interested in the natural gas value chain and have been pursuing investments around the globe. In North America, Asia and Oceania, our targeted priority areas, we are expanding our operations from upstream to downstream by leveraging our know-how and expertise and fully utilizing our international business infrastructure.

In the upstream arena, not only as an investor, but

also as a buyer of LNG, we cooperate with partners and promote the steady progress of our existing projects such as Gorgon and Ichthys Projects. In new business development, we are focusing on acquisitions with relatively low risk, particularly upstream projects in production.

Downstream, we will bring the Freeport Project to completion and pursue such businesses as IPP, LNG terminals, energy retailing, energy services and LDC (local distribution companies) in regions that have high profitability potential and low risk. We leverage our expertise developed through our domestic operations in Japan to maximize the use of our international business infrastructure. We are also looking into joint ventures in the gas and IPP business with other major players.

FY2017
International
business
Domestic
business
1 : 20*3

Consolidated ordinary income¹
¥64 billion

FY2030
International
business
Domestic
business
1 : 2*3

International energy

Domestic energy

Consolidated ordinary income²
to triple

*1 At oil price of \$55/barrel; exchange rate of ¥115/\$1

*2 At oil price of \$70/barrel; exchange rate of ¥115/\$1

*3 Consolidated ordinary income base



Q8 What are your thoughts on shareholder returns?

A We intend to provide stable dividends. Our basic policy is to maintain a consolidated dividend payout ratio of 30% or higher, excluding short-term fluctuation factors that affect profits. We aim to raise our level of profitability by steadily turning growth investment into projects that contribute to profits, through which we can increase dividends to shareholders.

In addition, we implement other measures of shareholder return such as share buyback when we see it appropriate to do so based on decisions with a comprehensive view on various factors including

the progress of investments, our financial situation and management risks, a recent example of which is the increased competition following the full deregulation of the gas retail market in Japan.

Regarding our capital policy, as we can anticipate heightened business risks due to the significant changes taking place in the environment of our domestic energy business, we need to establish the financial soundness targets of having a shareholders' net worth/total asset ratio of 50% or more and a D/E ratio of approximately 0.7 in order to maintain a high credit rating and strong financial position.

Annual Dividends per Share (yen)

