

An Interview with the President



Creativity and Challenge

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Please give us your assessment of the first phase of your “Field of Dreams 2020” long-term management vision, which extends from the fiscal year ended March 31, 2010 to the fiscal year ended March 31, 2014. ▶▶ p. 11

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Please give us your assessment of the first phase of your “Field of Dreams 2020” long-term management vision, which extends from the fiscal year ended March 31, 2010 to the fiscal year ended March 31, 2014.

Amid unexpected changes in our operating environment, we made steady progress in each business.

We announced our “Field of Dreams 2020” long-term management vision in March 2009 and made progress in business activities designed to realize the vision of the Group in the five years up to the fiscal year under review. During those five years, events occurred that had a profound impact on the business environment in which Osaka Gas operates. Those events included the Great East Japan Earthquake, reviews of the electricity and gas industry regulatory reforms, and the shale gas revolution. Even with these unexpected changes in operating conditions, I believe that we were correct in maintaining a multifaceted approach, covering international businesses and the electric power business.

In our domestic energy businesses, we opened the Mie-Shiga and Himeji-Okayama gas pipelines and worked to expand the use of natural gas, including the promotion of such gas facilities as gas cogeneration systems as well as gas heating and cooling systems. We are also working to balance power supply through the stable operation of power plants and are making decisions on the development of new power generation capacity.

In our international energy businesses, we made progress by acquiring upstream interests and realized the start of downstream business in Southeast Asia. In the U.S.-based Freeport LNG project, we are making steady headway toward the start of shale gas export shipments in 2018.

In our environment and non-energy businesses, we achieved steady growth in existing businesses, acquired the activated carbon manufacturer / distributor Jacobi Carbons AB, which is headquartered in Sweden, and acquired a share in a water supply business in the United Kingdom.

My assessment would be that we made steady progress in activities toward future growth in each of these businesses.

Achievements during the First Phase of “Field of Dreams 2020” (from the fiscal year ended March 31, 2010 to the fiscal year ended March 31, 2014)

Domestic Energy Businesses

- Stable operation of the power generation business, including Senboku Natural Gas Power Plant
- Extension of trunk lines (opening of Mie-Shiga and Himeji-Okayama gas pipelines)
- Launch of the ENE-FARM residential fuel cell cogeneration system (cumulative number of units sold exceeds 23,000)

International Energy Businesses

- Participation in upstream development projects in Australia/Pacific region (Gorgon and Ichthys LNG projects in Australia, condensate/gas development project in Papua New Guinea)
- Made the decision to participate in the U.S.-based Freeport natural gas liquefaction project
- Launch of a natural gas marketing business and an energy service business in Singapore and Thailand

Environment and Non-Energy Businesses

- Acquisition of Jacobi Carbons AB (an activated carbon manufacturer / distributor headquartered in Sweden)
- Increased holding of blue-chip properties in the real estate business
- Capacity expansion of wind and solar power generation in Japan and overseas
- Acquisition of shares in a water supply business in the United Kingdom



What were the performance highlights for the fiscal year ended March 31, 2014?

We achieved a record high in terms of ordinary income and reported a solid performance.

The fiscal year ended March 31, 2014, was one in which you could sense that the economy was recovering.

While incurring a time-lag loss* of ¥20.5 billion in the gas business, we recorded a record-high ordinary income of ¥106.0 billion.

In terms of performance, external factors had a significant effect. These factors included the upswing in demand in the lead-up to the consumption tax rate hike and the tight power supply and demand conditions brought about by the suspension of operations at nuclear power stations. As a result of accurately anticipating the economic upturn and making business advances, we were able to record solid performances in each of our businesses, including record-high Group company profits of ¥36.8 billion.

In contrast, and impacted by an extraordinary loss, net income for the period was held to ¥41.7 billion. As a result, we were unfortunately unable to achieve the ROA and ROE targets identified under “Field of Dreams 2020” for the fiscal year ended March 31, 2014.

* In the gas business, the Fuel Cost Adjustment System causes a time lag before changes in LNG prices are reflected in gas unit prices, which results in subsequent time lag-related gains or losses.

Performance (Consolidated)	2013.3	2014.3	Field of Dreams 2020 2014.3 (Targets)
Net sales (billions of yen)	1,380.0	1,512.5	—
Operating income (billions of yen)	84.7	99.3	—
Ordinary income (billions of yen)	90.1	106.0	—
Net income (billions of yen)	52.4	41.7	—
Profit / loss on Fuel Cost Adjustment System (billions of yen)	(20.7)	(20.5)	—
ROA	3.4%	2.6%	3.5%
ROE	7.3%	5.4%	8.0%



Please tell us the thinking incorporated into your new medium-term business plan.

Our goal is to grow and evolve into a world-class energy company.

In March 2014, we announced “Catalyze Our Dreams,” the three-year medium-term business plan that forms the second phase of “Field of Dreams 2020.” “Catalyze” carries with it the meaning of “catalyst” or to bring about change. “Catalyze Our Dreams” incorporates thoughts of trying to turn our dreams into reality, as a catalyst for elements in the execution of this plan. Electricity and gas industry regulatory reforms are being planned, and the world is changing in more ways than we can imagine. Furthermore, we will change our thoughts and actions as well as our business content, as we strive to grow from being an energy company in the Kansai region of Japan and evolve into a world-class energy company.



Based on the changes in the energy business environment, please tell us about your outlook for the gas business.

We will create innovative services and evolve into a comprehensive energy business.

Following on from an assessment of the electricity industry, specific consideration is being given toward the full liberalization of the retail market in the gas industry. A number of companies are looking into various activities including the expansion of electric power sources and the provision of new services. As the details of electric and gas industry reforms become more specific, I believe that these trends will become increasingly active.

We are continuing to work on reducing costs, which includes the lowering of LNG procurement prices, and are responding to various types of customer needs by offering combined services of gas and power supply as well as energy solutions. Through these means, we will realize our evolution into a comprehensive energy business. Moving forward, we will work to acquire the necessary capabilities to stay ahead of the competition.



Please tell us about your efforts to maintain the stability of supply as well as energy security.

We are working to further strengthen facilities, such as the expansion and enhancement of our pipeline network, and to build LNG tanks.

For natural gas to continue playing a role as a principal energy source, I believe it to be of absolute necessity that we realize higher energy security. To this end, it is vital that we build a robust production and supply network and ensure that customers use energy safely.

In January 2014, we opened the Mie-Shiga gas pipeline that we built in cooperation with Chubu Electric Power Co., Inc. With this joint initiative, we can now receive gas from Chubu Electric while greatly improving the stability of gas supplies. We are currently making progress in building facilities from a long-term perspective, including the building of LNG tanks at our Senboku LNG terminal, the renewal of aging equipment, and are targeting the further strengthening of facilities. We also plan to move ahead with earthquake and tsunami countermeasures, such as building disaster prevention blocks along coastlines.

Strengthening of Production and Supply Bases

Expansion of production/supply capacity and the promotion of operations and maintenance with the next generation in mind

- Construction of the No. 5 tank at Senboku LNG Terminal 1
- Upgrade/expansion of trunk line network

Upgrading of Security and Disaster Protection

Promoting disaster prevention measures, such as coastal disaster prevention blocks, and maintaining and enhancing emergency responsiveness

Target Number of Days to Service Resumption*

Nankai Trough earthquake (Lv1 tsunami): Two weeks

* Lightly damaged regions only

Safety and Anti-Disaster Measures

- Measures to increase earthquake resistance of gas pipelines
- Round-the-clock emergency response



Please tell us about your electric power business efforts.

We are promoting the expansion of power generation capacity owned and are targeting a combined total capacity in Japan and overseas of 6.0 GW in the 2020s.

We have positioned the electric power business as our second core business and have been working to expand the scale of power generation capacity owned. We currently own around 1.8 GW in Japan, made up of IPPs, the Senboku Natural Gas Power Plant, wind power plants, and solar power plants. Outside Japan, we currently own around 1.1 GW of power generation capacity, and are targeting a combined total capacity in Japan and abroad of around the 6.0 GW scale in the 2020s. More specifically, we will acquire small- and large-scale power capacities centered in Japan, and are looking to expand our power generation capacity, in advance of the full liberalization of the electric power retail sales market. To expand the gas and electric power value chain, we will not only acquire middle peak-type natural gas-fired thermal power, but also coal-fired thermal power as a base load power source. We would also like to improve the stability of supply and raise our competitiveness through a supply portfolio that has a number of different sources, including renewable energy and procurement from other companies.



Please tell us about the status of your efforts outside the energy field.

Making full use of technology and business know-how nurtured through the energy business, we will expand our business into growth markets.

The fiscal year ended March 31, 2014, was a year in which we made progress in our efforts toward proactively expanding our business in fields outside energy.

In our material solutions business, we became the world's third largest activated carbon company in terms of net sales by acquiring Jacobi Carbons AB, a company headquartered in Sweden. Going forward, we will leverage our mutual strengths and would like to steadily proceed with integration to take advantage of synergies at an early stage. This will help us to further enhance results from this acquisition.

As a first step linked to the possibility of future asset business expansion, we also acquired shares in a water supply business in the United Kingdom.

We will make full use of the technologies and know-how nurtured through the energy business to develop businesses that have different characteristics. I believe that in doing so, we will disperse risk, increase synergy effects, raise business value, and build a solid business portfolio.

In the years ahead, we would like to raise the value of our existing businesses and expand into growth markets in the fields of IT solutions, real estate, and life service businesses, with the material solutions business taking the lead in large-scale M&As.



Please tell us about your efforts toward the streamlining of assets held.

Assessing overall balance, business strategies, and the consistency of performance of assets held, we will move ahead using a process of selection and concentration.

While advancing investments in priority fields, we are moving ahead with the streamlining of assets and working on the optimization of held assets. In May 2014, we completed the sale of our ownership interest in the Amorebieta power generation plant in Spain. The power plant was adjudged to have fulfilled its specific role, which was to ensure stable earnings and to serve as a means for building up experience in power plant operations.

Not limited to overseas investment projects, we will also replace assets held by moving from the conventional to the appropriate. In the past, we had the example of selling our listed restaurant and food business subsidiary Kinrei Corporation and conveniently replacing assets with income properties.

More specifically, we are aiming for value-added business growth in the assets that we hold. However, from the perspective of achieving higher growth, we will be appropriately making assessments based on the overall balance of assets held and consistency with our business strategy.



Please tell us about the decision-making process behind the U.S. Pearsall project, for which you recorded an impairment loss.

While decisions were made based on a proper process, we still faced technical difficulties.

In December 2013, we posted an extraordinary loss from the U.S. Pearsall Shale Gas and Liquids Development Project. For this project, we had undertaken a painstaking analysis based on test drilling and the status of surrounding projects, coupled with the opinions of several technical consultants, and had made the decision to invest after an appropriate internal process. However, we were confronted by technical difficulties in drilling that far exceeded our original analysis. Finding ourselves in the situation where we were not going to obtain the expected volume of production, we came to the decision that no further drilling would be conducted for the immediate future.

This came as a result of being confronted by risks inherent in unconventional gas development projects. Going forward, we will not change our policy of engaging in project expansion that is in line with upstream businesses of strategic significance, including stable and competitive LNG procurement as well as increased profits. With regard to upstream projects in North America, I would like us to draw on the experience gained and knowledge acquired from the Pearsall project to take ongoing risk into consideration and carefully select projects while examining participation in new projects.

When examining investment opportunities, we will consider the amount of risk for the Company as a whole and then make decisions about the scale of investment and on whether to participate. In order to prevent the Company from taking on investment risks that exceed its financial capacity, we will base our investment decisions on an assessment of various considerations. One key consideration is whether financial deterioration due to such factors as extraordinary losses fall within a predetermined range in the event of a major loss owing to the unexpected and rapid change in circumstances.



Please give us your thoughts on returning profits to shareholders and provide details of the Company's capital policies for the future.

While maintaining a highly sound financial position, we will move forward with investments in growth businesses and work to maximize our corporate value.

It is thought that uncertainty surrounding Japanese energy businesses will increase following the implementation of electricity and gas industry regulatory reforms. 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 revised our D/E ratio, our sound financial position target, from the 1.0 times level to a 0.7 times level, and our shareholders' equity ratio from more than 40% to more than 50% under our "Catalyze Our Dreams" medium-term business plan.

With regard to shareholder returns, we have set an ongoing consolidated payout ratio target of 30% or more. Currently, I believe we are still in an investment phase. We anticipate profit contributions from upstream projects currently under development will commence during the three-year period of the medium-term business plan. In accordance with the Osaka Gas Group's increase in profits, I would like to pass on this growth to our shareholders by increasing the dividend amount. In addition, we would like to acquire treasury stock in a flexible manner after taking into consideration comprehensive factors including investment and financial conditions.

Financial Soundness Indicator Targets

Shareholder Returns Target

D/E ratio

About **0.7**
0.1

Net worth / Total assets

50% or higher
20

Payout ratio

30% or higher
20