An Interview with the President

After the Great East Japan Earthquake, which devastated Japan on March 11, 2011, the nature of energy in Japan underwent drastic changes.

In this interview, we asked President Hiroshi Ozaki about how these changes impacted the Osaka Gas Group's operating results and inquired into his plans for the future development of the Group.

Key Themes of the Interview with the President

1. Performance in the fiscal year ended March 31, 2012
2. Impacts of the stress placed on the electricity supply and demand balance on performance
3. Future of the electric power business
4. Management policies and forecasts for the fiscal year ending March 31, 2013
5. Progress of the "Field of Dreams 2020" long-term management vision and medium-term business plan
6. Shale gas procurement efforts
7. Future capital and shareholder returns policies

1. Performance in the fiscal year ended March 31, 2012

Q How would you evaluate performance in the fiscal year ended March 31, 2012?

A Sales showed strong increases for the electric power business and consolidated subsidiaries, but the rise in time lag-related losses associated with the fuel cost adjustment system was great, and overall income decreased as a result.

Higher sales and lower profits in the fiscal year ended March 31, 2012

In the fiscal year under review, ended March 31, 2012, consolidated net sales increased by 9.1% year on year, to ¥1,294.7 billion. One major factor behind this growth was the rise in gas sales prices that accompanied the increase in LNG prices. However, the growth in sales can also be attributed to greater gas sales volumes for industrial use following the increased usage of customers' gas cogeneration facilities as well as improved sales in the electric power business. These factors are most likely responses to the tightening of the supply and demand situation regarding electricity.

Consolidated operating income, meanwhile, decreased by 12.8% year on year, to ¥77.2 billion. While income was up in the electric power business and consolidated subsidiaries involved in the real estate and IT businesses also saw increases, income from the gas business was down notably following the rise in raw material costs associated with the rise of the price of LNG, and overall income decreased accordingly. 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 losses. In the fiscal year under review we recorded time-lag related losses totaling ¥30.7 billion, ¥22.2 billion higher than in the previous fiscal year. Reflecting this, income declined in the fiscal year under review. However, if the impacts of the time lag-related losses and other factors that cause short-term fluctuations in income are disregarded, I feel that we can say with confidence that our performance during this year was strong.

Substantially improved income for the electric power business

The Semboku Natural Gas Power Plant, which began operation in the fiscal year ended March 31, 2010, has gotten off to a good start and continues to operate in a stable manner, contributing to the steady growth of the electric power business as our second core business. Income for the electricity business* had reached ¥12.3 billion in the fiscal year ended March 31, 2011. In the fiscal year under review, this figure jumped 67.2%, to an impressive ¥20.6 billion, as the stress placed on supply and demand conditions led to increases in sales volumes and unit prices.

* Income from businesses classified as part of Osaka Gas ancillary electric power business

Performance in the Fiscal Year Ended March 31, 2012 (Consolidated)

	2011/3	2012/3	Change	Change
Net sales (billions of yen)	1,187.1	1,294.7	+107.6	+9.1%
Operating income (billions of yen)	88.5	77.2	–11.3	–12.8%
Net income (billions of yen)	45.9	45.2	–0.7	–1.7%
Profit / loss on Fuel Cost Adjustment System (billions of yen)	–8.5	–30.7	–22.2	—
Exchange rate (yen/$)	85.7	79.1	–6.7	–7.7%
Crude oil price ($/bbl)	84.1	114.2	+30.1	+35.8%

2. Impacts of the stress placed on the electricity supply and demand balance on performance

Q **How did the stress placed on the electricity supply and demand balance impact performance during the fiscal year under review?**

A **Gas sales volumes for industrial use, especially for cogeneration systems and IPPs increased, and electricity sales volumes rose.**

Increase in gas sales volumes for industrial use

The Great East Japan Earthquake and the ensuing electricity shortages affected the gas and electric power businesses in a number of ways.

In the fiscal year under review, sales of gas for commercial, public, and medical use declined by 3.0% year on year, to 1,575 million m^3, reflecting the rebound from the heat wave in summer 2010 as well as a decline in demand for air conditioning, which could be seen as a response to customers' efforts to reduce electricity and energy usage.

Gas sales volume for industrial use rose by 5.2%, to 4,355 m^3. I feel that this increase was due to the success of our efforts to take advantage of new gas demand. Other contributing factors included the increased operation of gas cogeneration facilities by customers striving to save electricity and high gas sales volumes to IPPs.

Throughout the year, the stress placed on the electricity supply and demand balance proved to have a negative effect on the gas sales for commercial, public, and medical use, whereas gas sales for industrial use greatly benefited from this situation.

Gas Sales of the Fiscal Year Ended March 31, 2012

(Million m^3)	2011/3	2012/3	Change	Change
Residential	2,275	2,271	−4	−0.2%
Commercial, public, and medical	1,624	1,575	−49	−3.0%
Industrial	4,141	4,355	+214	+5.2%
Wholesale	488	480	−7	−1.5%
Total amount of gas sales volume (non-consolidated)	8,528	8,681	+154	+1.8%
Total amount of gas sales volume (consolidated)	8,560	8,711	+152	+1.8%

Higher sales volumes of electricity

In the fiscal year under review, we stepped up operation of our power generation facilities and took other steps to meet customer requests for greater volumes of electricity. As a result, electricity sales volumes rose by 11.1% year on year, to 7,932 GWh. Amidst the stress placed on the electricity supply and demand balance that persisted throughout the year, the Semboku Natural Gas Power Plant and our other generation facilities helped provide customers with a stable supply of electricity.

3. Future of the electric power business

Q **Interest in electric power businesses has risen to unprecedented levels. What are your plans for the future of Osaka Gas' electric power business?**

A **At the moment, including the Semboku Natural Gas Power Plant, we have in our power portfolio a total generation capacity of approximately 3.2 GW. Going forward, we will expand our power generation capacity through such means as boosting cogeneration-based power export schmemes.**

Current power generation capacity of approximately 3.2 GW (Domestic: approx. 1.8 GW / Overseas: approx. 1.4 GW)

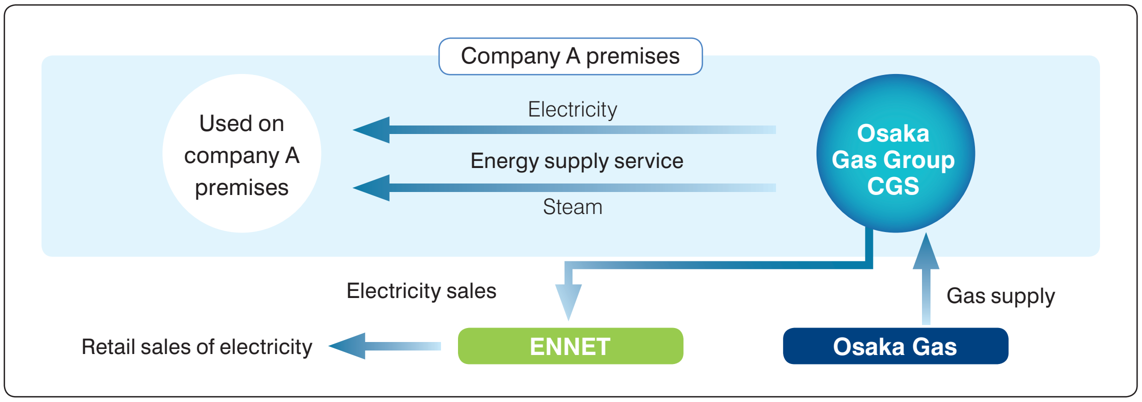
The Osaka Gas Group has positioned the electric power business as its second core business alongside the mainstay gas business, and has continued to expand its power generation capacity. We currently possess a domestic generation capacity of approximately 1.8 GW, which includes such energy resources as the Semboku Natural Gas Power Plant, IPPs, and wind power plants. In addition, the Company has an overseas generation capacity of approximately 1.4 GW, which when combined with domestic energy resources makes for total generation capacity of approximately 3.2 GW.

Expansion of the cogeneration-based power export business

Going forward, we will work to develop a cogeneration-based power export business to further relieve supply and demand pressure, particularly in Japan. In this business, we will install cogeneration and other medium-scale power generation facilities at customer properties. This will not only accelerate the spread of dispersed power generation systems, but also enable Osaka Gas to purchase and resell surplus electricity.

At the same time, we will implement other measures to boost our power generation capacity. Taking into account the direction of discussions regarding government energy policy, we will carefully evaluate the lead times and business risks of potential projects. If a project is deemed to be a viable future venture, we will take it as an opportunity to expand generation capacity, and will even consider the construction of large-scale generation facilities when feasible.

Example of a Cogeneration Plant's Schemes



4. Management policies and forecasts for the fiscal year ending March 31, 2013

Q **Could you please discuss your management policies and performance forecasts for the fiscal year ending March 31, 2013?**

A **In the fiscal year ending March 31, 2013, we expect an increase in profit due to higher income for the gas business and lower expenses.**

A year of "Change & Challenge"

We have positioned the fiscal year ending March 31, 2013, as a year of "Change & Challenge" in which we will respond to the changes stemming from the Great East Japan Earthquake. In this regard, we will advance initiatives based on the following four directives.

1. Providing all customers with greater levels of safety and security
    - Stable and low-cost procurement of raw materials
    - Manufacturing and supply facility reinforcement and diversification, disaster countermeasures
2. Contributing to the realization of a new society with natural gas and distributed energy systems
    - Spread of cogeneration systems (residential fuel cells, business / industrial-use cogeneration systems), smart energy houses, and gas heating and cooling systems
3. Developing new business models and accelerating investment
    - Electric power business, domestic LNG wholesale / supply business
    - International energy businesses along the energy value chain
    - Affiliates (real estate, material solutions, IT, LPG / industrial gas, life services)
4. Strengthening ties with society and communities

Higher sales and profits projected for the fiscal year ending March 31, 2013

In the fiscal year ending March 31, 2013, we are forecasting consolidated net sales of ¥1,363.0 billion, up 5.3% year on year, due to higher gas prices as a result of the Fuel Cost Adjustment System as well as the start of LNG supply to the Okinawa Electric Power Company, Inc., on a wholesale basis. Also, time lag-related losses associated with the Fuel Cost Adjustment System are expected to decrease and income in the gas business will rise. Furthermore, depreciation will decline due to the end of the five-year straight-line depreciation period for assets with residual value of 5% stipulated by the 2007 tax system revision. Due to these factors, operating income is expected to increase by 16.5%, to ¥90.0 billion.

Furthermore, we forecast that gas sales volumes for inudstrial use will rise by 1.1% year on year, to 4,404 million m^3, due to increased introduction and operation of cogeneration facilities. Meanwhile, gas sales volumes for residential use and commercial, public, and medical use will likely decline as no significant temperature spikes or declines are expected during the year. Accordingly, we project that overall gas sales volumes in the fiscal year ending March 31, 2013, will decline by 0.7%, to 8,621 million m^3.

In the electric power business, we expect income to be in line with the fiscal year under review, as the supply and demand situation regarding electricity will be virtually unchanged.

The fiscal year ending March 31, 2013, will most likely be filled with developments. These changes will include political and economic changes in Japan and overseas as well as changes in government policy related to energy. In this environment, we will be vigilant in our quest to respond to such changes while steadily advancing management initiatives geared toward the realization of our long-term management vision and medium-term business plan, "Field of Dreams 2020."

Performance Projections for the Fiscal Year Ending March 31, 2013 (Consolidated)

	2012/3 (Result)	2013/3 (Forecast)	Change	Change
Net sales (billions of yen)	1,294.7	1,363.0	+68.2	+5.3%
Operating income (billions of yen)	77.2	90.0	+12.7	+16.5%
Net income (billions of yen)	45.2	57.0	+11.7	+26.1%
Profit / loss on Fuel Cost Adjustment System (billions of yen)	–30.7	–3.1	+27.6	—
Exchange rate (yen/$)	79.1	80.0	+0.9	+1.1%
Crude oil price ($/bbl)	114.2	115.0	+0.8	+0.7%

Forecast of Gas Sales for the Fiscal Year Ending March 31, 2013

(Million m^3)	2012/3 (Result)	2013/3 (Forecast)	Change	Change
Residential	2,271	2,232	–39	–1.7%
Commercial, public, and medical	1,575	1,512	–62	–4.0%
Industrial	4,355	4,404	+49	+1.1%
Wholesale	480	474	–7	–1.4%
Total amount of gas sales volume (non-consolidated)	8,681	8,621	–60	–0.7%
Total amount of gas sales volume (consolidated)	8,711	8,652	–59	–0.7%

5. Progress of the "Field of Dreams 2020" long-term management vision and medium-term business plan

Q **Next, would you please explain the progress under the "Field of Dreams 2020" long-term management vision and medium-term business plan?**

A **Investment to expand our business domain is progressing smoothly. Such investments are being conducted in various areas, such as our domestic energy businesses, international energy businesses along the energy value chain, and environment and non-energy businesses. Through these efforts, we feel that we have successfully improved shareholder and customer value.**

Business domain expansion

In accordance with our long-term management vision and mid-term business plan, "Field of Dreams 2020," we are aiming for substantial domain growth in our three main business pillars: domestic energy businesses, international energy businesses along the energy value chain, and environment and non-energy businesses.

In the three-year period leading up to the fiscal year under review, efforts to expand our business domain have progressed smoothly and we are gradually beginning to see results.

In the domestic energy businesses sector, the electric power business is growing into a larger pillar than we had initially expected thanks to the stable operation of the Semboku Natural Gas Power Plant. Also, in the fiscal year under review, we introduced the ENE-FARM Type S next-generation residential fuel cell cogeneration system and began supply of LNG to the Okinawa Electric Power Company on a wholesale basis as part of our efforts in expanding activities beyond our service area.

In the international energy businesses segment, we made investment decisions in a new shale gas development project in Canada and the Ichthys LNG Project in Australia. Meanwhile, the Sagunto LNG Terminal in Spain and the Shuweihat S2 IWPP Project in the United Arab Emirates began contributing to earnings. In the field of environment and non-energy businesses, we continued to acquire real estate assets to generate strong business returns, and we started seeing income contributions from wind power ventures both inside and outside Japan.

Aggressive investment for expansion, greenfield projects, and M&A activities

"Field of Dreams 2020" calls for us to conduct aggressive investments totaling ¥1.5 trillion over the 12-year period from the fiscal year ended March 31, 2010 to the fiscal year ending March 31, 2021. We will allocate ¥700.0 billion of this to the upgrading of gas supply facilities and quality improvements of existing businesses, in consideration of long-term demand forecasts, and to measures ensuring stable supplies and raising safety levels, and invest ¥800.0 billion for expansion, greenfield projects, and M&A activities both in Japan and overseas.

On a cumulative basis, we have approved investments totaling ¥266.0 billion for expansion, greenfield projects, and M&A activities since the fiscal year ended March 31, 2010. Investments include those for the construction of the Himeji-Okayama Line, participation in the Gorgon and Ichthys LNG projects in Australia, and the acquisition of real estate assets to generate business returns. This accounts for approximately two-thirds of the ¥400.0 billion in investment we have planned for the five-year period from the fiscal year ended March 31, 2010 to the fiscal year ending March 31, 2014. In this manner, our investment plans are progressing smoothly.

Corporate value improvement

One of the goals outlined in the long-term management vision and medium-term business plan, "Field of Dreams 2020" is the improvement of corporate value.

As we realize that shareholder value is one component of corporate value, we chose to raise dividends by ¥1 per share in the fiscal year ended March 31, 2011, to ¥8 per share, and also acquired ¥20.0 billion worth of treasury stock. In this way, we strove to live up to the expectations of our shareholders. Furthermore, aiming to raise value for customers, another element of corporate value, and repay them for their trust, we revised pricing systems in the fiscal year under review, effectively lowering gas bills by an average of 1.2% for household customers.

6. Shale gas procurement efforts

Q Shale gas continues to garner attention. What are your views regarding the procurement of this resource?

A We have high expectations for shale gas as a future supply source.

Promising future supply source

Technological advancement has enabled gas contained within shale formations to be recovered, and increasing amounts of so-called shale gas are being extracted from shale formations located primarily in North America. As this promising resource continues to garner attention, the Osaka Gas Group has also turned its attention to harvesting this resource.

The Group currently procures LNG from seven different countries including Australia, Russia, and countries in Southeast Asia and the Middle East. While we have already secured agreements for sufficient LNG resources for meeting demand into the medium term, we cannot ignore the high potential of shale gas, not only in terms of its abundance but also from the perspective of how it will enable us to diversify resource supplies.

Also, the price of the LNG currently procured by the Osaka Group fluctuates in conjunction with the price of crude oil. However, if we are able to import LNG from shale gas into Japan at prices linked to North American gas prices, it could greatly change how the price of LNG moves in the market. In terms of procurement price as well, we have high expectations for shale gas.

Participation in shale gas development projects

In the fiscal year under review, we began participation in a shale gas development project located in British Columbia, Canada, and in the fiscal year ending March 31, 2013, currently under way we have already commenced participation in shale gas and liquids development project taking place in Texas, USA. Through our participation in these projects, we hope to flesh out our knowledge pertaining to shale gas development and the market for this resource, and we are already considering the possibility of importing such gas into Japan in the form of LNG.

Going forward, we will continue to deepen our involvement in shale gas development projects and LNG export projects while advancing initiatives targeting the procurement of LNG from shale gas.

7. Future capital and shareholder returns policies

Q **What are your capital and shareholder returns policies for the future?**

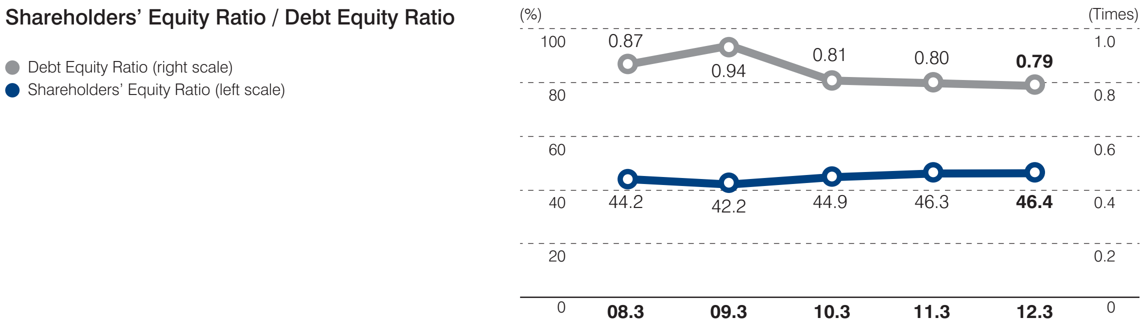
A **We have a basic policy of paying a stable dividend on an ongoing basis, targeting a consolidated payout ratio of 30% or higher, after eliminating the effects of external factors that cause short-term fluctuations in profit, while acquiring treasury stock on a flexible basis.**

Aggressive investment and sound financial position

Throughout the period of the long-term management vision and medium-term business plan, “Field of Dreams 2020,” we intend to aggressively invest for future growth and plan to prioritize the allocation of cash flows to this end. We also realize the importance of maintaining a sound financial position, and are therefore working to keep the shareholders’ equity ratio above 40% and the debt equity ratio at approximately one over the medium to long term.

In the fiscal year under review, the shareholders’ equity ratio was 46.4% and the debt equity ratio was 0.79. I feel that this represents a sufficiently strong financial position and thus plan to use financial leverage to further accelerate investment in the fiscal year ending March 31, 2013.

Shareholders’ Equity Ratio / Debt Equity Ratio

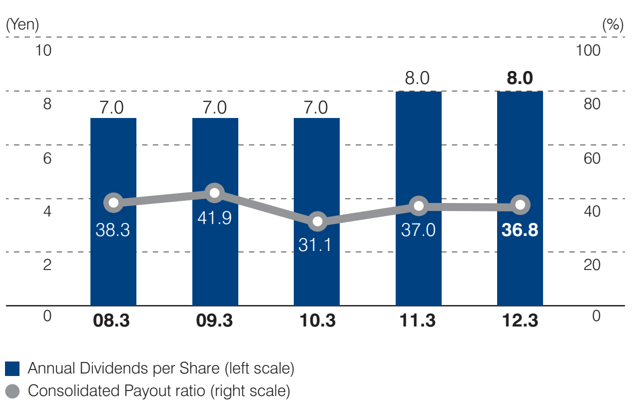


Policy for dividends and treasury stock acquisitions

Osaka Gas’ basic shareholder returns policy is to issue returns in the form of dividend payments, and we will continue to pay stable dividends while targeting a consolidated payout ratio of at least 30%, after eliminating the effects of external factors that cause profits to fluctuate in the short term. In addition, we acquire treasury stock on a flexible basis when there is leeway in our financial position and cash flow after investing for future growth.

As we advance into the future, we will continue to pursue higher profits in the three business areas described in “Field of Dreams 2020,” in hopes of living up to the high expectations of our shareholders.

Dividend / Payout Ratio



Share Buy-Back

(Billions of Yen)	Acquisition costs
2008/3	30
2009/3	0
2010/3	0
2011/3	20
2012/3	0