Management's Discussion and Analysis

1. Highlights of the Fiscal Year Ended March 31, 2009

Consolidated operating revenues for the year ended March 31, 2009 increased by ¥88.6 billion, or 7.2%, to ¥1,326.7 billion despite a decrease in sales volume. This increase was supported by higher gas unit prices that have been adjusted under the fuel cost adjustment system to reflect the rise in LNG prices. Consolidated ordinary profit decreased by ¥11.3 billion, or 14.9%, to ¥64.5 billion. Non-consolidated ordinary profit reported by Osaka Gas decreased, mainly due to the decrease in gas sales volume. This decrease on a non consolidated basis was larger than the profit growth reported by consolidated subsidiaries and equity in affiliates' profits. Net income decreased by ¥4.2 billion, or 10.5%, to ¥36 billion compared with the previous year.

As at the current year-end, the Company has 136 consolidated subsidiaries. During the year three companies were excluded and six companies were added to the consolidation. One company was added to affiliates reported by the equity method, totaling five affiliates as at the current year-end.

2. Non-consolidated Gas Sales

Non-consolidated gas sales volume overall in the year ended March 31, 2009 decreased 5.7% from the previous fiscal year to 8.38 billion m^3.

Residential gas sales volume declined 3.1% year on year to 2.238 billion m^3. Although temperatures and water temperatures in September and October 2008 were lower than the previous year, temperatures were higher than the previous year in January and February 2009, when gas sales volumes are high, prompting decreased demand for hot water and heating.

Sales volume in the industrial sector decreased 7.4% year on year to 4.128 billion m^3. Although the sales volume rose due to development of demand, the operating rates of existing customers' facilities decreased, together with other negative factors. In the commercial, public and medical institutions sectors, demand for air conditioning coolers decreased because temperatures in August and September were lower than the previous year, while temperatures in January and February were higher than the previous year, prompting decreased demand for hot water and heating, or customers to promote energy-saving. The commercial sector declined 4.9% to 0.971 billion m^3, and the public and medical institutions sectors decreased 4.1% to 0.609 billion m^3. As a result, commercial/industrial gas sales decreased 6.6% to 5.708 billion m^3. Sales to other gas suppliers decreased 6.0% to 0.434 billion m^3.

Non-consolidated Gas Sales

(45MJ/m^3)		FY2008 (B)	FY2009 (A)	Change	FY2009/FY2008 (%)
Customers [meters installed] (thousands)	Residential	6,556	6,611	+54	+0.8
	Commercial/industrial	325	328	+3	+1.0
	Total	6,881	6,939	+58	+0.8
Average monthly usage per customer (m^3/month)		33.5	32.3	–1.2	–3.6
Gas sales (million m^3)	Residential	2,310	2,238	–72	–3.1
	Commercial/industrial	6,115	5,708	–407	–6.6
	Industrial	4,458	4,128	–330	–7.4
	Commercial	1,021	971	–50	–4.9
	Public and medical institutions	636	609	–26	–4.1
	Sales to other gas suppliers	462	434	–28	–6.0
	Total	8,887	8,380	–506	–5.7
Average temperature (Celsius)		17.2	17.2	0.0	–

3. Overview by Business Segment

Gas Segment

Operating revenues for the year ended March 31, 2009 increased by ¥92.9 billion, or 12.9%, to ¥814.3 billion despite the decrease in sales volume. This increase was supported by higher gas unit prices that have been adjusted under the fuel cost adjustment system to reflect the rise in LNG prices. Operating income was ¥37.6 billion, a decrease of ¥6.5 billion, or 14.9%, from the previous year, primarily due to a decrease in gas sales volume.

LPG, Electricity and Other Energies Segment

Operating revenues for this segment decreased by ¥16 billion, or 6.0%, to ¥249.6 billion, mainly due to lower LPG prices compared with the previous year. Operating income decreased by ¥4.8 billion, or 34.6%, to ¥9.1 billion compared with the previous year.

Gas Appliances and House-pipe Installation Segment

Operating revenues for this segment decreased by ¥7.6 billion, or 5.1%, to ¥141.5 billion, mainly due to a decrease in appliance sales compared with the previous year. Operating income increased by ¥1.0 billion, or 63.6%, to ¥2.6 billion compared with the previous year.

Real Estate Segment

Operating revenues for this segment increased by ¥4.6 billion, or 16.5%, to ¥33.1 billion, mainly due to an increase in the number of properties sold. Operating income increased by ¥0.2 billion, or 3.3%, to ¥6.9 billion compared with the previous year.

Other Segment

Operating revenues for this segment increased by ¥20.9 billion, or 14.5%, to ¥165.2 billion, mainly due to the addition of consolidated subsidiaries. Operating income increased by ¥1.3 billion, or 15.7%, to ¥9.6 billion, compared with the previous year.

Fiscal 2009 Operating Revenues and Operating Income by Segment

(¥ billion)

	Gas	LPG, Electricity and Other Energies	Gas Appliances and House-pipe Installation	Real Estate	Others	Elimination and Corporate	Consolidated
Revenues	+12.9%	–6.0%	–5.1%	+16.5%	+14.5%		+7.2%
	814.3	249.6	141.5	33.1	165.2	(77.2)	1,326.7
	[+92.9]	[–16.0]	[–7.6]	[+4.6]	[+20.9]	[–6.2]	[+88.6]
Operating	–14.9%	–34.6%	+63.6%	+3.3%	+15.7%		–11.5%
Income	37.6	9.1	2.6	6.9	9.6	0.9	66.9
	[–6.5]	[–4.8]	[+1.0]	[+0.2]	[+1.3]	[+0.1]	[–8.6]

% figures indicate change versus fiscal 2008. Figures in square brackets "[ ]" indicate absolute year-on-year change. Figures in round brackets "( )" indicate negative figures.

4. Assets, Liabilities and Shareholders' Equity Analysis

Asset Management Policies

The Osaka Gas Group views deregulation in the electricity and gas sectors as a business opportunity and intends to aggressively expand its operations in growth fields, especially electricity, while reducing assets in unprofitable business fields and day-to-day operations. To minimize investment risk caused by changes in the operating environment, Osaka Gas is further tightening its procedures for investment decisions, and subsequent follow-up and evaluation, based on the Group-wide investment criteria applied to individual investment proposals hitherto. Going forward, Osaka Gas will conduct quantitative risk management, and pursue returns by making active business investments within the scope of the allowed risk amount of the entire Group.

Osaka Gas aims to maximize capital efficiency by targeting a ratio of interest-bearing debt to equity of approximately one and a shareholders' equity ratio of around 40%. In deciding the weighting of third-party capital versus internal capital it will pay due consideration to relative capital costs and the maintenance of a sound financial position. As the shareholders' equity ratio is now above 40%, Osaka Gas intends to promote business investment in growth fields by raising funds through new interest-bearing debt in line with the growth in shareholders' equity as profits increase.

Capital Expenditure

In fiscal 2009, non-consolidated capital expenditure totaled ¥59.2 billion. Major construction projects during the fiscal year were the continued construction of the Mie-Shiga Line, as well as continuing capital investment related to the planned construction of an electric power plant inside Osaka Gas's existing Semboku facilities. Consolidated capital expenditure totaled ¥106.0 billion, including capital expenditure on LNG carriers.

The Osaka Gas Group is aggressively investing in both domestic and overseas electric power businesses as potential future growth drivers. Investment targets include such upstream operations as natural gas fields and LNG carriers, as well as IPPs and other downstream electric power businesses.

The major growth-oriented investment projects to which capital investment was allocated during the fiscal year under review were the Mie-Shiga Line, the Semboku Natural Gas Power Plant, and LNG carriers.

Capital Expenditure

(¥ billion)

	FY2008	FY2009
Consolidated	111.0	106.0
Non-Consolidated	59.2	59.2
Manufacturing	2.6	3.0
Gas supply	37.5	39.4
Commercial and Industrial	19.1	16.7

Assets, Liabilities and Shareholders' Equity Analysis

Total assets at March 31, 2009 decreased by ¥15.4 billion from the previous year-end to ¥1,452.4 billion, mainly due to a decrease in fixed assets. Liabilities increased by ¥16.4 billion to ¥817.7 billion.

Total net assets decreased by ¥31.9 billion to ¥634.7 billion, mainly affected by a decrease in the valuation and translation adjustments account. Consequently, the shareholders' equity ratio declined from 44.2% at the previous year-end to 42.2%.

(¥ billion)

	As of March 31, 2008	As of March 31, 2009	Change
Total assets	1,467.9	1,452.4	–15.4
Total liabilities	801.2	817.7	+16.4
Total net assets	666.6	634.7	–31.9
Total liabilities and net assets	1,467.9	1,452.4	–15.4

The asset, liability and shareholders' equity indicators were as follows:

Assets, Liabilities and Shareholders' Equity Indicators

	FY2008	FY2009
Shareholders' equity ratio	44.2%	42.2%
Mark-to-market equity ratio	58.5%	45.7%
Interest-bearing debt to operating cash flows	4.2	4.8
Interest coverage ratio	13.6	11.5

Notes:
1. All figures are on a consolidated basis.
2. Mark-to-market equity ratio is based on the number of shares outstanding minus treasury stock.
3. Cash flow is net cash provided by operating activities.
4. Interest-bearing debt is all balance sheet debt on which interest is paid.

5. Cash Flow Analysis

Overview of Cash Flow

Net cash provided by operating activities during the year ended March 31, 2009 decreased by ¥13.5 billion to ¥120.6 billion. This decrease was mainly due to a decrease in net income before tax adjustments. Net cash used for investment activities was ¥108.1 billion, a decrease of ¥23.9 billion from the previous year. This decrease was mainly due to a decrease in cash expenditures related to acquisition of fixed assets. Net cash used for financial activities increased by ¥15.9 billion to ¥3.4 billion, mainly due to redemption of commercial paper.

Consequently, cash and cash equivalents for the fiscal year ended March 31, 2009 increased ¥7.5 billion.

Adding to this the balance of ¥39.2 billion in cash and cash equivalents at the start of the fiscal year, the year-end balance of cash and cash equivalents for fiscal 2009 increased from the previous year-end to ¥46.7 billion.

(¥ billion)

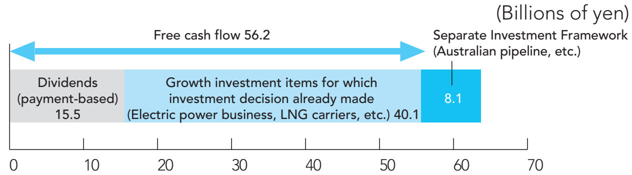
	FY2008	FY2009	Change
Cash flow from operating activities	134.2	120.6	–13.5
Cash flow from investing activities	–132.0	–108.1	+23.9
Cash flow from financing activities	12.4	–3.4	–15.9
Change in cash and cash equivalents	14.8	7.5	–7.3
Cash and cash equivalents at year-end	39.2	46.7	+7.5
Interest-bearing debt at year-end	566.4	573.4	+7.0

Free Cash Flow Application

Consolidated free cash flow for fiscal 2009 amounted to ¥56.2 billion, an approximate ¥5.0 billion year on year increase. Investment in projects for which the capital investment decision has already been made, such as the Semboku Natural Gas Power Plant and LNG carriers, was carried out basically in line with initial plans. As regards the separate investment framework, a total amount of ¥8.1 billion was invested in the Australian pipeline and other projects.

Free Cash Flow Application During Fiscal 2009

(Billions of yen)



(*) Free cash flow= Cash flow from operating activities – payments for capital investments

6. Basic Policy Regarding the Distribution of Profits and Dividends for FY2009 and FY2010

The Company has been striving to grow the business and improve the efficiency of operations, and has appropriated the increased profit resulting from these efforts for internal reserves for future business growth and strengthening of the financial structure of the Company, and for payment of steady dividends to shareholders. The Company will endeavor to continue paying steady dividends to shareholders, based on operational results, future business management and other plans, and taking alternative profit distribution plans and other comprehensive factors into consideration. We will aim at keeping a consolidated payout ratio exceeding 30%, within the non-consolidated retained earnings distributable to Osaka Gas shareholders, excluding temporary factors affecting the profit situation. Internal reserves will be appropriated for capital investments and investment in new business. The Company plans to pay annual dividends of ¥7 per share (including interim dividends of ¥3.5 per share) for both the fiscal year ended March 31, 2009 and the fiscal year ending March 31, 2010.

7. Quantitative and Qualitative Disclosure of Risk

The following are risks that could affect the business performance or financial position of the Osaka Gas Group.

Risks related to all businesses within the Osaka Gas Group

a. Worsening of economic and credit conditions
Worsening of economic and/or credit conditions in Japan and/or other countries could lead to a decrease in sales revenues, difficulties in fund-raising, insolvency of partner companies in joint projects, suppliers or customers, or other unfavorable impacts on the operational performance of the Osaka Gas Group.

b. Changes in foreign exchange rates and interest rates on financing
Changes in exchange rates and/or interest rates on borrowed funds could affect the operational performance of the Group.

c. Catastrophic disaster/accident/infection
Occurrence of catastrophic natural disasters, terrorism, accidents, or epidemics of new types of influenza or other diseases could affect the operational performance of the Group.

d. Changes in laws, regulations and institutional systems
Changes in the Gas Utility Industry Law, the Electric Utility Law, environment-related laws, the Company Act, the Financial Instruments and Exchange Law or other applicable acts or institutional systems could affect the operational performance of the Group.

e. Intensifying competition
If competition with other operators in the gas business and other business areas related to the Group intensifies, the operational performance of the Group could be affected.

f. Breakdown or malfunction of critical IT systems
Breakdown or malfunction of critical IT systems, such as systems related to gas production/supply or billing, could affect the operational performance of the Group.

g. Information leaks
If important information used in the course of its business, including customer information or technical information possessed by the Group is leaked outside the Group, the Group's operational performance could be affected.

h. Non-compliance with laws/regulations
If any act carried out by the Group or by any person related to the Group is in violation of any law or regulation, the Group might incur expenditures to correct such non-complying act, or experience a degrading of its social reputation, which could affect the operational performance of the Group.

Risks related to major businesses

Gas business

a. Impact of fluctuation in temperature/water temperature on gas demand
Gas sales volume increases or decreases depending on the atmospheric or water temperature conditions. Thus, a fluctuation in these factors could adversely affect the performance of the Osaka Gas Group.

b. Changes in raw material costs
The prices of liquefied natural gas (LNG), from which gas is produced, could be affected by changes in crude oil prices, exchange rates and other relevant factors. Although most of this impact may be offset by the fuel cost adjustment system, under which gas rates are revised to reflect changes in fuel costs, a time lag until the actual adjustment is made and the composition of material suppliers could affect the performance of the Osaka Gas Group. Renewal of contracts or price negotiations with suppliers might result in settlement of raw material costs, which might also affect the operational performance of the Group.

c. Trouble in the purchase of raw materials
Because LNG, from which gas is produced, is purchased from suppliers, trouble in suppliers' facilities or operations could affect the operational performance of the Group.

d. Trouble in production and supply
Catastrophic natural disasters or accidents could disrupt the production or supply of gas, which might adversely affect the operational performance of the Group.

e. Trouble in gas equipment and facilities
If serious trouble occurs in the gas equipment or facilities sold to customers, it could adversely affect the operational performance of the Group.

Electricity business

If the operation of any electric power plant stops or is interrupted due to a natural disaster, accident, trouble in fuel purchasing or other incident, it could adversely affect the operational performance of the Group.

Overseas energy businesses

If a gas field development or other development project is delayed or canceled as a result of global economic stagnation, a drop in the crude oil price, a worsening of the social situation or other factor, or if any other business environment involving the Group changes, the operational performance of the Group could be adversely affected.

The Osaka Gas Group strives to minimize the potential impact of these risks through various measures, including derivative contracts to hedge against fluctuations in exchange rates and raw material costs, accident and other insurance contracts, maintenance and management of critical IT systems, adherence to compliance and strict information control, security measures, and monitoring and proper supervision of subsidiaries' business management.