Osaka Gas President Hiroshi Ozaki Answers Five Questions

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What follows is President Ozaki's succinct and candid insight on matters of strategic importance for raising the value of Osaka Gas, including his review of the year ended March 2011 and projections for the year ending March 2012.

A performance review of the year ended March 31, 2011

Q1 Please summarize the Group's performance in the fiscal year ended March 31, 2011.

A1

Revenues increased thanks to an increase in gas sales associated with a recovery in the economy and to full operation of the Semboku Natural Gas Power Plant for the entire year. However, profits declined due to losses resulting from the time lag between LNG purchase prices and their reflection on gas sales prices.

Economic trends in the Kansai region

The pace of economic recovery in the Kansai region, our Company's supply area, slowed beginning in the fall of 2010 due to the yen's appreciation and other factors. Signs of a partial rebound began to emerge at the start of 2011 when exports to Asia and production figures showed some improvement. But soon after, uncertainties with a continual mark on international affairs, including sharp rises in resource and energy prices, political insecurity in the Middle East and North Africa and other developments, obscured the economic outlook, which the devastation brought about by the Great East Japan Earthquake in March 2011 clouded even more for Japan. Because Kansai (western Japan) was largely spared from the disaster, there has been a notable shift of manufacturing activity into the area and away from eastern Japan.

Higher revenues, lower profits in the fiscal year ended March 2011

Revenues increased but profits declined in the fiscal year ended March 2011. Operating revenues increased by 8.3% year on year to ¥1,187.1 billion owing to an increase in gas sales volumes due to the economic recovery and other factors, full operation at the Semboku Natural Gas Power Plant, and increased revenues from consolidated subsidiaries involved in the real estate business and other businesses. Operating income declined by 2.8% to ¥88.5 billion. This was because gross profit from gas sales declined due to an increase in raw material costs associated with rising LNG prices, despite lower administrative expenses, higher income from the electric power business owing to stable operation of the Semboku Natural Gas Power Plant, and higher income from consolidated subsidiaries in real estate and other businesses.

Under the fuel cost adjustment system, gains and losses occur due to the time lag between changes in LNG prices and when they are reflected in gas sales prices. In the year ended March 2010, there was a related gain of ¥26.7 billion, but in the fiscal year ended March 2011, a loss of ¥8.5 billion was incurred. Excluding the impact of factors behind short-term profit fluctuations, we feel our performance in the fiscal year under review was solid.

	10.3	11.3	Change	Change (%)
Operating revenues (billions of yen)	1,096.6	**1,187.1**	+90.5	+8.3%
Operating income (billions of yen)	91.1	**88.5**	–2.5	–2.8%
Net income (billions of yen)	48.3	**45.9**	–2.4	–5.0%
Profit/loss on fuel cost adjustment system (billions of yen)	26.7	**–8.5**	–35.2	—
Exchange rate (yen/$)	92.9	**85.7**	–7.2	–7.8%
Crude oil price ($/bbl)	69.4	**84.1**	+14.7	+21.2%
Non-consolidated gas sales volume (million m^3)	8,119	**8,528**	+408	+5.0%
Residential (million m^3)	2,244	**2,275**	+32	+1.4%
Commercial and industrial (million m^3)	5,420	**5,765**	+344	+6.3%

45MJ/m^3

Interview with the President

Management policies and performance projections for the year ending March 2012

Q2 What are your management policies and performance projections for the fiscal year ending March 31, 2012?

A2

We position the fiscal year ending March 2012 as a year for accelerating initiatives aimed at achieving the goals of our long-term management vision and medium-term business plans. As to performance, we are projecting higher revenues on higher gas prices based on the assumption that crude oil prices will rise, but lower profits due to higher raw material costs.

Accelerating initiatives to realize our long-term management vision and medium-term business plans

The fiscal year ending March 2012 will be a "Boost-up Year" in which we accelerate initiatives aimed at achieving the targets of our long-term management vision and medium-term business plans, "Field of Dreams 2020." We plan to carry out the following four initiatives on a priority basis.

1. **Raise levels of customer satisfaction and contribute to the realization of a low-carbon society**
   Promote advanced use of natural gas, widespread dissemination of residential cogeneration systems "ECOWILL" and "ENE-FARM," and high-efficiency water heaters and photovoltaic power generation, in tandem with promoting biogas use.
2. **Invest for growth and expansion of businesses**
   Invest for growth and expansion of businesses in the domestic energy services (electricity and broader supply of energy), international energy businesses along the energy value chain (upstream, midstream and downstream) and environment and non-energy businesses (real estate, information technology and advanced materials)
3. **Ensure stable, secure supplies and practice CSR**
   Ensure stable energy supplies and safety, and inspect current disaster preparedness measures to make appropriate revisions in light of the Great East Japan Earthquake
4. **Implement initiatives for smart work**
   Raise productivity by information technology to create even higher quality services and rigorously reduce costs

Higher revenues and lower profits projected for the fiscal year ending March 2012

For the fiscal year ending March 2012, we are projecting operating revenues to increase by 6.7% year on year to ¥1,267.0 billion owing to higher gas prices associated with increases in LNG prices, on the assumption of crude oil prices at $100 a barrel. Operating income however is projected to decline by 16.5% year on year to ¥74.0 billion due to raw material costs rising along with LNG prices, gross profits from gas sales declining and various administrative expenses increasing.

Based on the assumption of average temperatures for the year, residential gas sales volumes are projected to total 2,237 million m^3, a decline of 1.7% compared to the previous year, which saw lower than average winter-time temperatures. Commercial and industrial gas sales volumes are forecast to total 5,720 million m^3, a decline of 0.8% year on year. Some new demand for gas will probably emerge even for commercial and industrial consumption, but demand for air conditioning is likely to be lower owing to the extremely hot summer last year.

Uncertainty about the future has only increased in the aftermath of the Great East Japan Earthquake, but we intend to steadily carry out the four priority initiatives cited in our plan for the fiscal year ending March 2012 toward achievement of the goals of "Field of Dreams 2020," our long-term management vision and medium-term business plans.

	11.3 (Results)	12.3 (Outlook)	Change	Change (%)
Operating revenues (billions of yen)	1,187.1	**1,267.0**	+79.8	+6.7%
Operating income (billions of yen)	88.5	**74.0**	–14.5	–16.5%
Net income (billions of yen)	45.9	**43.5**	–2.4	–5.4%
Profit/loss on fuel cost adjustment system (billions of yen)	–8.5	**–19.1**	–10.6	
Exchange rate (yen/$)	85.7	**85**	–0.7	–0.8%
Crude oil price ($/bbl)	84.1	**100**	+15.9	+18.9%
Non-consolidated gas sales volume (million m^3)	8,528	**8,448**	–80	–0.9%
Residential (million m^3)	2,275	**2,237**	–38	–1.7%
Commercial and industrial (million m^3)	5,765	**5,720**	–45	–0.8%

45MJ/m^3

A progress report on the long-term management vision and medium-term business plans

Q3 What progress have you made on "Field of Dreams 2020," your long-term management vision and medium-term business plans to the fiscal year ending March 2021?

A3

In domestic energy businesses, international energy businesses along the energy value chain, and environment and non-energy businesses, we have steadily made progress implementing initiatives to broaden business domains. Specific examples include promoting sales of the residential fuel cell cogeneration system "ENE-FARM," conducting stable operations at the Semboku Natural Gas Power Plant, promoting the construction of a high-pressure pipeline network for broader supply of energy, acquiring revenue-generating real estate, and making decisions to participate in the Gorgon LNG Project in Australia, the Sagunto LNG terminal in Spain, and the Shuweihat S2 Independent Water and Power Project in the United Arab Emirates.

Broadening business domains

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 domestic energy business sector, we steadily increased unit sales of "ENE-FARM" residential fuel cell cogeneration systems, and the electricity business grew into a strong revenue stream with the stable operation of the Semboku Natural Gas Power Plant. Moreover, we made progress in our construction work for the Mie-Shiga and Himeji-Okayama Lines. We also reached agreements with Okinawa Electric Power Company, Inc. and Shizuoka Gas Co., Ltd. on the wholesale of LNG.

In the international energy business segment, we committed ourselves to a broad range of projects, including the Gorgon LNG Project and the Hallet 4 Wind Farm Project in Australia, the Sagunto LNG terminal in Spain, the Shuweihat S2 Independent Water and Power Project in the United Arab Emirates and a shale gas development project in Canada.

In the field of environment and non-energy businesses, we began accepting sewage biogas from the city of Kobe into our pipelines, acquired real estate assets for generating strong business returns and launched and further developed a new human behavior observation research business.

In all of these ways, we were successful in implementing initiatives to broaden our businesses as we continue to make steady progress on "Field of Dreams 2020," our long-term management vision and medium-term business plans.

Aggressive investment to expand new businesses

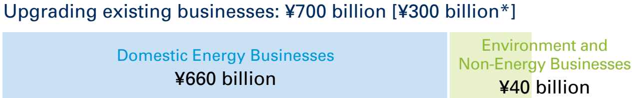
We plan to invest ¥1.5 trillion in total over the 12-year period from the fiscal year ended March 2010 to the fiscal year ending March 2021. The plan allocates ¥700.0 billion for the upgrading of gas supply facilities over the long term and quality improvements of existing businesses to ensure stable supplies and raise safety levels. It also provides ¥800.0 billion for new business expansion both domestic and overseas.

In terms of investment for growth and new business expansion, we have committed ¥157.0 billion on a cumulative basis since the year ended March 2010. Those projects include augmenting supply infrastructure on the Mie-Shiga Line, Himeji-Okayama Line, participation in various projects in the international energy businesses segment, including the Gorgon LNG Project in Australia, and the acquisition of real estate assets for generating business returns. This accounts for roughly 40% of the ¥400.0 billion in investment we have planned for the five-year period from the fiscal year ended March 2010 to the fiscal year ending March 2014, which is indicative of the steady progress we are making in investing for growth and new business expansion.

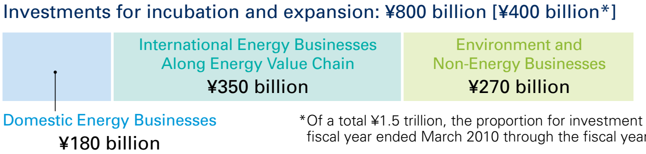
Investment FY2010–FY2021

¥1.5 trillion investments for solidifying three business fields

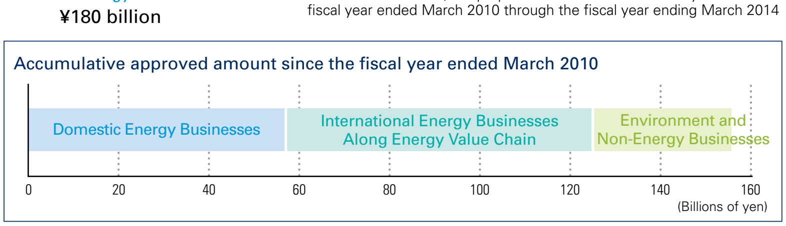
Upgrading existing businesses: ¥700 billion [¥300 billion*]



Investments for incubation and expansion: ¥800 billion [¥400 billion*]



*Of a total ¥1.5 trillion, the proportion for investment in five years from the fiscal year ended March 2010 through the fiscal year ending March 2014



International business development

Q4 What is your future vision for the international energy business, one of the mainstays of your "Field of Dreams 2020" long-term management vision and medium-term business plans, and what have you achieved to date?

A4

We have already achieved profits of around ¥6.0 billion annually* and are aiming for major growth by carrying out broad-ranging initiatives, from upstream to mid- and downstream along the natural gas value chain.

*On average since the fiscal year ended March 2005

Future vision for the international energy business

Our long-term management vision and medium-term business plans, "Field of Dreams 2020," calls for major growth in the international energy business segment in particular. Specifically, we will be involved in a wide range of projects along the natural gas value chain, from acquisition of upstream gas field and resource development interests, to mid- and downstream LNG terminal, pipeline, electric power supply and gas supply businesses. Our stakes in upstream sectors will enable us to secure LNG in a stable manner and improve energy security, while in the mid- and downstream sectors, we will effectively utilize our knowledge, expertise and human resources cultivated in our domestic energy business to help raise business value. Moreover, we will develop an LNG trading business that combines upstream and mid- and downstream businesses to demonstrate synergies among them on an overall basis and enhance flexibility and economic efficiency.

Achievements in the international energy business segment

Osaka Gas was the first Japanese gas utility to be involved in overseas projects. To date we have participated in 9 upstream projects and more than 10 mid- and downstream projects. Many of these projects are already contributing profit which, although variable, averages ¥6.0 billion annually.

We plan to accelerate growth in this business field through aggressive investments.

Main Project Acquisitions

●Upstream businesses ●Mid- and downstream businesses

Main Acquisitions	Country	Category
❶Idemitsu Snorre Oil Development Co., Ltd.	Norway	Oil field rights
❷Amorebieta IPP	Spain	IPP*1
❸Tenaska Gateway IPP	U.S.A.	IPP*1
❹Gorgon Project Gas Field	Australia	Gas field rights
❺Sagunto LNG Terminal	Spain	LNG terminal
❻Shuweihat S2	UAE	IWPP*2

Profit contribution (operating income + equity in net income of affiliates)

About ¥6.0 billion/year

(Average since the year ended March 2005)

*1 IPP: Independent Power Producer
*2 IWPP: Independent Water and Power Producer

Return to shareholders

Q5 Finally, what is your philosophy on shareholder returns?

A5

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 those external profit fluctuating factors in the short-term. If warranted by our financial position and other determinants, it is also our policy to buy back shares on a flexible basis. For the year ended March 2011, we met shareholder expectations by increasing the per share dividend by one yen for the full year and buying back shares worth ¥20.0 billion.

Philosophy on dividends and share buy-back

Osaka Gas believes that raising its corporate value is what truly rewards shareholders.

On the matter of accumulating capital from profits and how to utilize internal reserves to raise shareholder value, we will adopt the most appropriate mix of policies depending on operating conditions at the time based on three possibilities: 1) continue to pay a stable dividend, 2) invest in businesses with projected high returns and raise growth potential to increase corporate value in the future, and 3) increase earnings per share and return on equity by buying back shares and reducing the number of shares outstanding.

Regarding dividends, our basic policy is to continue to pay a stable dividend while targeting a consolidated payout ratio of at least 30%, after eliminating external factors that cause profits to fluctuate in the short-term.

We buy back shares on a flexible basis when there is leeway in our financial position and cash flow after investing for growth and new business expansion.

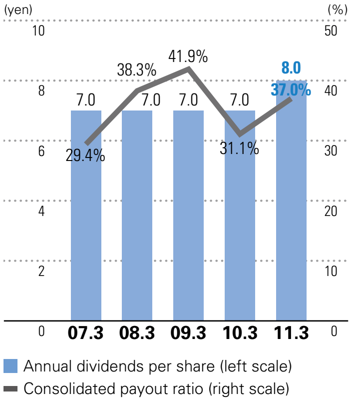
Return to shareholders in the year ended March 2011
Increased per share dividend by one yen and bought back ¥20.0 billion in shares

In the fiscal year ended March 2011, we paid a full year dividend of eight yen per share, an increase of one yen from the previous fiscal year. We did this as the Semboku Natural Gas Power Plant, launched in 2009, was brought steadily to full operation, and as we expected our investments to date would begin contributing to profit.

We also felt that our progress in accumulating capital and surplus in cash flow and financial position justified the buyback of 63,724 thousand shares for ¥20 billion to achieve shareholder repatriation and an improvement in capital efficiency. The shares acquired were cancelled in March 2011.

In the fiscal year ended March 2011, I believe we made improvements meeting the expectations of shareholders by increasing the dividend and buying back shares. We will continue to work hard to further our corporate value for our shareholders.

Annual Dividends per Share/ Consolidated Payout Ratio



Track Record of Share Buybacks

	Number of shares acquired (thousands of shares)	Acquisition costs (millions of yen)
2002/3	60,000	18,330
2003/3	67,789	19,992
2004/3	65,553	19,992
2008/3	67,286	30,000
2011/3	63,724	20,000