Management's Discussion and Analysis

1. Operating Environment

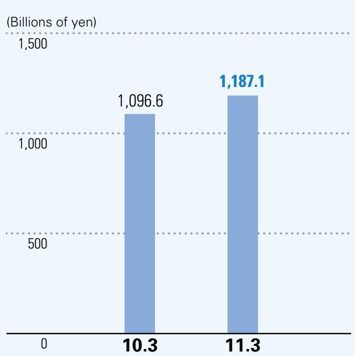
In the fiscal year ended March 31, 2011, the speed of recovery of the Japanese economy slowed from fall 2010 due mainly to the impact of the appreciation of the yen. From the turn of the year, despite signs of the international economy picking up, the worldwide economic situation remained opaque. This was primarily due to surging prices of resources and energy, and political instability in the Middle East and elsewhere. In Japan also, the yen's protracted appreciation depressed business performance in export industries, and there was a noticeable trend for plants and other facilities to relocate or integrate. Moreover, it is expected that the Great East Japan Earthquake that occurred in March 2011 will result in changes in governmental policies, and may produce changes in consumption patterns and industry structures.

2. Highlights of the Fiscal Year Ended March 31, 2011

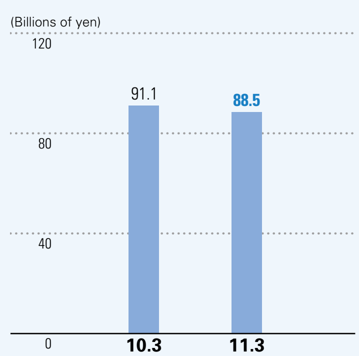
Consolidated operating revenues for the year ended March 31, 2011 increased by ¥90.5 billion (up 8.3% year on year) to ¥1,187.1 billion. This was due primarily to a rise in gas sales volume and an increase in revenues from the electric power business. Consolidated operating income decreased by ¥2.5 billion (down 2.8% year on year) to ¥88.5 billion. This was mainly due to a deteriorated gross margin on gas because of an increase in LNG prices. Consolidated net income decreased by ¥2.4 billion (down 5.0% year on year) to ¥45.9 billion.

As of March 31, 2011, the Company had 131 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 seven affiliates at the current year-end.

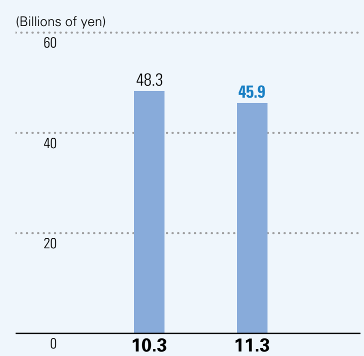
Operating Revenues



Operating Income



Net Income



3. Non-Consolidated Gas Sales

Osaka Gas sales volume overall rose by 5.0% in the fiscal year ended March 31, 2011 from the previous fiscal year to 8,528 million m^3. Within this, residential gas sales increased by 1.4% from the previous fiscal year, to 2,275 million m^3, as temperatures were relatively low during winter. Industrial gas sales increased by 6.8% to 4,141 million m^3, as they were positively impacted by existing customers' increased facilities usage. Commercial gas sales and gas sales for public and medical uses were up by 5.2%, to 1,624 million m^3. This was due to higher demand for air conditioning because summer temperatures were higher than in 2009, as well as the favorable development of consumer demand. Wholesale gas sales increased by 7.2%, to 488 million m^3 from the previous fiscal year.

Non-consolidated Gas Sales

[45MJ/m^3]			2010/3	2011/3	Change	Change (%)
Average monthly usage per customer (m^3/month)			32.3	32.7	+0.4	+1.3
Gas sales volume (Million m^3)	Residential		2,244	2,275	+32	+1.4
	Commercial and industrial		5,420	5,765	+344	+6.3
		Industrial	3,877	4,141	+263	+6.8
		Commercial, public and medical	1,543	1,624	+81	+5.2
	Wholesale		455	488	+33	+7.2
	Total		8,119	8,528	+408	+5.0

4. Overview by Business Segment

Gas

Operating revenues from the gas segment increased by ¥54.3 billion (up 6.6% year on year) to ¥879.8 billion, resulting mainly from an increase in gas sales volume, and gas unit prices that remained high under the fuel cost adjustment system in association with rising LNG prices. There was a decrease in segment profit of ¥15.3 billion (down 26.9% year on year) to ¥41.9 billion, due primarily to a drastic rise in raw material costs.

LPG, Electricity and Other Energies

Operating revenues from this segment increased by ¥31.3 billion (up 21.9% year on year) to ¥174.7 billion, caused mainly by the expansion of the electricity business. There was an increase in segment profit of ¥10.7 billion (up 71.9% year on year) to ¥25.6 billion.

International Energies

Operating revenues from the international energies segment were approximately the same as the previous fiscal year at ¥11.1 billion. There was an increase in segment profit of ¥600 million (up 16.3% year on year) to ¥4.9 billion, mainly due to increased profit from the North Sea Oil Field (Idemitsu Snorre Oil Development Co., Ltd.).

Environment and Non-energies

Operating revenues from this segment increased by ¥9.7 billion (up 5.5% year on year) compared to the previous fiscal year, to ¥185.4 billion, mainly due to increased revenues from the real estate business. Segment profit rose ¥1.6 billion (up 11.5% year on year) to ¥15.6 billion.

Operating Revenues and Segment Income by Segment for FY 2011/3

(Billions of yen)

	Gas	LPG, electricity and other energies	International energies	Environment and non-energies	Adjustments	Total
Operating revenues	879.8	174.7	11.1	185.4	–64.0	1,187.1
Year-on-year change (%)	+6.6%	+21.9%	–0.2%	+5.5%		+8.3%
Year-on-year change	+54.3	+31.3	–0.0	+9.7		+90.5
Segment income	41.9	25.6	4.9	15.6	2.5	90.7
Year-on-year change (%)	–26.9%	+71.9%	+16.3%	+11.5%		–1.8%
Year-on-year change	–15.3	+10.7	+0.6	+1.6		–1.6

Segment income = operating income + equity in net income of affiliates

5. Assets, Liabilities, and Net Assets Analysis

Asset Management Policies

The Group plans to reduce assets in unprofitable business fields and day-to-day operations and intends to aggressively expand its operations in growth fields, especially Domestic Energy Businesses, International Energy Businesses along the Energy Value Chain, and Environment and Non-Energy Businesses. To minimize investment risk caused by changes in the operating environment, the Group is further tightening its procedures for investment decisions, as well as subsequent follow-up and evaluation based on Group-wide investment criteria for individual investment proposals. The Group will conduct quantitative risk management and pursue returns through active business investments within the scope of the allowed risk amount of the entire Group.

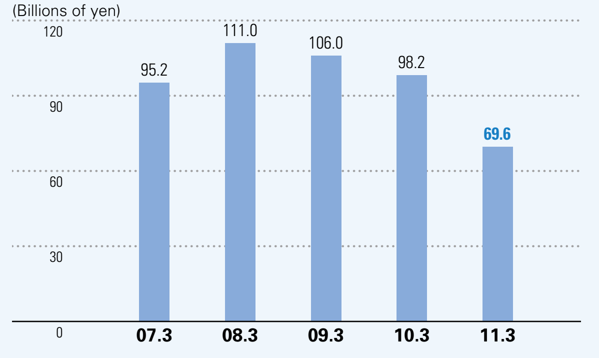
We aim to maximize capital efficiency by targeting a consolidated ratio of interest-bearing debt to equity of approximately one and a consolidated shareholders' equity ratio of 40% or over. As the shareholders' equity ratio is now well above 40%, we intend to invest in our growth by raising funds through new interest-bearing debt in line with the growth in shareholders' equity as profits increase.

Capital Expenditure

In the fiscal year ended March 31, 2011, non-consolidated capital expenditure totaled ¥47.9 billion, down by ¥9.9 billion year on year, even with the ongoing construction of the Mie-Shiga Line and the Himeji-Okayama Line. Consolidated capital expenditure declined by ¥28.6 billion, to ¥69.6 billion.

The Group is aggressively investing in both domestic and overseas businesses as potential future growth drivers. Investment targets include natural gas fields and LNG carriers, as well as IPPs and other electricity businesses. In the fiscal year ended March 31, 2011, we made new and additional investments totaling ¥26.3 billion in the Mie-Shiga Line, the Himeji-Okayama Line, the Gorgon LNG Project in Australia, the Sagunto LNG terminal in Spain, real estate, and other areas. This was less than initially planned, but we have decided to invest a two-year accumulative total of ¥157.0 billion in the year ended March 31, 2011 (39% of the amount planned for the five-year period from the fiscal year ended March 31, 2010 to the fiscal year ending March 31, 2014), in projects including the Shuweihat S2 Independent Water and Power Project in the United Arab Emirates, and the Hallett 4 wind farm project in Australia.

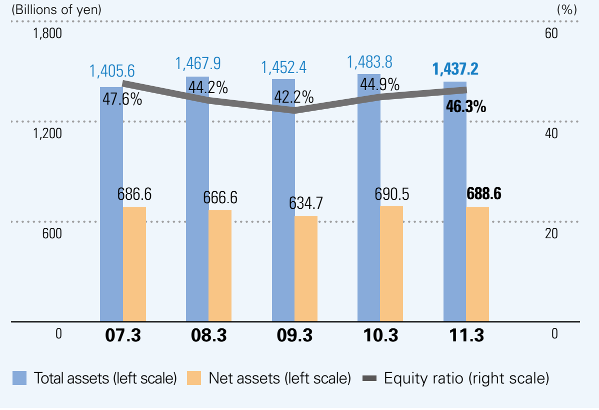
Capital Expenditure



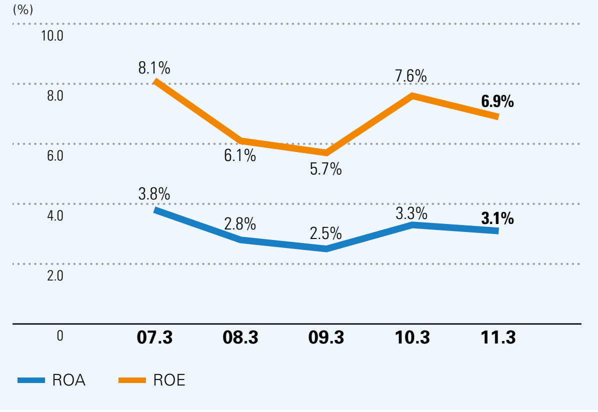
Assets, Liabilities, and Net Assets Analysis

Total assets as of March 31, 2011 decreased by ¥46.5 billion from the previous year-end, to ¥1,437.2 billion, mainly due to a decrease in property, plant and equipment. Liabilities decreased by ¥44.7 billion to ¥748.6 billion, primarily due to a decrease in long-term loans payable. Net assets declined by ¥1.8 billion, to ¥688.6 billion. This was because although shareholders' equity increased due to the net income, this was held to ¥9.5 billion because of the acquisition and cancellation of treasury stock, whereas accumulated other comprehensive income fell ¥11.3 billion mainly due to falls in the market prices of shares held. Consequently, the shareholders' equity ratio increased 1.3 percentage points from the previous year-end, to 46.3%. Return on assets (ROA) declined 0.1 point, to 3.1%, while return on equity (ROE) decreased 0.7 point, to 6.9%.

Total Assets/Net Assets/Equity Ratio



Return on Equity (ROE)
Return on Assets (ROA)



6. Overview of Cash Flows

Net cash provided by operating activities during the fiscal year ended March 31, 2011 decreased by ¥103.3 billion, to ¥126.3 billion. This decrease was mainly due to a decrease in income before income taxes and minority interests compared to the previous fiscal year, and a decrease in revenues of ¥26.1 billion due to changes in notes and trade accounts receivable.

Net cash used in investing activities was ¥82.4 billion, a decrease of ¥28.8 billion from the previous year. This decrease was mainly due to the purchase of property, plant and equipment. Net cash used in financing activities decreased by ¥8.2 billion, to ¥41.2 billion, mainly due to the purchase of treasury stock, although there was no repayment of bonds as in the previous year, while new bonds were issued.

Consequently, cash and cash equivalents for the fiscal year ended March 31, 2011 increased by ¥2.2 billion. Adding an initial balance of ¥113.9 billion to this, the year-end balance of cash and cash equivalents for the fiscal year ended March 31, 2011 stood at ¥116.2 billion.

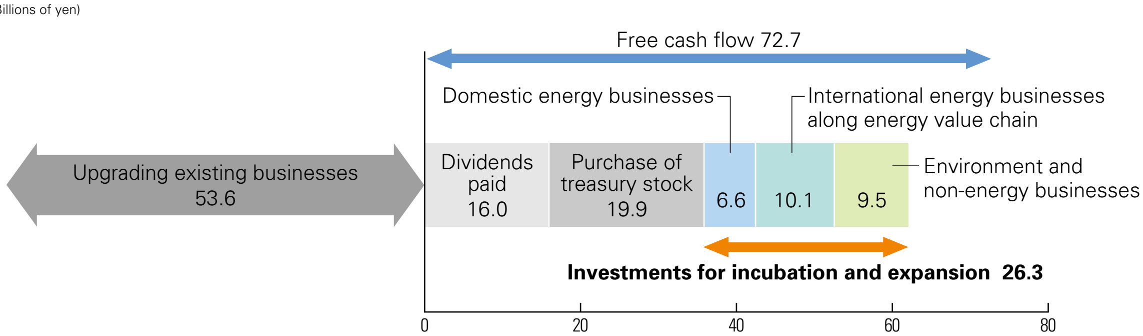
(Billions of yen)

	2010/3	2011/3	Change
Cash flows from operating activities	229.7	126.3	–103.3
Cash flows from investing activities	–111.2	–82.4	+28.8
Cash flows from financing activities	–49.5	–41.2	+8.2
Change in cash and cash equivalents	67.2	2.2	–65.0
Cash and cash equivalents at year-end	113.9	116.2	+2.2
Interest-bearing debt at year-end	539.0	532.4	–6.5

Purpose of Free Cash Flows

Consolidated free cash flows for the fiscal year ended March 31, 2011 declined ¥102.6 billion year on year to ¥72.7 billion. This included an investment of ¥26.3 billion to expand new businesses, a dividend payment of ¥16.0 billion, and ¥19.9 billion used to repurchase the Company's own stock.

Free Cash Flow Application During FY 2011
(Billions of yen)



Note: Free cash flow = cash flow from operating activities – capital expenditure for upgrading existing businesses

7. Ratings

The Company recognizes that improving fund-raising competitiveness is an important issue in a sound financial strategy. At the same time, to maintain its credit ratings and other indications of financial soundness, the Company will endeavor to attain the following financial soundness indicators: (1) a shareholders' equity ratio of 40% or over, and (2) a ratio of consolidated D/E (debts to equity) of about one, while maintaining the existing balance with SVA (shareholders' value added), free cash flow, balance of interest-bearing debts, and other indicators.

Currently, the Company has been rated AA and Aa by foreign credit rating agencies, and AA by a domestic credit rating agency. Going forward, the Company will continue to ensure that it possesses a sound financial standing.

Credit Rating

R&I	AA+
Moody's	Aa2
Standard & Poor's	AA–

8. Basic Policy Regarding the Distribution of Profits and Dividends

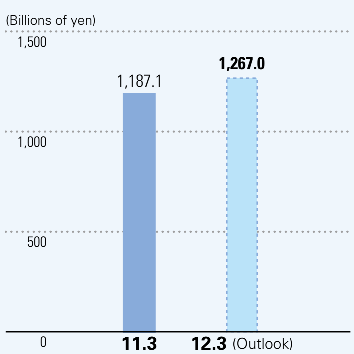
The Company has been striving to grow the business and improve the efficiency of operations, and has appropriated the increased profit resulting from these efforts for internal reserves for future business growth and for payment of steady dividends to shareholders. We will endeavor to continue paying steady dividends (interim and year-end) to shareholders, and comprehensively take alternative profit distribution plans and other measures into consideration, based on operational results, future business management and other plans. 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 businesses.

The Company paid annual dividends of 8.0 yen per share, an increase of 1.0 yen per share from the previous fiscal year, including interim dividends of 4.0 yen per share for the year under review. This reflects, among other factors, a) the smooth operation of the Semboku Natural Gas Power Plant whose four power generating units all became operational in November 2009, b) progress in investment decisions on new business expansion, and c) solid profit contribution by expanding affiliated companies. It also plans to pay annual dividends of 8.0 yen per share in the year ending March 31, 2012.

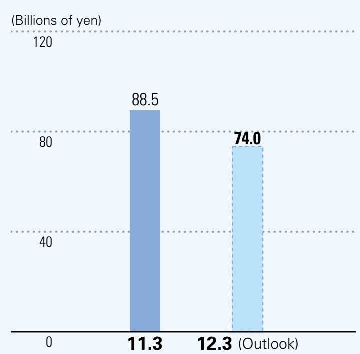
9. Outlook for Fiscal 2012

We project that revenues will increase in the fiscal year ending March 31, 2012, with total operating revenues expected to increase by ¥79.8 billion (+6.7%), to ¥1,267 billion. LNG prices will be higher in the fiscal year ending March 31, 2012 than in the fiscal year under review, and gas unit prices will increase due to the fuel cost adjustment system. Operating income is expected to decline by ¥14.5 billion (–16.5%), to ¥74.0 billion due to the significant impact of higher raw materials prices, as LNG prices increase. Net income in the fiscal year ending March 31, 2012 is projected to decrease by ¥2.4 billion (–5.4%) year on year, to ¥43.5 billion.

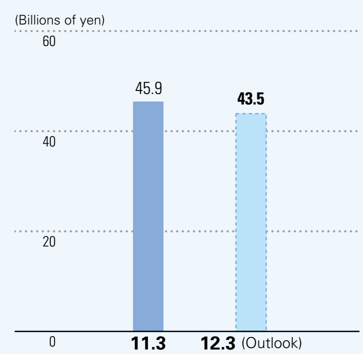
Operating Revenues



Operating Income



Net Income



Operating Revenues and Segment Income by Segment (Outlook)

(Billions of yen)

	Gas	LPG, electricity and other energies	International energies	Environment and non-energies	Adjustments	Total
Operating revenues	951.0	192.5	11.0	170.5	–58.0	1,267.0
Year-on-year change (%)	8.1%	10.1%	–1.2%	–8.0%		6.7%
Year-on-year change	+71.1	+17.7	–0.1	–14.9		+79.8
Segment income	31.5	22.5	6.0	15.0	2.0	77.0
Year-on-year change (%)	–24.9%	–12.1%	20.8%	–4.2%		–15.1%
Year-on-year change	–10.4	–3.1	+1.0	–0.6		–13.7

Segment income = operating income + equity in net income of affiliates

10. Business Risks

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

Risks Related to All Businesses within the Group

a. Worsening of economic and financial conditions, domestic market contraction

A decrease in operating revenues, difficulties in fund-raising, insolvency of partner companies, and the transfer of manufacturing overseas, due to worsening of economic and financial conditions in Japan and/or other countries, as well as Japan's shrinking population and other factors

b. Changes in foreign exchange rates and borrowing rates

Changes in foreign exchange rates and/or borrowing rates

c. Occurrence of catastrophic disaster, accident and infectious disease

Occurrence of catastrophic natural disasters, terrorist events, accidents, or infectious disease epidemics such as the new strains of influenza or other diseases

d. Changes in policies, laws and regulations, and institutional systems

Changes in the Gas Utility Industry Law, the Electricity Utilities Industry Law, the Companies Act, the Financial Instruments and Exchange Law, environment-related laws or other policies, laws and regulations, and institutional systems in Japan and/or other countries

e. Intensifying competition

Intensified competition with other operators in the gas business and other business areas related to the Group

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

g. Information leaks

External leaks of important information used in the course of the Group's business, including customer information or technical information possessed by the Group

h. Non-compliance with laws and 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 decline in its social reputation.

Risks Related to Major Businesses

1) Gas business

a. Impact of fluctuation in temperature/water temperature on gas demand

b. Changes in fuel costs

Fluctuation in LNG prices due to changes in crude oil prices, foreign exchange rates and other relevant factors*

Settlement of fuel costs arising from renewal of contracts or price negotiations with fuel suppliers

* Although the fluctuation in LNG prices 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 fuel suppliers could affect the business performance of the Group.

c. Difficulty in procuring raw materials

Problems with the facilities or operations of the LNG supplier.

d. Production and supply difficulties

Disruption of the production or supply of gas due to catastrophic natural disasters or accidents

e. Gas equipment and facility issues

Serious problems with gas equipment or appliance facilities

2) Electricity business

Any interruption in the operation of any electric power plant due to a natural disaster, accident, trouble in fuel purchasing or other incident

3) International energy businesses

Delay or cancellation in gas field development or other development projects as a result of global economic stagnation, a drop in crude oil prices, worsening social conditions or other factors

The Group strives to minimize the potential impact of these risks through various measures, including derivative contracts to hedge against fluctuations in exchange rates and fuel 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.