Management's Discussion and Analysis

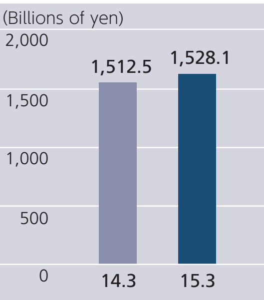
1. Operating Environment

In the fiscal year ended March 31, 2015, there were negative repercussions in the first half due to flagging demand after the demand surge leading up to the increase in consumption tax rate, while in the second half there was a decline in crude oil prices, combined with a weaker yen and higher stock prices. In addition, it was a year which lifted expectations of economic recovery going forward due to support from the strong U.S. economy and improvement in performance primarily among exporting businesses.

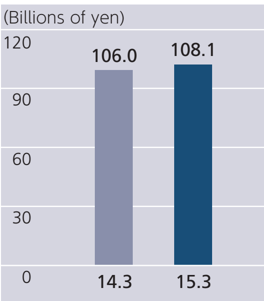
2. An Overview of the Fiscal Year Ended March 31, 2015

Consolidated net sales for the fiscal year ended March 31, 2015 increased by ¥15.5 billion (+1.0%) year on year, to ¥1,528.1 billion, mainly because city gas sales unit prices at Osaka Gas remained high under the Fuel Cost Adjustment System, even though the volume of gas sold declined for Osaka Gas on a stand-alone basis. Meanwhile, consolidated operating income rose to ¥108.1 billion, up ¥2.1 billion (+2.0%), largely due to increased gas business earnings. In addition, consolidated net income rose by ¥34.9 billion (+83.8%) to ¥76.7 billion, primarily due to booking profits on the sale of investment securities and the effects of impairment loss for the year ended March 31, 2014. As of March 31, 2015, the Company had 145 consolidated subsidiaries. Over the course of the fiscal year, seven companies were excluded, and two companies were brought within the scope of consolidation. In addition, there were 13 affiliates reported by the equity method as of the end of the fiscal year, a decrease of one affiliate and increase of two affiliates from the end of the previous fiscal year.

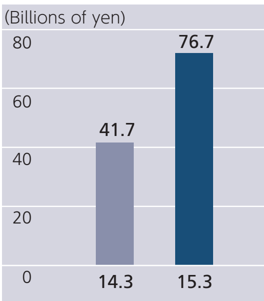
Net Sales



Operating Income



Net Income



External Environment Data

	Temperature (℃)	Crude oil price ($/bbl)	Exchange rate (yen/$)
2014.3	17.1	110.0	100.2
2015.3	16.8	90.4	109.8

Breakdown of Movements in Net Sales between Fiscal Years Ended March 31, 2014 and March 31, 2015

2014.3 ¥1,512.5 billion → 2015.3 ¥1,528.1 billion (Up ¥15.5 billion YoY)

Non-consolidated: Up ¥29.9 billion

Gas net sales	**Up ¥23.9 billion**
· Impact of the Fuel Cost Adjustment System	Up ¥47.1 billion
· Changes in volume and other factors	Down ¥23.1 billion
Other revenues	**Up ¥6.0 billion**
· Electric power sales	Up ¥10.8 billion
· Gas appliance sales	Down ¥2.1 billion
· LNG sales	Down ¥0.9 billion

Subsidiaries: Down ¥14.4 billion

· LPG and other businesses	Down ¥9.2 billion
· Osaka Gas Research Institute of Behavior Observation	Down ¥3.8 billion

Breakdown of Movements in Operating Income between Fiscal Years Ended March 31, 2014 and March 31, 2015

2014.3 ¥106.0 billion → 2015.3 ¥108.1 billion (Up ¥2.1 billion YoY)

Non-consolidated: Up ¥19.0 billion

Gross margin of gas sales	**Up ¥25.9 billion**
· Time-lag factors	Up ¥32.9 billion
· Changes in volume and other factors	Down ¥6.9 billion
Increase in operating expenses	**Down ¥4.5 billion**
· Increase in depreciation costs	Down ¥4.2 billion
Non-operating income	**Down ¥1.9 billion**
· Profit on gas appliance sales	Down ¥4.3 billion
· Profit on LNG sales	Up ¥3.5 billion
Non-operating income and expenditure	**Down ¥0.3 billion**

Subsidiaries: Down ¥16.9 billion

· U.S. energy business	Down ¥3.4 billion
· Jacobi Carbons	Down ¥1.4 billion
· LPG business (including equity-method affiliates)	Down ¥1.2 billion
· OGIT (LNG carriers)	Down ¥1.2 billion

3. Non-Consolidated Gas Sales

In the fiscal year ended March 31, 2015, overall gas sales volume for Osaka Gas was 8,259 million m³, a decrease of 3.1% from the previous fiscal year. Included in this amount are residential gas sales, which decreased by 0.5% year on year, to 2,186 million m³. This mainly reflected the downturn in heating demand due to higher winter temperatures compared with the previous fiscal year. Industrial gas sales volume fell by 4.5% year on year to 4,133 million m³. This was due largely to the conversion of certain industrial generation equipment to private generation systems at customer facilities and the reduced operation of customer equipment. Gas sales for commercial, public and medical use declined by 4.1% over the previous year to 1,465 million m³, mainly as a result of reduced cooling demand. Wholesale gas sales came in at 474 million m³, a 1.0% increase over the previous year.

Non-Consolidated Gas Sales

45MJ/㎥			2014.3	2015.3	Change	Change (%)
Average monthly usage per residential customer (m³/month)			31.3	30.9	–0.3	–1.1
Gas sales volume (million m³)	Residential		2,198	2,186	–12	–0.5
	Commercial and industrial		5,856	5,599	–258	–4.4
		Industrial	4,329	4,133	–195	–4.5
		Commercial, public, and medical	1,528	1,465	–63	–4.1
	Wholesale		469	474	+4	+1.0
	Total		8,524	8,259	–265	–3.1

4. Overview by Business Segment

Gas

Net sales for the gas business segment were up by ¥17.4 billion (+1.6%) year on year to ¥1,136.9 billion. This was mainly due to persistently high gas unit selling prices under the Fuel Cost Adjustment System. Segment income increased by ¥18.2 billion (+56.8%) compared with the previous fiscal year, to ¥50.2 billion

LPG, Electricity and Other Energy

Net sales from this segment decreased by ¥17.3 billion (–6.6%) to ¥243.7 billion, owing mainly to lower revenue from the LPG business. Segment income was down by ¥3.6 billion (–8.0%), to ¥41.6 billion.

International Energy

Net sales from the international energy business segment increased by ¥0.3 billion (+2.6%) year on year, to ¥13.7 billion. Segment income declined by ¥6.9 billion (–84.7%) to ¥1.2 billion, primarily due to a temporary decrease in income accompanying streamlining of vaporization operations at Freeport LNG Develo pment, a company that we are investing in.

Life & Business Solutions

Net sales for this segment increased by ¥10.9 billion (+5.6%) to ¥207.5 billion, primarily as a result of the new consolidation of Jacobi Carbons AB, which manufactures and markets activated carbon. Segment income decreased by ¥2.3 billion (–12.3%) to ¥16.5 billion, due mainly to a goodwill write-down for that company.

Net Sales and Segment Income for the Fiscal Year Ended March 31, 2015

(Billions of yen)

	Gas	LPG, Electricity, and Other Energy	International Energy	Life & Business Solutions	Adjustments	Total
Net sales	1,136.9	243.7	13.7	207.5	–73.7	1,528.1
Year-on-year change (%)	+1.6%	–6.6%	+2.6%	+5.6%	—	+1.0%
Year-on-year change	+17.4	–17.3	+0.3	+10.9	—	+15.5
Segment income*	50.2	41.6	1.2	16.5	2.2	112.0
Year-on-year change (%)	+56.8%	–8.0%	–84.7%	–12.3%	—	+4.4%
Year-on-year change	+18.2	–3.6	–6.9	–2.3	—	+4.7

* Segment income = Operating income + Equity in earnings of affiliates

5. Assets, Liabilities, and Net Assets Analysis

Asset Management Policies

The Osaka Gas Group plans to reduce assets in unprofitable business fields as well as day-to-day operations, and intends to aggressively expand its operations in growth fields, especially in the domestic energy business, the international energy business, and life & business solutions (non-energy business). To minimize investment risks 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 for individual investment proposals based on Group-wide investment criteria. 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.

To effectively advance the Group's business strategies, we aim to improve the Group's financial constitution, procure funding through the most appropriate means, and respond to financial risks in the best manner possible. Under the medium-term business plan "Catalyze Our Dreams," covering the three years from the year ended March 2015 to the year ending March 2017, we strive to maintain a consolidated ratio of interest-bearing liabilities to equity of approximately 0.7 and a consolidated shareholders' equity ratio of 50% or more in consideration of continued financial strength.

In this pursuit, we employ a number of measures, including cash management systems (CMSs) and other Group-wide capital efficiency measures; measures to improve the efficiency of invested capital, such as using free cash flows to reduce interest-bearing liabilities and buy back shares; and financial risk management measures, such as hedging activities to prevent revenue fluctuations due to business risks. In these ways, we are working to strengthen the financial constitution of the Group.

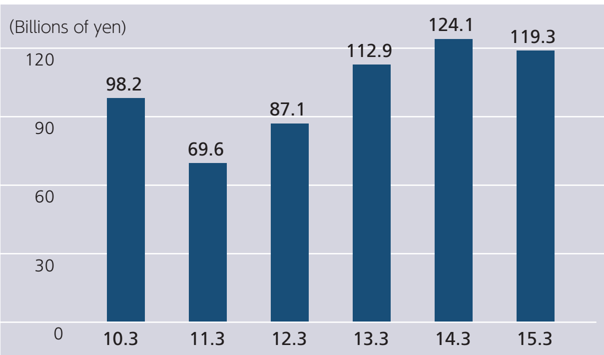
Looking ahead, having the ability to create cash flow through business activities combined with a sound financial condition should make it possible to procure the funding needed for corporate growth over the long term.

Capital Expenditure

The Osaka Gas Group is carrying out capital investment to cope with steadily increasing gas demand and to establish a stable, rational production and supply system for high-quality urban energy. At the same time, we are investing in plants and equipment to expand our future business in fields other than gas. In the fiscal year ended March 31, 2015, non-consolidated capital expenditure totaled ¥46.5 billion, down by ¥12.1 billion year on year. In addition, consolidated capital expenditure fell by ¥4.7 billion year on year, to ¥119.3 billion, on the back of such factors as the acquisition of overseas upstream interests and acquisition of real estate by consolidated subsidiaries.

The Osaka Gas Group is aggressively investing in both domestic and overseas businesses as potential future growth drivers. In addition to upstream business including gas field interests, we are investing in IPP and other electric power business, as well as other non-energy businesses that are derived from the gas business. During the fiscal year under review, we made investments for expansion, greenfield projects, and M&A activities totaling ¥92.4 billion, in such areas as domestic power plants, overseas upstream business and LNG tankers. In overall terms, we have decided to make investments totaling ¥557.0 billion over the six-year period that began with the fiscal year ended March 31, 2010. This is equivalent to 75% of the eight-year plan from the fiscal year ended March 31, 2010 to the fiscal year ending March 31, 2017.

Consolidated Capital Expenditure



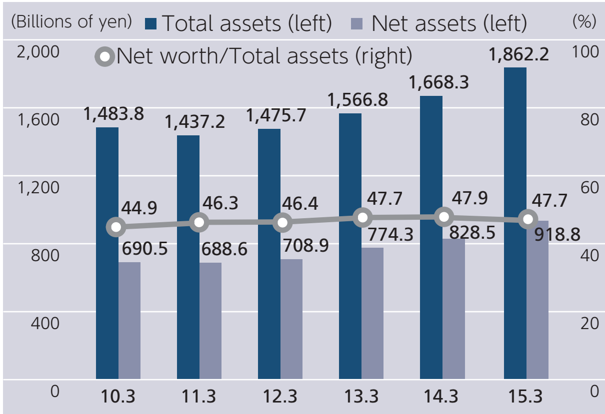
Assets, Liabilities, and Net Assets Analysis

Total assets as of March 31, 2015 stood at ¥1,862.2 billion, up by ¥193.8 billion from the previous fiscal year-end. This was mainly due to an increase in fixed assets, such as construction in progress accounts and investment securities, and an increase in liquid assets driven primarily by increases in cash and deposits.

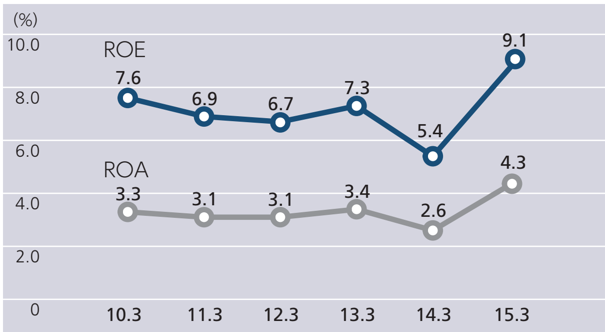
Total liabilities increased by ¥103.5 billion, to ¥943.3 billion, due to the increase in long-term loans payable. Net assets climbed by ¥90.3 billion, to ¥918.8 billion, on the back of increases mainly in shareholder equity due to increased retained earnings, and total accumulated other comprehensive income due to the higher current value of owned stocks.

As a result, the shareholders' equity ratio decreased by 0.2 percentage points from the previous fiscal year-end, to 47.7%. Return on assets (ROA) was up 1.8 percentage points, to 4.3%, while return on equity (ROE) increased 3.7 percentage points, to 9.1%.

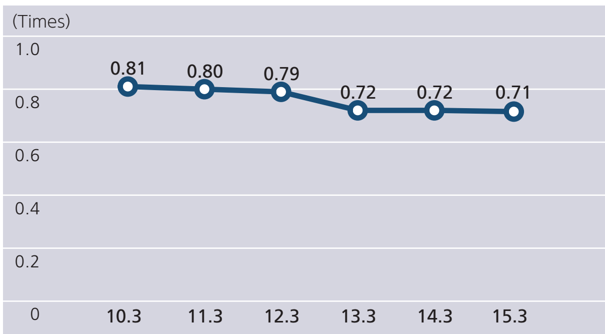
Total Assets, Net Assets, Net Worth/Total Assets



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



Debt Equity Ratio



6. Overview of Cash Flows

Net cash provided by operating activities during the fiscal year ended March 31, 2015 increased by ¥2.6 billion, to ¥156.9 billion. This was largely attributable to an increase in income before taxes.

Net cash used in investing activities decreased by ¥64.8 billion, to ¥110.7 billion, primarily as a result of an increase in proceeds from the sale of property, plant and equipment, proceeds from the sale of investment securities, and reduced expenditures due to the purchase of investments in subsidiaries being booked in the previous fiscal year.

Net cash provided by financing activities amounted to ¥22.8 billion, an increase of ¥18.7 billion over the previous fiscal year. This was largely on the back of reduced expenditures due to repayment of long-term loans payable.

Taking these activities into consideration, the net increase in cash and cash equivalents in the fiscal year ended March 31, 2015 totaled ¥72.4 billion after adjustment for the effect of exchange rate changes on cash and cash equivalents. Furthermore, cash and cash equivalents at the year-end for the fiscal year ended March 31, 2015 increased by ¥72.4 billion, to ¥162.7 billion.

(Billions of yen)

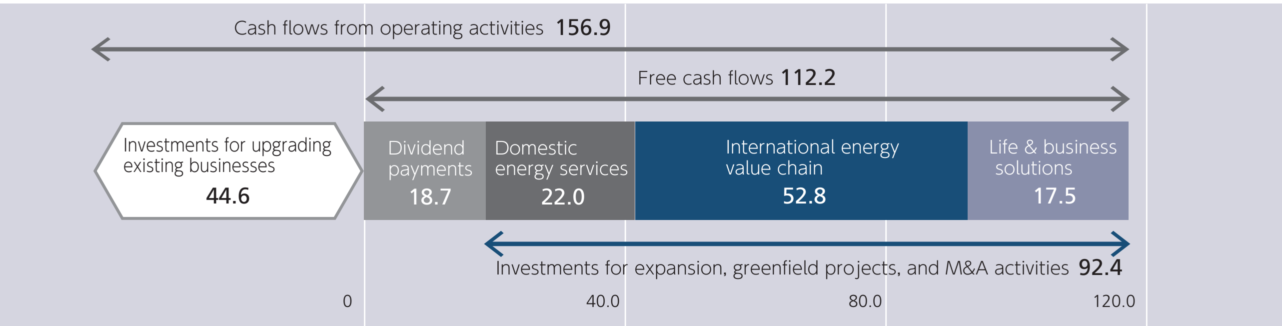
	2014.3	2015.3	Change
Cash flows from operating activities	154.2	156.9	+2.6
Cash flows from investing activities	–175.5	–110.7	+64.8
Cash flows from financing activities	4.1	22.8	+18.7
Net increase (decrease) in cash and cash equivalents	–19.0	72.4	+91.5
Cash and cash equivalents at the end of the year	90.3	162.7	+72.4
Interest-bearing liabilities at the end of the year	573.5	633.9	+60.3

Use of Free Cash Flows

Consolidated free cash flows for the fiscal year ended March 31, 2015 decreased by ¥0.9 billion, to ¥112.2 billion. Uses of these free cash flows included investments of ¥92.4 billion for expansion, greenfield projects, and M&A activities as well as dividend payments of ¥18.7 billion.

Use of Consolidated Free Cash Flows for the Fiscal Year Ended March 31, 2015

(Billions of yen)



Note: Free cash flows = Cash flows from operating activities – Investments for upgrading existing businesses (Capital expenditure)

7. Ratings

Osaka Gas 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 has put in place a fresh set of financial soundness indicators under its medium-term business plan, "Catalyze Our Dreams." Looking ahead, Osaka Gas will seek to achieve: (1) a shareholders' equity ratio of 50% or more, and (2) a ratio of consolidated interest-bearing liabilities to equity of about 0.7, while maintaining the existing balance with shareholders' value added (SVA), free cash flow, interest-bearing liabilities, and other indicators.

Currently, Osaka Gas 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 Ratings (As of March 31, 2015)

R&I	AA+
Moody's	Aa3
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 increase in profit resulting from these efforts for future business growth, for internal reserves, and for the payment of steady dividends to shareholders.

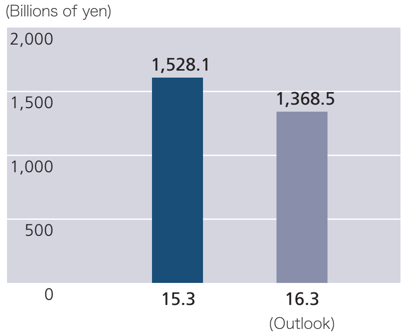
We will endeavor to continue payment of steady dividends (interim and year-end) to shareholders, and comprehensively take alternative profit distribution plans and other measures into consideration, based on operational results, future business management, and other plans. We will aim at keeping a consolidated 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 for expansion, greenfield projects, and M&A activities.

Osaka Gas will mark the 110th anniversary of its founding on October 19, 2015, and to express our gratitude for the support of all of our investors, we decided to add a commemorative dividend of ¥0.5 per share to the year-end dividend for the fiscal year ended March 31, 2015 as well as the interim and year-end dividends for the year ending March 31, 2016. The Company will issue dividend payments totaling ¥10 per share (including interim dividends) for the fiscal year ending March 31, 2016.

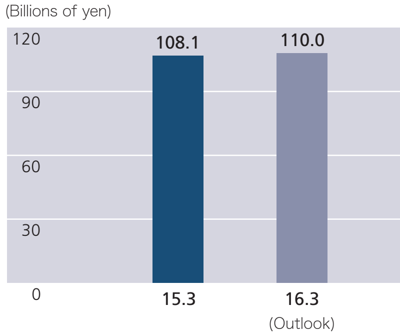
9. Outlook for the Fiscal Year Ending March 31, 2016

We project that net sales in the fiscal year ending March 31, 2016 will decrease by ¥159.6 billion (–10.4%) year on year, to ¥1,368.5 billion. This is largely because LNG prices are expected to be lower in the next fiscal year, and city gas sales unit prices are anticipated to decrease due to the Fuel Cost Adjustment System. Ordinary income is expected to increase by ¥1.8 billion (+1.7%) to ¥110 billion due primarily to the increase in time-lag adjustments within the gas business. In addition, consolidated net income (attributable to the parent company) in the fiscal year ending March 31, 2016 is forecast to decrease by ¥3.2 billion (–4.2%), to ¥73.5 billion.

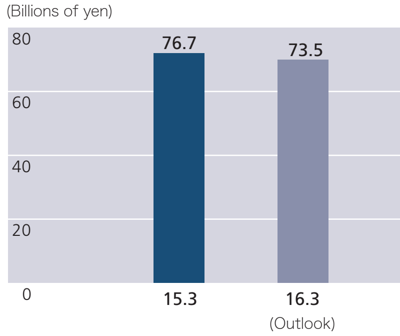
Net Sales



Ordinary income



Net Income



Net Sales and Segment Income for the Fiscal Year Ending March 31, 2016 (Outlook)

(Billions of yen)

	Gas	LPG, Electricity, and Other Energy	International Energy	Life & Business Solutions	Adjustments	Total
Net sales	974.0	213.0	21.5	229.5	–69.5	1,368.5
Year-on-year change (%)	–14.3%	–12.6%	+56.8%	+10.6%	—	–10.4%
Year-on-year change	–162.9	–30.7	+7.7	+21.9	—	–159.6
Segment income*	61.0	25.5	8.5	20.5	2.0	117.5
Year-on-year change (%)	+21.3%	–38.8%	+574.1%	+23.6%	—	+4.9%
Year-on-year change	+10.7	–16.1	+7.2	+3.9	—	+5.4

* Segment Income = Operating income + Equity in earnings of affiliates

10. Business Risks

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

Risks Related to All Businesses within the Osaka Gas Group

a. Changes in economic, financial, and social conditions as well as market contraction

A decrease in net sales, difficulties in fund-raising, insolvency of partner companies, Japan's shrinking population or the transfer of manufacturing overseas, due to worsening economic, financial, and social conditions in the economies of Japan and/or other countries

b. Changes in foreign exchange rates and borrowing rates

c. Occurrence of catastrophic disasters, accidents, or infectious diseases

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

d. Changes in politics, 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, quality issues with products or services

Expenditures to correct acts of non-compliance or damage to social reputation following acts carried out by the Group or by any person related to the Group in violation of any law or regulation, or resulting from quality problems concerning products or services handled by the Osaka Gas Group

Risks Related to Major Businesses

1) Domestic energy business

a. Impact of fluctuations in temperature/water temperature on energy demand

b. Changes in raw fuel costs

Fluctuation in raw fuel costs due to changes in crude oil prices, foreign exchange rates, renewal of contracts and price negotiation trends with fuel suppliers, and other relevant factors*

* 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 before the actual adjustment is made or changes in the composition of fuel suppliers could affect the business performance of the Group.

c. Difficulty in procuring raw fuels

Problems with the facilities of LNG (raw fuel from which gas or electricity are produced) suppliers or their operations, or other incidents

d. Difficulties in gas production and supply

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

e. Difficulties in power generation or supply

Any difficulties in power generation or supply due to a natural disaster, accident, problems with fuel purchasing or other incidents

f. Gas equipment and facility issues

Serious problems with gas equipment or facilities

2) International energy business

Changes in the operating environment, such as decreased profitability or project delay or cancellation, resulting from the public policies, implementation of or changes in regulations, or deterioration of economic or social conditions in the countries in which the Osaka Gas Group operates, as well as technological causes in the resource development business

The Osaka Gas Group strives to minimize the potential impact of these risks on business performance through various measures, including derivative contracts to hedge against fluctuations in exchange rates and fuel costs, accident and other insurance contracts, improvement of security of critical IT systems, adherence to compliance and strict information control, monitoring and proper supervision of business management, security measures, disaster countermeasures, and the establishment and periodic revision of business continuity plans (BCPs).