Management's Discussion and Analysis

1. Operating Environment

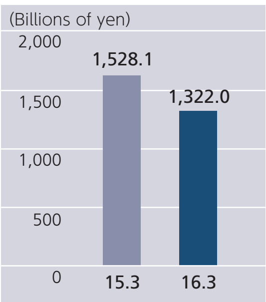
In the fiscal year ended March 31, 2016, the Japanese economy experienced a further decline in crude oil prices combined with a stronger yen and lower stock prices toward the end of the period. However, on the whole, corporate performance and the employment environment remained strong and the economy continued to show signs of moderate recovery.

2. An Overview of the Fiscal Year Ended March 31, 2016

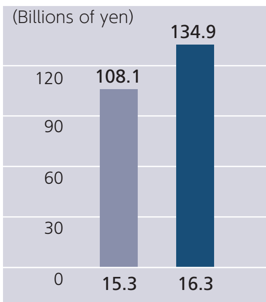
Consolidated net sales for the fiscal year ended March 31, 2016 decreased by ¥206.1 billion (−13.5%) year on year, to ¥1,322.0 billion, mainly because sales unit prices fell and sales volume declined in the gas business of Osaka Gas on a stand-alone basis. Meanwhile, consolidated operating income rose to ¥134.9 billion, up ¥26.8 billion (+24.8%), largely due to increased non-consolidated gas business earnings as a result of lower raw material costs accompanying the decline in LNG prices. Despite booking an impairment loss in the upstream business, current net income attributable to owners of the parent increased ¥7.6 billion (+9.9%), to ¥84.3 billion due to increased profits from the gas business.

As of March 31, 2016, the Company had 149 consolidated subsidiaries. Over the course of the fiscal year, three companies were excluded, and seven companies were brought within the scope of consolidation. In addition, there were 16 affiliates reported by the equity method as of the end of the fiscal year, an increase of three affiliates from the end of the previous fiscal year.

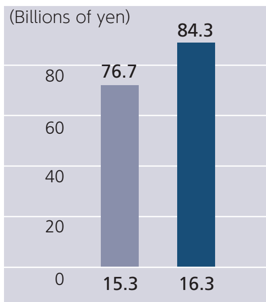
Net Sales



Ordinary Income



Current Net Income Attributable to Owners of the Parent



External Environment Data

	Temperature (℃)	Crude oil price ($/bbl)	Exchange rate (yen/$)
2015.3	16.8	90.4	109.8
2016.3	17.4	48.7	120.2

Breakdown of Movements in Net Sales between Fiscal Years Ended March 31, 2015 and March 31, 2016

2015.3 ¥1,528.1 billion → 2016.3 ¥1,322.0 billion (Down ¥206.1 billion YoY)

Non-consolidated: Down ¥212.1 billion

Gas net sales	**Down ¥181.7 billion**
· Time-lag factors	Down ¥214.5 billion
· Changes in volume	Down ¥26.9 billion
· Other	Up ¥59.6 billion
Other revenues	**Down ¥30.3 billion**
· Gas appliance sales	Down ¥2.4 billion
· Electric power sales	Down ¥14.3 billion
· LNG sales	Down ¥12.6 billion

Subsidiaries: Up ¥5.9 billion

· Osaka Gas Chemicals Group	Up ¥15.9 billion
· OGIS-RI Group	Up ¥4.5 billion
· Liquid Gas Group	Down ¥16.8 billion

Breakdown of Movements in Ordinary Income between Fiscal Years Ended March 31, 2015 and March 31, 2016

2015.3 ¥108.1 billion → 2016.3 ¥134.9 billion (Up ¥26.8 billion YoY)

Non-consolidated: Up ¥25.0 billion

Gross margin of gas sales	**Up ¥46.2 billion**
· Time-lag factors	Up ¥69.3 billion
· Changes in volume	Down ¥12.6 billion
· Other	Down ¥10.4 billion
Increase in expenses	**Down ¥6.4 billion**
· Increase in operating expenses	Down ¥6.6 billion
· Decrease in depreciation costs, etc.	Up ¥0.2 billion
Non-operating income	**Down ¥7.8 billion**
· Profit on gas appliance sales	Up ¥5.3 billion
· Profit on Electric power sales	Down ¥15.2 billion
· Profit on LNG sales	Up ¥2.4 billion
Non-operating income and expenditure	**Down ¥6.7 billion**

Subsidiaries: Up ¥1.7 billion

· U.S. energy business	Up ¥5.4 billion
· Idemitsu Snorre Oil Development Co., Ltd. (equity method affiliate)	Down ¥3.6 billion

Note: "Up" and "Down" indicate effect on profit.

3. Non-Consolidated Gas Sales

In the fiscal year ended March 31, 2016, overall gas sales volume for Osaka Gas was 8,021 million m³, a decrease of 2.9% from the previous fiscal year. Included in this amount are residential gas sales, which decreased by 4.7% year on year, to 2,083 million m³. This mainly reflected the downturn in heating and hot water demand due to higher ambient and water temperatures in the winter compared with the previous fiscal year. Industrial gas sales volume fell by 1.8% year on year to 4,059 million m³. This was primarily due to reduced operation of customer equipment. Gas sales for commercial, public and medical use declined by 3.8% over the previous year to 1,410 million m³, mainly as a result of reduced operation of customer equipment and reduced heating demand. Wholesale gas sales came in at 469 million m³, a 1.0% decrease over the previous year.

Non-Consolidated Gas Sales

45MJ/m³			2015.3	2016.3	Change	Change (%)
Average monthly usage per residential customer (m³/month)			30.9	29.3	–1.7	–5.3
Gas sales volume (million m³)	Residential		2,186	2,083	–103	–4.7
	Commercial and industrial		5,599	5,469	–130	–2.3
		Industrial	4,133	4,059	–74	–1.8
		Commercial, public, and medical	1,465	1,410	–56	–3.8
	Wholesale		474	469	–5	–1.0
	Total		8,259	8,021	–238	–2.9

4. Overview by Business Segment

Gas

Net sales for the gas business segment were down by ¥188.4 billion (−16.6%) year on year to ¥948.5 billion. This was mainly due to a decline in unit selling prices and decreased sales volume in the gas business. Segment income increased by ¥45.4 billion (+90.3%) compared with the previous fiscal year, to ¥95.7 billion, primarily due to reduced raw material costs accompanying the drop in LNG prices.

LPG, Electricity and Other Energy

Net sales from this segment decreased by ¥37.3 billion (−15.3%) to ¥206.4 billion, owing mainly to a decline in sales unit prices in the electric power and LPG businesses. Segment income was down by ¥12.8 billion (−30.8%), to ¥28.8 billion due mainly to the effects of reduced revenue in the electric power business.

International Energy

Net sales from the international energy business segment increased by ¥4.9 billion (+36.4%) year on year, to ¥18.7 billion. The segment loss was ¥0.2 billion (compared with ¥1.2 billion earnings in the previous year) due to reduced income from equity in earnings of affiliates in North Sea oil due to the fall in crude oil prices.

Life & Business Solutions

Net sales for this segment increased by ¥14.1 billion (+6.8%) to ¥221.7 billion, primarily as a result of increased sales in the material solutions and information solutions businesses. Segment income increased by ¥2.2 billion (+13.6%) to ¥18.8 billion.

Net Sales and Segment Income* for the Fiscal Year Ended March 31, 2016

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

(Billions of yen)

	Gas	LPG, Electricity, and Other Energy	International Energy	Life & Business Solutions	Adjustments	Total
Net sales	948.5	206.4	18.7	221.7	–73.3	1,322.0
Year-on-year change (%)	–16.6%	–15.3%	+36.4%	+6.8%	—	–13.5%
Year-on-year change	–188.4	–37.3	+4.9	+14.1	—	–206.1
Segment income*	95.7	28.8	–0.2	18.8	–0.9	142.1
Year-on-year change (%)	+90.3%	–30.8%	—	+13.6%	—	+26.8%
Year-on-year change	+45.4	–12.8	–1.5	+2.2	—	+30.0

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 as an index for 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.

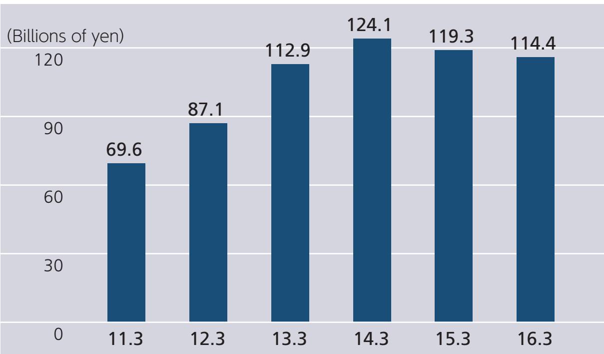
Looking ahead, having the ability to create cash flow through business activities combined with a sound financial condition should make it possible to procure the funding needed for corporate growth over the long term.

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, 2016, non-consolidated capital expenditure totaled ¥58.6 billion, up by ¥12.1 billion year on year. In addition, consolidated capital expenditure fell by ¥4.9 billion year on year, to ¥114.4 billion, on the back of such factors as reduced investments in overseas upstream business by consolidated subsidiaries.

Consolidated Capital Expenditure

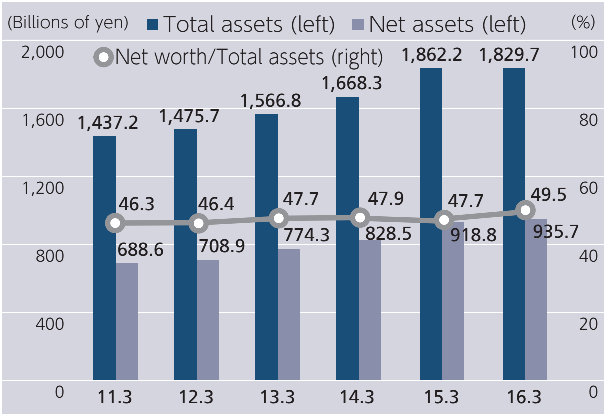


Assets, Liabilities, and Net Assets Analysis

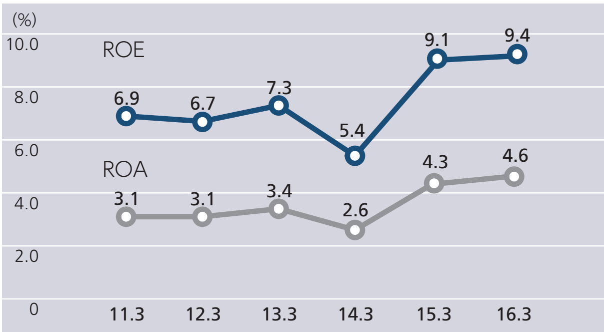
Total assets as of March 31, 2016 stood at ¥1,829.7 billion, down by ¥32.4 billion from the previous fiscal year-end. This was mainly due to a decrease in fixed assets, such as net defined benefit assets, and a decrease in liquid assets, such as inventories and accounts receivable. Total liabilities decreased by ¥49.3 billion, to ¥893.9 billion. This was mainly due to a decrease in bonds payable. Net assets climbed by ¥16.9 billion, to ¥935.7 billion, on the back of increases mainly in Shareholders'equity due to increased retained earnings.

As a result, the shareholders' equity ratio increased by 1.8 percentage points from the previous fiscal year-end, to 49.5%. Return on assets (ROA) was up 0.2 percentage points, to 4.6%, while return on equity (ROE) increased 0.3 percentage points, to 9.4%.

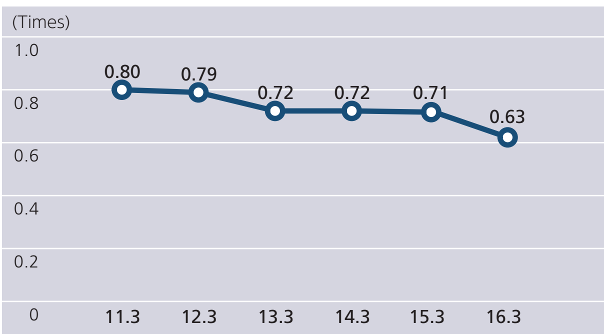
Total Assets, Net Assets, Net Worth/Total Assets



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, 2016 increased by ¥124.9 billion, to ¥281.8 billion. This was due to an increase in net income before income taxes and a decrease in inventories as well as in notes and accounts receivable.

Net cash used in investing activities decreased by ¥33.4 billion, to ¥144.1 billion, primarily as a result of an increase in repayment of long-term loans receivable, and increased expenditures due to the purchase of shares of subsidiaries and affiliates.

Net cash used in financing activities came to ¥90.7 billion, an increase of ¥113.6 billion over the previous fiscal year. This was largely on the back of reduced proceeds from long-term loans payable and increased redemption of bonds.

Taking these activities into consideration, the net increase in cash and cash equivalents in the fiscal year ended March 31, 2016 totaled ¥46.5 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, 2016 increased by ¥46.5 billion, to ¥209.3 billion.

(Billions of yen)

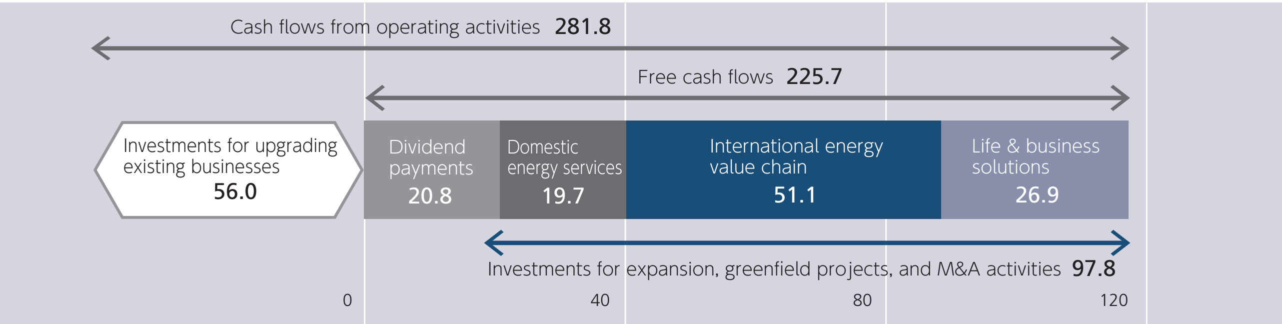
	2015.3	2016.3	Change
Cash flows from operating activities	156.9	281.8	+124.9
Cash flows from investing activities	–110.7	–144.1	–33.4
Cash flows from financing activities	22.8	–90.7	–113.6
Net increase (decrease) in cash and cash equivalents	72.4	46.5	–25.8
Cash and cash equivalents at the end of the year	162.7	209.3	+46.5
Interest-bearing liabilities at the end of the year	633.9	567.1	–66.7

Use of Free Cash Flows

Consolidated free cash flows for the fiscal year ended March 31, 2016 increased by ¥113.5 billion, to ¥225.7 billion. Uses of these free cash flows included investments of ¥97.8 billion for expansion, greenfield projects, and M&A activities as well as dividend payments of ¥20.8 billion.

Use of Consolidated Free Cash Flows for the Fiscal Year Ended March 31, 2016

(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, 2016)

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.

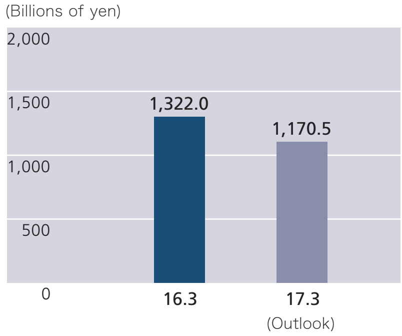
We will endeavor to continue payment of steady dividends (interim and year-end) to shareholders, and comprehensively take alternative profit distribution plans and other measures into consideration, based on operational results, future business management, and other plans. We will aim at keeping a consolidated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

The Company issued dividend payments totaling ¥10 per share (ordinary dividend of ¥9, including interim dividend of ¥4.5, and a commemorative dividend of ¥1,including interim commemorative dividend of ¥0.5) for the fiscal year ending March 31, 2016. For the fiscal year ending March 31, 2017, we are planning to pay a dividend of ¥10 per share (¥10 for ordinary dividend including interim dividend).

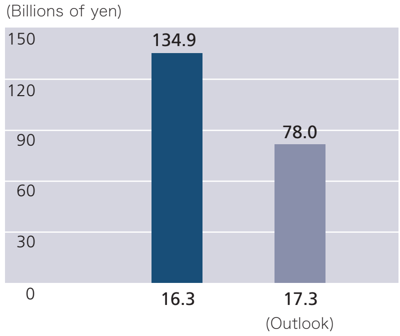
9. Outlook for the Fiscal Year Ending March 31, 2017

We project that net sales in the fiscal year ending March 31, 2017 will decrease by ¥151.5 billion (−11.5%) year on year, to ¥1,170.5 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 decrease by ¥56.9 billion (−42.2%) to ¥78.0 billion due primarily to the decrease in time-lag adjustments within the gas business and lower earnings for the electric power business. In addition, current net income attributable to owners of the parent in the fiscal year ending March 31, 2017 is forecast to decrease by ¥32.3 billion (−38.3%), to ¥52.0 billion.

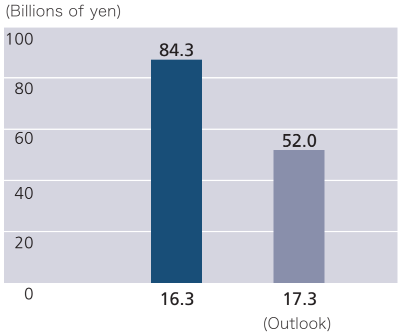
Net Sales



Ordinary Income



Net Income Attributable to Owners of the Parent



Net Sales and Segment Income* for the Fiscal Year Ended March 31, 2017 (Outlook)

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

(Billions of yen)

	Gas	LPG, Electricity, and Other Energy	International Energy	Life & Business Solutions	Adjustments	Total
Net sales	796.1	190.8	22.7	221.3	–60.4	1,170.5
Year-on-year change (%)	–16.1%	–7.6%	+21.4%	–0.2%	—	–11.5%
Year-on-year change	–152.4	–15.6	+3.9	–0.4	—	–151.5
Segment income*	45.5	13.5	1.5	22.0	2.1	84.6
Year-on-year change (%)	–52.5%	–53.2%	—	+16.8%	—	–40.5%
Year-on-year change	–50.2	–15.3	+1.7	+3.1	—	–57.5

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 and electric businesses, as well as 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. Quality issues with products or services
Expenditures to resolve quality problems relating to products or services handled by the Osaka Gas Group or damage to the Group's social reputation thereof

h. 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

i. Non-compliance with laws and regulations
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

■ 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, deterioration of economic or social conditions, or technical problems in the countries in which the Osaka Gas Group operates

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).