Management's Discussion and Analysis

1. Operating Environment

In the fiscal year ended March 31, 2017, the Japanese economy witnessed a global economic rebound attended by a moderate increase in crude oil prices. Although improvements in personal consumption were late in coming, progressing yen depreciation and rising stock prices aided corporate capital expenditure along with thriving exports and production levels, leaving the ongoing firm recovery trend intact.

Going forward, downside risks including trends in US fiscal policy measures and the slowdown in the Chinese economy will require attention. However, aided by factors in support of domestic demand, such as economic stimulus measures of the Japanese government gaining full momentum, prospects are for the Japanese economy to keep on a recovery track.

Meanwhile, domestic energy markets experienced a drop in demand due to developments such as demographic contraction in Japan and the offshoring of factories. Additionally, starting in April 2017, full deregulation of gas retailing went into force following on from the full deregulation of electric power retailing in April 2016. Furthermore, crude oil prices and global LNG demand, among other factors, served to increase risks such as uncertainty surrounding the LNG procurement environment.

*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.

2.Summary of Results for the Fiscal Year Ended March 31, 2017, and Outlook for the Fiscal Year Ending March 31, 2018

Consolidated net sales for the fiscal year ended March 31, 2017 decreased by ¥138.1 billion (−10.5%) year-on-year to ¥1,183.8 billion. This was primarily due to the lower unit selling price of city gas under the fuel cost adjustment system of the Gas Business.

Consolidated ordinary income decreased by ¥38.7 billion (−28.7%) year-on-year to ¥96.2 billion, primarily due to a decrease in the influence caused by a time lag of fluctuation of raw material costs which is reflected in unit selling price of city gas, compared to the previous fiscal year. However, net of the time-lag gain/loss, ordinary income increased thanks to cost reductions at the gas business and higher earnings at the International Energy Business.

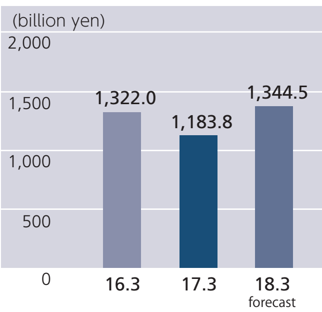
Profit attributable to owners of parent decreased by ¥23.0 billion (−27.3%) year-on-year to ¥61.2 billion.

Consolidated net sales for the fiscal year ending March 31, 2018 are expected to be increased by ¥160.6 billion (+13.6%) year-on-year to ¥1,344.5 billion. This is mainly based on an assumption that LNG prices will be higher compared to the current fiscal year, attributable to a rise in the unit selling prices of city gas under the fuel cost adjustment system.

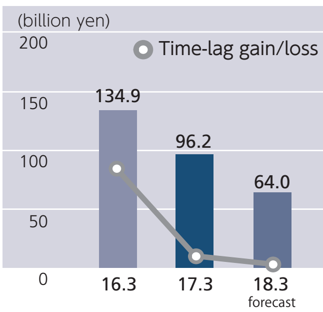
Ordinary income is expected to decrease by ¥32.2 billion (−33.5%) year-on-year to ¥64.0 billion, primarily due to a decrease in the influence caused by a time lag of fluctuation of raw material costs reflected in unit selling price of city gas, lower earnings at the International Energy Business, and effects from the full deregulation of gas retailing.

Profit attributable to owners of parent is expected to decrease by ¥18.7 billion (−30.6%) year-on-year to ¥42.5 billion.

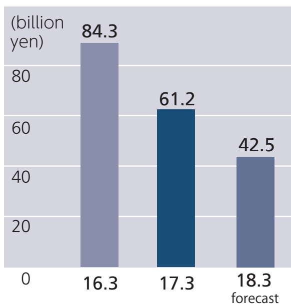
Net Sales



Ordinary Income



Net Profit Attributable to Owners of Parent



	16.3	17.3	18.3 forecast
Crude oil price ($/bbl)	48.7	47.5	55.0
Exchange rate (yen/$)	120.2	108.3	115.0

3. Summary of Results for the Fiscal Year Ended March 31, 2017, and Outlook for the Fiscal Year Ending March 31, 2018, by Business Segment

(1) Summary of Results for the Fiscal Year Ended March 31, 2017

1) Gas Segment

Net sales decreased by ¥146.1 billion (−15.4%) year-on-year to ¥802.3 billion. This was primarily due to a lower unit selling price of city gas under the fuel cost adjustment system of the Gas Business.

Segment income decreased by ¥47.6 billion (−49.7%) year-on-year to ¥48.1 billion. This was primarily due to a decrease in the influence caused by a time lag of fluctuation of raw material costs that is reflected in unit selling prices of city gas, compared to the same period of the previous fiscal year.

2) LPG, Electricity and Other Energy

Net sales increased by ¥2.5 billion (+1.3%) year-on-year to ¥209.0 billion, primarily due to an increase in sales of the Electricity Business.

Segment income decreased by ¥6.7 billion (−23.5%) year-on-year to ¥22.0 billion, mainly due to a decrease in profits of the Electricity Business.

3) International Energy

Net sales increased by ¥3.9 billion (+21.0%) year-on-year to ¥22.6 billion, mainly due to the start of production of LNG in the Gorgon Project in Australia.

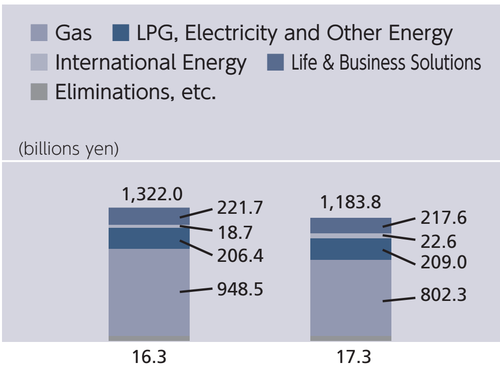
Segment income increased to ¥7.4 billion (compared with a loss of ¥200 million in the previous fiscal year), mainly due to an increase in profits of equity in earnings from North Sea oil.

4) Life & Business Solutions

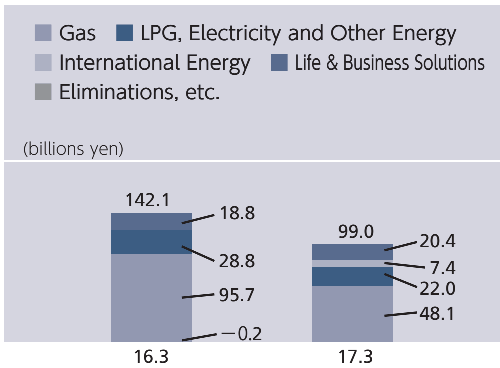
Net sales decreased by ¥4.1 billion (−1.9%) year-on-year to ¥217.6 billion, primarily due to the sales decrease of the Material Solutions Business.

Segment income increased by ¥1.5 billion (+8.4%) year-on-year to ¥20.4 billion, mainly due to a profit increase in Real Estate Business.

Segment Net Sales



Segment Income



(2) Outlook for the Fiscal Year Ending March 31, 2018

Osaka Gas group has reconfigured its business divisions in accordance with the management policies formulated in the group' s long-term management vision and medium-term business plan "Going Forward Beyond Borders," combined with a review of reportable segments effective from the first quarter of the fiscal year ending March 31, 2018.

The outlook for the fiscal year ending March 31, 2018, based on the reviewed reportable segments, is as follows.

1) Domestic Energy: Gas Operations

Net sales are expected to increase by ¥108.2 billion (+11.9%) year-on-year to ¥1,019.5 billion, mainly due to the higher unit selling price of city gas under the fuel cost adjustment system of the Gas Business.

Segment income is expected to decrease by ¥26.2 billion (−47.5%) year-on-year to ¥29.0 billion, primarily due to a decrease in the influence caused by a time lag of fluctuation of raw material costs reflected in unit selling price of city gas, as well as a decline in the sales volume of city gas.

2) Domestic Energy: Electricity Operations

Net sales are expected to increase by ¥59.4 billion (+55.3%) year-on-year to ¥167.0 billion, mainly due to an increase in the sales volume of electricity.

Segment income is expected to decrease by ¥2.2 billion (−13.6%) year-on-year to ¥14.0 billion, primarily due to the effects of intensifying competition.

3) International Energy

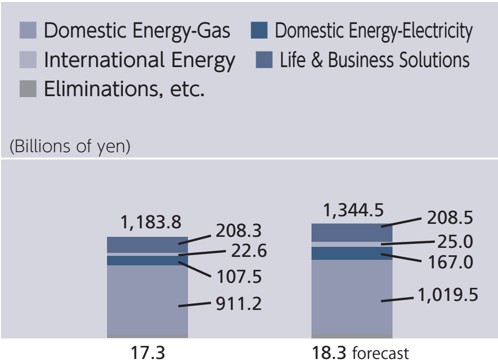
Net sales are projected to increase ¥2.3 billion (+10.5%) compared with the previous fiscal year to ¥25.0 billion mainly due to higher production at the Gorgon Project in Australia.

Segment income is projected to decrease ¥4.0 billion (−50%) to ¥4.0 billion mainly due to effects from the Freeport Project.

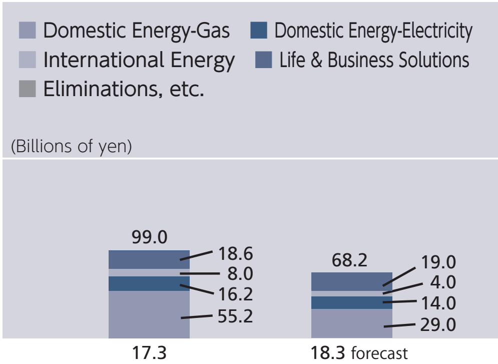
4) Life & Business Solutions

Net sales and segment income are projected to post results at the levels of the previous fiscal year.

Segment Net Sales



Segment Income



4. Sales of Gas and Electric Power

(1) Summary of Results for the Fiscal Year Ended March 31, 2017

(i) Non-consolidated Gas Sales Volume

Non-consolidated gas sales volume of Osaka Gas increased 8.0% from the previous fiscal year to 8,660.42 million m^3.

Gas sales volume for residential use increased 0.9% compared with the previous fiscal year to 2,103 million m^3. With air and water temperatures trending lower during the winter compared with the previous fiscal year, hot water and room heating demand posted gains.

Gas sales volume for non-residential use increased 10.5% compared with the previous fiscal year to 6,560 million m^3 mainly due to large-scale demand development.

(ii) Electricity Sales Volume

Electricity sales volume increased 5.2% compared with the previous fiscal year to 8,948 million kWh, mainly due to higher retail sales volume.

(2) Forecast for the Fiscal Year Ending March 31, 2018

(i) Non-consolidated Gas Sales Volume

Non-consolidated gas sales volume of Osaka Gas is projected to decrease 6.3% compared with the previous fiscal year to 8,118 million m^3.

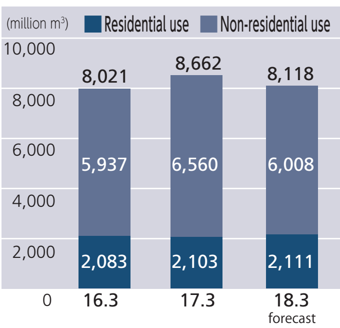
The sales volume of gas for residential use, assuming average-year air temperatures, is projected to increase 0.4% compared with the previous fiscal year to 2,111 million m^3 due to higher demand for hot water given lower first-half air and water temperatures than in the previous fiscal year.

Gas sales volume for non-residential use is projected to decrease 8.4% compared with the previous fiscal year to 6,008 m^3 due to lower power generation demand, the effects of deregulation, and the shift in the counting method from large-lot gas supply to own use associated with the end of independent power producer agreements.

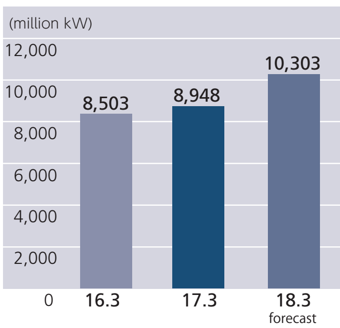
(ii) Electricity Sales Volume

Electricity sales volume is projected to increase 15.1% compared with the previous fiscal year to 10,303 million kWh mainly due to higher retail sales volume.

Non-consolidated gas sales volume



Consolidated electricity sales volume



5. Analysis of Assets, Liabilities, and Net Assets and Financial Policies

(1) Analysis of Assets, Liabilities, and Net Assets

Total assets as of March 31, 2017, marked ¥1,886.5 billion, marking an increase of ¥56.8 billion compared with the end of the previous fiscal year, mainly due to a ¥91.3 billion increase in non-current assets due to an increase in investment securities. Current assets decreased ¥34.5 billion compared with the end of the previous fiscal year, reflecting mainly lower cash and deposits.

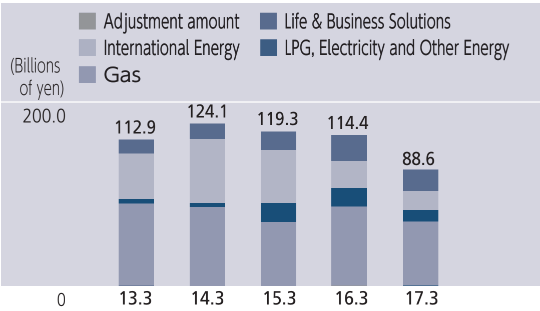
Liabilities as of March 31, 2017, totaled ¥894.7 billion, marking an increase of ¥0.7 billion compared with the end of the previous fiscal year. Net assets as of March 31, 2017, marked ¥991.8 billion, which was ¥56.0 billion higher than at the end of the previous fiscal year. The main factor was a ¥40.2 billion increase in shareholders' equity from higher retained earnings, with accumulated other comprehensive income ¥15.0 billion higher than at the end of the previous fiscal year mainly due to an increase in remeasurements of defined benefit plans.

As a result of the foregoing, the shareholders' equity ratio as of the end of the fiscal year ended March 31, 2017, posted 51.0%, marking an increase of 1.4 percentage points compared with the end of the previous fiscal year.

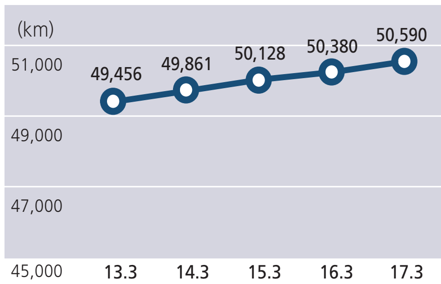
(2) Capital Expenditure

Facility investment at Osaka Gas Group steadily responds to shifts in demand for gas and helps ensure stable and viable production and supply systems for urban energy supply. Moreover, Osaka Gas group engages in facility investment also in fields outside the gas operations with a view to the development of new businesses.

Capital expenditure in the fiscal year ended March 31, 2017, totaled ¥88.6 billion, which was ¥25.7 billion less than in the previous fiscal year. This decline is due to reduced facility investment in the gas segment (regarding production facilities), the LPG, Electricity and Other Energy Segment (regarding power generation facilities), and in the International Energy Segment (regarding upstream operations facilities).



Pipeline extensions



* Beginning with the fiscal year ended March 31, 2015, consistent with the content of operations, the Renewable Energy Business has been transferred to the LPG, Electricity and Other Energy Segment and the International Energy Segment.

(3) Financial Policies

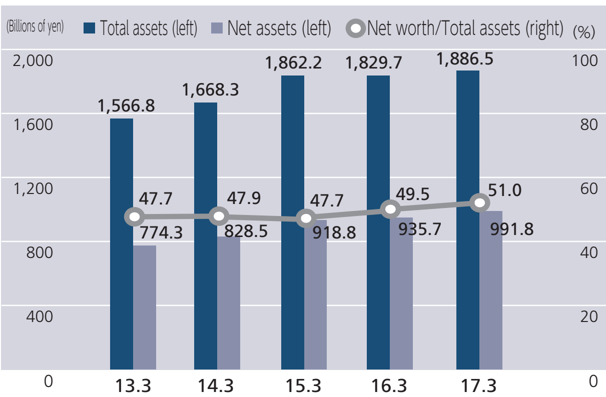
Osaka Gas group has established management performance indicators under its long-term management vision 2030 and medium-term business plan 2020 "Going Forward Beyond Borders" formulated in March 2017. As indicators for financial soundness to be maintained over the medium and long terms, the plan calls for a consolidated debt equity ratio (the ratio of interest-bearing liabilities to equity) of around 0.7 and a consolidated shareholders' equity ratio of around 50%.

To date, Osaka Gas group has implemented measures to enhance the cash efficiency of the group overall through the introduction of cash management systems (CMS) and measures to enhance the efficiency of invested capital such as reducing interest-bearing liabilities and purchasing own stock through the proactive use of free cash flows. Furthermore, through efforts such as financial risk management designed to hedge swings in sales and earnings resulting from a variety of risks associated with the execution of operations, Osaka Gas group has been taking steps to maintain and enhance the group' s financial soundness.

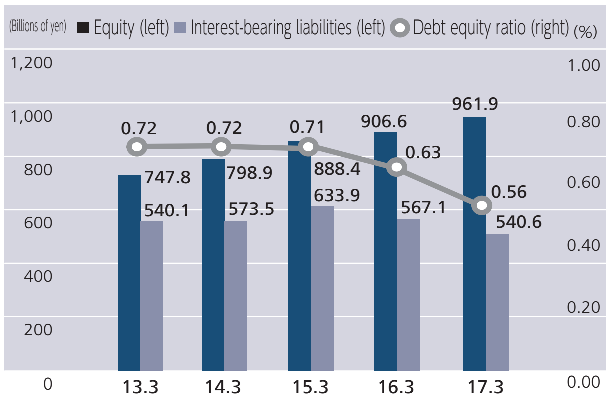
As a result, interest-bearing liabilities as of March 31, 2017, decreased ¥26.4 billion compared with the end of the previous fiscal year, while equity increased on the back of higher retained earnings, with a consolidated debt-to-equity ratio of 0.56 and a consolidated shareholders' equity ratio of 51.0 underscoring sustained financial soundness.

Going forward, in order to realize the objectives of the long-term management vision 2030 and the medium-term business plan 2020, Osaka Gas group will continue to make proactive efforts such as further enhancement of cash efficiency and capital efficiency and financial risk management.

Total Assets, Net Assets, Net Worth/Total Assets



Equity, Interest-Bearing Liabilities, Debt Equity Ratio



6. Overview of Cash Flows

Net cash provided by operating activities during the fiscal year ended March 31, 2017, totaled ¥148.8 billion, which was ¥133.0 billion lower than in the previous fiscal year. Main factors were a decrease in profit before income taxes and a decline in accrued consumption taxes, etc. compared with the previous fiscal year.

Net cash used in investing activities totaled ¥137.5 billion, which as ¥6.6 billion lower than in the previous fiscal year. Main factors were a decline in expenditure for the acquisition of property, plant, and equipment compared with the previous fiscal year, and a reduction compared with the previous fiscal year in expenditure for long-term loans.

Net cash used in financing activities totaled ¥50.5 billion, which was ¥40.1 billion lower than in the previous fiscal year. Main factors were a decrease compared with the previous fiscal in expenditure for the redemption of corporate bonds and an increase compared with the previous fiscal year in income from the issuance of corporate bonds.

Based on the foregoing, net decrease in cash and cash equivalents in the period under review including conversion differences totaled ¥42.4 billion.Cash and cash equivalents at the end of the period under review totaled ¥166.9 billion.

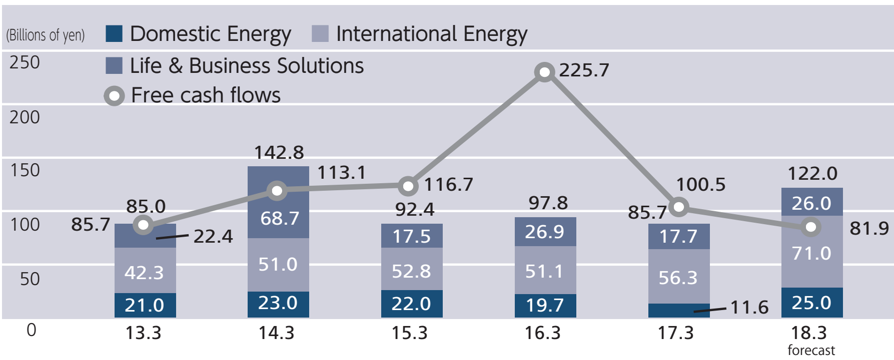
(Billions of yen)

	2016.3	2017.3	Change
Cash flows from operating activities	281.8	**148.8**	–133.0
Cash flows from investing activities	–144.1	**–137.5**	+6.6
Cash flows from financing activities	–90.7	**–50.5**	+40.1
Net increase (decrease) in cash and cash equivalents	46.5	**–42.4**	–89.0
Cash and cash equivalents at the end of the year	209.3	**166.9**	–42.4
Free cash flows	225.7	**100.5**	–125.2

7. Fluctuation in Free Cash Flows and Investment in Business Growth

Free cash flows in the fiscal year ended March 31, 2017, totaled ¥100.5 billion, a ¥125.2 billion decrease compared to the previous fiscal year. This is mainly due to a decrease in cash from operating activities caused by weaker effects from the time-lag until changes in raw materials prices are reflected in unit prices for sales of city gas. Investment in business growth implemented in the amount of ¥85.7 billion centered on investment in the International Energy business.

Free cash flows in the fiscal year ending March 31, 2018, are projected to decrease ¥18.5 billion compared with the previous fiscal year to ¥81.9 billion. This is mostly due to a drop in cash provided by operating activities caused by weaker effects from the time-lag until changes in raw materials prices are reflected in unit prices for sales of city gas. Investment in business growth planned with the focus on investment in the International Energy business is projected at ¥122.0 billion.



8. Ratings

Osaka Gas recognizes that improving fund-raising competitiveness is an important issue in a sound financial strategy. Osaka Gas has established indicators for financial soundness that address aspects of financial health such as the maintenance of credit agency ratings, aiming to improve fund-raising competitiveness while striking a balance with returning earnings to shareholders through dividend payments and share buybacks, etc.

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, 2017)

R&I	AA+
Moody's	Aa3
Standard & Poor's	AA–

9. Business Risks and Risk Countermeasures

Osaka Gas group is taking steps to address the following risks and makes efforts to minimize the effects from risks impinging upon operations through measures such as currency and raw-materials derivatives, various types of insurance coverage including disaster damage insurance, security enhancements for IT core systems, enforcement of compliance and information management, appropriate information maintenance and monitoring of the status of the execution of operations, security and accident prevention measures, and business continuity planning and reviewing.

■ 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 international rules concerning the environment, the public, and corporate governance, as well as changes in the Gas Business Act, the Electricity Business Act, the Companies Act, the Financial Instruments and Exchange Act, environment, industrial health and safety, and human rights-related laws or other standards, policies, laws and regulations, and institutional systems in Japan and/or other countries

e. Intensifying competition

Intensified competition with other operators in 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 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 and costs arising following acts carried out by the Group or by any person related to the Group in violation of any law or regulation

■ Sensitivity

a. Crude oil prices

An increase of 1US$/bbl in the crude oil price may reduce consolidated ordinary income in the fiscal year ending March 31, 2018, by approximately ¥1.0 billion.

b. Foreign exchange

An increase of ¥1.0 in the yen/dollar rate may reduce consolidated ordinary income in the fiscal year ending March 31, 2018, by ¥0.9 billion.

c. Interest

An increase of 1% in payable interest may reduce consolidated non-operating income and expenditure (net) for the fiscal year ending March 31, 2018, by ¥0.4 billion.

■ Risks Related to Major Businesses

1) Domestic energy business

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

Sensitivity: A change of one degree centigrade in air or water temperatures may change the sales volume of gas for household use in the spring/fall, summer, and winter seasons by approximately by 7%, 8%, and 6%, respectively.

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

g. Intensifying competition in the industry and the resulting increase in choices available to consumers

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 Group operates