

To Our Stakeholders: Message From the Management



Akio Nomura, Chairman (left)

Hirofumi Shibano, President (right)

Consolidated Results for Fiscal 2007

In fiscal 2007, ended March 31, 2007, consolidated operating revenues of the Osaka Gas Group advanced 10.2%, or 108.4 billion yen, from the previous fiscal year to 1,174.4 billion yen. Among the factors contributing to growth in operating revenues were an increase in the volume of gas sold, a higher sales price based on the fuel cost adjustment system due to the rise in the cost of LNG and business expansion of consolidated subsidiaries. Moreover, in November 2006 in the middle of the fiscal year, premised on improving services and assuring safety, Osaka Gas revised the gas rates for residential and small commercial customer segments to return the benefits of increasing operating efficiency to its customers.

Operating income declined 6.9% year on year, or 6.9 billion yen, to 93.7 billion yen. Despite contributions from consolidated subsidiaries, operating income dropped due to a lower contract sales volume associated with revisions to contracts for LNG handling. Non-operating income declined 6.8 billion yen from the previous fiscal year, reflecting higher interest paid and losses on the redemption of corporate bonds, and despite higher profits of equity-method affiliates. As a result, ordinary profit fell 13.3%, or 13.7 billion yen from the previous fiscal year, to 89.5 billion yen. Net income dropped 34.4% year on year, or 27.7 billion yen, to 52.9 billion yen. The main factor was extraordinary losses due to account adjustments associated with revised contracts for LNG handling.

SVA Management Through Selection and Concentration

The Osaka Gas Group has used its own shareholders' value added (SVA) for some time as a tool in pursuing management methods that recognize capital costs. Specifically, Osaka Gas makes concerted efforts to maximize SVA by taking an aggressive investment approach to business fields that enhance SVA. On the other hand, restructuring measures are applied to affiliated companies with negative SVA, including withdrawal of investment, except under special

circumstances, such as the brief operational period after business launch.

Progressive reforms are under way in the energy market in Japan, and recognizing these reforms as an opportunity for new business, we have been targeting growth as a group by actively reinforcing our core gas business while at the same time developing a portfolio of new energy businesses including electricity.

Against this backdrop, the Group has been making new investments in growth businesses and proceeding with the revision of our Group business structure. In fiscal 2007, our investments in growth businesses included the acquisition of some shares in Qalhat LNG S.A.O.C in Oman in our energy business, investing in Sakura Information Systems Co., Ltd. in our non-energy business and strengthening our business in the information systems field.

Management Policies and Goals for Fiscal 2008

The Osaka Gas Group is implementing Design 2008, its three-year medium-term business plan covering the fiscal years 2007 to 2009, based on the Group management principle of Value Creation Management. Fiscal 2008, the second year of Design 2008, is an important year in which we move steadily toward achieving the final goals of this three-year plan. In fiscal 2008 we are aiming to steadily improve business results and establish a foundation for sustained growth based on the following management policies.

In the fiscal year ending March 2008, we forecast that consolidated operating revenues will increase compared with fiscal 2007. The factors driving this growth include an increased volume of gas sold, which will outweigh the impact throughout the fiscal year of the November 2006 revision of the gas rates for residential and small commercial customer segments. We forecast that operating income will decline compared with fiscal 2007 due to costs of approximately 9.5 billion yen associated with changing the system of depreciation.

(Billions of yen)	FY2007/3	FY2008/3 Forecast	FY2009/3 Target
Operating revenues	11,744	11,905	—
Operating income	937	845	1,020
Ordinary profit	895	830	1,000
Net income	529	490	560

No target is given for operating revenues for fiscal 2009 because this figure significantly fluctuates due to external factors such as crude oil prices and exchange rates.

Management Policies for Fiscal 2008

1. Build up the gas supply business to establish the foundation for sustained growth
2. Establish a growth base as a multi-energy supplier
3. Produce results by raising the Group's overall strength
4. Develop a strong management framework and increase the power of the Osaka Gas brand

Capital and Dividend Policies

It has been the policy at Osaka Gas to actively pursue profit growth by expanding revenues and increasing operating efficiency. We have retained these profits to strengthen our financial structure and achieve further expansion, as well as to pay stable dividends to our shareholders. Our basic dividend policy is to maintain stable interim and year-end dividend payments. In declaring dividends, we take into account the Company's overall circumstances, including performance, business plans, and other forms of returning profits to shareholders. We endeavor to keep the dividend payout ratio at 20% or greater. The remaining retained earnings are allocated to capital investments and investments in new business.

For fiscal 2006, we paid an annual dividend of seven yen per share, comprised of a six yen per share regular dividend and a one yen per share commemorative dividend in celebration of our centennial anniversary. For fiscal 2007, we maintained the fiscal 2006 level of dividends by transferring the fiscal 2006 commemorative dividend into the regular dividend amount, resulting in an annual dividend of seven yen per share. For fiscal 2008, we plan to maintain the annual dividend of seven yen per share from fiscal 2007.

Corporate Governance and Corporate Social Responsibility

The Osaka Gas Group acts to enhance and strengthen corporate governance to improve the soundness of its management and to enable it to respond faster and more accurately to changes in its operating environment.

Commencing in 2000, Osaka Gas has progressively reduced its number of directors to promote greater management efficiency and to speed up decision-making. In June 2006, we substantially cut the number of directors and introduced an operating officer system. By

concentrating the efforts of the Board of Directors on making management decisions on managerial issues faced by the overall Osaka Gas Group and on monitoring and oversight of business operations, we have further revitalized the role of the Board of Directors, increasing management efficiency and enhancing business oversight. The newly appointed operating officers on the Board of Directors are responsible for the execution of specific business activities. Moreover, in June 2007 we newly introduced outside directors to further enhance the business oversight of the Board of Directors.

As regards our corporate social responsibility (CSR) activities, based on its management philosophy, the Osaka Gas Group has formulated the Osaka Gas Group CSR Charter together with the Osaka Gas Group Corporate Code of Conduct, which describes detailed guidelines for conduct. We familiarize all directors and regular employees of the Osaka Gas Group with the CSR Charter and the Code of Conduct so that they do not merely comply with laws and regulations, but also scrupulously act in a decent manner as members of society. Furthermore, we have established a CSR Committee comprising directors assigned to integrate the CSR activities of the Osaka Gas Group and also including knowledgeable persons from outside the Company. In addition to working to implement appropriate and proactive CSR activities, we are further improving our internal checks-and-balances functions after placing the Auditing Department and the Compliance Department under the direct control of top management.

To ensure compliance, we have established a CSR Promotion Committee, which includes members from top management, and are working, primarily through the CSR Committee and the Compliance Department, to ensure even stricter compliance with laws and regulations in the course of our business activities. Moreover, we have established integrated compliance operations inside business divisions and departments, and are working to fully implement compliance-related monitoring, education, counseling and recommendations.

In Closing

To achieve sustained growth in a severely competitive business environment, and to ensure that the Osaka Gas Group continues to be our customers' corporate group of choice, it is important to increase the value of all our stakeholders. United behind our brand slogan, "Design Your Energy—A Better Tomorrow," all employees are making diligent efforts to raise the quality of their work and behavior with the aim of maximizing shareholders' value.

In meeting the challenges of our second century of operations, we ask for your continued support and understanding.



Akio Nomura, Chairman



Hirofumi Shibano, President