

To Our Stakeholders: Message From the Management

Chairman
Akio Nomura

President
Hiroshi Ozaki

Giving top priority to maximizing customer value, the Osaka Gas Group pursues Value Creation Management to enhance value for all stakeholders, including customers, shareholders, society and employees, through fair and transparent business activities.

Mr. Hiroshi Ozaki took office as President of Osaka Gas in April 2008. He is working for full implementation of action plans for achieving the goals of Design 2008, the Company's three-year medium-term business plan covering the fiscal years 2007 to 2009, based on the Group management principle of Value Creation Management. Going forward, under the new management, the Company will strive to establish a business base for sustained growth.

Consolidated Results for Fiscal 2008

In fiscal 2008, ended March 31, 2008, consolidated operating revenues of the Osaka Gas Group advanced 5.4%, or ¥63.6 billion, from the previous fiscal year to ¥1,238.1 billion. Among the factors contributing to growth in operating revenues were an increase in the volume of gas sold, higher gas prices based on the fuel cost adjustment system due to the rise in the cost of liquefied natural gas, and business expansion of consolidated subsidiaries. Operating income declined 19.3% year on year, or ¥18.1 billion, to ¥75.6 billion. Despite contributions from consolidated subsidiaries, operating income dropped due to climbing LNG prices and increased costs resulting from changes to the depreciation system, as well as a decline in profits following rate revisions for residential and small commercial customer segments (effective November 2006). Ordinary profit fell 15.3%, or ¥13.7 billion from the previous fiscal year, to ¥75.8 billion. Net income dropped 23.9% year on year, or ¥12.6 billion, to ¥40.2 billion.

Improving Corporate Value Through Selection and Concentration

The Osaka Gas Group actively works to respond accurately to changes in the market environment and strengthen our core gas supply business. At the same time, we are making efforts to develop a portfolio of new business areas such as electricity and overseas businesses in order to construct a base as a multi-energy supplier. Through selection and concentration, including by accelerating the growth of our non-energy business, we will work to improve the corporate value of the Group as a whole.

In order to achieve this goal, the Group has been making new investments in growth businesses and proceeding with the revision of our Group business structure. In fiscal 2008, in energy-related businesses we invested in the Crux condensate field off the coast of Australia, and the Freeport LNG receiving terminal in the U.S. state of Texas. In non-energy related businesses, we invested in Kubota Maison Co., Ltd. and Sakura Information Systems Co., Ltd. with the aim of enhancing the synergies between the real estate business area and the energy business area and strengthening our business in the information systems field.

The Osaka Gas Group has used its own shareholders' value added (SVA) index 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. Restructuring measures are applied to affiliated companies with negative SVA, including withdrawal of investment, except those under a build-up period after business launch.

Management Policies and Goals for Fiscal 2009

In the fiscal year ending March 2009, we forecast that consolidated operating revenues will increase compared with fiscal 2008 to ¥1,422.0 billion, up ¥183.9 billion, or 14.8%. The factors driving this growth include heightened revenue due to higher gas prices based on the adjustment system due to the rise in the cost of LNG in the gas segment. In other segments, contributing factors will include increased revenue resulting from growth in the information business.

	FY2008			FY2009	
	Results	Change year on year	% change year on year	July 2008 Forecast	Medium-term business plan target
Operating revenues	¥1,238.1 billion	+¥63.6 billion	+5.4%	¥1,422.0 billion	–
Operating income	¥75.6 billion	–¥18.1 billion	–19.3%	¥22.0 billion	¥102.0 billion
Ordinary profit	¥75.8 billion	–¥13.7 billion	–15.3%	¥24.5 billion	¥100.0 billion
Net income	¥40.2 billion	–¥12.6 billion	–23.9%	¥11.0 billion	¥56.0 billion
SVA	¥12.5 billion	–¥14.3 billion	–53.3%	¥–18.0 billion	¥26.0 billion
Non-consolidated gas sales volume	8.89 billion m ³	+0.149 billion m ³	+1.7%	8.88 billion m ³	8.78 billion m ³
Price of crude oil (All-Japan CIF)	US\$78.5/bbl	+ US\$15.1/bbl	–	US\$121.3/bbl	US\$45/bbl

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. Forecasts for the period ending March 31, 2009 were announced in July 2008.

Management Policies for Fiscal 2009

- (1) Seeking perfection in rebuilding trust and improving quality
- (2) Strengthening the basis of the gas supply business
- (3) Seeking the evolution of multi-energy business
- (4) Achieving the maximum by enhancing Group strengths
- (5) Developing human resources and pursuing technological excellence

Although we will continue to proceed with cost reductions throughout the business, there will be some fall in profits due to higher raw materials prices in the gas segment and the maturity of certain overseas independent power producer (IPP) generation contracts and contract changeovers in the LPG, Electricity and Other Energies segment. As a result, we forecast that operating income will decline by ¥53.6 billion, or 70.9% compared to fiscal 2008 to ¥22.0 billion, while ordinary profit will fall ¥51.3 billion to ¥24.5 billion, a year-on-year decrease of 67.7%. We forecast that net income will decline year on year to ¥11 billion, down ¥29.2 billion or 72.7% (forecast announced in July 2008).

Our fiscal 2009 forecast for non-consolidated gas sales volume is set at 8,880 million m³, which would surpass by 100 million m³ the target of 8,780 million m³ laid out in our medium-term business plan, Design 2008. However, in terms of operating income we anticipate falling short of our target. In our medium-term business plan, we predicted that the price of crude oil would be US\$45 per barrel. In light of the subsequent continued increase in prices, we now assume that prices will be US\$121.3 per barrel, and forecast a significant reduction of our profit margins. Changes to the depreciation system during the period that were not factored into the medium-term business plan are another cause of decline in profit.

Capital and Dividend Policies

It has been our policy at Osaka Gas to actively pursue profit growth by expanding revenues and increasing operating efficiency. We have retained these heightened 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 and fiscal

2008, 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 2009, we plan to maintain the annual dividend of seven yen per share.

Benchmarks to Aim for

From the perspective of profitability and growth potential, we have set targets for SVA (shareholders' value added), profits, earnings per share (EPS), return on equity (ROE) and maintenance of stable dividends.

At the same time, in the interest of soundness and preserving our credit rating, while achieving a balance among SVA, free cash flow and interest-bearing debt, we will aim to follow through on the soundness indicators of a consolidated equity ratio of over 40% and a debt-to-equity ratio of approximately one.

We will continue to consider the acquisition and retirement of treasury stock with a view to improving EPS and ROE, but it will be done flexibly on condition that growth-oriented investments have been made first and that there is sufficient cash flow.

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 value for 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 conduct 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



Hiroshi Ozaki, President