

Design Your Energy 夢ある明日を

OSAKA GAS
GROUP

OSAKA GAS GROUP
ANNUAL REPORT
2008



Group Management Principle—Value Creation Management

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.

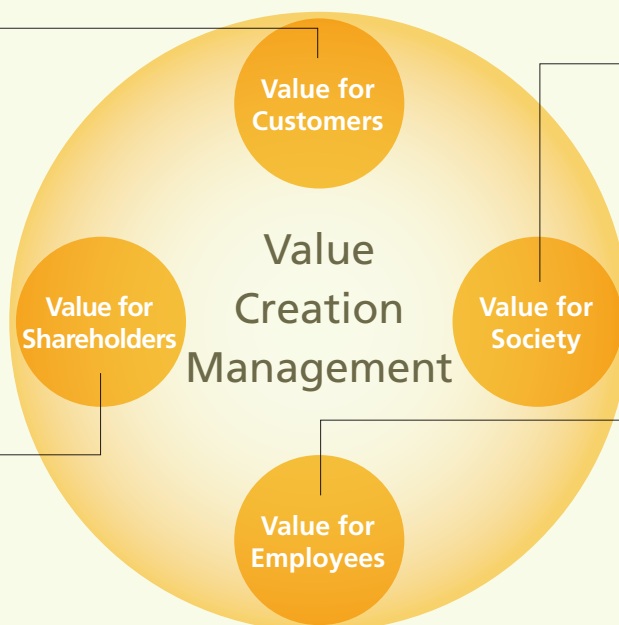
The Group plans to evolve continuously along with its customers by supplying multiple forms of energy, with environment-friendly natural gas at its core, contributing to a more comfortable life as well as to the development of its customers' business activities.

● Value for Customers

We meet the expectations of our customers by recognizing their individual needs in a timely fashion, and proposing attractive energy solutions. Supplying natural gas, electricity, liquefied petroleum gas (LPG), and other types of energy in a form that meets their requirements, we provide customers with quality products and superior services enabling them to derive optimum use of energy that is also environmentally friendly.

● Value for Shareholders

We satisfy the expectations of our shareholders by striving to constantly improve performance and by maintaining stable dividend payments.



"Design" encompasses creativity and originality, while "Energy" refers not only to energy in the literal sense, but also to the vitality and dynamism of our customers. The Osaka Gas Group is committed to contributing to the realization of more comfortable lifestyles and development of business activities for our customers by creating new value to meet their needs and respond to the changing times. Based on the "Design Your Energy—A Better Tomorrow" brand slogan, we will continue to provide even better services in order to fulfill this commitment.

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● Value for Society

To contribute to society, we endeavor to reduce environmental impact by promoting the greater and more sophisticated use of environment-friendly natural gas. We also promote the well being of society by revitalizing communities through our corporate activities. Along with these efforts, we enhance the transparency of our management through full compliance with laws and regulations and information disclosure.

● Value for Employees

Our management methods are based on human resource development that harnesses the individuality and self-initiative of employees.

Our employees are constantly studying to better themselves, seeking to meet the expectations of our customers, shareholders, and society in general through the creation of value. Operating under a bond of mutual trust and enthusiasm between employees and management, we pursue the sound growth of the Osaka Gas Group.



Forward-looking Statements

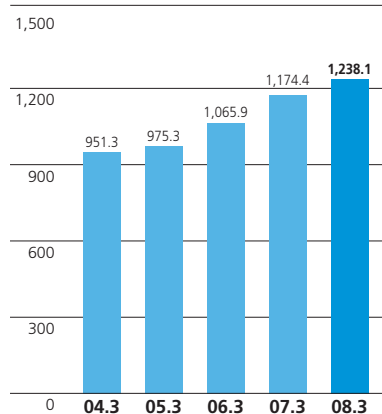
Statements contained in this report with respect to the Osaka Gas Group's plans, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of the Osaka Gas Group which are based on management's assumptions and beliefs in light of the information currently available to it. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Osaka Gas Group's actual results, performance or achievements to differ materially from the expectations expressed herein.

Consolidated Financial Highlights

	1998/3	1999/3	2000/3	2001/3
Financial Data				
Operating revenues	¥ 853,598	¥ 831,366	¥ 849,225	¥ 951,926
Operating income	63,095	66,375	62,723	74,055
Net income	21,775	21,614	27,345	36,097
Capital expenditure	107,016	94,932	93,951	91,233
Depreciation	79,793	80,106	80,842	92,461
Total assets	1,181,380	1,178,352	1,219,514	1,310,976
Total shareholders' equity/net assets	381,954	380,846	428,523	475,019
Number of shares issued and outstanding (thousands)	2,528,162	2,500,462	2,477,760	2,429,564
Per Share Data				
Net income (EPS) (yen and U.S. dollars)	¥ 8.61	¥ 8.56	¥ 10.94	¥ 14.72
Shareholders' equity/net assets (BPS) (yen and U.S. dollars)	151.08	152.31	172.95	195.52
Key Ratios				
Equity ratio (%)	32.3%	32.3%	35.1%	36.2%
Debt ratio (%)	39.9%	40.5%	40.3%	38.9%
Interest coverage ratio (times)	5.3	6.8	7.6	9.8
Return on assets (ROA) (%)	1.8%	1.8%	2.3%	2.9%
Return on equity (ROE) (%)	5.8%	5.7%	6.8%	8.0%
Gas Sales by Volume (million m³)				
	6,759	6,757	7,326	7,580
Number of Meters Installed (thousands)				
	6,083	6,210	6,305	6,401
Number of Employees				
	9,994	9,816	15,201	15,160

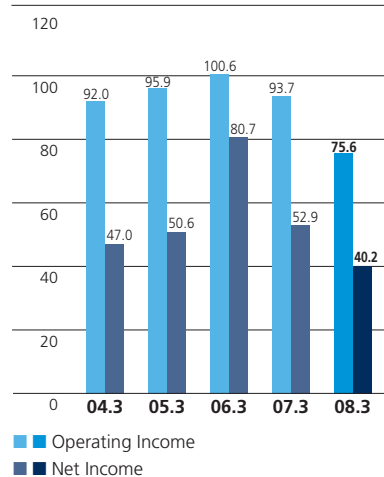
Operating Revenues

(Billions of yen)



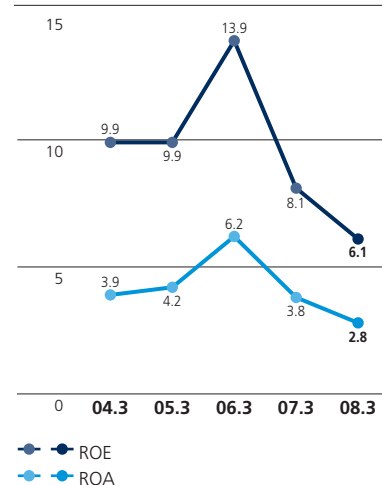
Operating Income and Net Income

(Billions of yen)



ROE and ROA

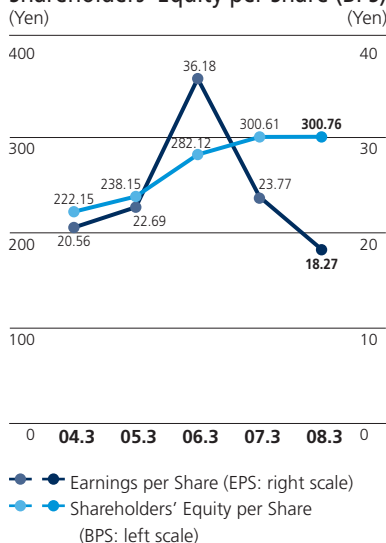
(%)



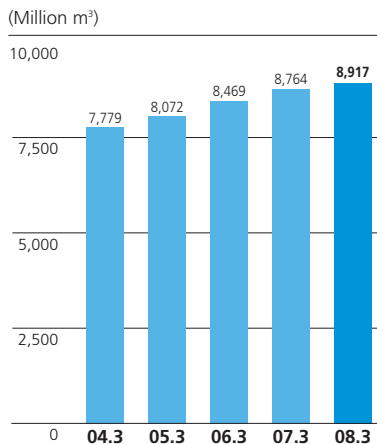
						Millions of yen	Thousands of U.S. dollars
2002/3	2003/3	2004/3	2005/3	2006/3	2007/3	2008/3	2008/3
¥ 973,565	¥ 947,977	¥ 951,324	¥ 975,340	¥1,065,961	¥1,174,456	¥1,238,145	\$12,357,969
96,676	85,974	92,096	95,992	100,657	93,729	75,611	754,676
39,418	29,685	47,065	50,683	80,710	52,929	40,283	402,066
89,938	67,107	69,779	65,517	117,455	95,267	111,087	1,108,763
88,793	82,805	89,564	86,858	84,250	84,031	95,253	950,723
1,243,520	1,209,627	1,199,228	1,217,463	1,398,692	1,405,682	1,467,934	14,651,502
468,706	453,284	495,635	530,862	628,510	686,664	666,657	6,653,927
2,369,011	2,369,011	2,369,011	2,369,011	2,235,669	2,235,669	2,158,383	

						Yen	U.S. dollars
¥ 16.33	¥ 12.56	¥ 20.56	¥ 22.69	¥ 36.18	¥ 23.77	¥ 18.27	\$ 0.182
197.85	197.28	222.15	238.15	282.12	300.61	300.76	3.001
37.7%	37.5%	41.3%	43.6%	44.9%	47.6%	44.2%	
37.4%	40.9%	38.0%	36.8%	34.9%	34.7%	38.5%	
13.2	14.2	12.9	16.1	23.6	10.3	13.6	
3.1%	2.4%	3.9%	4.2%	6.2%	3.8%	2.8%	
8.4%	6.4%	9.9%	9.9%	13.9%	8.1%	6.1%	
7,479	7,701	7,779	8,072	8,469	8,764	8,917	
6,484	6,579	6,650	6,725	6,785	6,848	6,913	
14,878	15,020	15,276	15,992	16,077	16,435	16,682	

Earnings per Share (EPS) and Shareholders' Equity per Share (BPS)



Gas Sales by Volume



Notes:

- The conversion of Japanese yen into US dollars is based on the exchange rate of 1 USD = 100.19 JPY (spot rate as of March 31, 2008).
- Equity ratio = equity/total assets (as of the end of the fiscal year)
- Debt ratio = interest-bearing debt/total assets (as of the end of the fiscal year)
- Interest coverage ratio = (operating income + interest and dividends received)/interest expenses
- Return on assets (ROA) = net income/total assets (average)
- Return on equity (ROE) = net income/average equity (up to fiscal 2006, "average equity" was "shareholders' assets (average)")
- Figures in the financial data are rounded down up to page 39 and rounded off from page 40.
- All gas sales volume shown is at the calorific value of 45 MJ per cubic meter.
- Gas sales by volume and number of gas meters installed up to fiscal 2002 are shown on a non-consolidated basis.

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

Osaka Gas Group Medium-Term Business Plan (Fiscal years from April 1, 2006 to March 31, 2009)

Design 2008: Progress and Policies for the Final Year

—A Report From President Hiroshi Ozaki

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. The basic framework of Design 2008 has three major components: strengthening profitability of the gas supply business, evolving into a multi-energy supplier, and maximizing Group power. In this section, our new president, Mr. Hiroshi Ozaki, reports on the financial strategies and strategies for investments for ensuring future growth to support these policies. He also provides a status report and outlook for the achievement of the plan's objectives.



Sophisticated Proposals Incorporating the Customer's Perspective	Improve Services and Ensure Safety
Pursue Greater Business Efficiency	Conduct Active Growth-oriented Investments and Optimize the Group's Asset Portfolio

Assumptions regarding the operating environment	
<ul style="list-style-type: none"> • Low-growth economy • Stronger awareness of the environment • Higher emphasis on the social responsibility of companies 	<ul style="list-style-type: none"> • Entering the era of population decrease • Higher expectations for better corporate performance • Steady development of the regulatory framework for the gas and electricity businesses



Combining Our Strengths to **Maximize Value** 

- 1. Strengthening Profitability of the Gas Supply Business
- 2. Evolving Into a Multi-Energy Supplier
- 3. Maximizing Group Power
- 4. Growth-Oriented Strategy and Financial Policies

1. Strengthening Profitability of the Gas Supply Business

The gas supply business will remain the core of our multi-energy supply business. Together with our Group companies and external business partners, we will address the various needs of our customers based on five core principles (1) we will propose solutions supported by technological and engineering prowess developed over many years (2) we will offer comfortable, convenient, safe and energy-efficient gas systems (3) we will make our gas rates easier to use (4) the Group will supply customers with a wide range of products, including electricity, LPG, security services and Internet services, combined with a strong capability for providing services and proposing innovative solutions (5) we will thoroughly utilize our infrastructure assets, including pipeline networks, to serve customer needs. Additionally, we will find ways to cope with the population decrease in the Kansai region and the intense competition in the energy sector, all with the aim of achieving sustainable growth in our gas sales.

In addition, we will promote even greater business efficiency, based on the premise of improving service and ensuring safety, while striving to lower gas rates in order to maintain and enhance our price competitiveness.

Overview of Fiscal 2007 and Fiscal 2008

In November 2006, we lowered gas rates for the residential and small commercial customer segments by an average of 2.33% to return the benefits of lower fixed costs achieved through past and ongoing efforts to boost operating efficiency. As part of this, we revised our system for discount options to make it easier for our customers to use gas. Called the *Gas Toku Plan*, this scheme allows residential users to select from among four types of discounted gas rates.

Looking at gas sales volumes in fiscal 2007, residential and commercial sales were higher than in fiscal 2006, when winter temperatures were mild. Despite lower demand for water heating and space heating, industrial-use gas sales volume increased due to brisk development of new users and higher operating rates at facilities of existing users. As a result, overall gas sales volume increased by 3.4% year on year, from 8.45 billion m³ in fiscal 2006 to 8.74 billion m³ in fiscal 2007.

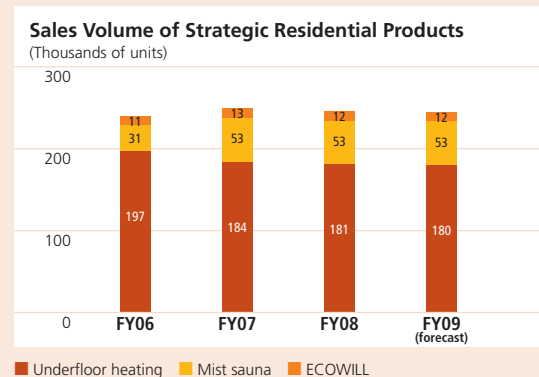
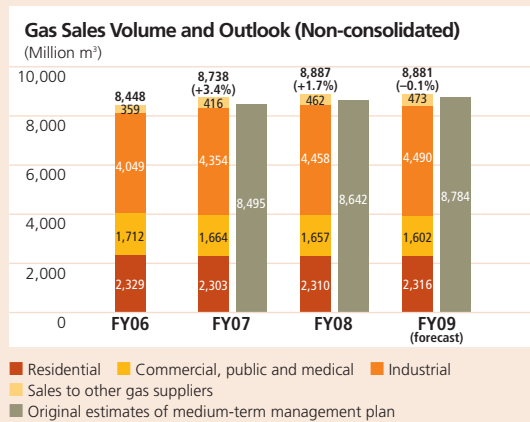
In fiscal 2008, residential gas sales volume growth was basically flat over the year. However, commercial and industrial gas sales volumes increased due to strong new demand and low temperatures in January and February 2008. Consequently, total gas sales volume increased 1.7% over the previous year, from 8.74 billion m³ in fiscal 2007 to 8.89 billion m³ in fiscal 2008.

In customer services, we changed the name of our outlets for addressing a broad range of customer needs from Osaka Gas Service Shop to Osaka Gas Service Shop Kurashi Plus, effective February 2007.

In activities related to the enhancement of our production and supply business base, we opened the Kinki Trunk Line—Shiga Line in October 2006. Construction on the Kinki Trunk Line—Shiga Line, a high-pressure gas supply trunk line, was started July 2003 with the aim of providing long-term, stable supply to the Shiga region. Additionally, a high-pressure trunk line that links the Kinki Trunk Line—Shiga Line with the Yokkaichi Thermal Power Plant of Chubu Electric Power is currently under construction (completion scheduled for 2010) as a pipeline aimed at further enhancing both supply stability and capacity of gas supply.

Turning to economical and stable procurement of raw materials, we concluded a contract with Malaysia LNG Sdn. Bhd. in November 2007 for the sale and purchase of liquefied natural gas (LNG) produced in Bintulu, Sarawak, Malaysia. Running for 15 years starting in 2009, the contract represents a major contribution to the Company's stable procurement of natural gas.





Policies for Fiscal 2009

1. Responding to higher energy prices

As energy prices record historic highs, all Osaka Gas Group companies are making maximum efforts to generate profits. We are working tirelessly to sustain LNG procurement by diversifying and developing new supply sources, and thus provide stable gas supplies for our customers. Additionally, LNG prices are on an upward trend due to sharp increases in crude oil prices. Under these circumstances, we are doing our utmost to reduce LNG procurement costs, even marginally. Measures here include greater efficiency in inventory control and LNG terminal operations.

2. Promoting residential sector marketing to remain an attractive customer choice

In the residential sector, we will continue to offer gas appliances and services for modern lifestyles with gas, with the aim of meeting diversified customer needs in terms of environmental performance, economy, comfort, convenience, safety and security. Through cooking lessons, invitations to DILIPA—the Osaka Gas showroom—and other activities, we will provide opportunities for customers to experience the superiority of gas.

3. Establishing a strong framework for the energy businesses

In the commercial/industrial sector, we will leverage maintenance capabilities and natural gas utilization technologies, including cooling and combustion technologies developed over many years, to provide our customers with proposals for efficient energy usage, thereby contributing to higher economy and energy conservation. In addition, we will continue to promote greater use of environment-friendly natural gas with High Power EXCEL, a commercial-use gas heat pump air conditioner that simultaneously generates electricity, and Suzuchu cooking systems, which provide cool and comfortable working conditions in commercial kitchens.

4. Strengthening the foundations of the gas supply business

We will steadily build our core infrastructure, including the Mie-Shiga Line and the Amagasaki Line, as we seek to optimize our pipeline networks.

Moreover, we will enhance safety and security through continual enhancement of medium-term policies for our production facilities and pipelines, and by steady application of safety measures for appliances.

» 2. Evolving Into a Multi-Energy Supplier

The Osaka Gas Group views the progressive deregulation of the energy field as a business opportunity, and intend to overcome the competition in the energy sector by establishing our identity as a multi-energy supplier.

In order to accomplish this, we are striving to achieve high profitability through expansion of business and thorough cost reductions. In turn, we are actively investing the cash flow generated by these activities for growth in two fields. One field includes those businesses that will contribute to the medium to long-term growth of our domestic energy business, such as the domestic electricity retail business or expansion of our natural gas business. The other field comprises overseas independent power producers (IPPs) or upstream interests in energy development that could be expected to quickly contribute to consolidated profits.

While developing the electricity retail business as the second core business, we will expand businesses in the energy markets both in Japan and overseas across the entire value chain of natural gas from upstream to downstream.

Overview of Fiscal 2007 and Fiscal 2008

Construction of the Semboku Natural Gas Power Plant within the Osaka Gas Semboku terminal got under way in October 2006. The project is progressing steadily, with the start of operations targeted for 2009. Also, construction of the Hirogawa Myojinyama Wind Farm in Wakayama Prefecture, a business being pursued jointly with Gas and Power Investment Co., Ltd., and Sojitz Corporation, is proceeding, with completion scheduled for autumn 2008.

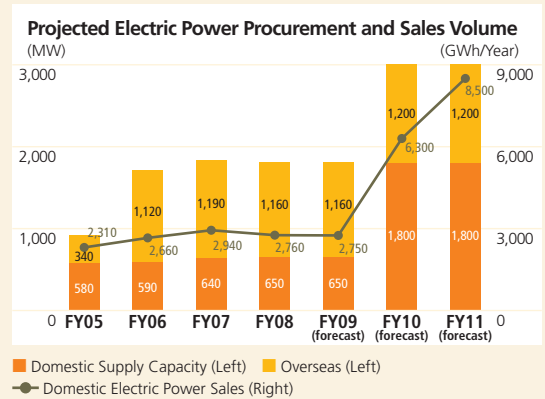
In the IPP business, with the aim of boosting profitability and acquiring expertise in the electricity business, in March 2007, an Osaka Gas subsidiary Gas and Power Investment Co., Ltd. acquired a further 50% stake in U.S.-based Marianas Energy Company LLC through Osaka Gas Energy America Corporation, a U.S. affiliate. This purchase, together with existing holdings, now gives Osaka Gas a 100% stake in Marianas Energy Company.

In upstream businesses, aiming for the acquisition of integrated technologies and business know-how while contributing to consolidated earnings, in August 2007 Osaka Gas Australia Pty. Ltd. established Osaka Gas Crux Pty Ltd. as a wholly owned subsidiary for the purpose of acquiring a 15% stake in the AC/P23 permit block located in Browse Basin offshore Western Australia from Nexus Energy Limited. Additionally, the LNG tanker LNG Dream (gross capacity of 145,000 m³) went into service in September 2006. Furthermore, we acquired 3% of the common stock outstanding of Qalhat LNG S.A.O.C, Oman's LNG production and sales company, from the government of Oman.

Osaka Gas also concluded an agreement with Contango Oil & Gas Company for the purchase of that company's entire stake in the Freeport LNG receiving terminal in the United States. In addition to securing stable earnings, this deal is aimed at broadening our base of knowledge in the United States LNG market, which is expected to grow rapidly, and expanding our business in LNG-related fields in the U.S. With this move, we have taken a 10% stake in the Freeport LNG receiving terminal product through Turbo LNG LLC, a special purpose company established in the United States.



Left to right:
Marianas Power Plant in Guam, the Crux condensate field in Western Australia, and the LNG receiving terminal in Freeport, Texas, U.S.A.



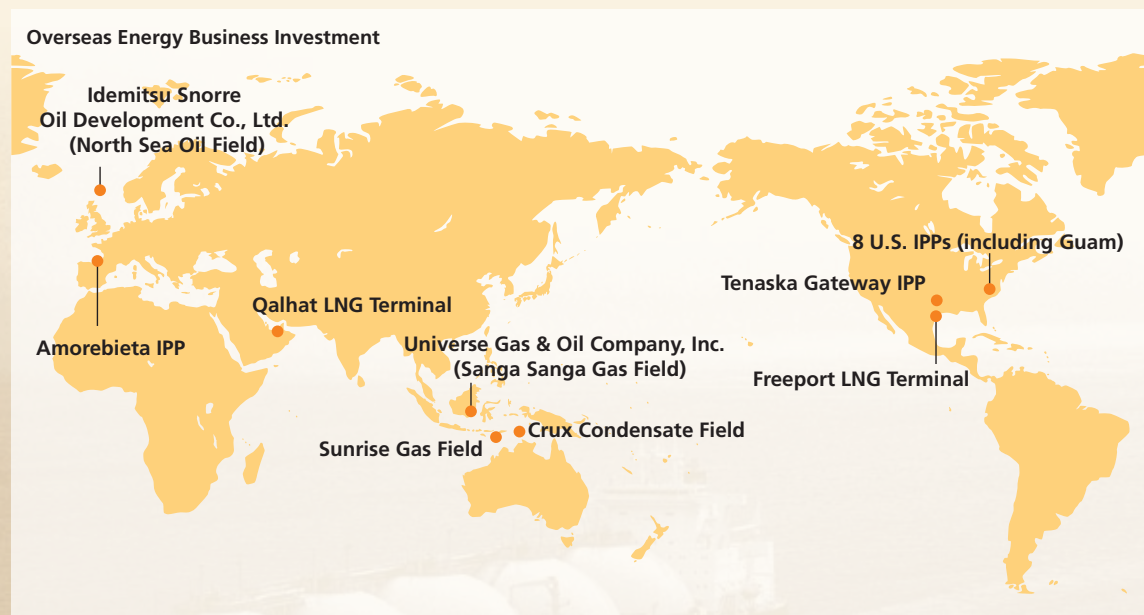
Policies for Fiscal 2009

1. Steadily laying the groundwork for full-scale expansion of electricity business

With utmost priority on safety, construction of the Semboku Natural Gas Power Plant is proceeding steadily. Operations are scheduled to start in April 2009. In conjunction with this development, we are constructing an optimal business structure to demonstrate maximum performance when the power plant becomes operational.

2. Strengthening strategy for investing in energy-related growth

Our medium-term business plan, Design 2008, targets sustainable growth underpinned by investment in energy-related businesses. Based on this, we are pursuing growth-oriented investment by cultivating superior projects that facilitate acquiring and accumulating know-how pertaining to the multi-energy business, while also generating solid returns and strengthening relationships with partners both in the domestic and overseas markets.



» 3. Maximizing Group Strengths

Under the new group management organization introduced in July 2005, we are seeking to maximize the strengths of the Group. In our LPG and real estate business, we look to take maximum advantage of synergies with the energy business in pursuing growth. We will make our information-related services business and advanced materials businesses fully autonomous to enable them to pursue business outside the group and contribute to consolidated profits.

To implement these measures, we are actively undertaking growth-oriented investments in fields where there is market growth and the Group has business advantages (concentrated investment), while also actively selecting highly efficient Group businesses (selective investment). Through this process, we are optimizing the Group's asset portfolio.

Overview of Fiscal 2007 and 2008

(For results of the real estate, information-related, and fine materials and carbon materials businesses, please refer to PP.28-29.)

In the condominium and building management business, in May 2006 Osaka Gas Security Service Co., Ltd. and its parent company OG Capital Co., Ltd. acquired shares in Osaka Housing Service Co., Ltd., which manages condominiums held by the Osaka Municipal Housing Corporation.

In July 2006, the Company transferred shares of Palette Co. Ltd., an operator of the La Palette household goods retail stores, to West Japan Railway Fashion Goods Company, which runs a large number of retail stores primarily in the area of clothing and miscellaneous household goods. This decision was based on the determination that such a transfer would be in the best interest of Palette Co. Ltd. with respect to the company's future development.

Policies for fiscal 2009

Osaka Gas affiliates pursue maximum synergies within the energy business and seek to pursue business outside the Group.

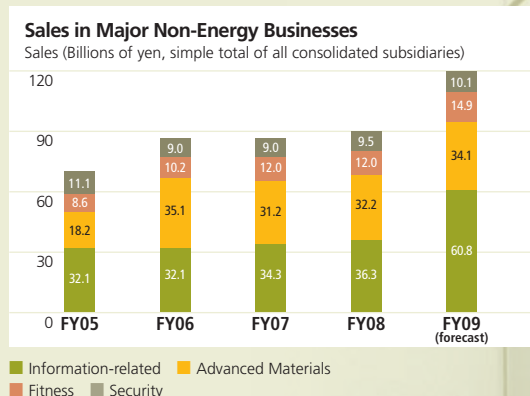
The Liquid Gas Group and the Nissho Petroleum Gas Group (LPG business) are solidifying their business strategies to maximize profits across the entire LPG business value chain, from upstream to downstream.

The Urbanex Group is solidifying its earnings base in leased properties while engaging in the condominium business.

The Osaka Gas Information System Research Institute Group (information-related business) aims for steady earnings growth centered on model-based software development and by working with new Group company Sakura Information Systems Co., Ltd. on system development and business know-how with the aim of providing enhanced-quality services.

Osaka Gas Chemicals Co., Ltd. (advanced materials business) pursues business growth centered on the carbon fiber business and fine materials, which are seeing strong demand.

The OG Capital Group is moving ahead with selection and concentration in its portfolio of group companies in order to better respond to changes in the market environments of its various businesses.



Osaka Gas Group Medium-Term Business Plan

4. Growth-Oriented Strategy and Financial Policies

Growth-Oriented Investment Strategy

Our previous medium-term business plan, Innovation Centennial, covered the period from April 1, 2003 to March 31, 2006. During those three years, we established a framework for growth-oriented investments aimed at building a management base that would enable the Osaka Gas Group to sustain growth. Based on the plan, we invested in the electricity business, trunk pipelines and upstream businesses. Under the current Design 2008 medium-term business plan, we are taking that strategy further, using free cash flow and additional funds procured within the scope of maintaining our sound financial position to aggressively make new growth-oriented investments.

● Growth-oriented investment policy:

1. Investments should be in accordance with either of our two management strategies—expansion of our multi-energy supplier business or concentrated and selective investments in non-energy businesses;
2. Investments should be in fields where the Group can leverage its strengths and where markets have growth potential; and
3. Investments should be able to quickly and substantially contribute to consolidated profits.

● Areas of emphasis:

1. Investments that will contribute to growth of the energy business in the medium to long term; and
2. Investments that will quickly contribute to consolidated profits.

The investments that will contribute to the growth of our domestic energy business in the medium to long term include investments in the domestic electric power business, in trunk pipelines, in the geographic expansion of the natural gas business, and in LNG vessels. Through these investments we are expanding the scope of the core energy business of the Osaka Gas Group.

Likely candidates to contribute quickly to consolidated profit include earnings-oriented investments in overseas IPPs and upstream interests. At the same time, we will actively invest in promising non-energy businesses, accelerating our concentrated and selective investment strategy.

All investment decisions are premised on maintaining a sound financial position. Other factors considered in making the investment decision include profitability, risk assessment, and whether the investment is in accordance with management strategies.

Approach to Optimizing Capital Structure

We are continually looking at what overall composition of debt and equity will maximize our capital efficiency. Currently, we believe that an equity ratio of about 40% and a debt-to-equity ratio of approximately one will give us a capital structure that maximizes capital efficiency for each of our stakeholders.

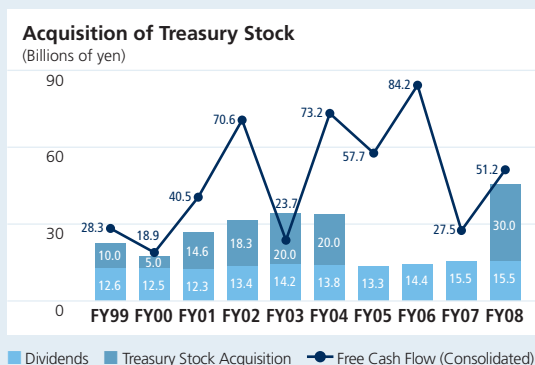
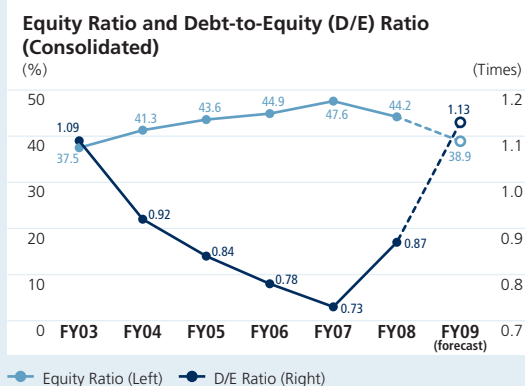
Since our current capital structure almost matches these targets, we believe it is possible to increase debt somewhat along with the growth in equity provided by retained earnings while maintaining our sound financial position.

Policy on Treasury Stock

In the past, we have regularly used buybacks of our shares as one method of returning profits to shareholders by boosting earnings per share.

We will continue to consider the acquisition and retirement of treasury stock with a view to improving EPS and return on equity (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 October 2007, the Board of Directors authorized the buyback of the Company's own shares to further enhance shareholder value by boosting EPS and ROE. The buyback is also aimed at creating a financial structure that provides more flexibility in responding to the business environment. Through this buyback program, the Company had completed the repurchase of 67,286,000 shares, for approximately ¥29,999 million, by February 2008. Also, in March 2008, the Company retired a total of 77,286,000 shares, consisting of these shares together with other treasury stock.



1. Strengthening Profitability of the Gas Supply Business

2. Evolving Into a Multi-Energy Supplier

3. Maximizing Group Power

4. Growth-Oriented Strategy and Financial Policies

Corporate Governance

Corporate Governance Measures and Policies

In its decision-making, Osaka Gas follows a clearly defined set of company regulations. Important decisions are only made after being carefully scrutinized by the Executive Board, which is comprised of executive directors and executive officers with a wide range of expertise, and after full discussion by the Board of Directors. The Board of Directors comprises twelve directors, including one outside director. The Board of Directors makes accurate and speedy business decisions and works to improve oversight of operations of the entire Group. Osaka Gas has also introduced an operating officer system in which each executive officer is engaged in business execution determined by the Board of Directors.

The Articles of Incorporation stipulate that the Board of Directors of Osaka Gas shall be comprised of twenty-seven or fewer directors. They also direct that appointment of directors is to take place with a quorum of shareholders possessing at least one-third of shareholder voting rights and by a majority of voting rights held by shareholders present.

Osaka Gas uses a corporate auditor system. Four corporate auditors, of whom two are outside auditors, each monitor the appropriateness of business execution related to the

Osaka Gas Group. In addition, the Corporate Auditors' Office composed of three staff members not under the direct control of the directors has been established to support the auditors and thus to improve the audit system.

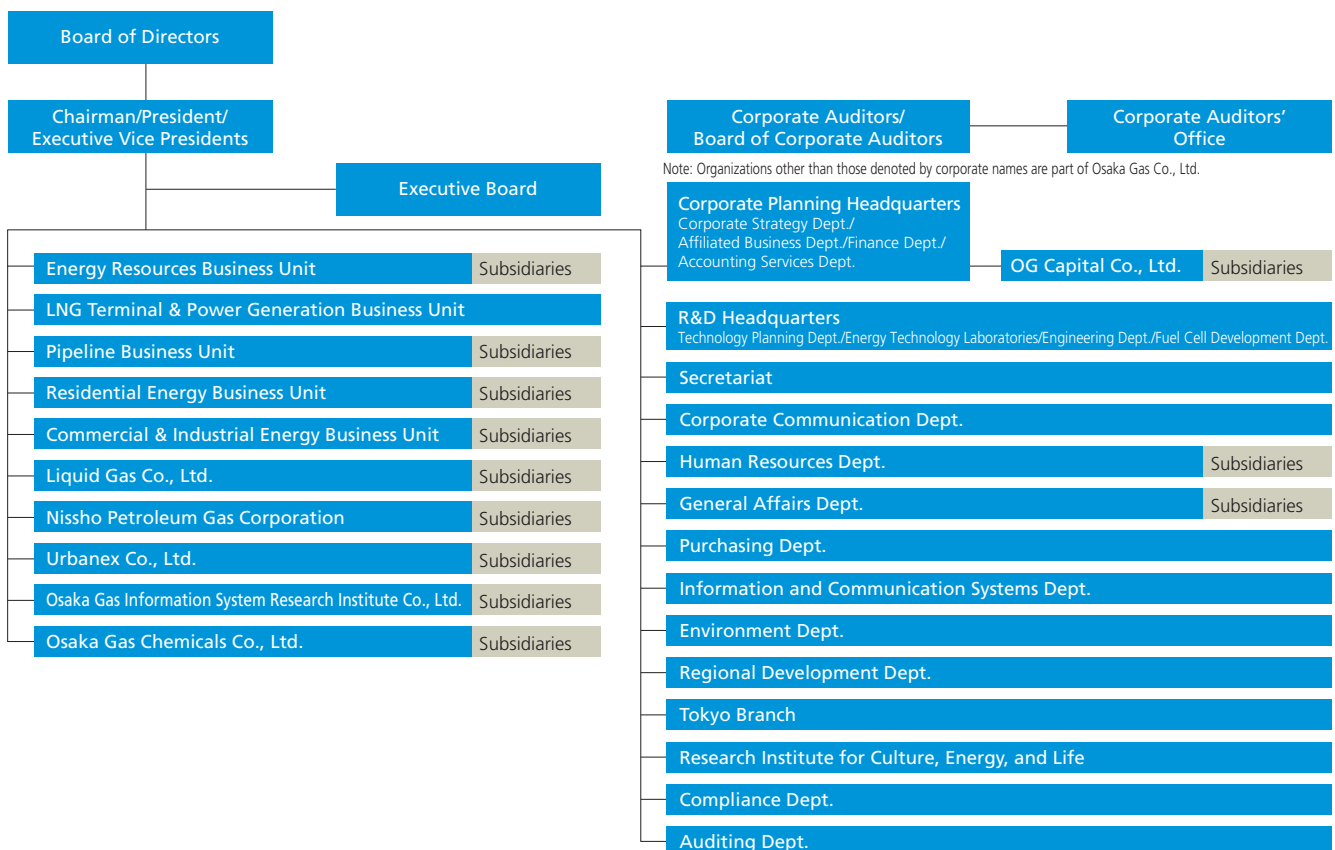
The outside director and two outside auditors appointed at the general meeting of shareholders do not have any special personal, capital, or business relationship with Osaka Gas, nor do they have any other interest in the Company, thus preserving their impartiality.

Internal Control Systems

Osaka Gas has established the Auditing Department which functions as an internal auditing division and, based on a yearly auditing plan, monitors the appropriateness and efficiency of business activities, and provides each section of our organization with advice and recommendations.

Osaka Gas assigns auditors to the business units within the company, thereby improving and reinforcing its auditing and internal control functions. The auditors' job responsibilities are clearly defined in company regulations, which have enabled us to transfer authority to the departments themselves.

Organization As of June 27, 2008



Note: Organizations other than those denoted by corporate names are part of Osaka Gas Co., Ltd.

Osaka Gas Group Directors and Auditors

As of June 27, 2008



Front, from left: Akio Nomura, Hiroshi Ozaki

Back, from left: Hiroshi Yokokawa, Zenzo Ideta, Yoichi Higuchi

Chairman:

Akio Nomura

President:

Hiroshi Ozaki

Executive Vice-Presidents:

Zenzo Ideta

Hiroshi Yokokawa

Yoichi Higuchi

Managing Directors:

Masashi Kuroda

Takashi Sakai

Shigeki Hirano

Kazuo Kakehashi

Noriyuki Nakajima

Masato Kitamae

Director:

Tadamitsu Kishimoto

Corporate Auditors (Full-time):

Seishiro Yoshioka

Akio Ukai

Corporate Auditors:

Toshihiko Hayashi

Kenji Torigoe

Corporate Social Responsibility Activities

(For details, refer to the Osaka Gas CSR Report 2008)

The Osaka Gas Group CSR Charter

The Osaka Gas Group's fundamental management principle is to allocate top priority to maximizing value for customers in pursuing Value Creation Management that enhances value for all stakeholders, including customers, shareholders, society and employees. We believe that the pursuit of Value Creation Management is a basic part of fulfilling our corporate social responsibility (CSR). In April 2006, we inscribed these principles in the Osaka Gas Group CSR Charter to clarify our philosophy and approach with regard to CSR. The following July, we created a framework for the promotion of CSR, setting up the CSR Promotion Group and the CSR Committee, and at the same time appointing executives to oversee CSR activities as a whole. These measures have enabled us to engage proactively in appropriate CSR activities.

To enhance the value for society provided by our business, we strive to decrease the environmental impact of energy utilization by promoting more widespread and sophisticated use of environment-friendly natural gas. We also enhance the transparency of our management through thorough compliance with laws and regulations and information disclosure. Along with these efforts, we promote the well-being of society by revitalizing communities through our corporate activities. Our activities in these areas are published annually in our CSR Report. In addition, we are taking steps to improve implementation through means such as holding regular meetings of the CSR Committee, and establishing environmental goals for each section of our organization.

The Osaka Gas Group CSR Charter

The Osaka Gas Group, with its highest managerial priority placed on maximizing value for its customers, seeks to create value for all its stakeholders including shareholders, society, and employees through fair and transparent business practices. We believe that the pursuit of "Value Creation Management" results in fulfilling corporate social responsibilities of the group.

In order for the Osaka Gas Group to fulfill its corporate social responsibilities and to achieve sustainable development, we hereby set forth the Charter as the guiding principle for the management and the employees of the Group to observe in their conduct of business. The management of the Osaka Gas Group, its subsidiaries and affiliates, and managers of respective divisions, are determined to implement the spirit of the charter in their business initiatives. Should any infringement of the charter occur, the management will act immediately to identify and resolve problems, and to take strict corrective actions.

I. Creating value for customers

The Osaka Gas Group is committed to making a positive contribution to realizing a higher level of comfort and development of the business activities of its customers. The group intends to achieve this objective by providing a reliable and safe supply of natural gas and other energy services with improved level of services for its customers. We also seek to grow together with customers and society at large by pursuing opportunities for further growth of our businesses and to create new products and services to enhance value for customers.

II. Contributing to harmonizing with the environment and to realizing a sustainable society

Addressing the issues of the environment both at regional and global levels is of paramount importance for the Osaka Gas Group, which

is engaged in providing wide-ranging energy services. The Group, being seriously aware of the impacts of its business activities on the environment, seeks to harmonize its businesses with the environment and to realize efficient utilization of energy resources, thereby contributing to achieving a sustainable society.

III. Being a good corporate citizen contributing to society

The Osaka Gas Group, as a good corporate citizen, strives to maintain communication with society and the communities it serves. Through proactive disclosure of information and improved managerial transparency, we intend to establish a favorable relationship with citizens and to make a positive contribution to the healthy development of society.

IV. Complying with laws and regulations and respecting human rights

Compliance by management and employees with laws and regulations forms the basis of gaining society's trust. Our perspectives on compliance go beyond legal and regulatory boundaries to include decent conduct expected of all citizens. Based on our respect for human rights, we intend to maintain equitable relationships with our customers, business partners, and other parties.

V. Management policy of human growth

The Osaka Gas Group strives to become a group of enterprises that realizes growth of its employees through work by ensuring employment opportunities and respecting employees' individuality and initiative. With discipline and self-motivation, we will charge ourselves with the task of creating new value for customers, shareholders and society. The group and its employees, through mutual trust and decency, strive to achieve sound growth of enterprises within the group.

Compliance

As a Group, we believe that implementation of thorough compliance provides an essential base for fulfilling corporate social responsibility. In 2000, we formulated the Osaka Gas Group Code of Conduct to achieve strict compliance with all applicable legal requirements through educational and training programs involving all the members of the Osaka Gas Group, including the directors and employees of Osaka Gas and its subsidiaries and affiliates.

As well as establishing the CSR Committee and Compliance Subcommittee, we have put in place the Compliance

Department to handle the promotion of compliance, and the Compliance Desk as the point of contact for internal reporting of compliance-related issues. These measures allow us to further promote and firmly establish compliance as part of our corporate activities.

The Code of Conduct defines the behavior standards of the Osaka Gas Group according to the key points outlined below. All Group members are made well aware of its contents.

The Osaka Gas Group Code of Conduct (Summary)

I. Code of conduct as a good corporate citizen

(1) Respect for human rights

- Respect human rights, and do not discriminate against customers or employees based on race, religious beliefs, sex, social status or family lineage.

(2) Consideration for the environment

- Consider the environment in every sphere of business activity and work to attain environmental targets.

II. Code of conduct in gas production and supply and other services

(3) Duty as a provider of energy and other services

- Put customer satisfaction first to respond quickly and appropriately to customer requirements. Strive to earn customer trust by enhancing safety and quality, consistently providing a professional service that delivers on the basics so that customers can use the gas and other energy we supply safely and conveniently. Always comply with laws and regulations relevant to the business.

(4) Assurance of product safety

- Ensure the safety of customers as the top priority in the production and sale of products as well as construction work. In the event of an accident, immediately find the cause and make every effort to prevent a reoccurrence by taking appropriate measures such as recalling products or issuing warnings.

III. Code of conduct for business transactions

(5) Respect for the antimonopoly law

- Conduct business transactions not only in accordance with the antimonopoly law, but also in a consistently just manner.

(6) Conduct fair transactions

- Conduct transactions in a fair-minded manner and in accordance with the requirements of applicable laws and regulations, and do not take advantage of a superior position over transaction partners if one exists.

(7) Response to customers

- Keep promises to customers to establish and deepen a relationship of trust in good faith.

(8) Socialization with business associates

- Socializing with business associates should be conducted with moderation and common sense in compliance with the law.

IV. Code of conduct for information management

(9) Information handling and disclosure

- Manage information appropriately so that customer information is not leaked. Disclose management information in a timely and appropriate manner.

(10) Use of information systems

- E-mail, the Internet, and other information systems should be used properly in accordance with the rules.

(11) Management of intellectual property

- Manage intellectual property appropriately and do not infringe on the intellectual property of others.

V. Code of conduct in the workplace

(12) Establishment of a comfortable and secure working environment

- Strive constantly to create a workplace where employees work comfortably with mutual respect.

(13) Employment and treatment of employees

- Do not discriminate against or treat unfairly employees in their wages and benefits, regardless of the type of employment.

VI. Code of conduct in society

(14) Cutoff of relationships and prohibition of sharing of profits with antisocial forces

- Transactions and sharing of profits with groups that show antisocial behavior is strictly prohibited.

(15) Payment of taxes

- Develop a correct knowledge of taxes, implement an appropriate accounting system, and pay taxes fairly.

Environmental Activities

We work to reduce the environmental impact of the Osaka Gas Group's business activities through efforts that include promoting efficient energy use at gas production facilities and office buildings and encouraging the use of recyclable resources. In 2007, the whole Group received ISO 14001 certification. In addition, we are pursuing further conservation of energy and resources in business activities through effective operations and building environmental management systems at all Group companies.

The Osaka Gas Group also works proactively to reduce environmental impact, by helping customers reduce their CO₂ emissions with a range of products and services and rate plans that are easy to use and understand. To this end, we promote natural gas, which is environmentally friendly and in line with national energy policy, and the adoption of high-efficiency equipment and systems, including cogeneration systems and gas air conditioning systems.

In addition, Osaka Gas contributes actively to the conservation of the environment regionally, nationally, and around the world. Specifically, we are participating in the *Kigyō no Mori* (Corporate Forest) and *Rodo Kumiai no Mori* (Labor Union Forest) projects being promoted by Wakayama Prefecture, and together with the Osaka Gas labor union, we are taking part in forest preservation activities in the mountain district near the Kumano Kodo World Heritage Site Sacred Sites and Pilgrimage Routes in the Kii Mountain Range.

Osaka Gas has been highly acclaimed for these environmental activities and the public disclosure of environmental performance data. The Company was named to the Climate Disclosure Leadership Index Carbon Disclosure Project 5.

Contributing to Regional and International Society

The Osaka Gas Group's business activities are closely connected with the lives of local community residents. At the same time, we have forged deep bonds with international communities, especially in Southeast Asia and the Pacific region, as sources of natural gas, our main raw material. As such, in June 2007 Osaka Gas joined the United Nations Global Compact as part of its commitment to furthering its corporate social responsibilities as a corporate citizen and as a global citizen.

The Osaka Gas Group inaugurated its Small Light Campaign volunteer program in 1981. Aimed at encouraging each employee to take a greater interest in the society around us, the Small Light Campaign values employee goodwill and respect for individuality and initiative and promotes grass-roots,

ongoing activities. As a company closely tied to the daily lives of the members of the community, Osaka Gas builds on the spirit of the Small Light Campaign to conduct a variety of programs aimed at making local contributions. These include environmental education, the dispatch of lecturers to conduct food-themed seminars, and cooperating on cooking classes. In particular, in the area of environmental education, we have developed our own Energy Environment Education program, in which current and retired Osaka Gas employees visit elementary and middle schools to teach lessons. A growing number of schools are requesting this school visit program, and in fiscal 2007 more than 400 lessons took place. Public appreciation for the program is strong, illustrated by our receiving an encouragement award in the areas of energy information disclosure activities and public recognition for information disclosure facilities.



Educational materials used in our school visit program

The Osaka Gas Group Welfare Foundation extends assistance in implementing local welfare activities for the elderly and conducts related surveys and research, to contribute to realizing a society where senior citizens can enjoy a long and healthy life. In addition, the foundation conducts a health support program aimed at improving the wellbeing of the elderly.

On an international level, we established the Osaka Gas Foundation of International Cultural Exchange in 1992 to assist educational organization in Southeast Asia and the Pacific region, natural-gas-producing areas. Through this foundation we run various human resource development programs, including scholarships and assistance with research on technologies related to natural gas and the environment.

Inclusion in Various SRI Indexes

As of the end of March 2008, Osaka Gas is included in the following socially responsible investment (SRI) indexes.

- FTSE4Good Index Series
- Ethical Index Global (E. Capital Partners)
- Morningstar Socially Responsible Investment Index (MS-SRI)
- KLD Global Climate 100 Index (KLD Research & Analytics)
- Ethibel Sustainability Index (ESI)

Summary of Business Segments

The Osaka Gas Group divides its operations into five business segments: Gas; LPG, Electricity and Other Energies; Gas Appliances and House-pipe Installation; Real Estate; and Others. The Group also classifies its companies under two business groups: a growth-oriented group that seeks to maximize synergies with the energy business, and a group of contributors to consolidated profits that independently pursues inflows of cash from outside the Group mainly through non-energy businesses. Expanding growth businesses through selective and concentrated allocation of resources and by quickly realizing and accelerating positive SVA of associated companies, the Osaka Gas Group endeavors to increase its overall corporate value.



Gas

Osaka Gas Co., Ltd., Nabari Kintetsu Gas Co., Ltd., Toyooka Energy Co., Ltd., Sasayama-Toshi Gas Co., Ltd., and Shingu Gas Co., Ltd. are engaged in manufacture, supply, and sales of natural gas. Osaka Gas Customer Relations, Co., Ltd. performs maintenance checks on gas equipment and appliances, meter-reading, and collection of gas charges.

Millions of Yen	FY06	FY07	FY08
Operating revenues* ¹	608,142	669,733	703,926
Operating income	61,811	63,604	44,262
Total assets at end of year	686,433	663,540	664,520
ROA* ²	9.1%	9.4%	6.7%
Operating income margin	10.2%	9.5%	6.3%



LPG, Electricity and Other Energies

Liquid Gas Co., Ltd. conducts sales of industrial gas and LPG. Nissho Petroleum Gas Corporation and other companies sell LPG and other products. Gas and Power Co., Ltd., Nakayama Joint Power Generation Co., Ltd., and Nakayama Nagoya Joint Power Generation Co., Ltd. are engaged in electric power generation. Gas and Power Investment Co., Ltd. handles district heating/cooling operations and other businesses. Cogeneration Technology Service Co., Ltd. designs, installs, sells, and provides maintenance for cogeneration systems. Included in this segment are Osaka Gas International Transport Inc., which is engaged in the LNG transport business, and Osaka Gas Summit Resources Co., Ltd., which develops petroleum businesses.

Millions of Yen	FY06	FY07	FY08
Operating revenues* ¹	186,342	232,092	262,440
Operating income	18,519	13,464	13,929
Total assets at end of year	299,986	316,702	365,693
ROA* ²	7.7%	4.4%	4.1%
Operating income margin	9.9%	5.8%	5.3%



Gas Appliances and House-pipe Installation

Osaka Gas Co., Ltd., Enetec Osaka Co., Ltd., Enetec Kyoto Co., Ltd., Osaka Gas Housing & Equipment Co., Ltd., Hearts Co., Ltd. and other companies sell housing equipment and gas appliances. Osaka Gas performs the installation of house pipes at customer sites. Kinpai Co., Ltd. performs the installation of indoor and outdoor gas pipes under contract with Osaka Gas. OG Road Co., Ltd. handles recycling of excavated soil and other activities related to gas pipe installation.

Millions of Yen	FY06	FY07	FY08
Operating revenues* ¹	155,339	160,510	148,758
Operating income	5,212	1,436	1,597
Total assets at end of year	59,032	62,632	63,735
ROA* ²	8.3%	2.4%	2.5%
Operating income margin	3.4%	0.9%	1.1%



Real Estate

Urbanex Co., Ltd., OG Capital Co., Ltd., Kyoto Research Park Corp. and Kubota Maison Co., Ltd. are engaged in development, leasing, management, and sales of real estate. OSC Engineering Co., Ltd. and Osaka Gas Total Facilities Co., Ltd. provide services such as operation, management and maintenance for buildings and facilities.

Millions of Yen	FY06	FY07	FY08
Operating revenues* ¹	12,908	13,113	16,513
Operating income	6,626	7,272	6,687
Total assets at end of year	111,481	114,772	129,171
ROA* ²	6.0%	6.4%	5.5%
Operating income margin	51.3%	55.5%	40.5%



Others

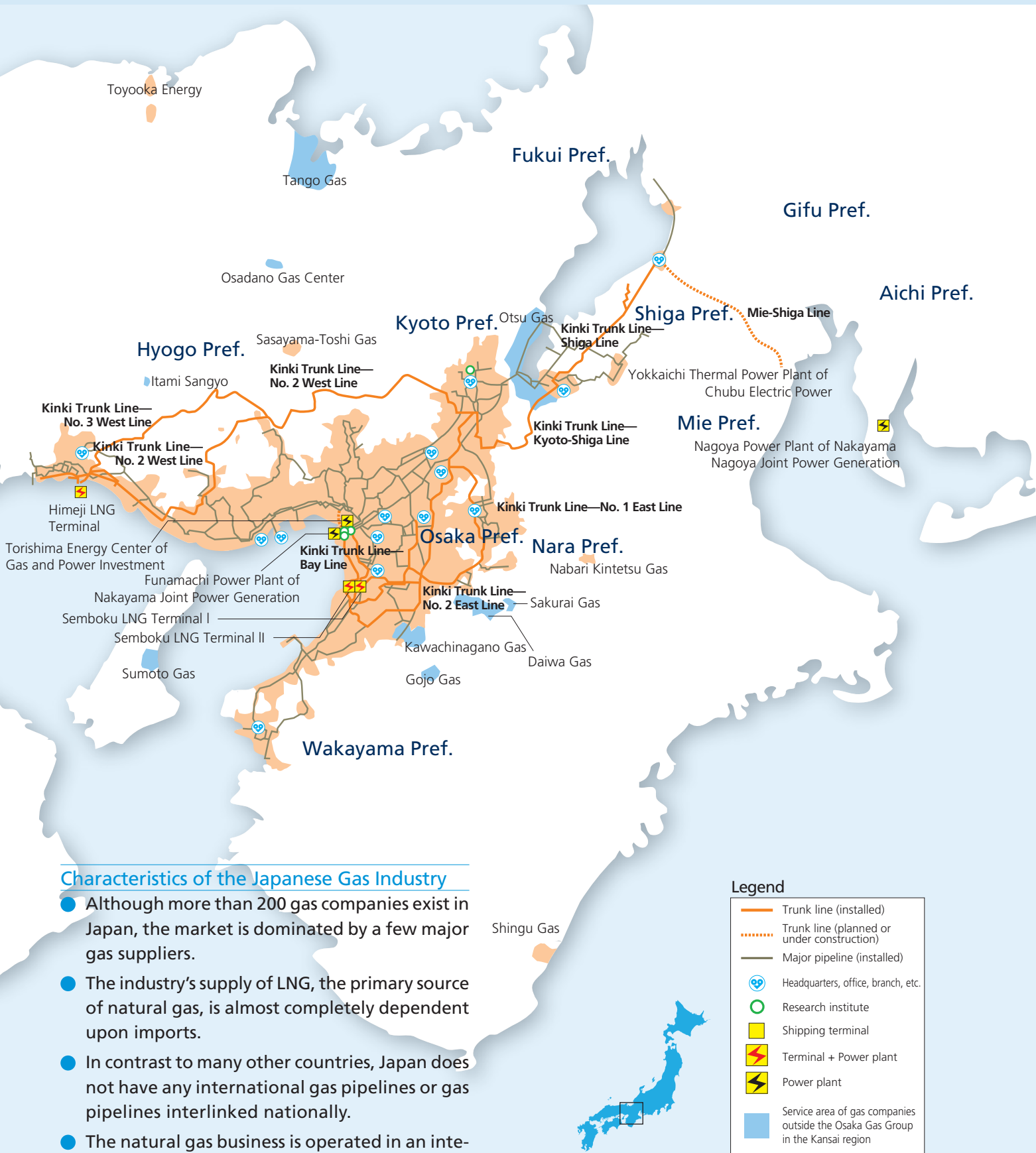
Osaka Gas Information System Research Institute Co., Ltd., and other companies provide a spectrum of software development and computerized information processing services. Osaka Gas Chemicals Co., Ltd. manufactures and sells fine materials and carbon material products. Osaka Gas Security Service Co., Ltd. provides security-related services. OG Sports Co., Ltd. is involved in the operation and management of sports facilities. Other subsidiaries included in this segment are engaged in engineering, leasing and other businesses.

Millions of Yen	FY06	FY07	FY08
Operating revenues* ¹	103,227	99,006	106,507
Operating income	7,752	7,296	8,323
Total assets at end of year	139,929	149,301	158,127
ROA* ²	5.8%	5.0%	5.4%
Operating income margin	7.5%	7.4%	7.8%

*¹ Operating revenues stated on this page refer to sales to external customers.

*² ROA is defined as operating income divided by average total assets on this page only.

Gas Segment



Characteristics of the Japanese Gas Industry

- Although more than 200 gas companies exist in Japan, the market is dominated by a few major gas suppliers.
- The industry's supply of LNG, the primary source of natural gas, is almost completely dependent upon imports.
- In contrast to many other countries, Japan does not have any international gas pipelines or gas pipelines interlinked nationally.
- The natural gas business is operated in an integrated manner, from import to transmission, storage, distribution and sales.

Legend

	Trunk line (installed)
	Trunk line (planned or under construction)
	Major pipeline (installed)
	Headquarters, office, branch, etc.
	Research institute
	Shipping terminal
	Terminal + Power plant
	Power plant
	Service area of gas companies outside the Osaka Gas Group in the Kansai region

Special Qualities of Natural Gas

Compared to other fossil fuels, natural gas has a much smaller impact on the environment. In addition, natural gas reserves are more abundant than those of crude oil and, unlike crude oil, are not concentrated in specific geographical locations.

In particular, because of its environmental advantages, demand for natural gas as a more environmentally friendly energy resource is expected to increase in the future, reflecting the public's increasing concerns and heightened awareness regarding the environment.

Deregulation in the Natural Gas Sector

Retail sales of natural gas in Japan began to be deregulated in 1995. Since then, the extent of retail deregulation has steadily increased, resulting in the deregulation of the natural gas sector. Currently, deregulation applies to customers with annual gas contract volumes of 100,000 m³/year or more. Measured by sales volume, approximately 60% of the natural gas sector is now deregulated.

Reserve/Production Ratios for Natural Gas and Oil



Source: BP [Statistical Review of World Energy 2008]

Emissions of Combustion Products From Fossil Fuels (Coal = 100)

	CO ₂	SO _x	NO _x
Coal	100	100	100
Oil	80	68	71
Natural Gas	57	0	20-37

Source: Report relating to field tests on technology for measuring air pollution caused by thermal power plants (March 1990, The Institute of Applied Energy); IEA (International Energy Agency) Natural Gas Prospects to 2010 (1986)

Deregulation Timeline in the Electric Power and Natural Gas Sectors

	Electric Power Sector			Natural Gas Sector			Customers
	Scope of liberalization	% of national sales open for competition	Features	Scope of liberalization	% of national sales open for competition	Features	
1995	—	—	Introduction of IPP and fuel cost adjustment system	2 million m ³ or more per year	44%	Introduction of third party access to pipelines and fuel cost adjustment system	Large factories and office buildings
1999/2000	More than 2,000kW	26%	Creation of retail power generation and supply business	1 million m ³ or more per year	50%	Third party access to pipelines made mandatory (four major companies only)	
2004	More than 500kW	40%	Abolishment of zone-based transmission tariff (pancake pricing)	500,000 m ³ or more per year	53%	Third party access to pipelines made fully mandatory	Large commercial facilities, hotels, etc.
2005	More than 50kW	63%	Creation of power exchange market	—	—	—	Small and medium-sized factories, hospitals, business hotels, supermarkets, etc.
2007	—	—	—	100,000 m ³ or more per year	60%	—	

Sources: Denki Shimbun's "Description of Electric Power Liberalization and New Systems" and 2007 Subcommittee to Evaluate System Reforms materials

The Osaka Gas Business Area

Gas sales by volume of the Osaka Gas Group are approximately 8.8 billion m³, representing about 30% of gas sales nationwide. The number of Osaka Gas customers amounts to approximately 6.8 million, accounting for about 25% of such customers nationwide. Our supply area is in the Kansai region with 77 cities and 29 towns in six prefectures. Approximately 57,900 km of gas pipelines cover an area of 3,184 km². In order to improve the stability of supply, we are currently

working in cooperation with Chubu Electric Power in the eastern side of our supply area to build the Mie-Shiga Line (a pipeline of about 60 km between the town of Taga in Shiga Prefecture and Yokkaichi City in Mie Prefecture, scheduled for completion around 2010). On the western side of our supply area we are investigating the construction of a gas pipeline from Himeji City to Okayama City. Looking ahead, these actions will help steadily expand our supply area and strengthen our supply infrastructure.

Residential Gas Marketing

In the residential gas market, the Osaka Gas Group develops products that are environmentally friendly, economical, and allow customers to lead a “smart home lifestyle” that is more comfortable, convenient, safe and secure in ways that only gas makes possible. We are dedicated to promoting the further popularization and use of such gas appliances as the residential gas cogeneration system ECOWILL, a separate bathroom heater-drier system with a mist sauna for health and comfort, and gas stoves for everyday cooking.

Our ECOWILL residential gas cogeneration system is a highly energy-efficient system that enables users to generate electricity at home, using exhaust heat from the generation process to supply hot water and heat. Compared to conventional hot water and heat supply systems, it reduces energy consumption by approximately 22% over first-generation systems, and enables approximately 32% reduction in CO₂ emissions. By achieving energy savings, the system also enables customers to control their overall lighting and heating costs. The number of units sold has grown solidly since its release in March 2003, reaching 11,900 units in the year ended March 2008 for a cumulative total of 45,700 units.

Eco-Jozu, our energy-saving hot water heater, improves upon conventional systems by recovering and reusing heat released into the air to supply hot water. Through this mechanism, the system significantly improves heat efficiency and contributes to both energy conservation and reduction in CO₂ emissions volumes. Since Eco-Jozu first went on sale in 2000,

the number of units sold has climbed along with an increase in environmental awareness. In the fiscal year ended March 2008, annual unit sales were 46,000, for a cumulative total of 128,000 units sold.

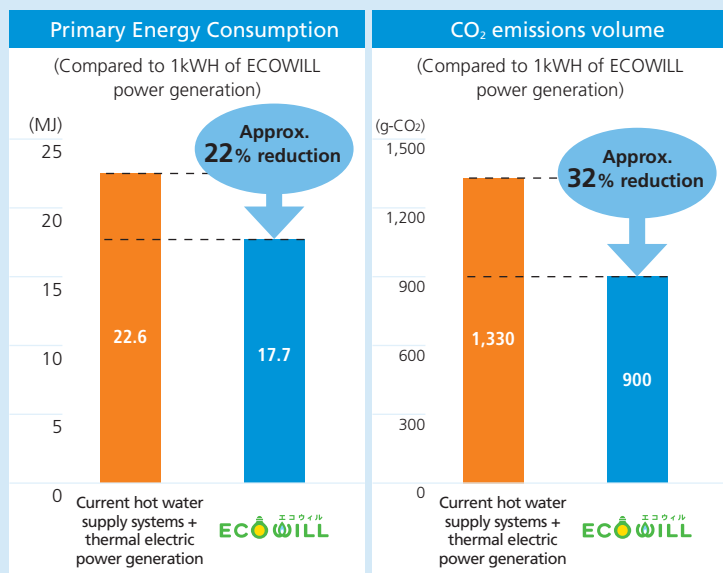
Our mist sauna products make it easy for customers to enjoy a sauna experience in the home. Products such as the MIST KAWACK, a bathroom heater/drier equipped with mist sauna functionality, turn the bathroom into a sauna by nebulizing hot water into a fine mist. These products have been well received in the market since we launched them in April 2004 in response to the heightened interest in health and beauty in recent years. Sales in the fiscal year ended March 2008 totaled 53,000 units, for a cumulative total of 157,000 units sold.

Glass-top, built-in gas stoves enable users to create delicious foods for a more exciting dining culture. We achieved robust sales by expanding our range of glass-top, built-in gas stoves, which are popular for their attractive, easy-to-clean design. Osaka Gas responds to a broad range of requests from our customers. In September 2007 we released the COLORS lineup of built-in gas stoves, offering customers seven color choices for color-coordinating their stoves with the rest of their kitchens. In October of the same year, we introduced the Udea glass-top built-in gas stove, which incorporates the principles of Universal Design to ensure that it is easy for anyone to use.

Osaka Gas seeks to support a safe and secure lifestyle for our customers through the provision of a diverse line of products and services. In addition to gas devices, we also promote the Piko Piko gas leak alarm system and the Kemupiko fire



The ECOWILL residential gas cogeneration system supports both a comfortable lifestyle and environmental conservation



Note: Primary energy equivalent: 9.97 MJ/kWh of electricity
 Gas: 45 MJ/m³
 Hot water heater efficiency: 80%

Note: CO₂ emissions coefficient: 0.69 kg-CO₂/kWh electricity (“Interim Report by the Central Environment Council Subcommittee for Establishing a Scenario for Achieving the Kyoto Target and the Subcommittee for New Policies for Achieving the Kyoto Target,” July 2001)
 Gas: 2.29 kg-CO₂/m³ (Company data)

LPG specifications are approximately 27% lower
 LPG: 6.01kg-CO₂/Nm³

alarm system. In response to rising awareness concerning crime prevention, we collaborate with a subsidiary to provide various services such as I-rusu, an Internet-based home security service.

We will further strengthen our marketing activities to convince customers of the advantages of gas and gas appliances. We will offer a lifestyle enhanced in ways that only gas can make possible, so that customers will continue to choose gas as competition with all-electric systems grows ever more intense.

Non-residential Gas Marketing

Natural gas plays a crucial role as a principal energy source for a wide variety of industries, including steel, metals, chemicals, and machinery. Natural gas itself is a superior energy source in terms of environmental friendliness, comparing favorably to other primary energies in terms of energy conservation and space conservation. Building on these basic advantages, Osaka Gas has steadily grown its sales record in the non-residential gas market by promoting detailed, solutions-based marketing activities based on a firm grasp of customer needs and strong technological and engineering capabilities.

In the industrial energy market, we are developing new demand for natural gas for furnaces and boilers. Here, we are taking advantage of unique technologies and engineering prowess that we have developed over many years in areas such as combustion technologies tailored to manufacturing processes, and burner systems tailored to specific needs in different industries' business styles. Natural gas is increasingly

used in cooling processes and clean rooms, and cogeneration systems, able to generate both heat and electricity simultaneously and realize substantial energy savings in factory operations, are increasingly being utilized.

We are developing new demand for gas in the commercial, public and medical sectors, focusing on air conditioners and cogeneration systems. Gas absorption air-conditioning systems have become the dominant technology for air-conditioning in large buildings, while gas heat pump air-conditioning systems are becoming increasingly popular in small and medium-sized buildings because they offer the convenience of individual climate control. High Power EXCEL is a commercial-use gas heat pump air conditioner that can generate electricity while cooling or heating air to supply to the building. The product is enjoying increasing popularity, mainly in office buildings and commercial facilities. Since its introduction in April 2006, we have installed over 1,300 units. We are also enhancing our lineup and marketing of commercial-use kitchen air-conditioning systems under the product name Suzuchu. These units provide cool and comfortable working conditions in a kitchen environment through efficient ventilation and insulation.

As energy prices soar, consumers are seeking higher added-value from energy. Osaka Gas promotes the supply of multiple forms of energy, including natural gas, electric power, and LPG, as well as providing suggestions for conserving energy that demonstrate our engineering abilities. We combine this with management services that make use of financial instruments and IT to allow our customers to achieve ideal energy use.



Regenerative burner system that realizes high-efficiency, energy-saving fuel combustion for industrial furnaces



Suzuchu enables cool comfortable kitchens by reducing the heat generated through cooking to levels such that equipment surfaces are cool enough to be touched

Cogeneration Systems (CGS)

Installed on the customer's premises, cogeneration systems (CGS) recover heat emitted from power generation and use it for air-conditioning and thermal applications. Energy efficiency improves up to approximately the 70%–90% level with the use of CGS, as exhaust heat can be effectively utilized, and there is minimal transmission loss because electricity is generated on-site.

Strengths of Osaka Gas Cogeneration Systems

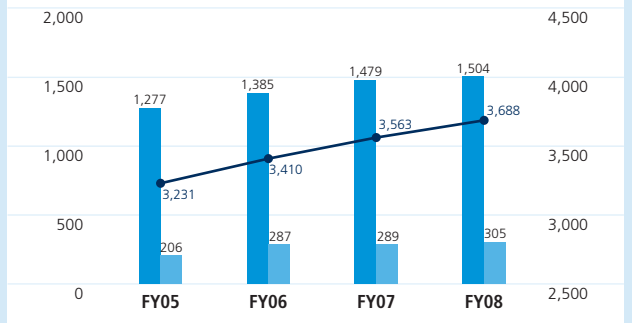
- (1) We have developed a highly efficient power generation system. Compared with the average electrical efficiency of approximately 40% at existing thermal power plants, our advanced CGS achieve electrical efficiency of around 45%. As a result, there are an increasing number of customers enjoying the cost benefits of introducing Osaka Gas CGS.
- (2) We offer a diverse product lineup, ranging from large CGS with over 5,000 kW of generation capacity to the Genelite series of small CGS with generation capacity of 5-25 kW.
- (3) Our maintenance system, which includes the Web Echo Line remote monitoring system and Sky Remote Service, leads the industry in service and maintenance quality. The new Eneflex Service, which also utilizes the Web Echo Line and Sky Remote Service, provides customers with a wide array of data on the operating status of gas appliances, helping them to conduct efficient and effective energy management.
- (4) We offer a variety of financing schemes enabling us to meet such diverse customer needs as avoiding ownership of capital assets or requiring preset rate fluctuations for changes in fuel costs.

- (5) For franchise chain owners with stores located outside our service area, we comprehensively meet customer needs through our subsidiary Cogeneration Technology Service Co., Ltd., which is in charge of cogeneration operations outside our service areas.
- (6) In addition to supplying natural gas as a fuel, Osaka Gas also provides a wide variety of CGS, including engines that use biogas as fuel and agricultural systems that supply CO₂ to plants.

Based on these strengths, the Osaka Gas Group has gained the business of a diverse group of customers of all sizes, from factories and large-scale commercial facilities to hospitals, hotels, and small businesses, delivering cogeneration systems with a total generation capacity of approximately 1,500 MW.

Cumulative Capacities of Gas Cogeneration Systems and Gas Air Conditioning Systems Installed

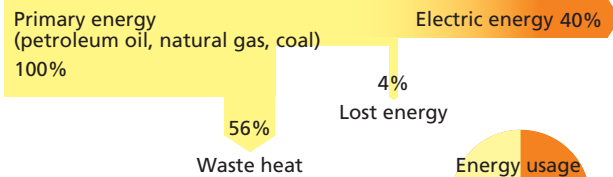
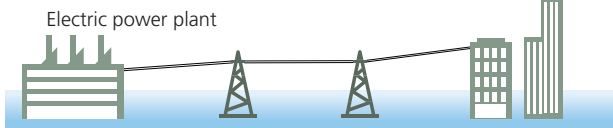
(Cogeneration: MW) (Air Conditioning: Thousand RT)



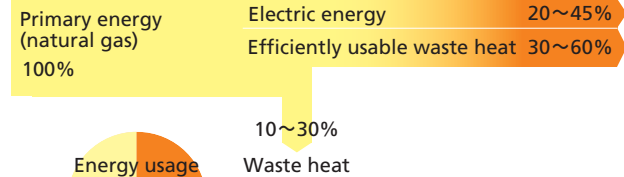
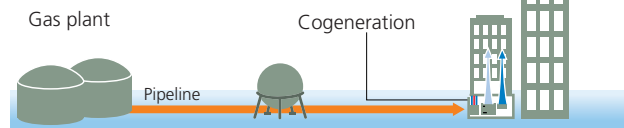
■ Cogeneration Within Supply Region (Left) ■ Cogeneration Outside Supply Region (Left) ● Air Conditioning (Right)

General View of Natural Gas Cogeneration

Power Generation System (Traditional) [Thermal power generation]



Cogeneration System



Note: Power generation efficiency is calculated using fiscal 2003 results (LHV standard).

Source: The Japan Gas Association, "Gas Cogeneration Systems"

LNG Procurement

In the natural gas market worldwide, rising prices and a tight demand and supply condition continue, and natural gas procurement plays an increasingly important role in the energy industry. Osaka Gas views the securing of long-term contracts for LNG procurement as a fundamental task. The Company has realized stable and flexible LNG procurement through spot procurement for a portion of its supply. Currently, we have long-term contracts with producers in a total of six countries, including Indonesia and Australia. We plan to add the Sakhalin II Project in Russia to our list of suppliers as we work to ensure stable procurement through diversification of our raw material procurement sources. Additionally, we work to prepare for emergency situations, such as problems at LNG liquefaction plants or during transport. To this end, the Company has built cooperative relationships with other LNG purchasers in terms of allocation of freight, and reserves a fixed amount of LNG for emergency use.

Expanding the Natural Gas Value Chain

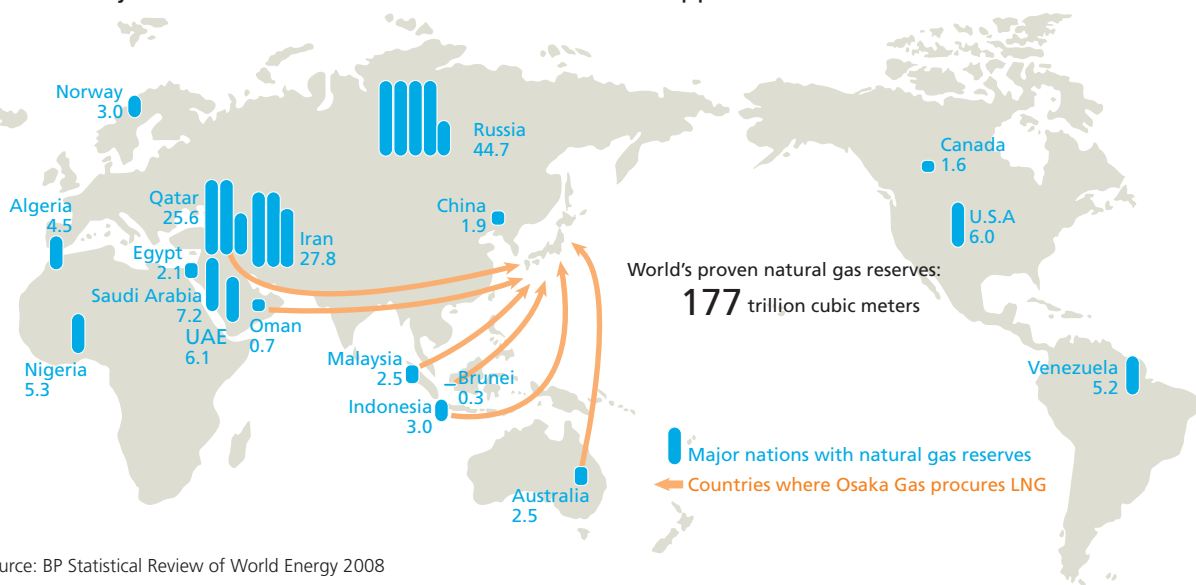
In the future, the tight supply situation in the international LNG market is expected to continue. Given these conditions, we are expanding our upstream business in the natural gas value chain in order to ensure stable resources and reducing the cost of raw materials, as well as boosting revenues by capitalizing on the know-how and networks acquired over the years.

Our main areas of activity in the energy resources development business are our existing participation in development of offshore natural gas fields and gas condensate fields in Northern Australia, our investment in a gas-producing field in Indonesia, and our investment in Idemitsu Snorre Oil Development Co., Ltd., which owns an interest in a North Sea oil field. We are expanding the energy resource development business by focusing on the following three business categories: participation throughout LNG projects from the early stages; participation in projects as an LNG purchaser and minority shareholder (including participation in liquefaction only projects); and acquisition of interests in oil and gas fields with limited commercialization risk because they are already in production or about to be developed. In our natural gas transportation business, we reduce our transportation costs and increase their transparency by owning our own LNG carriers for the transportation of LNG we have purchased. We also aim to earn revenues by utilizing the spare capacity of LNG carriers to transport LNG for other companies, and by trading. We already have four LNG carriers, and plan to increase the fleet to six carriers by the fiscal year ending March 2010.

Moreover, aiming to expand our business in LNG-related areas in the future, we have initiated efforts in LNG terminal operations, and have invested in a LNG receiving terminal in Freeport, Texas, in the United States.

Note: Procurement of gas for supply purposes is included in the Gas segment, while energy resource development and LNG transport are included in the LPG, Electricity, and Other Energies segment.

World's Major Nations With Natural Gas Reserves and Suppliers to Osaka Gas (trillion cubic meters)



Source: BP Statistical Review of World Energy 2008

LPG, Electricity and Other Energies Segment



The Semboku Natural Gas Power Plant, scheduled for completion in 2009



The Hayama Wind Farm in Kochi Prefecture

Positioning Osaka Gas in the Electricity Sector

Second only to our natural gas business, our electric power business is an area where the Osaka Gas Group can leverage strengths such as infrastructure, solution-based marketing capabilities and customer networks. Viewing regulatory reform in the electric sector as a business opportunity, the Osaka Gas Group is actively involved in the electricity business in line with this ongoing liberalization.

(1) In Japan, we have a total power generation capacity of roughly 600 megawatts for wholesale supply to electric utilities. This figure includes capacity of 450 megawatts from our three independent power producers (“IPPs”) in the country. Overseas, we are a part owner of IPPs in Texas, U.S.A., and in Spain. We also own a U.S. holding company for a portfolio of eight IPPs. The total net capacity arising from these three investments is approximately 1,200 megawatts.

- (2) A large natural gas electric power plant is being constructed inside our Semboku terminal in Osaka with a capacity of 1,100 megawatts, scheduled to be completed in 2009. Because the Semboku Natural Gas Power Plant is being built inside an existing terminal, we can make efficient use of existing personnel, land and natural gas facilities, and minimize power generation costs. We are using state-of-the-art combined cycle gas turbines to realize a highly competitive power plant that produces electric power very efficiently.
- (3) To conduct an electric power business that can contribute to reducing global environment impact, we are also involved in the wind power business, which does not produce carbon dioxide during power generation. We own the Hayama Wind Farm in Kochi Prefecture (total capacity of 20 megawatts) and are building the Hirogawa Myojinyama Wind Farm in Wakayama Prefecture (total capacity of 16 megawatts), aiming to begin operations in autumn 2008.

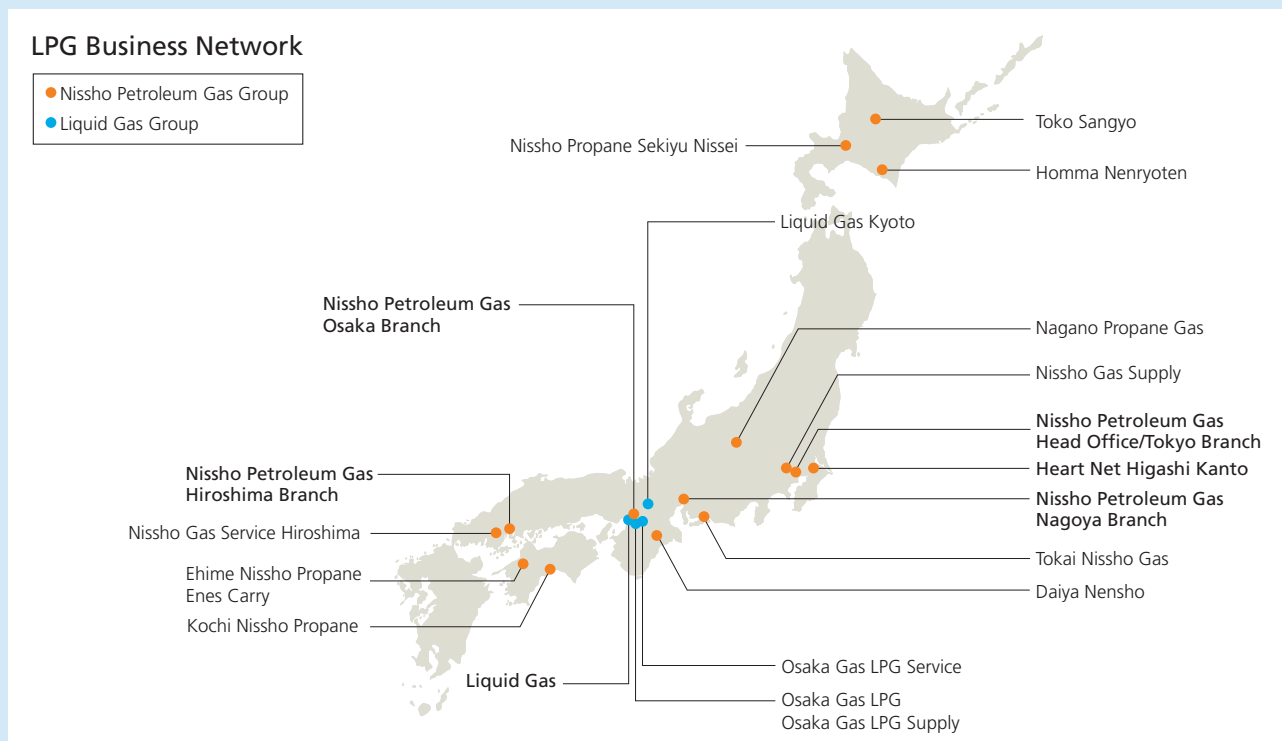
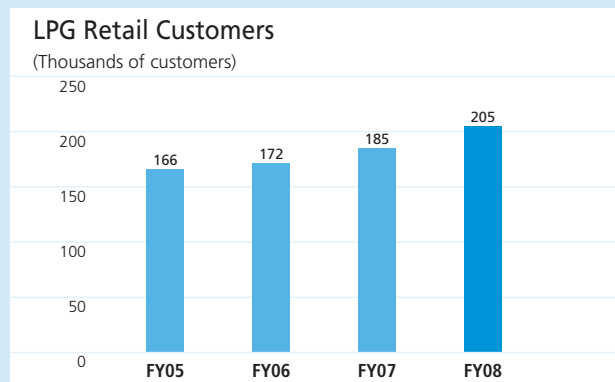
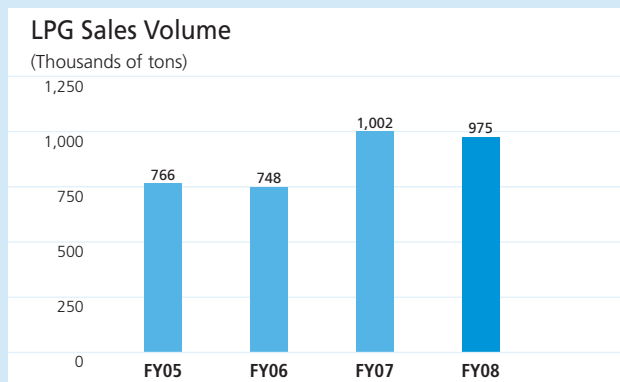
LPG Business

Our liquefied petroleum gas (LPG) business is operated by the Liquid Gas Group, comprising Liquid Gas Co., Ltd., and 10 other companies, and the Nissho Petroleum Gas Group, made up of Nissho Petroleum Gas Corporation and 14 other companies. LPG sales volume amounted to 975 thousand tons in the fiscal year ended March 2008, with 205,000 retail customers.

In the Kansai region, in April 2007 the Liquid Gas Group restructured and consolidated its residential LPG operations as Osaka Gas LPG Co., Ltd. with the aim of boosting sales volume through tie-ups with city gas. In December 2007, Osaka Gas LPG Co., Ltd. acquired shares of Sumisho LPG West Co., Ltd., the Kansai region sales company of Sumisho LGP Holdings Co., Ltd. Leveraging this newly acquired sales foundation and business base, we aim to enhance our operations and strengthen our sales capabilities.

Step rises in liquefied natural gas (LNG) import prices and

sluggish growth in demand due to intensifying competition with other types of energy have created difficult business conditions. To respond to the situation, the Nissho Petroleum Gas Group endeavored to strengthen its competitiveness in domestic sales through a capital alliance with ITOCHU Corporation. In addition, we have begun full-scale deliberations toward restructuring and consolidation of the LPG business together with four other companies, including Nissho Petroleum Gas Corporation, Japan Energy Corporation, ITOCHU Corporation, and Itochu Enex Co., Ltd. The target for coming to an agreement is September 2008. By enhancing the competitiveness of our wholesale and retail functions and increasing the efficiency of overseas LPG procurement functions, we aim to further improve maintenance and services for our customers. At the same time, we hope to build an LPG business group with integrated competitive capabilities that can supply our products in an efficient and stable manner.



Gas Appliances and House-pipe Installation Segment

The Osaka Gas Group engages in the sale of gas appliances and house-pipe installation with the ultimate aim of contributing to the expansion of natural gas sales.

Within our lineup of home gas appliances, we exert special efforts to develop and expand the sales of convenient and economical gas appliances that contribute to a comfortable and satisfying lifestyle. These products include our residential gas cogeneration system ECOWILL, energy-saving hot water heater Eco-Jozu, NOOK, a gas hot water floor heating system, MIST KAWACK, a bathroom heater-drier with an added mist sauna function, and glass-top built-in gas stoves.

Gas appliances are now required to satisfy higher standards of safety than ever. We encourage customers whose gas appliances lack a safety device to prevent incomplete combustion to trade them in for safer updated models. Moreover, we are

pushing ahead with the promotion of burners that feature Si safety sensors to prevent overheating of deep-frying oil and gas leaks due to the gas supply being left on after the flame has been extinguished. These sensors also have an auto-off function to extinguish flames accidentally left burning. All burners on all of our models are equipped with these functions. With these products, we will gain the even firmer trust of our customers regarding the safety of gas.

With industrial gas equipment, we are striving to develop and increase adoption of energy-conserving systems, including high-efficiency gas heat pump air conditioners and gas cogeneration systems.

In house-pipe installation, we install natural gas pipes in a customer's house at an affordable price to expand our customer base and increase the number of gas fixtures used in homes.

Real Estate Segment

The real estate business is operated by eight companies, including Urbanex Co., Ltd. and OG Capital Co., Ltd. Urbanex Co., Ltd. and Kyoto Research Park Corp. develop and manage office buildings and homes to effectively utilize the real estate holdings primarily of the Osaka Gas Group. OSC Engineering Co., Ltd., Osaka Gas Total Facilities Co., Ltd. and other companies provide facility management and maintenance services for facilities such as office buildings.

In October 2007, the Group expanded the structure of its condominium business by acquiring 70% of the issued shares of Kubota Maison Co., Ltd., which runs a condominium sales business centered on the Kansai region. We also increased the number of rental properties we run with the construction and purchase of the Urbanex Yodoyabashi and Urbanex Toyonaka Sakurazuka apartment complexes.

Our focus in the real estate segment is on expanding the leasing and sale of real estate and facility management operations. We are also strengthening our liaison with Osaka Gas's energy business to take maximum advantage of synergies.



The Urbanex Toyonaka Sakurazuka apartment complex in Osaka Prefecture

Others Segment

Information-related Service Operations: OGIS-RI Group

With its roots in the Information System Department of Osaka Gas, the OGIS-RI Group provides companies, including those outside the Osaka Gas Group, with a wide spectrum of information-related services, including system design, consulting, development, operation and maintenance. The company's unified modeling language (UML), which is essential to the efficient development of advanced systems, is among the most advanced in Japan.

In fiscal 2008, the revenues of the OGIS-RI Group increased due to strong orders for information system development from outside the Osaka Gas Group. In April 2008, in order to solidify the capital tie-up with Sakura Information Systems Co., Ltd. that began in July 2006, we acquired additional shares of the company from Sumitomo Mitsui Banking Corporation, making it a subsidiary. We are currently working to expand our business even further.

OGIS-RI is seeking to further establish its reputation in the market as a total solution provider by increasing sales to customers outside the Group. To do this, OGIS-RI is leveraging its strength of "model base development," which makes full use of UML modeling, by expanding business through the tie-up with Sakura Information Systems, and by increasing earnings through strategic alliances, including M&As.



The OGIS-RI Group provides comprehensive information-related services, from IT strategy planning to system construction and operation

Fine Materials and Carbon Materials Products: Osaka Gas Chemicals Group

The Osaka Gas Chemicals Group draws on the accumulated carbon-related technology of the Osaka Gas Group to promote sales of various industrial products. The fine materials manufactured and sold by the Group include high-performance materials such as films for liquid-crystal displays and lenses for high-resolution mobile phone cameras. In the carbon material field, the Group manufactures and sells activated carbon fiber for use in insulation for photovoltaic cell production kilns and water purifier cartridges. In addition, Japan EnviroChemicals, Ltd. manufactures and sells protective activated carbon for a wide range of uses and preservative coating materials for wood and other materials.

In the fiscal year ended March 31, 2008, the Osaka Gas Chemicals Group enjoyed strong unit sales in the fine materials business, and sales grew. Going forward, the Osaka Chemicals Group will focus on its growth business, fine materials, and also generate business growth by expanding its carbon fiber and other carbon material business.



Fluorene derivatives (left), used for lenses and other applications in the optoelectronic field, and sectional insulation (right), an activated carbon fiber



Xyladecor, a decorative wood preserving stain produced by Japan EnviroChemicals Ltd., is used at a number of Japanese National Treasures and Important Cultural Properties (Photo: Kumamoto Castle)

Service-related Operations

Our service-related operations include security-related services such as home security I-rusu and condominium management services provided by Osaka Gas Security Service Co., Ltd. and other companies, as well as a fitness business, including managing sports facilities such as the COSPA fitness centers, through OG Sports Co., Ltd., an engineering business operated by Osaka Gas Engineering Co., Ltd., a leasing business operated by Osaka Gas Autoservice Co., Ltd. and OGIC Co., Ltd. We are also involved in a regional information business, operated by L-NET Co., Ltd., a facility management business and a temporary staffing business operated by Osaka Gas Business Create Co., Ltd., and a retirement home business operated by Active Life Inc.

In fiscal 2008, the fitness business launched four branches of the COSPA fitness centers outside the Kansai region, including the Meinohama branch in Fukuoka Prefecture in southern Japan and the Matsubara branch in Saitama Prefecture, near Tokyo. In the security and condominium management business and other areas, we are increasing sales by attracting new customers.

For the future, the OG Capital Group intends to further reorganize its diverse businesses through a selective and concentrated investment strategy. Through this process, the Group plans to increase revenues by actively investing business resources in potential growth fields, such as the fitness, security and condominium management businesses.



OG Sports Co., Ltd. has expanded its COSPA fitness center locations outside of the Kansai region, starting with the Meinohama branch in Fukuoka Prefecture (top) and the Matsubara branch in Saitama Prefecture (bottom)



In addition to crime prevention and fire prevention services, I-rusu enables use of a mobile phone to control or check on lighting, underfloor heating, hot water supply and other home utilities (Osaka Gas Security Service Co., Ltd.)



Active Life Toyonaka, a fee-based assisted living retirement home operated by Active Life Inc. in Osaka Prefecture

Osaka Gas Group Technology Management

The Osaka Gas Group works to develop technologies that are both safe and secure and bring comfort to customers' lifestyles. We also work to develop technologies that make effective use of energy and contribute to preventing global warming, boosting the efficiency of gas cogeneration systems and developing fuel cells.

The Evolution of Residential Gas Appliances

Development of Residential Cogeneration Systems

Following our 2003 launch of ECOWILL, a 1-kilowatt gas cogeneration system, we have been working on the development of polymer electrolyte fuel cells (PEFC) and solid oxide fuel cells (SOFC) to enrich our product lineup of residential cogeneration systems.

As part of the development of residential PEFC cogeneration systems, since April 2005 the Osaka Gas Group has participated in the large-scale demonstration experiments for stationary fuel cells hosted by the New Energy Development Foundation. In the three years up to the end of the fiscal year ended March 2008, we installed a total of 224 units, and continue to collect data on usage patterns. Durability was a major issue in the commercialization of these products. In March 2008, we reached our first commercialization target of 40,000 hours of operation. Going forward, we will accelerate our efforts

to reduce the cost and improve reliability, aiming to bring the product to market in the fiscal year ending March 2010.

The power generation efficiency of the household SOFC cogeneration system is as high as 45% (LHV standard) and is expected to provide significant energy savings for customers who require only a small amount of heat from the system. Starting from the fiscal year ended March 2008, we participated in the New Energy Development Foundation's Experimental Study on Solid Oxide Fuel Cells, and initiated a 20-unit demonstration test in residential homes. In future, we will proceed with efforts to improve durability and cut costs, aiming for market introduction at an early date.

Technologies for Creating Comfortable Living Spaces

Since our 1982 launch of KAWACK, we have achieved substantial penetration of the bathroom heating and drying equipment market with this product. In 2004, in response to the recent heightened demand for health and beauty products, we launched the new MIST KAWACK, which incorporates a mist generator. Enabling people to enjoy a sauna in the comfort of their home, the product has been well received in the market. In September 2007, we launched sales of the Splash and Micromist Sauna bathroom heater and dryer with a newly added Soft Mode function ideal for stretching in the bath.



Osaka Gas is developing a residential polymer electrolyte fuel cell (PEFC) cogeneration system for commercialization in fiscal 2009



The MIST KAWACK makes it easy to enjoy a sauna experience in the home

Sophisticated Technologies for Energy Solutions

In our commercial and industrial gas equipment businesses, we are strengthening our ability to offer customers solutions tailored to their needs, such as greater efficiency and functionality in their gas cogeneration systems or gas heat pump (GHP) air conditioners and sophisticated commercial-use gas kitchen equipment.

High-efficiency Commercial and Industrial Cogeneration

As the demand for economically efficient and eco-friendly cogeneration systems steadily rises, we are responding to these needs by developing our technology to improve electrical efficiency and overall energy efficiency. In September 2007, we began development of a high-efficiency gas engine cogeneration system that realizes generation efficiency of 41.7% (LHV standard), the highest in the world. A Miller cycle gas engine with 1MW generation capacity, it achieves its high efficiency through long-stroke and other technologies. Sales began in October of that year.

Upgrading Gas Air Conditioning Systems

The commercial air conditioning market has in recent years been calling for eco-friendly equipment that offers high energy efficiency and low CO₂ emissions, as well as the requisite low running costs. Launched in April 2006, the commercial-use

GHP High Power EXCEL functions simultaneously as a high-efficiency conventional air conditioning system and a high-efficiency electric power generation unit with approximately 4kW of output. This high efficiency enables users to further conserve energy and limit CO₂ output.

Going forward, by expanding into the market comprising office buildings and commercial facilities, where cogeneration has not been widely utilized due to limited demand for supply of hot water, we are working to promote greater adoption of GHPs that offer combined air conditioning and electric power generation.

Technologies That Underpin the Benefits of Gas (Stable Supply, Safety, and Peace of Mind)

Evolution of Safety Technologies

To ensure the safe supply of gas to customers, we carry out routine patrols of all gas transmission pipelines and supply facilities as well as taking such preventative measures as regularly replacement of old pipelines.

Furthermore, taking into account the experience of the Great Hanshin-Awaji (Kobe) Earthquake, we are promoting efficient and effective maintenance activities. In the fiscal year ended March 2008, with the aim of further enhancing safety, we developed and installed a new seismometric cut-off device able to respond to an extended period of ground motion of



The High Power EXCEL commercial-use gas heat pump functions simultaneously as an air conditioner and electric power generator

the type anticipated in the event of seismic vibrations off the Kii Peninsula and the southern coast of the Chubu region. Osaka Gas remains fully committed to the research and development of technologies that support the stable supply of gas.

Sophisticated Safety Functions and Enhanced Ease-of-Use in Gas Appliances

Osaka Gas strives to make gas appliances even safer for our customers to use. Since March 2008 the burners on all gas stove models sold by Osaka Gas are equipped with Si safety sensors to prevent accidents like overheating of deep-frying oil and gas leaks due to the gas supply being left on after the flame has been extinguished, as well as an auto-off function to prevent flames being accidentally left burning.

Moreover, along with the recent aging of society, there is an increasing demand for products created with Universal Design principles. In the area of cooking appliances, this means devices that are easy for anyone to use and can accommodate a broad range of values, lifestyles, and physical abilities. In October 2007, we launched the Udea Universal Design built-in gas stove, which aims for ease of use for all people. Going forward, we will work to improve the safety of our customers' homes and the usability of our gas appliances.



The easy-to-use Udea stove is based on the principles of Universal Design

Technologies to Develop New Business

Developing a hydrogen supply station for automobiles

Fuel cell vehicles (FCV) boast high energy-efficiency and zero-emissions of CO₂ as they run. There are great expectations for FCV as environmentally friendly vehicles that will be used for generations to come. Drawing on our catalytic technologies accumulated over the years, Osaka Gas is working to develop technology for hydrogen stations that will supply hydrogen fuel to FCVs. We joined the Japan Hydrogen & Fuel Cell Demonstration Project (JHFC) in the fiscal year ended March 2007, and in August 2007 built and began testing Japan's first natural gas reforming hydrogen station for commercial use near the Osaka Prefectural Government building.

Linking Technologies With Early Commercial Returns—Thorough Technology Management

We have invested our resources strategically in technology development, deeming it to be the most effective method of differentiating ourselves in the market to bolster our technological competitiveness. Amid constantly shifting customer needs in an intensely competitive business environment, we are rigorously implementing technology management that can translate development into early outcomes in terms of commercial application, thus boosting our competitiveness.



Japan's first urban hydrogen supply station (Osaka City)

Intellectual Property Activities of the Osaka Gas Group

Our Intellectual Property Strategies

From the viewpoint of technology management, the Osaka Gas Group has been actively committed to acquiring intellectual property rights for technologies resulting from research and development programs.

We currently implement our strategic intellectual property activities based on the following three basic policies:

● Building a Strong Patent Network Through Patent Portfolio Management (PPM)

We build a strong patent network of basic and fringe patents for each major product or business, developing a portfolio to secure competitive advantages in our business.

● Expanding Revenue by Optimum Use of Intellectual Property Rights

In addition to utilizing powerful patents to differentiate our products and businesses in their markets, we endeavor to expand revenue through optimum use of our intellectual assets and actively seek to license them externally.

● Reinforcement of Risk Management for Intellectual Property Activities

We carry out sophisticated risk management to protect our own intellectual property and deal strategically with the intellectual rights of other companies.

Intellectual Property Right Applications

In the fiscal year ended March 31, 2008, the Osaka Gas Group made a total of 390 patent applications. In recent years, we have advanced our strategy of selective and concentrated investment of resources, focusing on making patent applications and securing rights that we consider critical to our business strategies.

Annual Number of Patent Applications Made by the Osaka Gas Group

								(Applications)
FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
1,137	1,009	912	771	638	512	471	407	390

For major products, we use our PPM system to specify the scope of patents that need to be obtained and build a strong patent network by undertaking multiple patent applications centering on the product. For example, for our residential cogeneration systems, we have developed a strong patent network around our fuel reforming equipment, and self-learning control systems, our key competitive advantages.

As well as applying for patents, in the fiscal year under review we applied for 48 design patents and 45 trademark patents to strengthen and protect our company and product brand names.

Patent Ownership

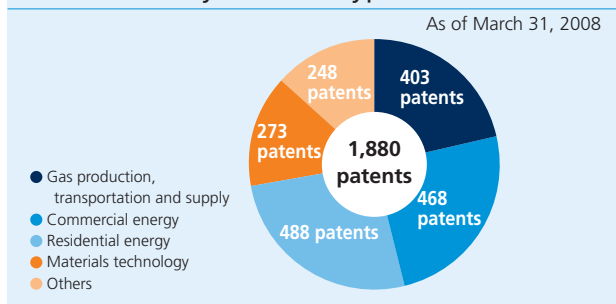
The Osaka Gas Group holds a total of 1,880 patent rights.

We own patents for the non-excavation construction method and other technologies that contribute to cost reductions and safety in our gas production, transportation and supply business. In the commercial energy market, we own patents for cogeneration and gas heat pump technologies that secure our position.

We also own patents for residential cogeneration systems and bathroom heater-drier equipment, which are rapidly gaining popularity in the residential energy business. In the non-energy field, we own patents for new materials technologies, such as fluorene.

We aim to make optimum use of the intellectual property rights we hold, including patents, whether by applying them to the business activities of the Osaka Group or by licensing them to other companies. We also work to improve incentives for employees to invent, and have internal rules for awarding bonuses based on patent law.

The Osaka Gas Group's Patent Portfolio Breakdown by Business Type



Intellectual Property Risk Management

Against the backdrop of increasing intellectual property risk throughout the world, the Osaka Gas Group is strengthening its intellectual property risk management in response to the risk of infringement of rights.

To prevent any infringement of other companies' rights and to respond to any infringement of our own rights, we have established a patent review infrastructure and maintain various frameworks, including a system for reviewing the patents of other companies to prevent our inadvertent infringement of other companies' rights.

Moreover, to raise the level of awareness regarding intellectual property of all employees in the Osaka Gas Group, we provide intellectual property by internal and external speakers and conduct various other educational activities and training sessions, including e-learning.

Financial Section

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Management's Discussion and Analysis

1. Highlights of the Fiscal Year Ended March 31, 2008

Operating revenues for the year ended March 31, 2008 increased by ¥63.6 billion, or 5.4% over the previous year, to ¥1,238.1 billion thanks to an increase in gas sales volume, higher gas rates based on the fuel cost adjustment system (reflecting higher LNG prices) and business expansion at consolidated subsidiaries. Despite some contributions from consolidated subsidiaries, operating income decreased by 19.3%, or ¥18.1 billion, to ¥75.6 billion, due to an increase in LNG prices and a rise in expenses due to changes in the depreciation system as well as an unfavorable effect from the revision in gas rates for household/small commercial customers (implemented in November 2006). Ordinary profit (operating income plus non-operating profit or loss) declined by ¥13.7 billion, or 15.3%, to ¥75.8 billion, while net income decreased by 23.9%, or ¥12.6 billion, to ¥40.2 billion.

During the fiscal year under review, the price of crude oil rose from an average of US\$63.5 per barrel in fiscal 2007 to an average of US\$78.5 per barrel. Because the price of LNG, the source of natural gas, is indexed to crude oil prices, it is affected by fluctuations in the price of crude oil. However, as the sales price of gas changes each quarter in light of the actual purchase cost of LNG nationwide, the risk is essentially hedged.

Because the price of crude oil continued to climb throughout fiscal 2008, gas sales prices did not fully reflect the extent of the increase. In addition, there were a number of adjustments to the payment price for raw materials, including renewal of LNG purchase contracts. As a result, the gap between the cost of raw materials, which reflected the steep rise in the price of crude oil, and the sales price of gas grew approximately ¥32.0 billion compared to the previous fiscal year.

Operating income fell by approximately ¥18.1 billion compared to the previous fiscal year due to the increase in the cost of raw materials for gas, among other factors. However, the decline in ordinary profit was held to roughly ¥13.7 billion, boosted by non-operating income. The major factors contributing to the year-on-year improvement in non-operating income were the absence of a loss on debt assumption recorded in fiscal 2007, as well as a rise in equity in net income of affiliates.

This outcome was primarily the result of contributions from investment in oil field interests in the North Sea. Although earnings from the gas business declined year-on-year due to sharp increases in the price of raw materials, a portion of the loss was recovered through the execution and performance of investments for growth.

The number of consolidated subsidiaries totaled 133. Nine new consolidated subsidiaries were added as part of growth investment, and eight were removed due to the realignment of the Liquid Gas Group. The number of equity-method affiliates remained unchanged from the end of the previous fiscal year at four.

By category gas sales volume was affected by the increasing prevalence of energy-conservation measures, particularly at commercial and industrial customers. Nevertheless, sales volume rose 1.7%, boosted by the contributions of residential and public offices and medical customers due to cold weather conditions, and by efforts to develop demand, mainly in the commercial and industrial sectors. Turning to growth-oriented investments in fiscal 2008, the Company invested actively in the energy business area, investing in a condensate field and an LNG terminal in the United States. In terms of existing investments up to fiscal 2007, the North Sea oil field and the U.S. IPP project performed strongly, contributing to consolidated performance.

2. Non-consolidated Gas Sales

Non-consolidated gas sales overall in the year ended March 31, 2008 increased 1.7% from the previous fiscal year.

Temperatures in January and February 2008 were lower than the previous year, prompting increased demand for heating and hot water supply among residential customers. Temperatures in April and May 2007, however, were warmer than in the previous year, leaving sales largely unchanged from the previous fiscal year.

Sales in the industrial sector rose 2.4% year on year, driven by robust development of demand.

In the commercial sector, although growth in demand was strong and demand from air conditioning climbed due to colder temperatures in January and February 2008, low temperatures in June and July 2007 and customers' increasing implementation of energy-conservation measures led to a 1.5% decline in sales.

Non-consolidated Gas Sales

(45MJ/m ³)		FY2008 (A)	FY2007 (B)	A-B	A/B(%)
Customers [meters installed] (thousands)	Residential	6,556	6,497	+60	+0.9
	Commercial/Industrial	325	323	+1	+0.5
	Total	6,881	6,820	+61	+0.9
Average monthly usage per customer (m ³ /month)		33.5	33.5	-0.1	-0.3
Gas sales (million m ³)	Residential	2,310	2,303	+7	+0.3
	Commercial/Industrial	6,115	6,018	+97	+1.6
	Industrial	4,458	4,354	+104	+2.4
	Commercial	1,021	1,036	-15	-1.5
	Public and medical institutions	636	628	+8	+1.3
	Sales to other gas suppliers	462	416	+45	+10.9
	Total	8,887	8,738	+149	+1.7
Average temperature (Celsius)		17.2	17.5	-0.3	-

Despite the increasing prevalence of energy-conservation measures in the public offices and medical sector, demand expanded

firmly. Coupled with low temperatures in January and February 2008, sales rose 1.3% year on year.

3. Overview by Business Segment

Gas Segment

Operating revenues increased by ¥34.7 billion, or 5.1% over the previous year, to ¥721.4 billion, thanks to an increase in gas sales volume and higher gas rates based on the fuel cost adjustment system, reflecting higher LNG prices. Operating income decreased by ¥19.3 billion, or 30.4%, to ¥44.2 billion, due to an increase in LNG prices and a rise in expenses caused by changes in the depreciation system as well as an unfavorable effect from the revision in gas rates for household/small commercial customers (implemented in November 2006).

LPG, Electricity and Other Energies Segment

Segment operating revenues increased by ¥30.5 billion over the previous year to ¥265.6 billion, a rise of 13.0%, driven by increased operations at overseas IPP projects and higher LPG rates. Operating income grew by ¥0.4 billion, or 3.5%, to ¥13.9 billion thanks to contributions from consolidated subsidiaries.

Gas Appliances and House-pipe Installation Segment

Operating revenues in this segment decreased by ¥11.7 billion, down 7.3% from the previous year, to ¥149.2 billion. However, operating income increased by 11.2%, or ¥0.1 billion, to ¥1.5 billion due to the absence of expenses related to inspections of bathroom heater/dryer units.

Real Estate Segment

Revenues increased by ¥2.5 billion, or 9.8% over the previous year, to ¥28.4 billion, as the result of an increase in the number of consolidated subsidiary companies. Operating income declined by ¥0.5 billion to ¥6.6 billion, a decrease of 8.1%.

Others Segment

Segment revenues increased 3.2%, or ¥4.4 billion year on year, to ¥144.3 billion thanks to growth in the information and materials businesses. Operating income rose 14.1%, or ¥1.0 billion, to ¥8.3 billion.

Fiscal 2008 Operating Revenues and Operating Income by Segment

(¥ billion)

	Gas	LPG, Electricity and Other Energies	Gas Appliances and House-pipe Installation	Real Estate	Others	Elimination and Corporate	Consolidated
Revenues	721.4 +5.1% [+34.7]	265.6 +13.0% [+30.5]	149.2 -7.3% [-11.7]	28.4 +9.8% [+2.5]	144.3 +3.2% [+4.4]	(70.9) [+3.1]	1,238.1 +5.4% [+63.6]
Operating Income	44.2 -30.4% [-19.3]	13.9 +3.5% [+0.4]	1.5 +11.2% [+0.1]	6.6 -8.1% [-0.5]	8.3 +14.1% [+1.0]	0.8 [+0.1]	75.6 -19.3% [-18.1]

% figures indicate change versus fiscal 2007. Figures in square brackets "[]" indicate absolute year-on-year change.

4. Assets, Liabilities and Shareholders' Equity Analysis

Asset Management Policies

The Osaka Gas Group views deregulation in the electricity and gas sectors as a business opportunity and intends to aggressively expand its operations in growth fields, especially electricity, while reducing assets in unprofitable business fields and day-to-day operations. To minimize investment risk caused by changes in the operating environment, Osaka Gas is further tightening its procedures for investment decisions, and subsequent follow-up and evaluation, based on the Group-wide investment criteria applied to individual investment proposals hitherto.

Osaka Gas aims to maximize capital efficiency by targeting a ratio of interest-bearing debt to equity of approximately one and a shareholders' equity ratio of around 40%. In deciding the weighting of third-party capital versus internal capital it will pay due consideration to relative capital costs and the maintenance of a sound financial position. As the shareholders' equity ratio is now above 40%, Osaka Gas intends to promote business investment in growth fields by raising funds through new interest-bearing debt in line with the growth in shareholders' equity as profits increase.

Capital Expenditure

In fiscal 2008, non-consolidated capital expenditure totaled ¥59.2 billion. Major construction projects during the fiscal year were the continued construction of the Mie-Shiga Line, as well as continuing capital investment in peripheral facilities related to the planned construction of an electric power plant inside Osaka Gas's existing Senboku facilities.

Consolidated capital expenditure totaled ¥111.0 billion, representing an increase over the year ended March 2007, reflecting higher capital investment in the real estate business and lease business, as well as progress in investments for growth.

The Osaka Gas Group is aggressively investing in both domestic and overseas electric power businesses as potential future growth drivers. Investment targets include such upstream operations as natural gas fields and LNG carriers, as well as IPPs and other downstream electric power businesses.

The major growth-oriented investment projects to which capital investment was allocated during the fiscal year under review were the Mie-Shiga Line, the Semboku Natural Gas Power Plant, LNG carriers, and acquisition of interests in condensate fields.

Capital Expenditure

	(¥ billion)	
	FY2007	FY2008
Consolidated	95.2	111.0
Non-Consolidated	61.6	59.2
Manufacturing	3.0	2.6
Gas supply	39.3	37.5
Commercial and Industrial	19.2	19.1

Assets, Liabilities and Shareholders' Equity Analysis

Consolidated total assets at March 31, 2008 amounted to ¥1,467.9 billion, climbing ¥62.2 billion from the previous fiscal year. This rise was largely attributable to an increase in fixed assets associated with progress in growth investments. Liabilities as of March 31, 2008 were ¥801.2 billion, up ¥82.2 billion from the previous year. Total net assets decreased by ¥20.0 billion year on year to ¥666.6 billion due to a decline in retained earnings resulting from the retirement of treasury stock.

5. Cash Flow Analysis

Overview of Cash Flow

In fiscal 2008, net cash provided by operating activities rose ¥35.9 billion from the previous fiscal year, to ¥134.2 billion, due mainly to a decrease in income and enterprise taxes paid. Net cash used in investing activities increased ¥32.2 billion, to ¥132.0 billion, mainly reflecting increased expenditures for purchase of property, plant and equipment. Net cash provided by financing activities totaled ¥12.4 billion, an increase of ¥34.5 billion from the previous fiscal year,

	FY2007	FY2008	Change
Cash flow from operating activities	98.3	134.2	+35.9
Cash flow from investing activities	-99.7	-132.0	-32.2
Cash flow from financing activities	-22.0	12.4	+34.5
Change in cash and cash equivalents	-23.2	14.8	+38.0
Cash and cash equivalents at year-end	24.4	39.2	+14.7
Interest-bearing debt at year-end	487.8	566.4	+78.6

Free Cash Flow Application

Free cash flow had been projected at ¥55.1 billion at the beginning of fiscal 2008. Although income before income taxes and minority interests fell below the projected amount of ¥83.0 billion to ¥72.4 billion, due to a decrease in operating capital caused by factors such as an increase in accounts payable, free cash flow fell short of projections by approximately ¥3.8 billion.

Investment in projects for which the capital investment decision has already been made, such as the Semboku Natural Gas Power Plant, the Mie-Shiga Line, and LNG carriers, was carried out basically in line with initial plans.

Meanwhile, a separate investment framework was initially established at ¥67.0 billion. A total amount of ¥20.4 billion was invested in such projects as condensate fields and a U.S. LNG receiving terminal, with additional investment made in the U.S. IPP project.

Regarding acquisition of treasury stock, in our medium-term business plan, Design 2008, Osaka Gas established the following policy: "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

As a result, at March 31, 2008 the equity ratio was 44.2%, down from 47.6% in the previous year.

The asset, liability and shareholders' equity indicators were as follows.

Assets, Liabilities and Shareholders' Equity Indicators

	FY2007	FY2008
Equity ratio	47.6%	44.2%
Mark-to-market equity ratio	72.3%	58.5%
Interest-bearing debt to operating cash flows	5.0	4.2
Interest coverage ratio	10.3	13.6

Notes:

1. All figures are on a consolidated basis.
2. Mark-to-market equity ratio is based on the number of shares outstanding minus treasury stock.
3. Cash flow is net cash provided by operating activities.
4. Interest-bearing debt is all balance sheet debt on which interest is paid.

mainly reflecting proceeds from long-term debt and the issuance of corporate bonds.

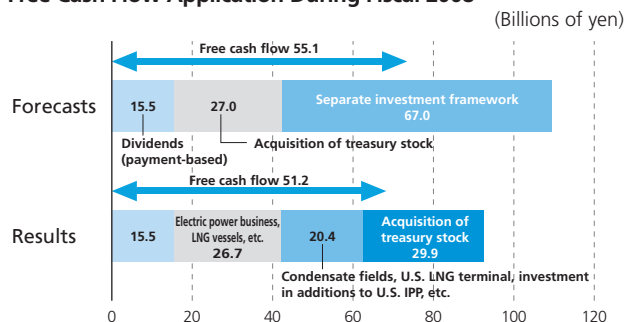
As a result, cash and cash equivalents for the fiscal year ended March 31, 2008 amounted to ¥14.8 billion.

Adding to this the balance of ¥24.4 billion in cash and cash equivalents at the start of the fiscal year, the year-end balance of cash and cash equivalents for fiscal 2008 totaled ¥39.2 billion, up ¥14.7 billion over the previous year.

	FY2007	FY2008	Change
Cash flow from operating activities	98.3	134.2	+35.9
Cash flow from investing activities	-99.7	-132.0	-32.2
Cash flow from financing activities	-22.0	12.4	+34.5
Change in cash and cash equivalents	-23.2	14.8	+38.0
Cash and cash equivalents at year-end	24.4	39.2	+14.7
Interest-bearing debt at year-end	487.8	566.4	+78.6

flexibly on condition that growth-oriented investments have been made first and that there is sufficient cash flow." Based on this policy, in fiscal 2008 we acquired approximately ¥30.0 billion in treasury stock, and completed retirement of the stock during the fiscal year.

Free Cash Flow Application During Fiscal 2008



Notes:

1. FCF = Cash flow from operating activities – payments for capital investments
2. Capital investments do not include investments for growth.
3. Growth investment items include both capital investment items and investment-and-loan items.

6. Basic Policy Regarding the Distribution of Profits and Dividends for FY2008 and FY2009

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 2008 and fiscal 2009, we intend to pay an annual dividend of ¥7 per share, including an interim dividend of ¥3.5 per share.

7. Quantitative and Qualitative Disclosure of Risk

The following are risks that could affect the business performance or financial position of the Osaka Gas Group. Forward-looking statements made herein are based on information available to the Group as of the date of submission of its Annual Securities Report.

Risks Faced by the Gas Business

The following are the main factors that could adversely impact the performance of the Osaka Gas Group's core natural gas operations:

a. Effect of fluctuations in weather and water temperatures on gas demand

Sales volumes of gas can be affected by fluctuations in weather and water temperatures. Therefore, these fluctuations could have a negative impact on the performance of the Group.

b. Impact of foreign exchange and interest rate fluctuations on financing

Fluctuations in foreign exchange and interest rates could affect the performance of the Group. However, the potential impact of fluctuations is limited because the Group hedges foreign exchange rate risk using derivative instruments and the major portion of its debt bears fixed interest rates.

c. Fluctuations in raw material costs

The price of LNG, the raw material for gas, can be influenced by changes in foreign exchange rates. The effect may be offset by a change in the sales price through the operation of the fuel cost adjustment system. However, depending on the time required for the higher costs to be reflected in price and the composition of raw material procurement, the fluctuation in foreign exchange rates could adversely affect the performance of the Group.

Furthermore, the results of contract renewal and price negotiations may affect operational results of the Osaka Gas Group, since there may be adjustments with respect to raw material prices.

d. Problems related to raw material procurement

Because LNG, the raw material for gas, is procured overseas, it is possible that problems related to the facilities or operations of the LNG supplier could have a negative impact on the performance of the Group.

e. Problems related to production and supply

A major natural disaster or accident could disrupt the production or supply of gas, adversely affecting the performance of the Group.

f. Problems with gas appliances/facilities

The Group's earnings could be adversely affected by serious problems related to gas appliances/facilities.

g. Regulatory reform in the gas industry and resulting intensified competition

Regulatory reforms resulting from changes in the Gas Utility Industry Law and other laws, regulations, and administrative systems, could further progress, causing intensified competition in the energy market and negatively impacting the performance of the Group.

Other Risks

a. Businesses other than the gas business

The performances of the Osaka Gas Group's other businesses are affected by conditions in their respective markets. However, the Company is working to minimize such impact by consolidating all its subsidiaries to gain an understanding of how they are being run and draw up prompt measures to deal with any issues.

b. Concerning compliance

The Osaka Gas Group promotes strict compliance with rules and regulations. However, in the event of non-compliant behavior by the Company or its employees, subsequent expenses for dealing with such incidents and the decline in social credibility could affect the operational results of the Osaka Gas Group.

c. Managing personal information (privacy policy)

Due to the nature of its business, the Group possesses a great deal of personal information about its customers. Consequently, the Group seeks to rigorously manage personal information by thoroughly complying with and educating and training its employees and service vendors about the law regarding the protection of personal information. Nevertheless, should the personal information of customers be leaked outside the Group, the incident could have a negative effect on the Group's performance.

Consolidated Balance Sheets

Osaka Gas Co., Ltd.
March 31, 2007 and 2008

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2008	2008
Property, Plant and Equipment, at Cost:			
Production facilities	¥ 494,704	¥ 494,774	\$ 4,938,357
Distribution facilities	1,552,083	1,587,039	15,840,293
Service and maintenance facilities	141,235	139,988	1,397,225
Other	417,896	464,001	4,631,211
Construction in progress	60,974	72,320	721,829
	2,666,892	2,758,122	27,528,915
Less accumulated depreciation	(1,861,357)	(1,940,616)	(19,369,358)
	805,535	817,506	8,159,557
Intangibles and Deferred Assets	28,562	44,975	448,897
Investments and Other Assets:			
Investments in securities:			
Unconsolidated subsidiaries and affiliated companies	52,355	55,075	549,706
Other (Note 5)	129,714	89,690	895,199
Other investments and other assets (Note 14)	108,850	131,261	1,310,121
Allowance for doubtful receivables	(915)	(705)	(7,037)
	290,004	275,321	2,747,989
Current Assets:			
Cash and time deposits	27,070	41,458	413,794
Receivables:			
Trade notes and accounts	135,468	145,750	1,454,736
Allowance for doubtful receivables	(762)	(833)	(8,314)
	134,706	144,917	1,446,422
Inventories	53,366	65,334	652,101
Other current assets (Note 14)	66,439	78,423	782,742
Total current assets	281,581	330,132	3,295,059
	¥ 1,405,682	¥ 1,467,934	\$ 14,651,502

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2008	2008
Long-term Debt Due After One Year (Note 6)	¥ 363,472	¥ 412,971	\$ 4,121,878
Deferred Tax Liabilities (Note 14)	21,895	19,827	197,894
Deferred Tax Liabilities Related to Land Revaluation	57	57	569
Employees' Severance and Retirement Benefits (Note 13)	8,910	10,140	101,208
Reserve for Repairs of Gas Holders	1,705	1,691	16,878
Reserve for Safety Actions	3,708	2,460	24,553
Other Noncurrent Liabilities	17,916	14,654	146,262
Current Liabilities:			
Short-term loans (Note 6)	27,491	40,263	401,866
Long-term debt due within one year (Note 6)	46,864	48,207	481,156
Trade notes and accounts payable	45,444	74,697	745,553
Accrued income and enterprise taxes	23,892	22,167	221,250
Accrued expenses	57,678	46,627	465,386
Other current liabilities (Note 14)	99,985	107,515	1,073,112
Total current liabilities	301,354	339,476	3,388,323
Contingent Liabilities (Note 8)	—	—	—
Net Assets (Note 7):			
Common stock			
Authorized — 3,707,507 thousand shares			
Issued — 2,158,384 thousand shares in 2008 and 2,235,670 thousand shares in 2007	132,167	132,167	1,319,164
Capital surplus	19,535	19,482	194,451
Retained earnings	447,909	439,227	4,383,940
Treasury stock, at cost — 1,864,399 shares in 2008 and 10,581,106 shares in 2007	(3,671)	(807)	(8,055)
Net unrealized gains on securities, net of taxes	55,509	31,790	317,297
Net unrealized gains on hedging derivatives, net of taxes	9,180	12,628	126,041
Revaluation reserve for land, net of taxes (Note 9)	84	84	838
Foreign currency translation adjustments	8,175	14,021	139,944
Minority interests	17,777	18,066	180,317
Total net assets	686,665	666,658	6,653,937
	¥ 1,405,682	¥ 1,467,934	\$ 14,651,502

Consolidated Statements of Income

Osaka Gas Co., Ltd.
Years Ended March 31, 2007 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2008	2008
Operating Revenues (Note 15)	¥1,174,457	¥1,238,146	\$12,357,980
Costs and Expenses (Note 15):			
Costs	755,694	842,618	8,410,201
Selling, general and administrative expenses	325,033	319,916	3,193,093
	1,080,727	1,162,534	11,603,294
Operating Income (Note 15)	93,730	75,612	754,686
Other Income (Expenses):			
Interest and dividend income	2,728	3,183	31,770
Interest expense	(9,584)	(9,849)	(98,303)
Equity in net income of affiliates	3,328	5,305	52,949
Gain on sale of investment securities	3,274	3,332	33,257
Loss on write-down of investment securities	(48)	(1,541)	(15,381)
Loss from impairment of fixed assets (Note 16)	(1,872)	(3,336)	(33,297)
Other, net	(3,477)	(227)	(2,266)
	(5,651)	(3,133)	(31,271)
Income before Income Taxes and Minority Interests	88,079	72,479	723,415
Income Taxes (Note 14):			
Current	31,317	28,302	282,483
Deferred	2,634	1,901	18,974
Minority Interests	(1,198)	(1,993)	(19,892)
Net Income	¥ 52,930	¥ 40,283	\$ 402,066

	Yen		U.S. Dollars (Note 1)
	2007	2008	2008
Per Share of Common Stock:			
Net income	¥ 23.77	¥ 18.27	\$ 0.182
Net income — diluted	—	—	—
Cash dividends applicable to the year	7.00	7.00	0.070

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Osaka Gas Co., Ltd.

Year Ended March 31, 2007 and 2008

	Millions of Yen										
	Shares of Common Stock Issued (Thousands)	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Net Unrealized Gains on Securities, Net of Taxes	Net Unrealized Gains on Hedging Derivatives, Net of Taxes	Revaluation Reserve for Land, Net of Taxes	Foreign Currency Translation Adjustments	Minority Interests	Total
Balance at March 31, 2006	2,235,670	¥132,167	¥19,521	¥410,683	¥ (2,557)	¥ 63,649	¥ -	¥62	¥ 4,986	¥18,675	¥647,186
Net income				52,930							52,930
Cash dividends paid (including interim dividends)				(15,591)							(15,591)
Bonuses to directors				(91)							(91)
Reversal of land revaluation				(22)				22			-
Increase due to sale of treasury stock			14		47						61
Increase in treasury stock					(1,161)						(1,161)
Changes in net unrealized gains on securities, net of taxes						(8,140)					(8,140)
Changes in net unrealized gains on hedging derivatives, net of taxes								9,180			9,180
Adjustments from translation of foreign currency financial statements									3,189		3,189
Net changes during the year										(898)	(898)
Balance at March 31, 2007	2,235,670	¥132,167	¥19,535	¥447,909	¥ (3,671)	¥ 55,509	¥ 9,180	¥84	¥ 8,175	¥17,777	¥686,665
Net income				40,283							40,283
Cash dividends paid (including interim dividends)				(15,573)							(15,573)
Increase in treasury stock					(30,653)						(30,653)
Increase due to sale of treasury stock			9		74						83
Retirement of treasury stock	(77,286)		(62)	(33,381)	33,443						-
Changes from decrease in number of subsidiaries				(11)							(11)
Changes in net unrealized gains on securities, net of taxes						(23,719)					(23,719)
Changes in net unrealized gains on hedging derivatives, net of taxes								3,448			3,448
Adjustments from translation of foreign currency financial statements									5,846		5,846
Net changes during the year										289	289
Balance at March 31, 2008	2,158,384	¥132,167	¥19,482	¥439,227	¥ (807)	¥ 31,790	¥12,628	¥84	¥14,021	¥18,066	¥666,658

	Thousands of U.S. Dollars (Note 1)										
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Net Unrealized Gains on Securities, Net of Taxes	Net Unrealized Gains on Hedging Derivatives, Net of Taxes	Revaluation Reserve for Land, Net of Taxes	Foreign Currency Translation Adjustments	Minority Interests	Total	
Balance at March 31, 2007	\$1,319,164	\$194,980	\$4,470,596	\$ (36,641)	\$ 554,037	\$ 91,626	\$838	\$ 81,595	\$177,433	\$6,853,628	
Net income			402,066							402,066	
Cash dividends paid (including interim dividends)			(155,435)							(155,435)	
Increase in treasury stock				(305,949)						(305,949)	
Increase due to sale of treasury stock			90	739						829	
Retirement of treasury stock		(619)	(333,177)	333,796						-	
Changes from decrease in number of subsidiaries			(110)							(110)	
Changes in net unrealized gains on securities, net of taxes					(236,740)					(236,740)	
Changes in net unrealized gains on hedging derivatives, net of taxes							34,415			34,415	
Adjustments from translation of foreign currency financial statements								58,349		58,349	
Net changes during the year									2,884	2,884	
Balance at March 31, 2008	\$1,319,164	\$194,451	\$4,383,940	\$ (8,055)	\$ 317,297	\$126,041	\$838	\$139,944	\$180,317	\$6,653,937	

See accompanying notes.

Consolidated Statements of Cash Flows

Osaka Gas Co., Ltd.
Years Ended March 31, 2007 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2008	2008
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 88,079	¥ 72,479	\$ 723,415
Adjustments to reconcile net income before income taxes to net cash provided by operating activities:			
Depreciation	84,032	95,253	950,724
Amortization of long-term prepaid expenses	3,913	5,657	56,463
Loss from impairment of fixed assets	1,872	3,336	33,297
Increase in prepaid pension expenses	(11,852)	(13,368)	(133,426)
Interest and dividend income	(2,728)	(3,183)	(31,770)
Interest expense	9,584	9,849	98,303
Equity in net income of affiliates	(3,328)	(5,305)	(52,949)
Gain on sale of investment securities	(3,274)	(3,332)	(33,257)
Loss on disposal of property, plant and equipment	3,199	2,564	25,591
Increase in receivables	(8,701)	(9,597)	(95,788)
Increase in inventories	(8,550)	(5,103)	(50,933)
Increase (decrease) in payables	(317)	28,688	286,336
Decrease in accrued expenses	(2,339)	(5,846)	(58,349)
Increase (decrease) in accrued consumption tax	694	(2,359)	(23,545)
Other	(5,663)	(2,851)	(28,457)
Total adjustments	56,542	94,403	942,240
Interest and dividends received	11,162	8,093	80,777
Interest paid	(9,567)	(9,721)	(97,026)
Income and enterprise taxes paid	(47,861)	(30,971)	(309,123)
Net cash provided by operating activities	98,355	134,283	1,340,283
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(85,836)	(103,061)	(1,028,656)
Acquisition of intangibles	(2,278)	(12,983)	(129,584)
Payment for long-term prepaid expenses	(6,267)	(8,818)	(88,013)
Purchase of investments in securities	(6,152)	(3,233)	(32,269)
Proceeds from sales of investment securities	4,381	7,231	72,173
Proceeds from sales of investments in subsidiaries and affiliates	2	2,970	29,644
Purchase of other investments	-	(7,266)	(72,522)
Purchase of investments accompanied by change in the scope of consolidation	(1,097)	(4,065)	(40,573)
Other	(2,519)	(2,804)	(27,986)
Net cash used in investing activities	(99,766)	(132,029)	(1,317,786)
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term loans	(4,469)	5,985	59,736
Net increase in commercial paper	50,000	15,000	149,715
Proceeds from long-term debt	22,664	51,692	515,940
Repayment of long-term debt	(18,255)	(47,028)	(469,388)
Proceeds from issuance of bonds	29,976	39,990	399,142
Repayment of bonds	(82,913)	(5,425)	(54,147)
Purchase of treasury stock	(1,161)	(30,653)	(305,949)
Cash dividends paid	(15,544)	(15,534)	(155,045)
Cash dividends paid to minority shareholders	(2,545)	(1,617)	(16,139)
Other	238	85	848
Net cash provided by (used in) financing activities	(22,009)	12,495	124,713
Effect of Exchange Rate Changes on Cash and Cash Equivalents	170	70	699
Net Increase (Decrease) in Cash and Cash Equivalents	(23,250)	14,819	147,909
Cash and Cash Equivalents at Beginning of Year	47,727	24,477	244,306
Decrease in Cash and Cash Equivalents by Exclusion from Consolidation	-	(52)	(519)
Cash and Cash Equivalents at End of Year	¥ 24,477	¥ 39,244	\$ 391,696
Supplemental Disclosures of Cash Flow Information:			
Cash and Cash Equivalents:			
Cash and time deposits in the balance sheet	¥ 27,070	¥ 41,458	\$ 413,794
Time deposits with maturities over three months	(2,593)	(2,214)	(22,098)
Cash and Cash Equivalents at End of Year	¥ 24,477	¥ 39,244	\$ 391,696

See accompanying notes.

Notes to Consolidated Financial Statements

Osaka Gas Co., Ltd.
March 31, 2007 and 2008

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Gas Utility Law and related regulations, the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the

appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts was included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to U.S.\$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Certain consolidated financial statement items in 2007 were reclassified to conform to the presentation in 2008.

2. Significant accounting policies

(1) Consolidation

Companies which are owned 40% or more and substantially controlled by the Company are considered subsidiaries and included in the consolidation in principle.

The consolidated financial statements in 2007 and 2008 included the accounts of the Company and its 132 (except 2 subsidiaries) and 133 subsidiaries, respectively. A total of 9 subsidiaries were newly consolidated and 8 subsidiaries were excluded from consolidation. Intercompany transactions and accounts were eliminated. All material unrealized profit included in assets resulting from intercompany transactions was eliminated.

The accounts of 45 and 2 consolidated subsidiaries were included on the basis of their fiscal years that end on December 31 and February 28/29, respectively. These subsidiaries do not prepare for consolidation purposes statements with periods that correspond to the fiscal year of the Company. For these 47 consolidated subsidiaries, when there were significant transactions between their respective fiscal year-ends and the Company's year-end, necessary adjustments were made to reflect these transactions in the accompanying consolidated financial statements.

The difference between the Company's cost of investment in its consolidated subsidiaries and the equity in the net assets at date of acquisition is amortized within 20 years on a straight-line basis. If the difference isn't significant, it is charged or credited to income in the first year of consolidation.

Investments in 4 significant affiliates are accounted for by the equity method at March 31, 2007 and 2008. Affiliates that have an insignificant impact on consolidated net income and consolidated retained earnings are not accounted for by the equity method.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

(2) Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(3) Inventories

Inventories are mainly valued at moving average cost.

(4) Securities

Under the Japanese accounting standard for financial instruments, all companies are required to examine the intent for holding securities and classify those securities as 1) securities held for trading purposes ("trading securities"), 2) debt securities intended to be held to maturity ("held-to-maturity debt securities"), 3) equity securities issued by subsidiaries and affiliates, and 4) all other securities that are not classified in any of the above categories ("available-for-sale securities").

The Company and its consolidated subsidiaries (the "Companies") have no trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliates that are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities whose fair value is readily determinable are stated at fair value as of the end of the year with unrealized gains and losses, net of applicable deferred tax assets/liabilities and minority interests, directly reported as a separate component of net assets rather than reflected in earnings. Realized gains or losses on the sale of such securities are computed using moving average cost. Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving average cost.

If the market value of equity securities issued by nonconsolidated subsidiaries or affiliated companies or the market value of available-for-sale securities declines significantly, the securities are stated at fair value and the difference between the fair value and the carrying amount is recognized as loss in the period of the decline. If the fair value of equity securities issued by such subsidiaries and affiliated companies is not readily available, the securities should be written down to net asset value in the event net asset value declines significantly. Unrealized losses on these securities are reported in the income statement.

(5) Derivatives and hedge accounting

Derivatives are stated at market value. See Note 2 (15).

(6) Property, plant and equipment

Depreciation is provided mainly by the declining balance method (the straight-line method by certain consolidated subsidiaries) over the estimated useful life of the asset. However, the Company and its domestic consolidated subsidiaries depreciate buildings acquired on or after April 1, 1998 using the straight-line method.

Repair and maintenance expenditures, excluding those for gas holders, are charged to income when incurred and major improvements are capitalized.

Certain capital gains arising from beneficiaries' contributions or expropriations of property, deferral of which is permitted for tax purposes, are offset against the acquisition cost of property purchased. The cumulative capital gains offset against the acquisition cost of property, plant and equipment at March 31, 2007 and 2008 was ¥296,407 million and ¥300,895 million (\$3,003,244 thousand), respectively.

(7) Intangible assets

The Companies include goodwill and software in intangible assets and amortize them using the straight-line method within twenty years and over estimated useful life, respectively.

(8) Allowance for doubtful receivables

The Companies provide the allowance for doubtful accounts principally at an amount based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts of certain individual receivables.

(9) Employees' severance and retirement benefits

The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. A portion of the benefits previously paid by the defined benefits plan is now covered by a defined contribution plan.

The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets.

Prior service costs are recognized in expenses when they arise, and actuarial gains and losses are recognized in expenses over 10 years commencing with the following period.

(10) Reserve for repairs of gas holders

The Company and certain consolidated subsidiaries provide for future repairs to gas holders by estimating future expenditures and charging the amounts to income in equal annual amounts. The difference between the actual expenditure and the amount estimated and provided for is charged to income in the year the repair is completed.

(11) Reserve for safety actions

The Company provides for future payments for security for the gas consumer by estimating future expenditures for promoting the transition to safer model machinery and reinforcing the duty to monitor for safety and keep the consumer informed.

(12) Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax.

The Companies recognize tax effects of loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(13) Translation of foreign currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at year-end rates. Net assets are translated into Japanese yen at historical rates. Income and expenses are translated into Japanese yen at average rates for the year. The translation differences arising from the use of different rates are recognized in minority interests and as foreign currency translation adjustments in net assets.

(14) Accounting for leases

Finance leases which do not transfer ownership are accounted for in the same manner as operating leases under Japanese GAAP.

(15) Derivative transactions and hedge accounting

The Companies state derivative financial instruments at fair value at the end of the fiscal year and recognize changes in the fair value as gain or loss unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from changes in the fair value of the derivative financial instruments until the related loss or gain on the hedged items is recognized.

However, in cases where forward foreign currency exchange contracts and currency swap contracts are used as hedges and meet certain hedging criteria, forward foreign currency exchange contracts and currency swap contracts and the hedged items are accounted for in the following manner:

If a forward foreign currency exchange contract or a currency swap contract is executed to hedge an existing foreign currency receivable or payable, the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable, translated using the spot rate at the inception date of the contract, and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date.

If a forward foreign currency exchange contract or a currency swap contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gain or loss on the forward foreign currency exchange contract will be recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The use of currency swap contracts was finished in the year ended March 31, 2007.

(16) Net income per share

The computation of net income per share of common stock shown on the consolidated statements of income is based on the weighted average number of shares outstanding during each fiscal year.

Diluted net income per share of common stock for the years ended March 31, 2007 and 2008 was not shown since there were no outstanding convertible bonds or other common stock equivalents.

3. Changes in accounting policies

(1) Accounting Standards for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

Under the New Accounting Standards, the following items were presented differently at March 31, 2007 compared to March 31, 2006. The net assets section included unrealized gains/losses on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains/losses on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Minority interests were included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests between the noncurrent liabilities and the shareholders' equity sections.

The amount corresponding to "shareholders' equity" before the adoption of these accounting standards was ¥659,707 million.

(2) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005) and

the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying consolidated statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards.

(3) Practical Treatment of Accounting for Deferred Assets

Effective from the year ended March 31, 2007, the Companies adopted "Practical Treatment of Accounting for Deferred Assets" (Practical Application Report No. 19 issued on August 11, 2006). "Premium on bonds" of ¥80 million, which was included in the "Deferred assets" account in the previous year, was excluded from the bonds but included in the "Long-term debt" account.

(4) Accounting Standards for Financial Instruments

Effective from the year ended March 31, 2007, the Companies adopted "Accounting Standards for Financial Instruments" (the final revision of Accounting Standards No. 10, issued on August 11, 2006).

(5) The Depreciation Method for Property, Plant and Equipment

Pursuant to revisions to the Corporation Tax Law, the Company depreciates tangible fixed assets acquired on and after April 1, 2007 under the new depreciation system from this consolidated accounting year. The effect on earnings from this change has been minimal.

4. Additional Information

(1) Property, plant and equipment

Pursuant to revisions of the Corporation Tax Law, the Company depreciates tangible fixed assets acquired before March 31, 2007 to the allowable limit (95% of the acquisition cost) under the old depreciation system in a particular consolidated accounting year. The Company depreciates the difference between 5% of the acquisition cost and memorandum prices evenly over five years starting from the following consolidated accounting year and books it by including it

in depreciation and amortization expense. As a result, income before income taxes and minority interests were ¥7,420 million (\$74,059 thousand) less than they would have been without the revision.

(2) Raw material purchasing prices

Some raw material purchasing prices may be adjusted according to the result of renewals and price negotiations with suppliers.

5. Securities

(1) The following tables summarize acquisition costs, book values (fair values) of available-for-sale securities with available fair values as of March 31, 2007 and 2008:

Securities with available fair values (book values) that exceed acquisition cost were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	Acquisition Cost	Book Value	Difference	Difference
For 2007:				
Equity securities	¥22,570	¥111,364	¥88,794	
For 2008:				
Equity securities	¥21,157	¥72,100	¥50,943	\$508,464
Bonds	10	10	-	-
Total	¥21,167	¥72,110	¥50,943	\$508,464

Securities with available fair values (book values) that do not exceed acquisition cost were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	Acquisition Cost	Book Value	Difference	Difference
For 2007:				
Equity securities	¥504	¥467	¥(37)	
Bonds	110	109	(1)	
Total	¥614	¥576	¥(38)	
For 2008:				
Equity securities	¥2,611	¥2,493	¥(118)	\$(1,178)
Bonds	210	210	-	-
Total	¥2,821	¥2,703	¥(118)	\$(1,178)

(2) The following table summarizes book values of significant available-for-sale securities with no available fair values as of March 31, 2007 and 2008:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Non-listed (non-quoted) equity securities	¥14,491	¥11,036	\$110,151
Venture capital investment in limited partnerships	¥2,902	¥3,571	\$35,642

(3) Maturities of available-for-sale securities with maturities are as follows:

	Millions of Yen				Total
	Within One Year	Over One Year but Within Five Years	Over Five Years but Within Ten Years	Over Ten Years	
For 2007:					
Government					
Bonds	¥-	¥159	¥-	¥-	¥159
Other	-	-	-	300	300
Total	¥-	¥159	¥-	¥300	¥459
For 2008:					
Government					
Bonds	¥50	¥170	¥-	¥-	¥220
Other	-	-	-	300	300
Total	¥50	¥170	¥-	¥300	¥520

	Thousands of U.S. Dollars				Total
	Within One Year	Over One Year but Within Five Years	Over Five Years but Within Ten Years	Over Ten Years	
For 2008:					
Government					
Bonds	\$499	\$1,697	\$-	\$-	\$2,196
Other	-	-	-	2,994	2,994
Total	\$499	\$1,697	\$-	\$2,994	\$5,190

(4) Total sales of available-for-sale securities in the years ended March 31, 2007 and 2008 amounted to ¥4,156 million and ¥7,220 million (\$72,063 thousand), respectively. The related gains and losses in the years ended March 31, 2007 and 2008 amounted to ¥3,274 million and ¥3,332 million (\$33,257 thousand), and ¥148 million and ¥11 million (\$110 thousand), respectively.

6. Short-term loans and long-term debt

Short-term loans consisted of short-term notes payable bearing interest at an annual average rate of 0.7% and 0.9% at March 31, 2007 and 2008, respectively.

Long-term debt at March 31, 2007 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Loans principally from banks and insurance companies, maturing through 2026 at the average rate of 1.8% in 2007 and 2.0% in 2008	¥220,601	¥237,285	\$2,368,350
3.4% notes payable due 2017	15,700	15,700	156,702
1.47% notes payable due 2008	30,000	30,000	299,431
1.95% notes payable due 2009	20,000	20,000	199,621
1.46% notes payable due 2012	19,999	19,999	199,611
1.47% notes payable due 2022	19,978	19,979	199,411
1.83% notes payable due 2020	19,988	19,989	199,511
1.79% notes payable due 2020	19,979	19,980	199,421
2.33% notes payable due 2026	9,992	9,993	99,740
1.79% notes payable due 2016	19,985	19,986	199,481
2.14% notes payable due 2019	–	19,995	199,571
1.59% notes payable due 2014	–	19,996	199,581
10.00% bonds payable in U.S. dollars due 2010	4,096	–	–
7.73% bonds payable in U.S. dollars due 2015	9,598	8,276	82,603
0.66% notes payable due 2008	200	–	–
2.06% notes payable due 2007	220	–	–
	410,336	461,178	4,603,034
Less amounts due within one year	46,864	48,207	481,156
	¥363,472	¥412,971	\$4,121,878

In the year ended March 31, 2000, the Company entered into debt assumption agreements with banks for loans in the amount of ¥4,906 million due through the year ended March 31, 2010.

In the year ended March 31, 2004, the Company entered into debt assumption agreements with banks for 5.875% notes payable in euros and due in 2012 in the amount of ¥10,000 million.

In the year ended March 31, 2007, the Company entered into debt assumption agreements with banks for 2.9% notes payable due in 2018 in the amount of ¥29,000 million.

However, the Company remains contingently liable on the amounts assumed by the banks.

Ten percent bonds payable in U.S. dollars due in 2010 have been repaid in 2008 before the due date.

The annual maturities of long-term debt were as follows at March 31, 2008:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
	2009	¥ 48,207
2010	38,773	386,995
2011	22,190	221,479
2012	32,656	325,941
2013	32,418	323,565
2014 and thereafter	286,934	2,863,898
Total	¥461,178	\$4,603,034

Assets pledged as collateral mainly for short-term loans and long-term debt totaling ¥37,450 million and ¥41,661 million (\$415,820 thousand) at March 31, 2007 and 2008, respectively, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Property, plant and equipment	¥43,960	¥51,097	\$510,001
Investments	31,374	24,685	246,382
Cash and time deposits	2,864	2,949	29,434
Accounts receivable	1,499	1,536	15,331
Inventories and other	3,741	4,381	43,727
Total	¥83,438	¥84,648	\$844,875

7. Net assets

Under Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit or can be capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

8. Contingent liabilities

At March 31, 2007 and 2008, the Companies were contingently liable as follows:

	Millions of Yen		Thousands of
	2007	2008	U.S. Dollars
As guarantor of indebtedness of:			2008
Affiliates	¥ 3,260	¥ 1,483	\$ 14,802
Employees	60	45	449
Debt assumption agreements	46,962	43,906	438,227
Total	¥50,282	¥45,434	\$453,478

9. Land revaluation

Pursuant to the Law Concerning Land Revaluation and the Amended Land Revaluation Law, a consolidated subsidiary revalued its land used for business activities on March 31, 2002. The difference between the revalued amount and the book value before the revaluation was recorded as "Deferred tax liabilities related to land revaluation" in liabilities and "Revaluation reserve for land, net of taxes"

in net assets in the consolidated balance sheets. The land prices used for the revaluation were determined based on the prices in the official notice published by the Commissioner of the National Tax Agency in accordance with Article 2, Paragraph 4 of the Enforcement Ordinance Concerning Land Revaluation, after making reasonable adjustments.

10. Research and development expenses

The Companies charge research and development expenses to selling, general and administrative expenses and manufacturing costs as incurred. Research and development expenses amounted to ¥9,906

million and ¥10,179 million (\$101,597 thousand) for the years ended March 31, 2007 and 2008, respectively.

11. Finance leases

Information for noncapitalized finance leases at March 31, 2007 and 2008 was as follows:

As lessee (noncapitalized)

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Original lease obligations (including finance charges)	¥4,631	¥4,550	\$45,414
Payments remaining:			
Payments due within one year	¥ 592	¥ 751	\$ 7,496
Payments due over one year	1,865	1,647	16,439
Total	¥2,457	¥2,398	\$23,935

Lease payments for such leases for the years ended March 31, 2007 and 2008 were ¥700 million and ¥788 million (\$7,865 thousand), respectively.

As lessor

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Original cost	¥22,562	¥24,369	¥243,228
Less accumulated depreciation	11,006	12,491	124,673
Total	¥11,556	¥11,878	¥118,555
Receipts remaining:			
Receipts due within one year	¥ 4,223	¥ 4,264	¥ 42,559
Receipts due over one year	8,928	9,356	93,383
Total	¥13,151	¥13,620	¥135,942

Lease receipts under such leases for the years ended March 31, 2007 and 2008 were ¥4,778 million and ¥5,777 million (\$57,660 thousand), respectively.

Depreciation for the years ended March 31, 2007 and 2008 was ¥3,074 million and ¥3,406 million (\$33,995 thousand), respectively.

12. Derivative transactions

The Companies use forward foreign currency contracts, currency swaps, interest rate swaps, material price swap contracts, and options as derivative financial instruments only for the purpose of mitigating future risks of fluctuations of foreign currency exchange rates with respect to foreign currency payables for the purchase of materials and foreign currency bonds and loans payable, interest rate increases with respect to borrowings within the amounts of such borrowings or foreign currency payables, fluctuations of material prices, and fluctuations in gas sales.

These derivatives are subject to risks of foreign exchange rate changes, interest rate changes, material price fluctuations, and temperature changes, respectively.

The Companies' derivative transactions are executed and managed by the Companies' Finance Departments in accordance with established policies and within the specified limits on the amounts of derivative transactions allowed.

The following summarizes the hedging derivative financial instruments used by the Companies and the corresponding items hedged:

Hedging instruments:	Hedged items:
Interest rate swap contracts	Interest on bonds and loans payable
Currency swap contracts	Foreign currency bonds and loans payable
Forward foreign exchange contracts and currency options	Foreign currency future purchases
Material and other price swap contracts	Purchase cost of materials and other and options

The Companies evaluate hedge effectiveness by recognizing the association of hedging instruments and hedged items.

All derivative transactions as of March 31, 2007 and 2008 were recorded by using hedge accounting.

The use of currency swap contracts was finished in the year ended March 31, 2007.

13. Employees' severance and pension benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2007 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Projected benefit obligation	¥ 259,674	¥ 267,370	\$ 2,668,630
Prepaid pension expenses	27,459	40,832	407,546
Unrecognized actuarial differences	73,798	9,201	91,835
Less fair value of pension assets	(352,021)	(307,263)	(3,066,803)
Liability for severance and retirement benefits	¥ 8,910	¥ 10,140	\$ 101,208

Included in the consolidated statements of income for the years ended March 31, 2007 and 2008 were severance and retirement benefit expenses consisting of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Service costs — benefits earned during the year	¥ 7,249	¥ 7,079	\$ 70,655
Interest cost on projected benefit obligation	4,564	4,600	45,913
Expected return on plan assets	(11,746)	(12,595)	(125,711)
Amortization of actuarial gains and losses	(5,344)	(6,848)	(68,350)
Prior service costs	75	—	—
Severance and retirement benefit expenses	¥ (5,202)	¥ (7,764)	\$ (77,493)

The assumptions used in accounting for the above benefit plans were as follows:

	2007	2008
Discount rates	Mainly 1.8%	Mainly 1.8%
Expected rate of return on plan assets	Mainly 3.6%	Mainly 3.6%

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Prior service costs are recognized as incurred and actuarial gains/losses are recognized not only as expense, but also as income in equal amounts over 10 years.

14. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 36.2% (40.6% for certain consolidated subsidiaries) for the years ended March 31, 2007 and 2008.

The following table summarizes the significant differences between the Company's statutory tax rate and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2007 and 2008:

	2007	2008
Statutory tax rate	36.2%	36.2%
Nondeductible expenses	0.7	1.3
Statutory tax rate difference between the Company and certain subsidiaries	1.0	1.2
Per capita inhabitants taxes	0.2	0.4
Other	0.4	2.6
Effective tax rate	38.5%	41.7%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2007 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Deferred tax assets:			
Retirement benefits	¥ 3,464	¥ 3,722	\$ 37,150
Excess depreciation	10,346	10,318	102,984
Loss on cancellation of construction plans	4,676	4,701	46,921
Loss on impairment of fixed assets	3,564	4,920	49,107
Write-down of securities	2,716	3,092	30,861
Enterprise taxes	2,816	2,697	26,919
Other	19,155	23,570	235,253
Total deferred tax assets	46,737	53,020	529,195
Valuation allowance	(268)	(2,856)	(28,506)
Net deferred tax assets	46,469	50,164	500,689
Deferred tax liabilities:			
Special reserve for tax purposes	(3,779)	(6,056)	(60,445)
Deferred gains on real property	(343)	(342)	(3,414)
Net unrealized gains on securities	(33,200)	(19,032)	(189,959)
Prepaid pension expenses	(8,791)	(14,786)	(147,580)
Unrealized gains on hedging derivatives	(6,726)	(7,597)	(75,826)
Other	(2,202)	(2,202)	(21,978)
Total deferred tax liabilities	(55,041)	(50,015)	(499,202)
Net deferred tax assets (liabilities)	¥ (8,572)	¥ 149	\$ 1,487

Net deferred tax assets (liabilities) are reflected in the consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Current assets	¥ 8,267	¥ 14,632	\$ 146,043
Other investments and other assets	5,103	5,366	53,558
Other current liabilities	(48)	(22)	(220)
Noncurrent liabilities	(21,895)	(19,827)	(197,894)
	¥ (8,573)	¥ 149	\$ 1,487

15. Segment information

The Companies' primary business activities include (1) Gas (2) LPG, Electricity and Other Energies (3) Gas Appliance and House-pipe Installation (4) Real Estate (5) Other Businesses.

A summary of segment information is as follows:

Millions of Yen								
For 2007:	Gas	LPG, Electricity and Other Energies	Gas Appliance and House-pipe Installation	Real Estate	Other Businesses	Total	Elimination and Corporate	Consolidated
Operating revenues								
Outside customers	¥669,733	¥232,093	¥160,510	¥ 13,114	¥ 99,007	¥1,174,457	¥ –	¥1,174,457
Inside group	16,939	2,988	453	12,829	40,904	74,113	(74,113)	–
Total	686,672	235,081	160,963	25,943	139,911	1,248,570	(74,113)	1,174,457
Cost and expenses	623,067	221,616	159,526	18,670	132,615	1,155,494	(74,767)	1,080,727
Operating income	¥ 63,605	¥ 13,465	¥ 1,437	¥ 7,273	¥ 7,296	¥ 93,076	¥ 654	¥ 93,730
Identifiable assets	¥663,541	¥316,703	¥ 62,633	¥114,772	¥149,302	¥1,306,951	¥ 98,731	¥1,405,682
Depreciation	53,832	14,091	475	4,125	12,161	84,684	(652)	84,032
Loss from impairment of fixed assets	1,667	163	–	–	42	1,872	–	1,872
Capital expenditure	47,469	24,036	761	5,600	18,006	95,872	(604)	95,268

Millions of Yen								
For 2008:	Gas	LPG, Electricity and Other Energies	Gas Appliance and House-pipe Installation	Real Estate	Other Businesses	Total	Elimination and Corporate	Consolidated
Operating revenues								
Outside customers	¥703,927	¥262,440	¥148,758	¥ 16,513	¥106,508	¥1,238,146	¥ –	¥1,238,146
Inside group	17,477	3,237	447	11,983	37,837	70,981	(70,981)	–
Total	721,404	265,677	149,205	28,496	144,345	1,309,127	(70,981)	1,238,146
Cost and expenses	677,142	251,747	147,607	21,809	136,021	1,234,326	(71,792)	1,162,534
Operating income	¥ 44,262	¥ 13,930	¥ 1,598	¥ 6,687	¥ 8,324	¥ 74,801	¥ 811	¥ 75,612
Identifiable assets	¥664,520	¥365,694	¥ 63,735	¥129,172	¥158,128	¥1,381,249	¥ 86,685	¥1,467,934
Depreciation	61,483	16,562	405	4,268	13,124	95,842	(589)	¥95,253
Loss from impairment of fixed assets	–	2,862	–	–	474	3,336	–	3,336
Capital expenditure	44,424	33,153	407	15,578	18,135	111,697	(610)	111,087

Thousands of U.S. Dollars								
For 2008:	Gas	LPG, Electricity and Other Energies	Gas Appliance and House-pipe Installation	Real Estate	Other Businesses	Total	Elimination and Corporate	Consolidated
Operating revenues								
Outside customers	\$7,025,921	\$2,619,423	\$1,484,759	\$ 164,817	\$1,063,060	\$12,357,980	\$ –	\$12,357,980
Inside group	174,439	32,309	4,461	119,603	377,652	708,464	(708,464)	–
Total	7,200,360	2,651,732	1,489,220	284,420	1,440,712	13,066,444	(708,464)	12,357,980
Cost and expenses	6,758,579	2,512,696	1,473,270	217,677	1,357,631	12,319,853	(716,559)	11,603,294
Operating income	\$ 441,781	\$ 139,036	\$ 15,950	\$ 66,743	\$ 83,081	\$ 746,591	\$ 8,095	\$ 754,686
Identifiable assets	\$6,632,598	\$3,650,005	\$ 636,141	\$1,289,270	\$1,578,282	\$13,786,296	\$ 865,206	\$14,651,502
Depreciation	613,664	165,306	4,042	42,599	130,991	956,602	(5,878)	950,724
Loss from impairment of fixed assets	–	28,566	–	–	4,731	33,297	–	33,297
Capital expenditure	443,398	330,901	4,062	155,485	181,006	1,114,852	(6,089)	1,108,763

As described in "Additional Information" in Note 4., because of revisions to the Corporation Tax Law, the company depreciated tangible fixed assets acquired before March 31, 2007 to the allowable limit (95% of the acquisition cost) under the old depreciation system in a particular consolidated accounting year. The Company depreciated the difference between 5% of the acquisition cost and memorandum price evenly over five years starting from the following consolidated accounting year and booked it by including it in depreciation and amortization expense.

As a result, cost and expenses were ¥7,071 million (\$70,576 thousand) more in the Gas segment, ¥147 million (\$1,467 thousand)

more in the LPG, Electricity and Other Energies segment, ¥19 million (\$190 thousand) more in the Gas Appliance and House-pipe Installation segment, ¥58 million (\$579 thousand) more in the Real Estate segment, and ¥125 million (\$1,247 thousand) more in the Other Businesses segment, respectively, than they would have been without the revision. Operating income was less by the same amount in each segment.

Geographic segment information is not disclosed since domestic sales and assets exceeded 90% of all segments.

Information for overseas sales is not disclosed since overseas sales were not material compared to consolidated net sales.

16. Loss from impairment of fixed assets

(1) Grouping

- ① All fixed assets used in processes related to the gas business, from production to the sale of gas, are categorized into one asset group because these assets generate cash flow from the gas business as a single asset.
- ② Fixed assets used for operating businesses other than those described above are generally categorized into groups based on the business divisions controlling the fixed assets.

③ Generally, other fixed assets are treated individually.

(2) Specific losses from impairment of fixed assets

In accordance with the grouping described in (1) above, an impairment loss of ¥1,872 million was recognized in 2007. Significant properties included in this loss are listed in the table below.

Asset	Location	Type	Loss from Impairment	
			2007	
			Millions of Yen	
Facilities held for welfare	Saihaku-gun, Tottori	Buildings	¥955	
Facilities held for welfare	Chino-shi, Nagano	Buildings	712	

Recoverable values of these assets were assessed based on selling prices in the market. The market prices were based on appraisals by real estate appraisers.

These assets had been held for employees' welfare. However, because of a change in the management environment, it was determined that these investments would be abolished and sold. Therefore, their book values were reduced to their recoverable values,

and the differences were recorded as losses from impairment of fixed assets.

In accordance with the grouping described in (1) above, an impairment loss of ¥3,336 million (\$33,297 thousand) was recognized in 2008. Significant properties included in this loss are listed in the table below.

Asset	Location	Type	Loss from Impairment	
			2008	
			Millions of Yen	Thousands of U.S. Dollars
Electric power facilities	Uji-shi, Kyoto	Facilities	¥2,862	\$28,566

Recoverable values of these assets were assessed based on the value in use.

These assets, acquired for the purpose of marketing electricity, were determined unrecoverable because of unfavorable economic returns caused by rising fuel costs. Therefore, their book values were

reduced to their recoverable values, and the differences were recorded as losses from impairment of fixed assets. It is the Company's policy to calculate the recoverable values of the assets on the basis of assets' values in use by discounting future cash flows by 4.7%.

17. Retirement of common stock

The Company decided to retire 77,286 thousand shares of common stock at an aggregate cost of ¥33,443 million (\$333,796 thousand) in accordance with a resolution of the Board of Directors held at February 26, 2008. The retirement of common stock occurred on March 7, 2008.

18. Significant subsequent events

(1) Issuance of bonds

In accordance with a resolution of the Board of Directors on March 25, 2008, the Company issued ¥30,000 million (\$299,431 thousand) of unsecured 1.21% Japanese yen bonds on April 25, 2008. The bonds are due April 24, 2015. The issue price of the bonds was 100% of the face value.

(2) Appropriations of retained earnings

The appropriation of retained earnings of the Company, including cash dividends applicable to the year ended March 31, 2008, which was proposed by the Board of Directors and approved at the shareholders' meeting held on June 27, 2008, was for the purpose of paying cash dividends to shareholders of record at March 31, 2008 in the aggregate amount of ¥7,548 million (\$75,337 thousand) or ¥3.5 per share.

Independent Auditors' Report

To the Shareholders and Board of Directors of Osaka Gas Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Osaka Gas Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2008, the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Osaka Gas Co., Ltd. and subsidiaries as of March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion in 2008, we draw attention to Note 18 to the consolidated financial statements. In accordance with a resolution of the Board of Directors on March 25, 2008, the Company issued unsecured Japanese yen bonds on April 25, 2008.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSAC Co.

Osaka, Japan
June 27, 2008

Osaka Gas Group History

1897	Established Osaka Gas Co., Ltd. with capital of ¥350,000	1989	Opened the entire No. 2 West Line of the Kinki Trunk Line for gas supply Commenced import of LNG from Australia Established Urbanex Co., Ltd.
1905	Established Iwasaki Plant; commenced gas supply (Number of customers: 3,351)	1990	Completed natural gas conversion
1933	Completed construction of head office building	1991	Established Liquid Gas Co., Ltd. and Osaka Gas Chemicals Co., Ltd. Opened the DILIPA showroom to exhibit residential gas appliances
1940	Torishima Plant completed	1992	Established Osaka Gas Information System Research Institute Co., Ltd.
1950	Keihan Connecting Pipeline completed (currently No. 1 Keihan Line)	1994	Completed the Kinki Trunk Line's No. 3 West Line Closed down the coke oven at Torishima Energy Center
1952	Hanshin Connecting Pipeline completed (currently No. 1 Hanshin Line)	1995	The Great Hanshin (Kobe) Earthquake (supply of gas to approx. 860,000 customers halted) Commenced import of LNG from Malaysia
1955	Held first Gas Exhibition	1996	Commenced fuel-cost adjustment system
1958	Launched gas-powered automatic rice cooker Number of customers exceeded 1 million	1997	Completed installation of microcomputer-controlled meters in all households Number of customers exceeded 6 million
1964	Raised calorific value of gas supplied in Kyoto/Osaka/Kobe region (from 3,600 kcal/m ³ to 4,500 kcal/m ³)	1998	Commenced import of LNG from Qatar
1966	Number of customers exceeded 2 million	1999	Undertook first retirement of treasury stock
1967	Commenced operation of the first gas-powered cooling system at Kobe City's main public sports center	2000	Reported memorandum of agreement to supply and transport gas for major gas supplier Made Nissho Iwai Petroleum Gas Group (currently Nissho Petroleum Gas Corporation) a subsidiary Commenced import of LNG from Oman
1969	Installed first gas absorption-type cooler/heater at Osaka Toryo Hall	2003	Adjusted calorific value of gas supply (from 11,000 kcal/m ³ to 10,750 kcal/m ³ (45 MJ/m ³)) Launched ECOWILL residential-use cogeneration system Completed the Kinki Trunk Line's Keiji and Himeji Lines
1970	Commenced Japan's first district heating and cooling business in the Senri-chuo area Completed the Kinki Trunk Line's No. 1 West Line	2004	Acquired equity interests in Spanish and U.S. IPP projects Commenced commercial operation of power generation facility at Himeji LNG Terminal
1971	Commenced operations at Semboku Plant Number of customers exceeded 3 million	2005	100 th anniversary of Osaka Gas Co., Ltd.'s operational launch Announced new brand slogan, "Design Your Energy—A Better Tomorrow" Unit sales of ECOWILL exceeded 10,000
1972	Commenced import of LNG from Brunei Completed the Kinki Trunk Line's No. 1 East Line	2006	Completion of Shiga Line of Kinki Trunk Line
1975	Commenced natural gas conversion (from 4,500 kcal/m ³ to 11,000 kcal/m ³)		
1977	Commenced operations at Semboku LNG Terminal No. 2 Facility Commenced import of LNG from Indonesia		
1978	Completed the Kinki Trunk Line's No. 2 East Line Number of customers exceeded 4 million		
1979	Commenced operations at the world's first cryogenic power generation plant		
1981	Concluded technology exchange agreement with Brooklyn Union Gas Company of the U.S.		
1982	Opened the Gas Science Museum Installed the first cogeneration system at Nichii Kakogawa		
1984	Opened London Office Commenced operations at Himeji LNG Terminal		
1987	Commenced introduction of microcomputer-controlled meters		
1988	Number of customers exceeded 5 million		

List of Major Consolidated Subsidiaries

(As of June 27, 2008)

	Name of Subsidiary	Capital (million yen)	Osaka Gas shareholding (%)
Gas	Osaka Gas Customer Relations Co., Ltd.	50	100
	Maintenance checks on gas equipment and appliances / Checking gas meters / Collection of gas charges		
	Toyooka Energy Co., Ltd.	100	100
	Manufacture, supply and sales of gas		
	Nabari Kintetsu Gas Co., Ltd.	100	85
	Manufacture, supply and sales of gas / Sales of LPG and other products		
LPG, Electricity and Other Energies	Osaka Gas International Transport Inc.	3,190	100
	LNG vessel leasing		
	Osaka Gas Summit Resources Co., Ltd.	100	70
	Development and investment of petroleum and natural gas		
	Osaka Gas LPG Co., Ltd.	100	100
	Sales of LPG and other products		
	Gas and Power Co., Ltd.	450	100
	Electric power supply		
	Gas and Power Investment Co., Ltd.	2,148	100
	Research and investment relating to energy supply business / Heat supply business		
	Cogeneration Technology Service Co., Ltd.	400	56
	Design, installation, sales, and maintenance of cogeneration systems		
	Nakayama Joint Power Generation Co., Ltd.	300	95
	Electric power supply		
	Nakayama Nagoya Joint Power Generation Co., Ltd.	450	95
	Electric power supply		
	Nissho Petroleum Gas Corporation	1,726	52.5
	Sales of LPG and other products		
	Nissho Propane Sekiyu Co., Ltd.	60	100
	Sales of LPG and other products		
Liquid Gas Co., Ltd.	1,030	100	
Sales of industrial gas, LNG, LPG and other products			
Osaka Gas Australia Pty. Ltd.	A \$285 million	100	
Development and investment of petroleum and natural gas			
Osaka Gas Energy America Corporation	US\$1	100	
Research and investment relating to energy supply business			
Gas Appliances and House-pipe Installation	Enetec Osaka Co., Ltd.	20	100
	Sales of gas appliances, and housing equipment and appliances / Gas appliance works		
	Enetec Kyoto Co., Ltd.	30	100
	Sales of gas appliances, and housing equipment and appliances / Gas appliance works		
	Osaka Gas Housing & Equipment Co., Ltd.	450	100
	Sales of housing equipment and appliances		
	OG Road Co., Ltd.	50	100
	Recycling of sand production and other activities		
	Kinpai Co., Ltd.	300	100
	Gas piping works / Sales of gas appliances, and housing equipment and appliances		
Kinpai Corporation	112	100	
Business administration of the Kinpai Group, and other activities			
Hearts Co., Ltd.	85	99.1	
Sales of gas appliances, and housing equipment and appliances / Gas appliance works			

	Name of Subsidiary	Capital (million yen)	Osaka Gas shareholding (%)	
Real Estate	Urbanex Co., Ltd. Development, leasing, management and sales of real estate	1,570	100	
	OSC Engineering Co., Ltd. Operation, management and maintenance of buildings and facilities	50	67.3	
	Osaka Gas Total Facilities Co., Ltd. Operation, management and maintenance of buildings and facilities	100	100	
	OG Capital Co., Ltd. Development, leasing, and management of real estate	3,000	100	
	Kyoto Research Park Corp. Development, leasing, and management of real estate	100	100	
	Kubota Maison Co., Ltd. Real estate sales	300	70	
	Osaka Gas Engineering Co., Ltd. Design and installation of various plants related to gas and environmental protection	100	100	
	Osaka Gas Autoservice Co., Ltd. Leasing and servicing of automobiles, and other activities	100	100	
	Osaka Gas Chemicals Co., Ltd. Manufacture and sales of fine materials, carbon material products, and others	2,500	100	
	Osaka Gas Security Service Co., Ltd. Provision of security and disaster protection services / Sales of home security systems	100	100	
Others	Osaka Gas Business Create Co., Ltd. Temporary staffing services / Operation of facilities	100	100	
	OG Sports Co., Ltd. Management and contract operation of sports facilities	100	100	
	Osaka Gas Information System Research Institute Co., Ltd. Software development / Computer data processing services	400	100	
	OGIC Co., Ltd. Leasing / Credit / Insurance sales	600	100	
	Japan EnviroChemicals, Ltd. Manufacture and sales of activated carbon, wood protective coatings and other products	2,055	100	
	Total 133 companies			

Company Data

(As of June 27, 2008)

Directory

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Osaka Gas Energy America Corporation

One North Lexington Avenue, Suite 504, White Plains, NY 10601, U.S.A. Tel: (+1)-914-253-5500

Investor Information

Date of Establishment:

April 10, 1897

Regular General Meeting:

The regular general meeting of shareholders is held in June each year. The 2008 regular general meeting was held on June 27.

Common Stock:

Authorized: 3,707,506,909 shares
Issued: 2,158,383,539 shares

Listing of Shares:

Osaka Gas' shares are listed for trading on the following stock exchanges in Japan: Tokyo, Osaka, Nagoya

Number of Shareholders:

166,694

Stock Transaction Units:

The Company's stock is traded in units of 1,000 shares.

Common Stock Price Range (Yen):

(Tokyo Stock Exchange)

	FY2007		FY2008	
	High	Low	High	Low
First quarter	443	344	486	438
Second quarter	442	366	463	398
Third quarter	450	409	484	394
Fourth quarter	513	440	459	383

Unit Conversion List

Weight

kg	Metric ton	Imperial (short) ton	U.S. (long) ton
1	1 X 10 ⁻³	0.984 X 10 ⁻³	1.102 X 10 ⁻³
1,000	1	0.9842	1.1023
1,016.0	1.0160	1	1.1200
907.19	0.9072	0.8927	1

Length

m	ft	yard	mile
1	3.2808	1.0936	0.622 X 10 ⁻³
0.3048	1	0.333	0.189 X 10 ⁻³
0.9144	3	1	0.568 X 10 ⁻³
1,609	5,280	1,760	1

Volume (Liquid)

m ³ (kl)	ft	Imperial gallon	U.S. gallon
1	35.315	219.97	264.17
28.32 X 10 ⁻³	1	6.288	7.481
4.55 X 10 ⁻³	0.1606	1	1.2011
3.78 X 10 ⁻³	0.1337	0.8327	1

1kl = 6.29 barrel; 1 barrel (42 U.S. gallons) = 0.159 kl

Independent Certified Public Accountants:

KPMG AZSA & Co.

Transfer Agent:

The Sumitomo Trust & Banking Co., Ltd.
1-10, Nikko-cho, Fuchu-City, Tokyo 183-8701, Japan
Tel: (+81)-120-176-417

The address of the Osaka Gas Co., Ltd. website is:

<http://www.osakagas.co.jp/indexe.html>

The Osaka Gas Co., Ltd. website contains information provided for all investors and is constantly updated.

Osaka Gas Co., Ltd.

For inquiries about this report or requests for other materials, please refer to the contact listed below:

E-mail: keiri@osakagas.co.jp

Please note that we do not accept files attached to e-mails, such as image files.

Volume (Gas)

m ³ (n)	m ³ (s)	SCF
1	1.055	37.33
0.9476	1	35.37
0.0268	0.0283	1

n:0°C: S:15°C: SCF:101.33 kPa 15.5°C (60°F)

Energy

kcal	Btu	MJ	kWh
1	3.969	4.186 X 10 ⁻³	1.162 X 10 ⁻³
0.2520	1	1.055 X 10 ⁻³	0.2929 X 10 ⁻³
238.9	948.2	1	0.2778
860.1	3,414	3.600	1

Heating Value (Gas)

kcal/m ³ (n)	Btu/SCF	MJ/m ³ (s)
1	0.1063	3.97 X 10 ⁻³
9.406	1	3.73 X 10 ⁻³
252.1	26.81	1

1 ton of LNG = 13 X 10⁶ kcal = 52 X 10⁶ Btu

Design Your Energy 夢ある明日を



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