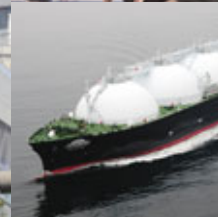


Design Your Energy 夢ある明日を

**OSAKA GAS**  
GROUP

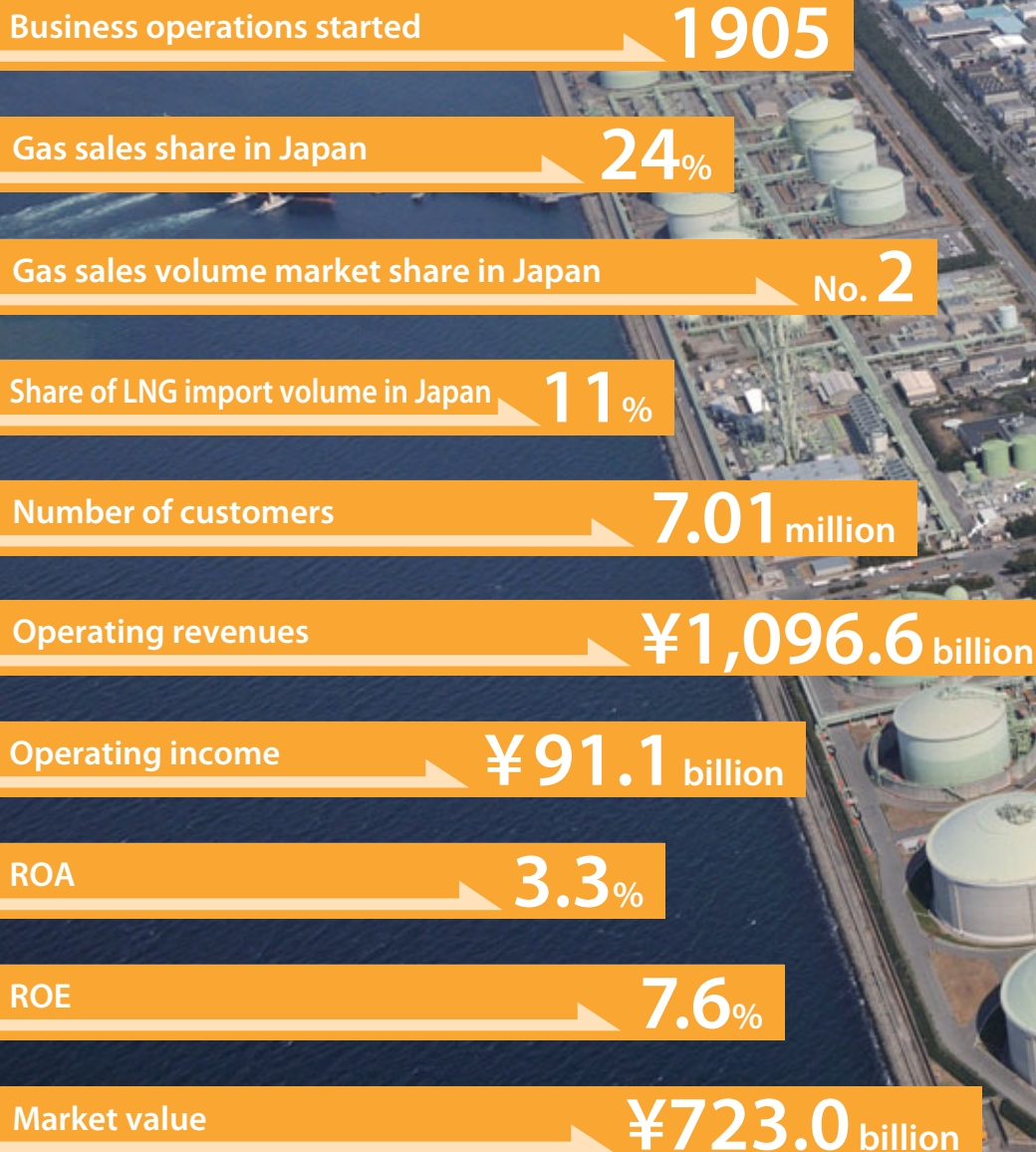


OSAKA GAS GROUP  
ANNUAL REPORT  
**2010**

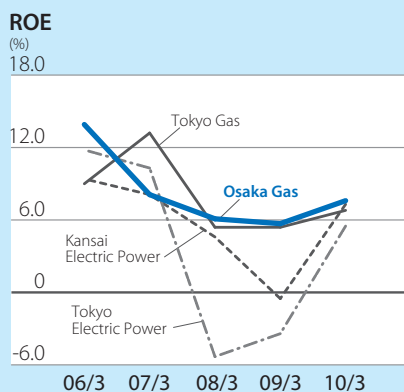


# The Osaka Gas Group 2010

For the fiscal year ended March 31, 2010



## Energy industry-related data



Source: Nikkei Financial Quest

## Long-term credit rating

(As of June 30, 2010)

	Country	R&I (Rating and Investment Information)	Moody's	Standard & Poor's
<b>Osaka Gas</b>	<b>Japan</b>	<b>AA+</b>	<b>Aa2</b>	<b>AA</b>
Tokyo Gas	Japan	AA+	Aa1	AA
Tokyo Electric Power	Japan	AA+	Aa2	AA
Kansai Electric Power	Japan	AA+	Aa2	—
Duke Energy	USA	—	Baa2	A-
CMS Energy	USA	—	Ba1	BBB-
El Paso Corp.	USA	—	Ba3	BB



**Gas supply area of the Osaka Gas Group**

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### Editorial Policy

#### Definition of Terms

In this annual report, "fiscal 2010" refers to "the fiscal year ended March 31, 2010," and other fiscal years are referred to in a corresponding manner.

#### Company Names

Except where specially noted otherwise, "Osaka Gas" and "the Company" refer to "Osaka Gas Co., Ltd.," and "the Osaka Gas Group" and "the Group" indicate the Company, its consolidated subsidiaries, and affiliates.

#### Note on Heat Unit Value

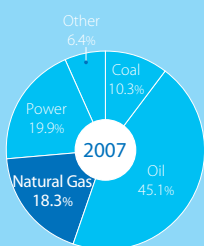
Unless otherwise stated, gas sales volume is shown at the unit value of 45MJ/m<sup>3</sup>.

### 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.

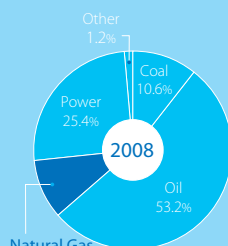
### Demand for natural gas

Global final energy consumption by energy source



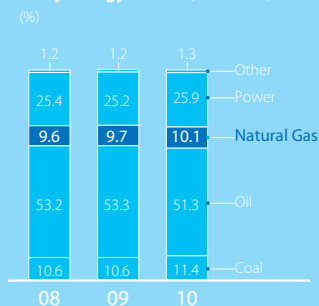
Sources: IEA "Energy Balances of OECD/Non-OECD Countries"

Japanese final energy consumption by energy source



Source: Ministry of Economy, Trade and Industry / The Energy Data and Modeling Center (EDMC), "Statistics of Energies"

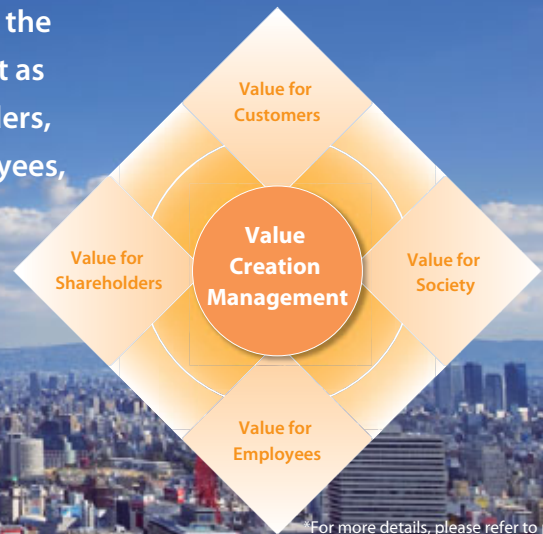
Japanese final energy consumption by energy source (estimate)



Source: The Institute of Energy Economics, Japan

# “Design Your Energy — A Better Tomorrow” — OSAKA GAS GROUP

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



\*For more details, please refer to page 18.

## Field of Dreams 2020

In March 2009, the Osaka Gas Group formulated its long-term management vision and medium-term business plan “Field of Dreams 2020.” Under this plan, the Group intends to grow each of its three business areas, namely, “domestic energy businesses,” “international energy businesses along the energy value chain” and “environment and non-energy businesses,” into major enterprises in the run-up to 2020. We have set our sights on evolving as a global energy and environmental businesses group. To that end, we will aggressively broaden business fields and fortify solid business foundations. With regard to the former, we need to deepen our existing businesses and broaden our reach into new fields and expand our bases of operation.

To sustain our growth and development into the future, we will provide new cutting-edge and environment-friendly value that is in step with our customers’ needs and in tune with the times. In addition, we will pursue high-quality management through the pursuit of ever-higher standards of corporate social responsibility (CSR), so that we will remain the company of choice for all of our stakeholders.

### Broadening Business Fields

**International Energy Businesses along Energy Value Chain**

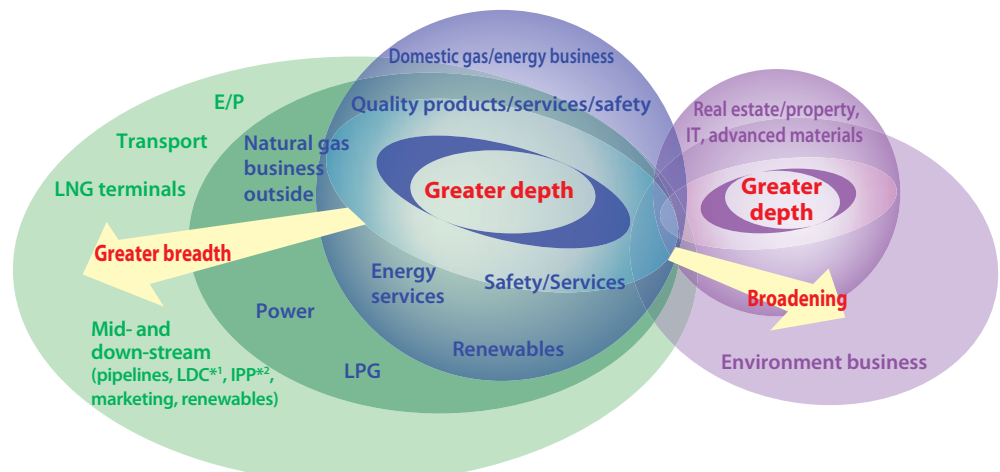
Expansion by using know-how and skills

**Domestic Energy Businesses**

Gas/energy business in Kansai region with greater scale and scope

**Environment and Non-Energy Businesses**

Greater scale and scope of strong environment/non-energy businesses



\*1: Local Distribution Company

\*2: Independent Power Producer

# Consolidated Financial Highlights

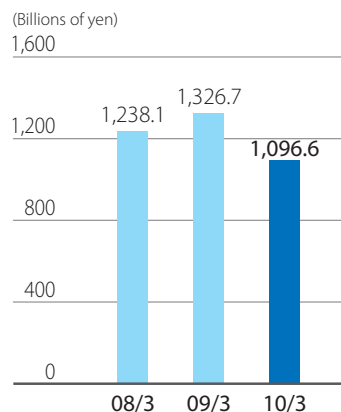
Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Fiscal years ended March 31, 2008 through 2010

	Millions of yen		Thousands of U.S. dollars		Change 2010/2009
	2008/3	2009/3	2010/3	2010/3	
<b>Financial Data</b>					
Operating revenues .....	¥1,238,145	¥1,326,785	<b>¥1,096,628</b>	<b>\$11,786,629</b>	-17.3%
Operating income .....	75,611	66,932	<b>91,140</b>	<b>979,578</b>	+36.2%
Net income .....	40,283	36,041	<b>48,384</b>	<b>520,034</b>	+34.2%
Total assets .....	1,467,934	1,452,457	<b>1,483,895</b>	<b>15,949,000</b>	+2.2%
Net assets .....	666,657	634,757	<b>690,561</b>	<b>7,422,194</b>	+8.8%
<b>Per share data</b> (yen and U.S. dollars)					
Earnings per share (EPS) .....	18.27	16.72	<b>22.50</b>	<b>0.241</b>	+34.6%
Book value per share (BPS) .....	300.76	284.21	<b>310.39</b>	<b>3.336</b>	+9.2%
Dividend .....	7	7	<b>7</b>	<b>0.075</b>	0.0%
<b>Key ratios</b>					
Equity ratio .....	44.2%	42.2%	<b>44.9%</b>		
Return on assets (ROA) .....	2.8%	2.5%	<b>3.3%</b>		
Return on equity (ROE) .....	6.1%	5.7%	<b>7.6%</b>		
<b>Other</b>					
Gas sales volume (million m <sup>3</sup> ) .....	8,917	8,416	<b>8,150</b>		-3.1%
Number of employees .....	16,682	19,009	<b>19,268</b>		+1.4%

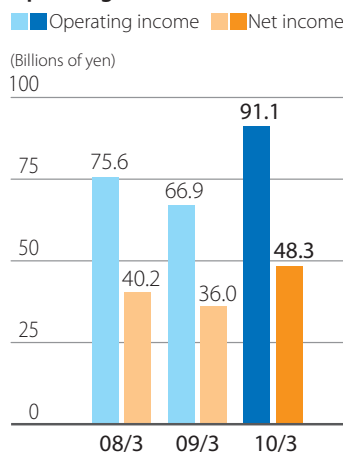
Notes:

1. The conversion of Japanese yen into U.S. dollars is based on the exchange rate of 1 USD = 93.04 JPY (spot rate as of March 31, 2010).
2. Equity ratio = equity/total assets (as of the end of the fiscal years ended March 31, 2008 through 2010)
3. Return on assets (ROA) = net income/total assets (average)
4. Return on equity (ROE) = net income/average equity (up to fiscal 2006, "average equity" was "shareholders' assets [average]")
5. All figures in the financial data are rounded down.

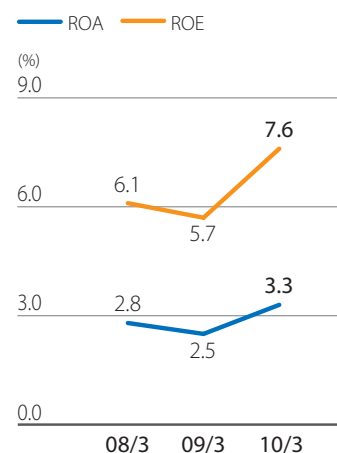
## Operating revenues



## Operating income and net income



## ROA and ROE



## To Our Stakeholders

In presenting this Annual Report for the fiscal year ended March 31, 2010, I would like to extend my greetings to all of our stakeholders.

Leveraging its rich and multifaceted business foundation, human resources and technologies that have developed through its gas business for over a century, the Osaka Gas Group has contributed to enriching customer lifestyles and developing industry. “Field of Dreams 2020” is our long-term vision and medium-term business plan with which we look ahead to 2020. Under this plan, we seek to boldly develop as a global energy and environmental business group focused on the three business areas of “domestic energy businesses,” “international energy businesses along the energy value chain” and “environment and non-energy businesses.”

In the domestic energy businesses, we will provide high-quality products, services and safety, as well as added value in the form of energy savings and security while offering our customers multiple forms of energy including electricity, LPG and renewable energies. We will also take steps to further expand our services and multi-energy business by achieving greater depth in our gas business in the Kansai region — our core business area.

In the international energy businesses along the energy value chain, we will develop projects including the gas fields in which we currently own interest, and will work to acquire new interests so that we can procure LNG flexibly and safely and generate profits. In addition, we will investigate the acquisition of new businesses, including LNG terminals and overseas gas supply projects while operating our existing overseas IPP and pipeline businesses, which are recent ventures.

In the environment and non-energy businesses, we will further deepen and expand such high-performing business areas as real estate, information technology, and advanced materials. Leveraging Group technology and know-how, we will pioneer and develop environmental projects by forming alliances with other businesses.

Moving forward, the Group will create cutting-edge value that is in step with our customers’ needs and in tune with the times. By providing comfortable environment-friendly lifestyles and business solutions, we will continue to develop and expand our business fields both at home and abroad. I would like to take this opportunity to thank each and every one of you for your ongoing support and encouragement in this endeavor.



## Our quest to be a global energy and environmental business group

A handwritten signature in black ink, appearing to read "H. Ozaki".

President **Hiroshi Ozaki**



Could you analyze the market environment and business performance for the fiscal year ended March 31, 2010?

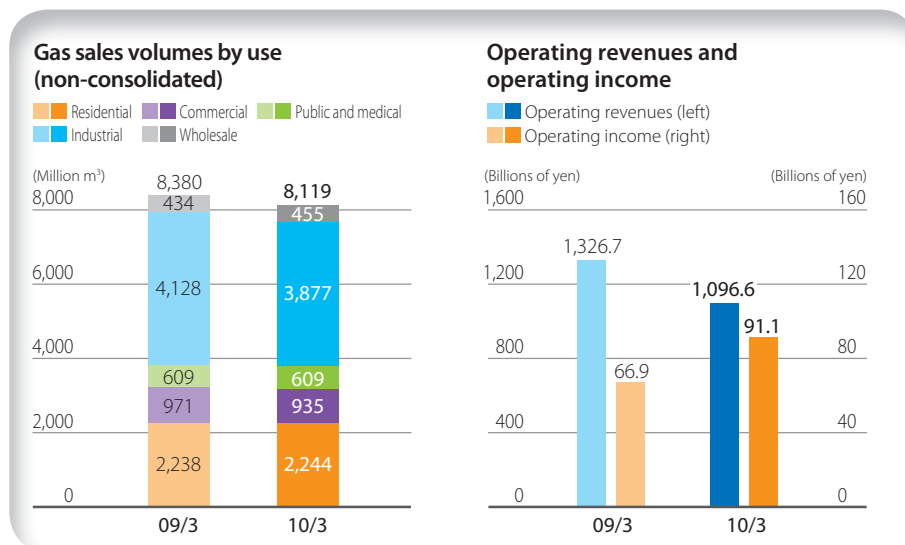
## Economic trends in Kansai region

Economic trends in the Kansai region, the main gas supply area of the Group, are breaking free from the sharp fluctuations in the business environment that began in the fall of 2008. There are also signs that consumer and capital spending is improving in some sectors. However, these improvements do not add up to a full-scale economic recovery. In particular, in the fiscal year ended March 31, 2010, gas sales volumes for industrial use amounted to only 93.9% of the previous year's sales, and only 87.2% of the levels of the fiscal year ended March 31, 2008.

This and other signs indicate that business demand will take more time to recover.

## Revenues decline and profits increase in the fiscal year ended March 31, 2010

Against this backdrop, the fiscal year ended March 31, 2010 saw Group revenues decline and profits increase. Lower gas sales volumes for industrial use and the drop in gas prices precipitated by tumbling LNG prices drove down year-on-year operating revenues by 17.3%, to ¥1,096.6 billion. On the other hand, operating income increased by 36.2% year on year, coming in at ¥91.1 billion. This was due to falling fuel costs in the wake of the LNG price slump, which significantly boosted gross profits from gas sales. A further factor was the profit from the operation of the Semboku Natural Gas Power Plant. Therefore, net income amounted to ¥48.3 billion, up by 34.2% year on year. These results demonstrated our ability to prevail and achieve sound performance despite the unfavorable business conditions experienced in the fiscal year ended March 31, 2010.





Could you explain the concept behind the medium-term business plan “Field of Dreams 2020,” which was launched in the fiscal year ended March 31, 2010, and evaluate the plan’s first year?

**Target business scale ratio of our domestic, international, and environment and non-energy businesses = 2:1:1**

The guiding principle of “Field of Dreams 2020” is to expand business in the three pivotal areas of “domestic energy businesses,” “international energy businesses along the energy value chain” and “environment and non-energy businesses.” One of the major goals that we have set for ourselves relates to the scale ratio of these businesses. We have set a target ratio of 2:1:1 for 2020 on an ordinary profit basis. What this means is that we are trying to maximize profits by expanding our business in both business areas and business domains. In terms of business areas, we are expanding our gas business from the Kansai region into the whole of Japan, and then into the international market. This will be achieved by developing the business in line with the natural gas value chain. With respect to business domains, we will expand multi-energy businesses including gas and electricity businesses, upstream and midstream businesses, including resource development and LNG terminal businesses, as well as environmental and other businesses along with real estate, information technology and advanced materials businesses. Through the expansion of these businesses, we seek to achieve increased profitability and steady growth.

### Off to a great start in its first year

I think that “Field of Dreams 2020” made a great start in 2010, its first year. Operations at the Semboku Natural Gas Power Plant, a project that we have invested in, were launched without a hitch. We also achieved solid progress in investments for incubation and expansion, having already decided to invest ¥130 billion of the ¥400 billion that we have earmarked for this purpose over the next five years, from the fiscal year ended March 31, 2010 through the fiscal year ending March 31, 2014. Investments for incubation and expansion are one of the key objectives of “Field of Dreams 2020.” I therefore believe we have laid important groundwork for advancing future growth strategies.



What is the status of and results achieved in the business areas that you focused on in the fiscal year ended March 31, 2010?

**Domestic energy businesses  
— the launching of “ENE-FARM” sales and Semboku Natural Gas Power Plant operations**

Even in our individual businesses, there have been praiseworthy developments that have contributed to the growth of the Company. “ENE-FARM,” which was launched in June 2009, is a fuel cell for households that the Company has researched and developed for many years. We expect this product to be our “ace in the hole” for achieving a society with low-carbon emission rates in the household market. Despite the slump in the market for new detached homes, the Company sold over 1,300 units, exceeding its initial sales target by 40%. In fiscal 2011, we are aiming for an even higher sales target of 1,700 units. Furthermore, we have decided to construct a Himeji-Okayama Line, for which we expect demand from the commercial and industrial sectors. Completion of the Line is scheduled for 2014.

In terms of its importance to the Company, our electricity business comes second only to our gas business. Between April and November in 2009, power generating units at the Semboku Natural Gas Power Plant (total capacity 1.1GW) were launched in phases successfully.

**International energy businesses along the energy value chain  
— participation in the Gorgon Project and a wind power generation project**

In the international energy businesses along the energy value chain, September 2009 saw the Company conclude a contract to acquire 1.25% equity in the Gorgon Project — a natural gas field located in northwestern Australia. This is the largest overseas investment ever made by the Company. In October, the Company decided to participate in the planning of the “Hallett 4” wind farm, a wind power generation project that will be developed by Australia’s largest energy company, AGL Energy Limited.

## Environment and non-energy businesses

In our environment and non-energy businesses, advanced materials business area has experienced booming sales of fine materials used in LCD film and high-definition camera lenses on cell-phones. In the real estate business, leasing has remained robust.

## Long-term Management Targets — Increase Corporate Value

	2010/3 (Results)	2014/3 (Estimate)	2021/3 (Estimate)
Operating revenues	¥ 1,096.6 billion	¥ 1,600 billion	¥ 2,000 billion
Total assets	¥ 1,483.8 billion	¥ 1,850 billion	¥ 2,100 billion
ROA	3.3%	Approx. 3.5%	Approx. 4.0%
ROE	7.6%	Approx. 8.0%	Approx. 9.0%
Return to shareholders	Payout ratio of 30% or more on a consolidated basis, excluding temporary factors affecting the profit situation		
Maintain financial soundness	Shareholder's equity ratio of 40% or more; Interest-bearing debt to equity ratio of approximately one		

## Business Directions

Domestic energy businesses	Gas business	<b>Residential sector</b>	Advanced energy systems and services contributing to customers' higher level of comfort and environment-friendliness
		<b>Commercial and industrial sectors</b>	Explore growth opportunities as energy services provider through enhanced value of services; evolution of business model based on energy-saving technologies to utility management, energy bank, and safety services
		<b>Stable natural gas supply</b>	Stable and price-competitive LNG procurement and building natural gas supply infrastructure for stable supply of gas to customers
		<b>Ensuring higher level of safety</b>	Enhancing higher safety levels in gas supply and of gas appliances through proactive measures
	Power business	<b>Power business</b>	Building power business at home and abroad as a second core business after natural gas. Further development of power business through new capacity development and restructuring of generation portfolio
International energy businesses along the energy value chain		<b>Upstream/energy trading</b>	Equity participation up to about 15% of LNG supply and seek LNG trading opportunities through equity-lifting*
		<b>Mid- and down-stream</b>	Seeking global opportunities for achieving stable revenue flow using human resources and know-how of the Group
Environment and non-energy businesses		<b>Environment and non-energy businesses</b>	Broadening existing businesses in real estate, IT, and advanced materials fields. Developing new businesses in environment-related fields utilizing own technologies

\*Ownership of LNG as per equity holding for own off-take and marketing

## Consolidating Business Foundations

Technological development and strategic use of IT	<b>Technological development and IT</b>	Promoting technological development and utilizing IT in order to "broaden business fields" and "fortify solid business foundations"
Streamlining the Group organizational structure	<b>Group organizational structure</b>	Reengineering the Group structure to create a "lean and mean" organization while pursuing higher productivity

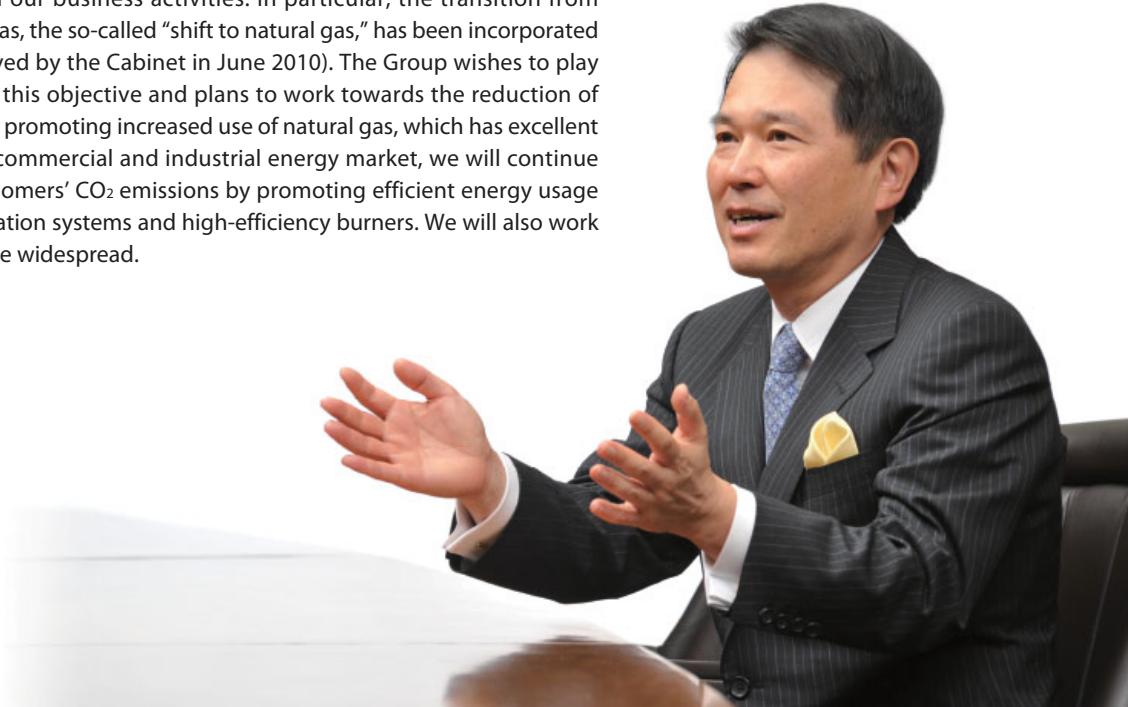
Q

What are the Group's policies on global warming, and what actions has it taken?

A

### Popularizing and promoting increased usage of natural gas

As a company involved in the energy business, one important challenge we face is achieving harmony with the environment and the efficient utilization of energy and resources through our business activities. In particular, the transition from petroleum-based fuels to natural gas, the so-called "shift to natural gas," has been incorporated into the Basic Energy Plan (approved by the Cabinet in June 2010). The Group wishes to play a pivotal role in the realization of this objective and plans to work towards the reduction of CO<sub>2</sub> emissions by popularizing and promoting increased use of natural gas, which has excellent environmental properties. In the commercial and industrial energy market, we will continue to contribute to reducing our customers' CO<sub>2</sub> emissions by promoting efficient energy usage through the utilization of cogeneration systems and high-efficiency burners. We will also work to make the use of natural gas more widespread.



Q

What are the Group's management policies and business plans for the fiscal year ending March 31, 2011?

A

### Activities aimed at realizing a low-carbon society

The Group has designated the fiscal year ending March 31, 2011 as a year of action for working towards the achievement of the goals of our business plan, "Field of Dreams 2020." A key theme within this plan is promoting businesses that contribute to the realization of a low-carbon society. In our quest to popularize and promote the increased usage of environmentally friendly natural gas, the Group will continue to propose efficient ways for households to use energy that produces less CO<sub>2</sub> emissions. We will do this by further expanding sales of our "ENE-FARM" fuel cells, which have been launched. Another way that we will work towards this goal is by promoting the widespread use of "hybrid power generation," a technique which further enhances energy efficiency by combining "ENE-FARM" and "ECOWILL" products with photovoltaic power generation. In the area of commercial and industrial energy, we will promote the shift from petroleum-based fuels to natural gas and expand our business by adding value as an energy service provider.

### Broadening our business fields

The Group will strengthen its domestic energy businesses in order to broaden business fields contained in "Field of Dreams 2020." We will do this by joining forces with energy businesses in various regions to supply natural gas over a wider area and expanding our energy business through full-year operation of our Semboku Natural Gas Power Plant. In our international energy businesses along the energy value chain, we will expand

businesses in areas such as IPP, pipeline and gas supply in advanced Western nations and other nations where the country risk is low, as well as upstream businesses including resource development. Furthermore, in our environment and non-energy businesses, we will develop new environmental businesses and expand our existing businesses. Moreover, we will actively develop technology, including our new syngas manufacturing process (AATG Process) and smart energy networks, which will contribute to the realization of a low-carbon society.

## Plan to increase revenues and reduce profits in the fiscal year ending March 31, 2011

Turning now to our performance in the fiscal year ending March 31, 2011, although revenues are expected to increase due to factors that include the growth in gas sales volumes accompanying economic recovery, operating income are expected to decline due to temporary losses caused by the time lag in the fuel cost adjustment system. Nevertheless, if these temporary losses were eliminated, profits would increase steadily.

### Business plan for FY2011

	(Billions of yen)		
	10/3 Results	11/3 Plan	Change
<b>Operating revenues</b>	1,096.6	1,175.0	+7.1%
<b>Operating income</b>	91.1	72.5	-20.5%
<b>Net income</b>	48.3	37.0	-23.5%

	(Million m <sup>3</sup> )		
<b>Gas sales plan (non-consolidated)</b>	10/3 Results	11/3 Plan	Change
Residential	2,244	2,282	+1.7%
Commercial	935	939	+0.5%
Public and medical	609	578	-5.1%
Industrial	3,877	3,931	+1.4%
Wholesale	455	440	-3.2%
<b>Total</b>	<b>8,119</b>	<b>8,170</b>	<b>+0.6%</b>

	(GWh)		
<b>Electricity sales volume plan</b>	5,441	6,767	+24.4%



The Group's interest-bearing debt has exceeded ¥500 billion.

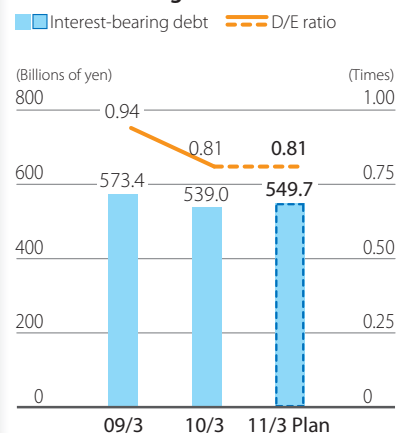
What is the Group's financial policy and investment plan going forward?

### Maintaining financial soundness

We will maintain shareholders' equity of 40% or over and a debt-to-equity ratio of one over the mid- to long-term

The Group as a whole will continue to invest in order to achieve the goals of "Field of Dreams 2020." The total amount of investments is expected to reach ¥1.5 trillion by the fiscal year ending March 31, 2021. However, under our plan, the amount of investment is expected to achieve a near balance with projected operating cash flows of ¥1.8 trillion. Therefore, I do not believe that interest-bearing debt will grow significantly as a result of investment. As a yardstick for measuring the soundness of our finances, we are aiming to maintain shareholders' equity of 40% or over and a debt-to-equity ratio of about one over the mid- to long-term.

### Interest-bearing debt and D/E ratio





What is your policy on shareholder returns?



### Philosophy on dividends and share buy-back

The Company is fundamentally committed to the ongoing provision of stable dividends. At the same time, within the distributable surplus of the Company, we are aiming to achieve a consolidated dividend payout ratio of 30% or more, after eliminating factors that cause profits to fluctuate in the short-term. In terms of share buy-back, we may flexibly repurchase our own shares when we believe that our financial and cash flow conditions allow us to do so after making investments in future business growth.

### Increasing the target dividend for the fiscal year ending March 31, 2011 by one yen per share

In the fiscal year ended March 31, 2010, the Company paid out a dividend of 7 yen per share. In the fiscal year ending March 31, 2011, we are aiming to pay out a dividend of 8 yen per share. We expect that the outcome of investments made to date, such as the full-year operation of our Semboku Natural Gas Power Plant and growth of our affiliated companies, will contribute to our bottom line. We have made sound decisions for investments for incubation and expansion and anticipate that this will contribute to future profits. Thus, while we are continuing to invest for future growth, the Company will determine shareholder returns such as dividends and share buy-back taking into account earnings, business plan progress, financial and cash flow conditions, among other factors.



Finally, what message do you have for shareholders and stakeholders?



Under the business plan "Field of Dreams 2020," the Osaka Gas Group is committed to becoming a business group that realizes the dreams of each of its shareholders and stakeholders through the contributions that it makes towards improving the global environment, making customers' lives more comfortable and increasing business prosperity. We will achieve this goal by growing together with our employees. Although future prospects in the business environment remain clouded by uncertainty, we view changes in the market environment as business opportunities. Thus, we will energetically press on to achieve the goals of "Field of Dreams 2020" by taking on the challenges presented by changes in the structure of our business.





**Special Feature: Measures to Prevent Global Warming**

# **Aiming for the Realization of a Low-Carbon Society through Natural Gas**

**(Photo) Green space at Semboku Plant**

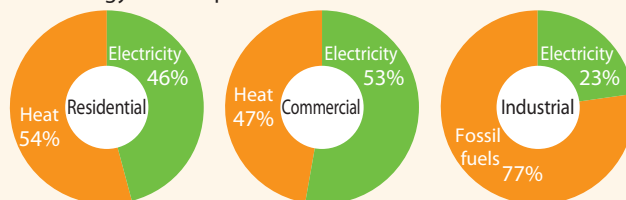
At our Semboku Plant, we manage green spaces in such a way as to reproduce the former eco-conditions there, which exhibited a high degree of biodiversity. Under our concept of a green network linked with the local community, one-fifth of the total area of the Semboku Plant has been converted to green space that functions as a habitat for natural life forms.

# Aiming for the Realization of a Low-Carbon Society through Natural Gas

## The Keys: Energy Conservation and CO<sub>2</sub> Emission Reduction in the Thermal Energy Area

Two types of energy that are used in households and factories are thermal energy (fuel) and electricity. Approximately half of the energy used by households and commercial and three-quarters of the energy used by factories and industry is thermal energy. Therefore, in order to achieve a low-carbon society, we must implement measures on the dual fronts of thermal energy and electricity.

Ratio of heat (or fossil fuels) and electricity as percentage of energy consumption



\*Ratio of heat (or fossil fuels) and electricity as percentage of final energy consumption  
Source: EDMC Handbook of Energy & Economic Statistics in Japan, 2009

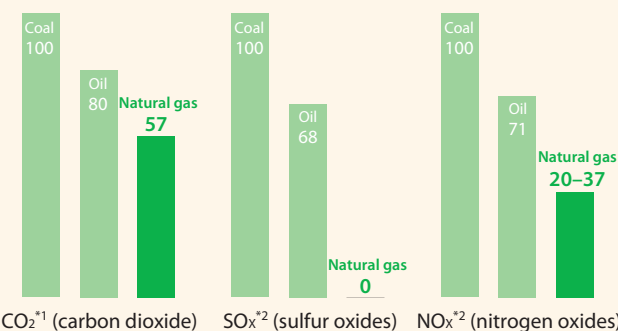
## Curbing Global Warming through Increased Use of Natural Gas

Natural gas is a form of “clean energy” that releases fewer CO<sub>2</sub> emissions than any other fossil fuel.

In line with national energy policies, by making the use of environmentally-friendly natural gas and promoting the popularization of high-efficiency equipment and systems such as cogeneration systems and gas-powered air-conditioning systems, the Group is actively reducing the environmental footprints of its customers in the form of lower CO<sub>2</sub> emissions.

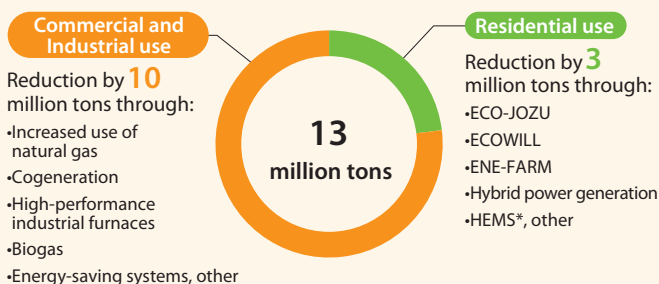
Through such initiatives, we are aiming to reduce our customers’ CO<sub>2</sub> emissions by three million tons in the household sector and 10 million tons in the commercial and industrial sector by the end of the fiscal year ending March 31, 2021 (cumulative).

Emission levels for fossil fuels (Coal = 100)



\*1: Institute of Applied Energy (IAE) Report on Thermal Power Plant Atmospheric Impact Assessment Technology Demonstration Survey (1990/3)  
\*2: International Energy Agency (IEA) Natural Gas Prospects (1986)

Estimated reduction in CO<sub>2</sub> emissions between FY2010 and FY2021

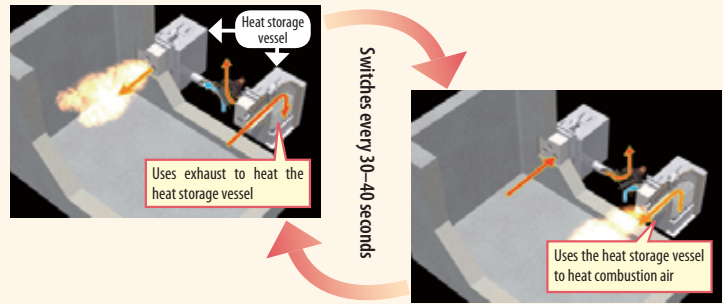


\*For further details about HEMS (Home Energy Management System), please see page 15.

# Energy Conservation and CO<sub>2</sub> Emission Reduction Initiatives in the Industrial Sector

In factories, various kinds of thermal energy are used for a variety of applications — from the ultra-high temperatures of melting furnaces to steam and hot water. In the usage of these types of thermal energy, the key to conserving energy and reducing CO<sub>2</sub> emissions lies in devising ways of eliminating the wasteful discharge of waste heat. Therefore, the Group is contributing to energy conservation and CO<sub>2</sub> emission reductions at the customer end by developing and popularizing various kinds of equipment, including Regenerative Burners — burners for high-efficiency industrial furnaces — and through energy conservation consulting and engineering.

## Principles of the Regenerative Burner System



# Natural Gas Cogeneration Systems

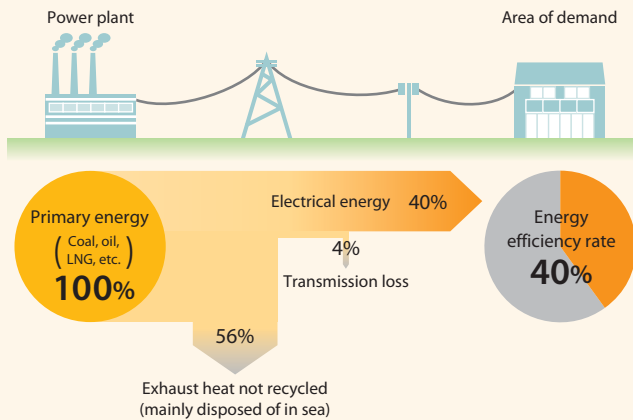
## From Business to Households — Achieving Energy Conservation and Reduced CO<sub>2</sub> Emissions

A cogeneration system is a system which, in addition to generating power using equipment that is installed at the customer's site, recovers the exhaust heat emitted during generation and uses it for air conditioning and heat treatment.

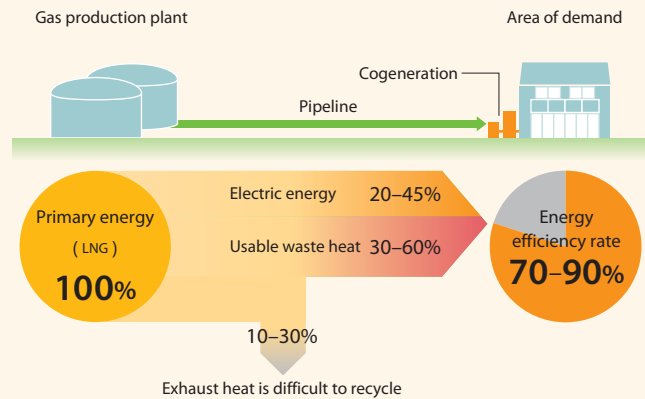
As the power is generated at the customer's site, little is lost in energy transmission. Energy utilization efficiency is also enhanced by 70–90% through the efficient use of waste heat.

### General concept of cogeneration

#### Power generation system using conventional methods\*



#### Cogeneration system

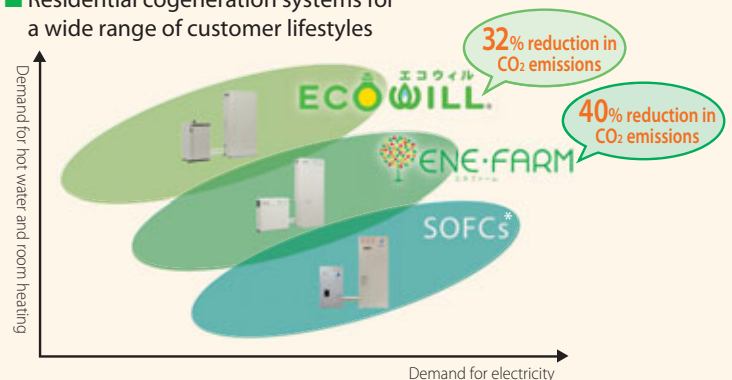


\*Average for 10 power companies (fiscal 2005)  
Source: "Cogeneration system" by The Japan Gas Association

# Cogeneration Systems for Households

The Company also sells "ENE-FARM" residential fuel cell-powered cogeneration systems and "ECOWILL" residential gas-powered cogeneration systems, which are able to contribute to more comfortable lives for consumers and energy conservation. We also offer highly economical "hybrid power generation," which further enhances the environmental properties of "ENE-FARM" and "ECOWILL" by combining these systems with photovoltaic power generation.

## Residential cogeneration systems for a wide range of customer lifestyles



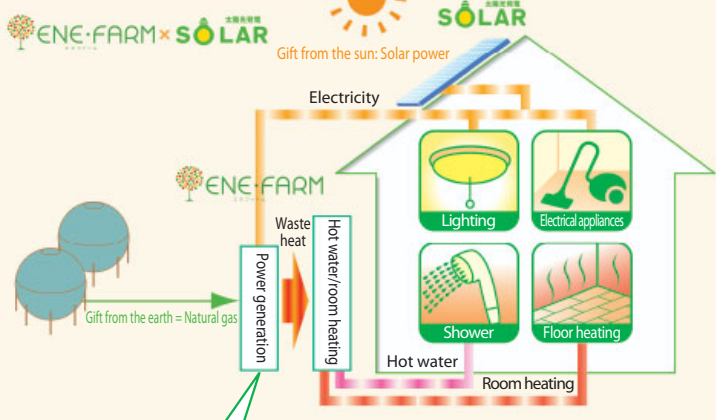
\*For further details about Solid Oxide Fuel Cells (SOFCs), please refer to pages 15 and 36.

Special Feature:  
Measures to Prevent  
Global Warming

"Hybrid power generation" offers superior environmental and economic benefits. The combination of "ENE-FARM" and "ECOWILL" with photovoltaic power generation will not only significantly reduce heating and lighting expenses in homes, surplus electricity can also be sold back to the power company. The Company therefore intends to further popularize this system in the future.

Energy efficiency of residential fuel cell cogeneration system "ENE-FARM" and hybrid power generation

"Hybrid" power generation



"ENE-FARM" alone reduces:		Hybrid with "ENE-FARM" reduces:	
Primary energy use by	CO <sub>2</sub> emissions by	Primary energy use by	CO <sub>2</sub> emissions by
approx. 27%	approx. 40%	approx. 45%	approx. 70%

Residential Gas Engine Cogeneration System  
"ECOWILL"

"ECOWILL" is a system of generating power at a customer's site and using it to provide hot water and room heating. This system is tailored to the individual circumstances of each household and operates automatically to achieve optimal energy conservation levels. Compared to conventional systems, primary energy consumption is reduced by approximately 21% and CO<sub>2</sub> emissions by approximately 32%. Thus, an overall energy efficiency ratio of 85.5% is achieved. Such tremendous environmental performance has been embraced by the market and the system has gained popularity. In fiscal 2010, the cumulative number of units sold by the Company topped 64,000.



Residential gas engine cogeneration system "ECOWILL"

Residential Fuel Cell Cogeneration System  
"ENE-FARM"

In June 2009, the Company released "ENE-FARM," a polymer electrolyte fuel cell (PEFC) cogeneration system for households. The "ENE-FARM" reforms natural gas into hydrogen. The hydrogen then chemically reacts with the oxygen in the air to generate electrical energy, and the heat from this reaction is used to make hot water. This system achieves a power generation efficiency of 35%, which significantly exceeds the 22.5% achieved by "ECOWILL." Furthermore, compared to conventional systems, primary energy consumption is reduced by approximately 27% and CO<sub>2</sub> emissions by approximately 40%.

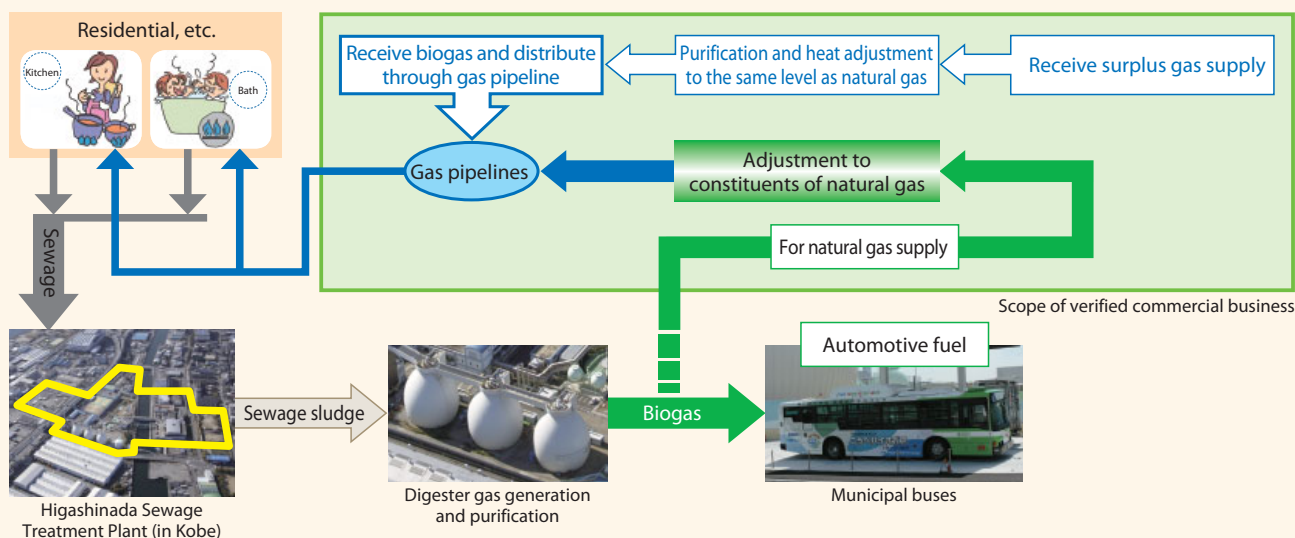


Residential fuel cell cogeneration system "ENE-FARM"

## Renewable Energy Usage Initiatives — Biogas Usage

The Company has joined forces with the City of Kobe and Kobelco Eco-Solutions Co., Ltd. to embark on a pilot project which will mix biogas produced by the Higashinada Sewage Treatment Plant (in Kobe City) with natural gas and then supply it to customers. This biogas is highly-refined gas derived

from sewage sludge, and this initiative represents the first attempt in Japan to supply biogas directly to the gas supply network. Through this pilot project, operational methods and economic feasibility will be verified to ensure the efficient usage of biomass resources and CO<sub>2</sub> emission reductions.



## Efforts to Develop Next-Generation Environmental Systems

### ► Solid Oxide Fuel Cells (SOFCs)

The Company is currently developing solid oxide fuel cells (SOFCs) as the next generation of fuel cells. As these SOFCs have high overall power generation efficiency, even among cogeneration systems, they offer substantial environmental and economic benefits, even in residences with relatively lower thermal demands. Furthermore, having a compact design, they can also be installed in housing complexes and detached homes where space is limited. Therefore, by around 2015, we plan to commercialize SOFCs as a new strategic product that will expand the market for residential cogeneration systems, and demonstration tests are currently underway.

### ► “Solar Cooling” — Industrial Air-Conditioning System that Uses Solar Energy

The “Solar Cooling” industrial air-conditioning system is a system that efficiently uses solar energy to provide cooling in summer and heating in winter. The system heats water by efficiently gathering solar energy and uses the heated water as a thermal energy source for a high-efficiency gas absorption chiller heater. A demonstration test that commenced in June 2009 at the Company is currently underway. As solar energy is used as the preferential thermal source, the system is able to achieve high energy-saving heating and cooling.

### ► Smart Energy Houses and HEMS

The Company has joined forces with major home builders and is currently conducting verification experiments on “smart energy houses,” which combine residential fuel cells, solar cells and rechargeable batteries and optimally operates them to further enhance energy conservation properties, in order to develop systems aimed at optimizing the overall energy consumption of households. One such initiative is the Home Energy Management System (HEMS), an energy conservation service that “visualizes” the energy consumption within homes for our customers. We are continuing to verify how the information provided by this system can be translated into energy-saving actions on the part of our customers and confirming its feasibility.

### ► Smart Energy Networks

Smart energy networks are systems where several power sources, including renewable energy and cogeneration systems, are combined over a wide area to mutually accommodate electricity and heat. Information communications technology is used to optimally control the energy supply and demand. This facilitates significant energy saving and CO<sub>2</sub> emission reductions within the areas linked by the network. The pilot project has been underway since May 2010.

(For further details about all these initiatives, please refer to “Technological Development” on pages 36 and 37).

## Corporate Governance

“Value Creation Management” is the group management principle of the Group. Based on this principle, the Group is maximizing corporate value and further enhancing value for all stakeholders through fair and transparent business activities. This will lead to the creation of a healthier business and stronger corporate governance.

Following the internal regulations stipulated by the Board of Directors, the Executive Board and Board of Directors are comprised of the executive directors and directors that implement Group business. They make decisions after thoroughly deliberating upon relevant issues. The Board of Directors consists of 13 directors (including two outside directors). Its mission is to make swift and appropriate decisions about important matters that affect the whole Group and to enhance supervisory capabilities. The Company has adopted an executive officer system under which some representative directors and directors concurrently serve as executive officers in addition to performing the duties assigned by resolution of the Board of Directors. This serves to further strengthen the supervisory functions of the Board of Directors and enhance their performance in the execution of

their duties. The Articles of Incorporation stipulate that there shall be no more than 27 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.

Moreover, the Company has adopted the corporate auditor system. Four corporate auditors, of whom two are outside auditors, each monitor the execution of work duties by the Board of Directors of the Group. In addition, the Corporate Auditor’s 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.

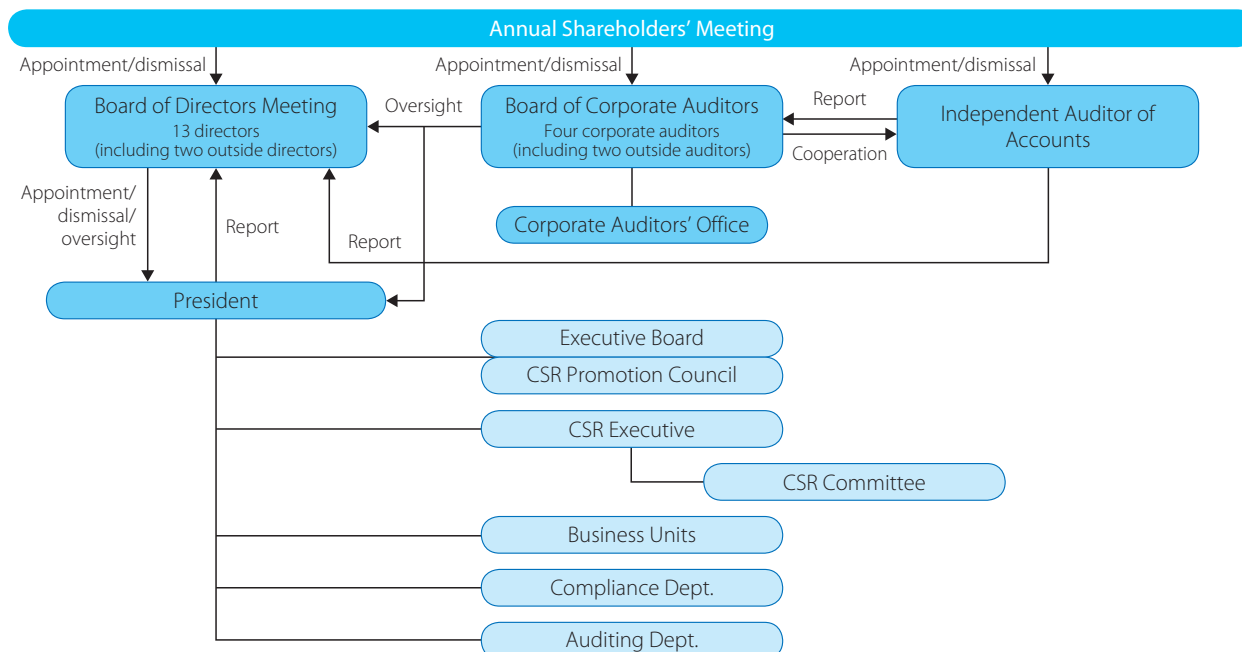
As the two outside directors and two outside auditors are not major customers of the Group or major shareholders of the Company (including those who work for such major customers or shareholders), there is no danger of a conflict of interest with normal shareholders arising, and they have been deemed to be sufficiently independent. Therefore, they have been registered as independent directors with the financial product exchanges on which the Company is listed.

## Internal Control Systems

The Company has established the Auditing Department (with a staff of 21 people), 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 the organization with advice and recommendations.

The Company is strengthening and enhancing its auditing and internal control functions. After first setting down clear provisions on responsibility and authority in the internal regulations, the Company delegates authority to each business segment and establishes an internal auditing team within each organization.

**Corporate governance organization**



# Directors and Corporate Auditors

(As of June 29, 2010)

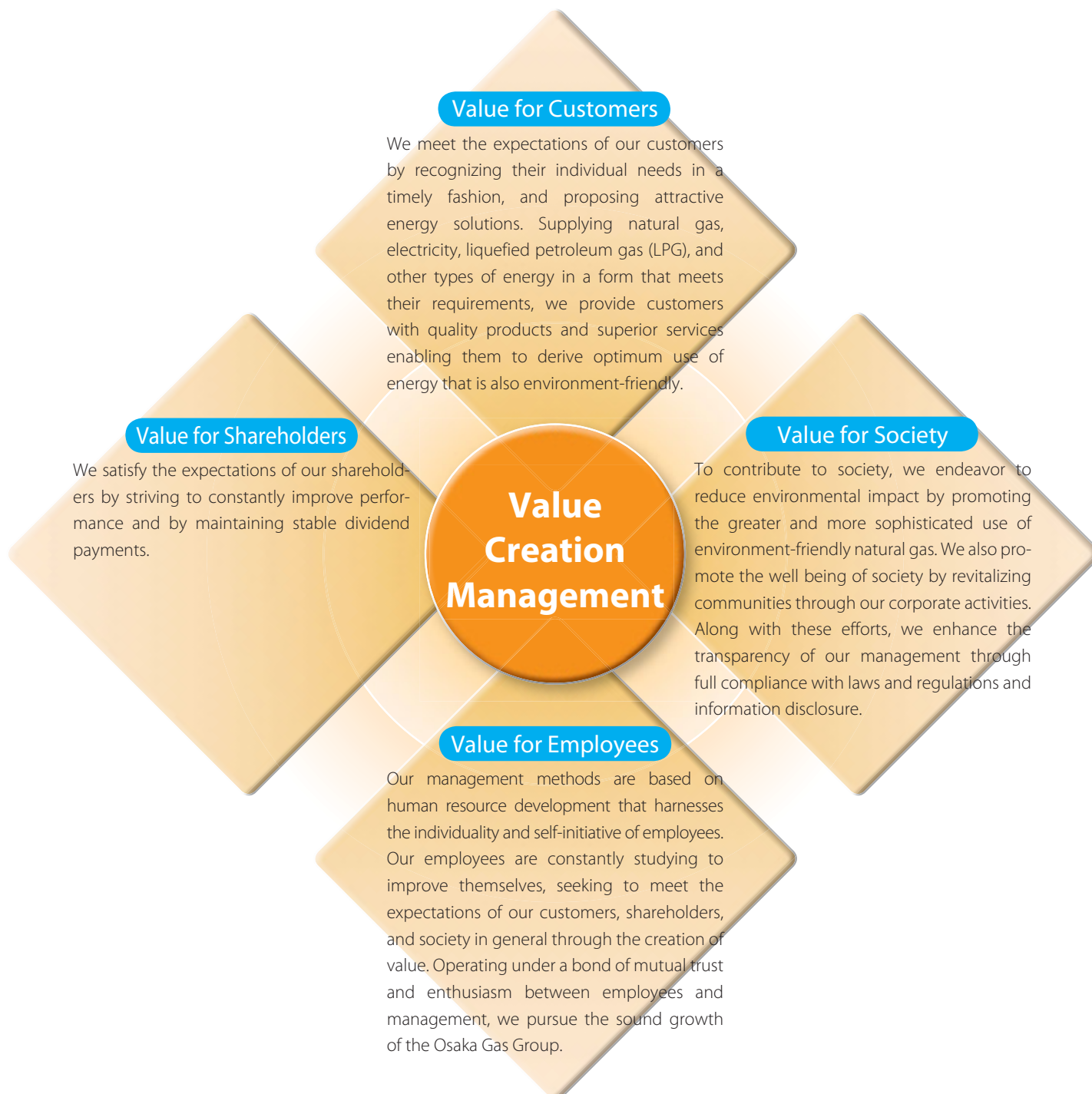


(Front row, right to left) President Hiroshi Ozaki, Representative Director Hiroshi Yokokawa  
(Back row, right to left) Representative Director Masashi Kuroda, Representative Director Takashi Sakai

President:	<b>Hiroshi Ozaki</b>	Corporate Auditors (full-time):	<b>Seishiro Yoshioka Akio Ukai</b>
Representative Directors:	<b>Hiroshi Yokokawa Masashi Kuroda Takashi Sakai</b>	Corporate Auditors:	<b>Toshihiko Hayashi Kenji Torigoe</b>
Directors:	<b>Shigeki Hirano Kazuo Kakehashi Noriyuki Nakajima Masato Kitamae Takehiro Honjo Koji Kono Hirohumi Kyutoku</b>		
Outside Directors:	<b>Tadamitsu Kishimoto Shunzo Morishita</b>		

## Osaka Gas Group's Management and CSR

“Value Creation Management” is the core philosophy of the Osaka Gas Group. We will increase value for all stakeholders, including shareholders, society and employees, by ensuring fairness and transparency in our business operations, with a priority on maximizing value for our customers. The Company believes that effective Value Creation Management will enable it to fulfill its CSR obligations.



## The Osaka Gas Group CSR Charter — Formulation and Approach .....

The Osaka Gas Group CSR Charter was enacted in April 2006, clarifying the Group's CSR principles and policies. In July of that year, the Group established a CSR Promotion Council and CSR Committee to develop systems for promoting CSR. It also appointed directors (CSR Executive) to oversee CSR activities and ensure that they are positive and appropriate.

In order to fulfill its social responsibilities, the Company participated in the United Nations Global Compact as the first Japanese public utility in June 2007. In 2009, the activities report that we submitted to the United Nations was singled out for its commitment to the "Notable COP" program and, in 2010, we were selected as "Leaders" by investors who support the UN Principles

of Responsible Investment.

In 2009, the "CSR Index," which also reflects the views of external stakeholders, was established and officially announced as a yardstick for actualizing CSR charter outcomes. This index simultaneously serves as a gauge for assessing the level that each charter is working towards and as a standard for measuring outcomes, so that companies can further enhance their corporate value. We are also enhancing the efficacy of such initiatives by holding regular CSR Committee meetings where CSR coordination and promotion measures are deliberated on a cross-departmental basis. Information about these activities is presented in the Group's annual CSR Report.

### 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 the 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
- II. Contributing to harmonizing with the environment and to realizing a sustainable society
- III. Being a good corporate citizen contributing to society
- IV. Complying with laws and regulations and respecting human rights
- V. Management policy of human growth

## Compliance .....

In order to be a socially responsible corporation, we must, above all, ensure rigorous compliance. Recognizing this fact, the Company compiled the Code of Conduct of the Osaka Gas Group in 2000. The purpose of the Code is to provide training and education to all Group employees — directors and regular staff at the Company as well as those at affiliates — to ensure they have a thorough awareness and understanding of the need to observe laws and regulations. As a framework for promoting compliance, we have established a CSR Committee and compliance subcommittee, and

the Compliance Department and a Compliance Desk to oversee the internal reporting system. Based on this framework, the Group is focusing on three priority initiatives: "Gaining Awareness of Legislation and Company Rules and Regulations," "Creating a Culture of Compliance and Mechanisms to Avoid Violations" and "Strengthening and expanding Auditing and Monitoring throughout the Group." The goal of these initiatives is to further entrench and institutionalize compliance throughout the Group.

### The Osaka Gas Group Code of Conduct

#### I. Code of conduct as a good corporate citizen

- 1. Respect for human rights
- 2. Consideration for the environment

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

- 3. Duty as a provider of energy and other services
- 4. Assurance of product safety

#### III. Code of conduct in business transactions

- 5. Comply with the antimonopoly law
- 6. Conduct fair transactions
- 7. Response to customers
- 8. Socialization with business associates

#### IV. Code of conduct in information management

- 9. Information handling and disclosure
- 10. Use of information systems
- 11. Management of intellectual property

#### V. Code of conduct in the workplace

- 12. Establishment of a comfortable and secure working environment
- 13. Employment and treatment of employees

#### VI. Code of conduct in working with society

- 14. Prohibiting dealings and sharing of profits with antisocial forces
- 15. Payment of taxes

### Environmental Initiatives of Osaka Gas Group .....

The Group is working hard to reduce the environmental impact of its business activities through efforts that include promoting efficient energy use and encouraging the use of recyclable resources at gas production facilities and office buildings. The seven separately certified environmental management systems for the Company's business segments since 1997 have been integrated, and in December 2007, Osaka Gas obtained Company-wide ISO14001 certification. Thus, the entire Company is now following one unified environmental management system. Furthermore, all of the Group's 85 domestic affiliates have now adopted and are operating this system (as of June 30, 2010).

The Company is also working hard to reduce the environmental impact of its customers by providing goods and services that produce less CO<sub>2</sub> emissions. In our gas business, we are promoting the widespread use of environment-friendly natural gas, which is in line with national energy policies, and the adoption of high-efficiency equipment and systems such as cogeneration systems and gas-powered air conditioning systems. We also offer

a diverse range of services, including a financing scheme for reducing the cost burden on customers that adopt energy-saving equipment.

The Group is also actively involved in a range of environmental conservation activities, including creating green spaces within our manufacturing facilities in which we cultivate rare plant species, and afforestation in Japan and abroad. In April 2010, the Group publicly announced the "Osaka Gas Group Policy on Biodiversity." Based on this policy, we are cooperating with local government entities and research centers in a variety of projects, including a project for "greening" our property in the Kansai region based on the theme of plants featured in ancient literary texts.

Our publicized environmental activities and performance data have been highly commended; in November 2009, the Company was named to the "Climate Disclosure Leadership Index" of the Carbon Disclosure Project (Out of the 500 Japanese companies surveyed, 31 were selected).

### Activities that Contribute to the Local and International Community .....

As well as forging strong links with the local community through our business, the Company has formed strong ties with the international community, chiefly in South-East Asia and Oceania, by acting as a trading partner for natural gas, our key energy product.

In terms of domestic activities, the Group has been running its Small Light Campaign — a low-key but ongoing corporate volunteer initiative — since 1981. We encourage our employees to participate in community conservation activities on a long-term basis, in a spirit of dedication to the community and a determination to resolve issues faced by local communities through individual actions. We also conduct various activities that are focused on children — the leaders of the next generation. For example, we hold "Energy and Environmental Education" seminars, where Group employees and former employees serve as visiting lecturers, provide dietary education through initiatives such as the "Parent-Child Cooking Competition," and sponsor a sports club chaired by Olympic Bronze Medalist Nobuharu Asahara. We have integrated the concept behind these activities under the name

"Energetic Kids" and have been actively disseminating information and joining forces with other businesses to promote the concept.

The Osaka Gas Group Welfare Foundation seeks to contribute to the realization of a society whose members enjoy long and active lives. For this reason, it provides grants for welfare initiatives, research and studies that focus on the elderly. It is also engaged in projects for maintaining and improving the health of senior citizens. During fiscal 2010, 14,800 senior citizens participated in the project.

We also carry out Group activities that contribute to the international community. Through the Osaka Gas Foundation of International Cultural Exchange, established in 1992, the Group is conducting an educational grant initiative aimed at promoting mutual understanding between Japan and countries of South-East Asia and Oceania, which are natural gas-producing nations. In the 18 years since the inception of this project, the Group has provided grants totaling ¥319 million for educational materials, experimental research, scholarships and for other areas.

### Inclusion in Various Social Responsibility Investment (SRI) Indices .....

In recognition of its diverse CSR activities, the Company has been accepted into the following Social Responsibility Investment (SRI) indices (as of March 31, 2010).

- Dow Jones Sustainability Asia Pacific Index
- FTSE4Good Index Series
- ECPI Ethical Index Global (E. Capital Partners Indices)
- Ethibel Sustainability Index
- KLD Global Climate 100 INDEX (KLD Research & Analytics)
- Morningstar Socially Responsible Investment Index (MS-SRI)

# Osaka Gas Group's Businesses

Domestic Energy Businesses

International Energy Businesses along the Energy Value Chain

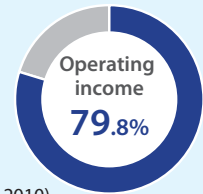
Environment and Non-Energy Businesses

(Photo) Semboku Natural Gas Power Plant

At the Semboku Natural Gas Power Plant we began construction of the first unit in October 2006 and commenced operations at all four units in 2009 (total output: 1.1 GW). We have designated power generation as our second-most important business after natural gas, and plan to use the multiple-energy source format as a basis for gas and electricity sales expansion.

# Domestic Energy Businesses

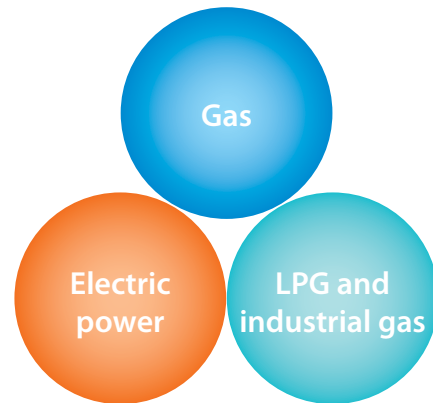
The Osaka Gas Group is not only improving the quality of its gas business in its supply area, but is also developing wide-ranging multi-energy businesses together with the electricity and LPG businesses.



(Fiscal 2010)

## Domestic Energy Businesses

The domestic energy businesses are comprised of the gas, electric power, LPG and industrial gas businesses. The Group has developed a comprehensive system to offer stable supply, safety, and services, and is a multi-energy provider helping to achieve customer convenience and richer lives.



### The gas business area



The Company's supply area spans 78 cities and 29 towns in the six prefectures of the Kansai region\*, an area of 3,200km<sup>2</sup>, using 59,000km of its gas pipeline network. In the eastern side of the supply area, the Company and Chubu Electric Power Co., Inc. are working together to construct the Mie-Shiga Line (a pipeline approximately 65km long between Taga Town in Shiga Prefecture and Yokkaichi City in Mie Prefecture, with planned completion in 2014) in order to improve the reliability of gas

supply. The Himeji-Okayama Line (a pipeline approximately 85km long between Himeji City in Hyogo Prefecture and Okayama City in Okayama Prefecture, with planned completion in 2014) is under construction in the western side of the supply area to supply industrial customers.

\* The Group also supplies Nabari City in Mie Prefecture, Toyooka City in Hyogo Prefecture, and Shingu City in Wakayama Prefecture through consolidated subsidiary companies.

# Gas Business

Residential, and Commercial and Industrial Gas Sales

As our core business, the gas business supplies gas to 7.01 million households and delivers comfortable living and business solutions for both residential and commercial and industrial customers.



## Business Characteristics\*1

The gas business is the core of the Group and serves gas users in Japan's second-largest urban area, the Kansai region — producing and supplying natural gas, installing house-pipes, and selling gas appliances. The Group has penetrated the wide-ranging market segments of household, commercial, public and medical, and industrial customers to meet their diverse energy needs. The Group is working toward the stable procurement of energy resources\*2 and ensuring the soundness of its pipeline and gas business infrastructure to deliver gas safely and reliably around the clock.

\*1: For an overview of the Group's sales and marketing initiatives, please refer to pages 24 and 25 "Residential Gas Sales," and pages 26 and 27 "Commercial and Industrial Gas Sales."

\*2: For information about the procurement of raw materials, please refer to page 32.

## Overview of Gas Sales

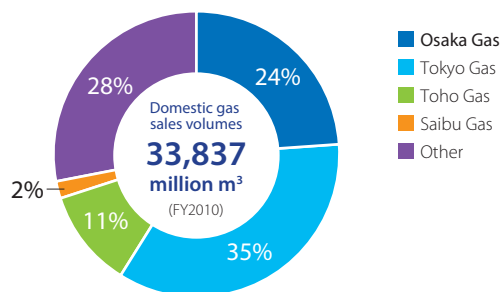
In the fiscal year ended March 31, 2010, gas sales by volume of the Company were approximately 8.1 billion m<sup>3</sup>\*3, representing about 24% of gas sales nationwide. Likewise, as of March 31, 2010, the number of the Company's customers reached 6.98 million\*4, accounting for about 24% of such customers nationwide. Looking at the breakdown of gas use by sales volume, industrial-use sales of approximately 3.8 billion m<sup>3</sup> accounted for about half of the

total, and residential-use sales of approximately 2.2 billion m<sup>3</sup> for about one-quarter of the total. Commercial-use sales accounted for approximately 900 million m<sup>3</sup>, and public and medical-use sales totaled approximately 600 million m<sup>3</sup>. About 400 million m<sup>3</sup> of gas was sold to other gas companies on a wholesale basis.

\*3: Gas sales volume at the other four consolidated subsidiary companies totaled approximately 30 million m<sup>3</sup>.

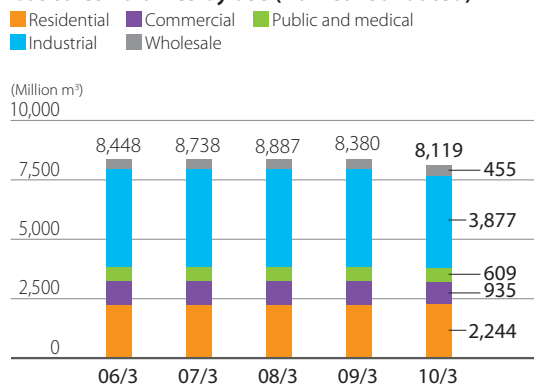
\*4: The other four consolidated subsidiary companies served a total of approximately 29,000 household customers.

Share of domestic sales



Note: In this graph only, 1m<sup>3</sup> = 41.8605 MJ/m<sup>3</sup>.  
Source: Gas Sales Volumes, the Japan Gas Association

Gas sales volumes by use (non-consolidated)



## Characteristics of the Japanese Gas Industry\*5

- There are 211 gas companies in Japan, but the majority of gas sales by volume is accounted for by a few major companies.
- Japan relies on imported LNG for most of the gas supplied in the country. It was first imported in 1969.
- In contrast to many other countries, Japan does not have any international gas pipelines or gas pipelines interlinked nationally.
- The gas business is operated in an integrated manner from import to storage, to production and sales.

\*5: Please refer to "The Japanese Gas Business" on pages 40 and 41 for more detailed information.

The Group offers innovative gas appliances and energy systems so customers can enjoy safe and environment-friendly lifestyles in comfort.



### Business Characteristics and Strengths

The Group's residential gas business supplies gas to homes reliably and safely and offers a variety of gas appliances in an effort to expand gas use. We work together with gas appliance manufacturers to develop new appliances that meet customers' needs, and support comfortable lifestyles through gas appliances. We are also committed to swiftly responding to the maintenance and repair needs of our customers. In the Kansai region, though the number of households has increased with the growth in smaller families, the population is declining, and competition is intensifying with all-electric home energy systems. Against this backdrop, we are striving to popularize our residential gas engine cogeneration system "ECOWILL" and residential fuel cell cogeneration system "ENE-FARM" which capitalize on the superior environment-friendliness of natural gas. Through these efficient energy uses, we work to achieve a low-carbon society and to expand gas demand in households.

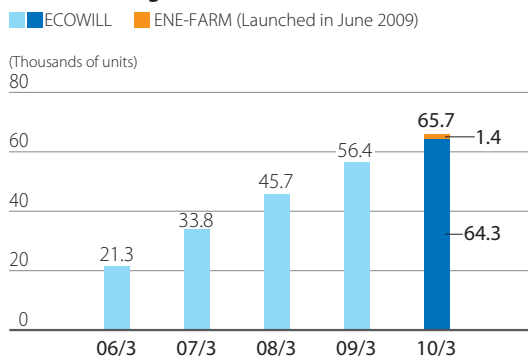
### ◆ Residential Fuel Cell Cogeneration System "ENE-FARM" Introduced

"ENE-FARM" is a home electricity generator that runs on gas. It is an efficient distributed electricity generation system that both supplies electricity and efficiently uses waste heat for hot water supply and space heating. By generating electricity in the home, it is possible to use the waste heat, thereby reducing the volume of primary energy consumed by approximately 27% and the volume of CO<sub>2</sub> emitted by approximately 40% compared with conventional power generation systems. In the fiscal year ended March 31, 2010, 1,386 "ENE-FARM" units were sold, exceeding the initial target by approximately 40%. By combining "ENE-FARM" or "ECOWILL" with photovoltaic electricity generators, we are proposing "hybrid power generation" to achieve even greater CO<sub>2</sub> emission reductions. More than 1,000 households are already using these units.

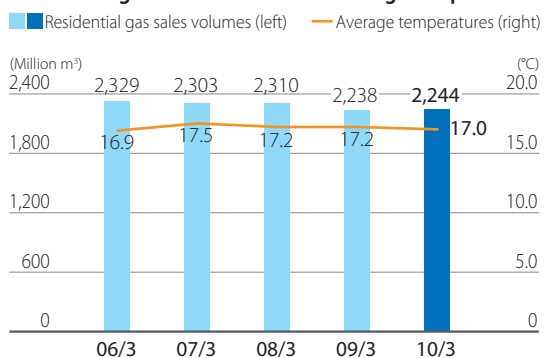
### Fiscal 2010 Overview and Initiatives

Residential gas sales volume increased by 0.2% over the previous year, to 2,244 million m<sup>3</sup> in the fiscal year ended March 31, 2010, as both atmospheric and water temperatures were relatively low throughout the year. The "ENE-FARM" residential fuel cell cogeneration system launched in June 2009 and the residential gas engine cogeneration system "ECOWILL" introduced earlier were marketed as mainstay products in the residential sector. The total number of these units sold for the year was about 9,300.

Residential cogeneration units sold (cumulative total)



Residential gas sales volumes and average temperatures

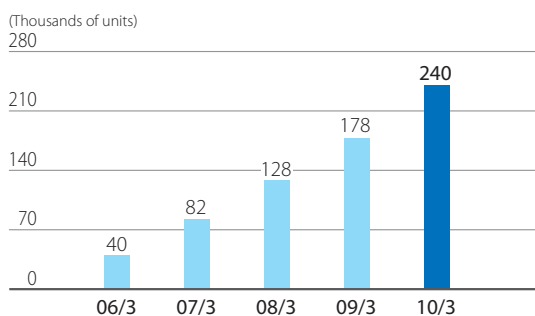


"ENE-FARM" residential fuel cell cogeneration system

## ◆ Developing and Selling Appliances in the Pursuit of Efficiency, Comfort and Convenience

The residential sector develops and sells gas appliances that contribute to conserving energy and reducing CO<sub>2</sub> emissions. Of these, “ECO-JOZU,” a high-efficiency gas residential water heater that re-uses combustion gases previously released into the atmosphere to supply hot water, has been highly popular since first introduced. In the fiscal year ended March 31, 2010, 62,000 units were sold, with cumulative total sales reaching 240,000 units. “Mist Sauna” uses the high thermal energy of gas to generate steam and allow users to enjoy saunas in their homes. With the recent growing interest in health and beauty, 32,000 units were sold in the fiscal year ended March 31, 2010, and aggregate sales of “Mist Sauna” have exceeded 237,000 units.

“ECO-JOZU” units sold (cumulative total)



“ECO-JOZU” high-efficiency gas residential water heater

## Future Business Direction

### ◆ Expanded Services Using Existing Customer Networks

The Group seeks the continued support of its customers and plans to focus on developing and marketing new services rooted in the community. We are enhancing safety and security services ranging from gas leak-warning appliances to a comprehensive home security service. We are also taking steps to raise the quality of our customer services by improving call center convenience.

### Topics

### “Mist Sauna” and its Seven Proven Benefits

In addition to the development of household equipment such as air conditioners, we are improving the “Mist Sauna” function of our bathroom heater and dryer as equipment that meets health and beauty needs. At the same time, we are also conducting research on its effects. Continual use of the “Mist Sauna” developed and supplied by the Company has been shown to warm the body and stimulate perspiration, increase skin moisture levels, as well as to alleviate coldness in the hands and feet, ease nasal congestion and reduce the appearance of wrinkles and conspicuous pores. Additionally, recent research conducted by the Company has proven that continual use of “Mist Sauna” also reduces body weight and abdominal circumference (prevents metabolic syndrome) and improves acclimation to heat (prevents heatstroke).



“Mist Sauna” (wall-hang)

## Activities Aimed at Popularizing High Energy-Saving Gas Appliances

In order to popularize high energy-saving appliances that reduce the amount of CO<sub>2</sub> emissions produced by customers, the Company has established the “GAS Rewards Plan,”\* a special gas rate that is based on the Optional Agreement for Households and has supply conditions that differ from those of the general gas rate.

This is a rate that customers who use eligible equipment such as the residential gas engine cogeneration system “ECOWILL,” the residential fuel cell cogeneration system “ENE-FARM” or the high-efficiency gas residential water heater “ECO-JOZU” can apply for, with a gas rate system applicable to each appliance.

On our website, we offer a tool that simulates heating and lighting expenses if one were to use the “GAS Rewards Plan” to anyone considering its adoption.

\* For information about the relevant terms and conditions, eligible appliances and gas pricing list, please refer to the website address on the right. (Japanese only)



Gas charge website address:  
<http://home.osakagas.co.jp/price/index.html>

As a multi-energy services provider, the Osaka Gas Group provides energy products and services in a variety of ways to add value to customers' businesses.



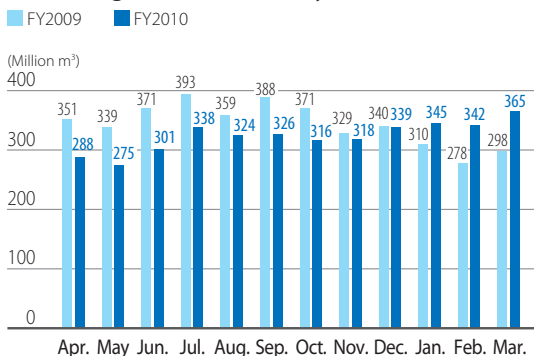
### Business Characteristics and Strengths

The Group's commercial and industrial gas business supplies gas for industrial use, commercial use, and public and medical use by providing appliances and services that meet customer needs. We are also working to attract new customers mainly through fuel conversions by promoting the environment-friendliness of natural gas and energy-efficient engineering. Our cogeneration systems create power using equipment installed at the customer site and even re-use exhaust generated. These systems are highly regarded for their excellent energy-saving and environmental properties and are becoming increasingly popular.

### Fiscal 2010 Overview and Initiatives

Industrial gas sales volume declined by 6.1% over the previous year to 3,877 million m<sup>3</sup> in the fiscal year ended March 31, 2010 due to significantly lower customer usage during the economic downturn. Commercial and public and medical use sales volume decreased by 2.4% over the previous year, to 1,543 million m<sup>3</sup>, as demand for air conditioners fell during the summer months. Though new demand was affected by the economic downturn, fuel conversion to natural gas, which has low environmental impact, is rising steadily because of growing environmental awareness, especially the high expectations it holds for reducing CO<sub>2</sub> emissions.

Industrial gas sales volumes by month



#### ◆ Improving Sales and Marketing Capabilities for Small-Scale Thermal Demand

We have proposed energy conservation, primarily through cogeneration systems to meet industrial heat demand such as for industrial furnaces and boilers. We also continued to promote conversion from fuel to natural gas in gas air conditioning, kitchen and hot water appliances for commercial and public and medical use. In the fiscal year ended March 31, 2010, we focused more on customers with relatively small-scale commercial thermal demand for dry cleaners as well as restaurants.

#### ◆ In Pursuit of Gas Convenience

The business environment has been changing significantly in recent years, as competition with electric power is intensifying in the commercial-use market, just as it has in the residential market. Under these circumstances, we have promoted greater use of gas through the development and sales of a variety of gas appliances that meet customers' demands for functionality, economic efficiency, and environment-friendliness. One of these is the gas air-conditioning system "High Power EXCEL" (GHP), which uses spare engine capacity to generate electricity during air-conditioner operation, thereby supplying power within the premises and significantly reducing electrical consumption. In the fiscal year ended March 31, 2010, 871 units were sold, an increase in performance. We have further challenged the notion that kitchens running on gas are uncomfortably hot to work in by promoting our "Suzuchu" lineup of commercial kitchen appliances that promise a comfortable kitchen environment while launching an aggressive PR campaign to raise product visibility. We have also started to offer free installation of carbon monoxide detectors and alarms as a safety measure for commercial kitchen gas users. Installation has been completed for 80% of approximately 100,000 such customers.



"High Power EXCEL" gas heat pump air conditioner that can generate electricity

## ◆ Providing High Value-Added Energy Services

Total management energy services for both existing and new customers, including financing and facility installation for customers' energy utilization as well as facility operation and maintenance, will be a main pillar of our business in the commercial and industrial sector in the years to come. Operations grew significantly in the fiscal year ended March 31, 2010, as we focused on adding services and bolstering sales activities. "Eco Wave," one of our core products, is a service whereby customers purchasing new or replacement appliances are, through a financing scheme, charged fees based upon usage without actually owning the equipment as an asset. In the fiscal year ended March 31, 2010, the aggregate number of contracts was 896. Further, with "Eneflex," which promotes energy and cost savings, customers' energy consumption data and other information are posted on the Internet using a remote management system. The aggregate number of installed sites was 805 for the reporting year. In the fiscal year ended March 31, 2010, the Group also commenced services that extend beyond the supply of energy including an electricity-saving consulting service for lighting and a service that proposes work improvements based upon observational research of human behavior. We are expanding our unique services as an energy service provider.

## Future Business Development

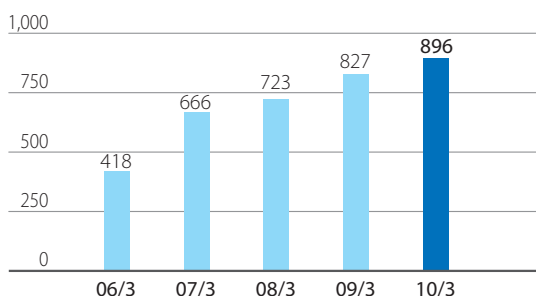
### ◆ More Developed Energy Services

The Group plans to tap renewable energies by developing new air-conditioning systems using photovoltaic generation and solar heating and highly efficient methane fermentation technologies that improve the absorption of biogases from sewage sludge and garbage. We work to differentiate ourselves and improve competitiveness by offering higher value-added one-stop service for water treatment and other services. We will continue to collaborate with other gas providers in the region to expand the area for our energy services in order to grow our business.

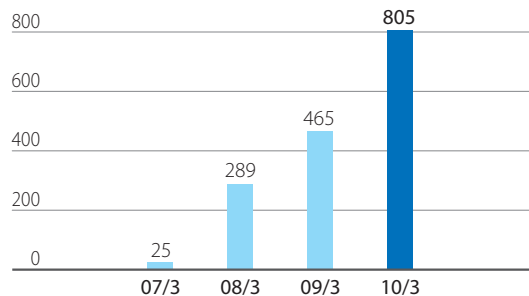
### ◆ Vertical and Horizontal Market Penetration and Expansion

Initiated in the fiscal year ended March 31, 2010, the Group will continue to develop business for commercial customers with small-scale thermal needs. Moving forward, we plan to boost our sales channels by drawing upon our sales network of sales agents and manufacturers to penetrate the market. Further, we are actively boosting demand along the Himeji-Okayama Line, scheduled for completion in 2014, to expand our geographic market reach.

Eco Wave contracts (cumulative total)

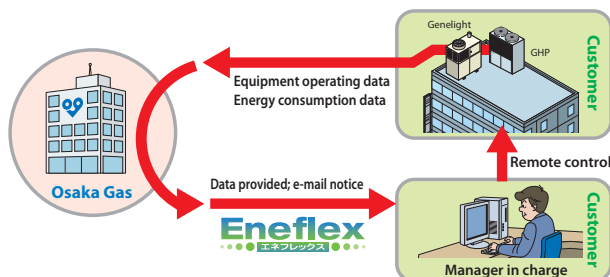


Eneflex service locations (cumulative total)



## "Eneflex" Follow-Up Service

"Eneflex" provides customers with easy-to-understand information about the operational status of their equipment via the Internet. Information is collected through remote management systems such as Sky Remote Service.



## Topics

### Japan's First CO<sub>2</sub> Reduction Fund — Energy Bank

Energy Bank is Japan's first fund established to reduce CO<sub>2</sub>, and is jointly funded by the Development Bank of Japan Inc. and Japan Smart Energy Co., Ltd.\* The fund can be used for energy service projects carried out by the Group, using the loans provided exclusively by the Development Bank of Japan for up to 50% of the project.

\* Investment ratio: Development Bank of Japan Inc.: 50%  
Japan Smart Energy Co., Ltd.: 50%

# Electric Power Business

IPP, Electric Power Generation, Electricity Sales

The Group leverages its strengths in infrastructure and marketing capabilities which have been accumulated through its gas business, and is steadily expanding the scope of its energy services to meet varied customer needs.



Semboku Natural Gas Power Plant

## Business Characteristics and Strengths

The electric power business is a part of the multi-energy services the Group strives to offer, and it capitalizes on the Group's strengths, which have been accumulated through its core gas business, in infrastructure, solution-based marketing capabilities, and customer networks, among others. The Group's electricity business is composed of three parts — IPP, electric power generation, and electricity sales. In the power generation business, we are also engaged in wind power generation as part of our contribution to the global environment. In the fiscal year ended March 31, 2010, the Semboku Natural Gas Power Plant commenced operations with a total power output of 1.1GW, boosting the Group's domestic electric capacity to approximately 1.8GW.

## Commencing Operations at the Semboku Natural Gas Power Plant

The Semboku Natural Gas Power Plant, a thermal power plant using environment-friendly natural gas and the state-of-the-art highly efficient gas turbine combined cycle method, became fully operational in November 2009 with all four generation units. All four units of the plant were constructed at Semboku LNG

Terminals using the same space and infrastructure to capitalize on advantages to improve competitiveness by further tapping the Group's expertise with natural gas. The electric power generated is sold to Group affiliates ENNET Corporation, Japan Electric Power Exchange (JEPX) and others.

## Future Business Development

The electric power business is being developed as a profit-making business second to the gas business, and the Group has taken a long-term perspective in acquiring new electrical sources and seeking M&A and other opportunities in the IPP field. For the foreseeable future we will continue the smooth operation of the Semboku Natural Gas Power Plant, while on the sales side we will build a balanced portfolio and strengthen risk hedging. The Group will promote its new business as an electricity supplier and also expand its role as a multi-energy supplier by offering a "best mix" of gas and electricity.

### Power sources owned by Osaka Gas Group (as of June 2010)

	Power plant	Capacity
Domestic power source	Torishima Energy Center	150MW
	Nakayama Joint Power Generation	149MW
	Nakayama Nagoya Joint Power Generation	149MW
	Himeji Power Plant	55MW
	Semboku Natural Gas Power Plant	1,109MW
	Hayama Wind Farm	20MW
	Hirogawa Myojinyama Wind Power Plant	16MW
	Other	115MW
	<b>Total</b>	<b>1,763MW</b>

In addition to the above, 1.2GW (Group stake) is sourced abroad. For further information, please refer to pages 30 and 31.



Hirogawa Myojinyama Wind Power Plant

# LPG and Industrial Gas Businesses

LPG Sales, Industrial Gas Sales

The Liquid Gas Group companies work together to both deliver LPG to customers throughout Japan and develop various industrial gas businesses using the cryogenic energy of LNG.



## Business Characteristics and Strengths

### ◆ LPG Business Takes Advantage of the Group Network

The Group's LPG business serves customers outside the gas supply areas by providing retail and wholesale supplies of Liquid Petroleum Gas (LPG). Though LPG suppliers serve broad market bases, the industry has been changing more rapidly in recent years through mergers and acquisitions and other means as a result of volatility in energy prices. The Osaka Gas Group is capitalizing on its nationwide group network to become more competitive in this business and is working to build multi-energy services combining LPG with our gas and electricity businesses.

### ◆ Industrial Gas Business Efficiently Utilizes Cryogenic Energy of LNG

The industrial gas business is developing a liquefied air separation business based on the efficient utilization of the cryogenic energy of LNG, a low-temperature crushing business using the super-low temperatures of liquefied nitrogen and a high-purity methane business. We also manufacture and sell liquid carbon dioxide and dry ice and supply hydrogen on-site using hydrogen-producing "HYSERVE" units. We are developing low-cost, highly competitive businesses that contribute towards curbing CO<sub>2</sub> emissions through the use of cryogenic energy.

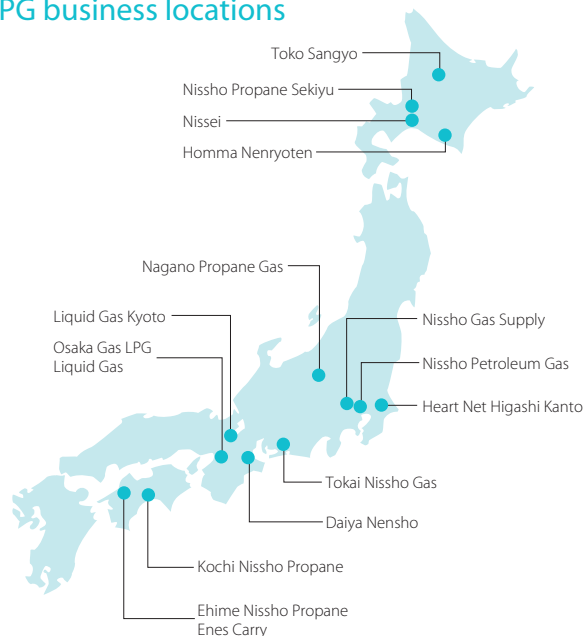
## Fiscal 2010 Overview and Initiatives

The LPG business restructured its group companies in the fiscal year ended March 31, 2010, building a unified structure with greater efficiency and lower costs. In April 2009, Japan Gas Energy Corporation was formed, integrating the primary sales and wholesale functions of the Group subsidiary Nissho Petroleum Gas Corporation, Japan Energy Corporation (current name: JX Nippon Oil & Energy Corporation), and Itochu Enx Co., Ltd. In July 2009, Nissho Petroleum Gas Group was incorporated into the Liquid Gas Group, which manages and operates the wholesale and retail businesses in an integrated manner. The group is also responding to competition with electric power companies by capitalizing on its sales expertise in the gas business and actively promoting gas appliances to household LPG users. As a result, both retail sales volume and number of customers have risen since last year.

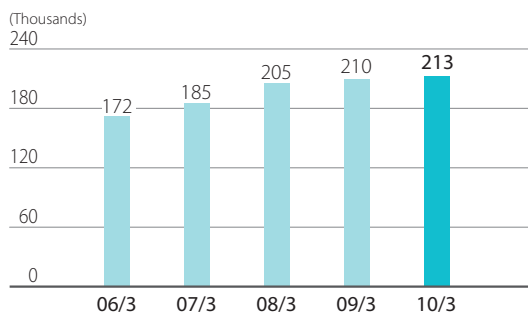
## Future Business Development

The Group's LPG business will take steps to achieve greater efficiency through restructuring and reinforcing its business capacity. At the same time we will further strengthen marketing capabilities, improve the quality of business, and develop a business that is integrated into the Group. Together with the industrial gas business, the Group will work to enhance its energy services.

## LPG business locations

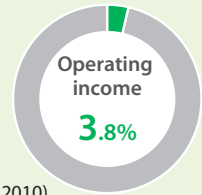
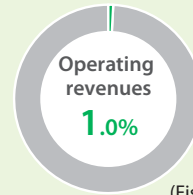


LPG customers (total)



# International Energy Businesses along the Energy Value Chain

The Group is expanding its business globally, in business areas including resource development, LNG terminals, pipelines and IPP.



(Fiscal 2010)

## Business Overview

The international energy businesses along the energy value chain start with the procurement of a steady supply of natural gas in the Group's gas business. In the energy market, where conditions fluctuate wildly, Group businesses conduct ongoing projects aimed at securing a smooth and stable supply of the highly-competitive LNG. The Group has also taken advantage of the know-how and networks it has cultivated in this area and is seeking to build a natural gas value chain that extends from upstream to mid- and down-stream businesses.

In addition to energetically pushing ahead with upstream areas such as resource development, this business also promotes mid- and down-stream business areas such as LNG terminal, pipeline, gas distribution and IPP projects. In the future, we plan to leverage our LNG terminals and LNG carriers to develop a global business with a view toward entering the trading business.

## Upstream Business

The resource development business has contributed to increased revenue and has also functioned as a natural hedge against fluctuating crude oil prices and foreign exchange rates. In September 2009, the Group concluded an LNG procurement contract with the Australian Gorgon Project and acquired 1.25% equity in a gas field. In this project, we have the right to acquire LNG (which we are free to sell) in proportion to our investment ratio. We expect this investment will contribute to building substantial revenues in the future through the trading business, which will leverage our LNG carriers and terminals. In the Sunrise Project, another initiative that the Company has committed to with an equity interest, the development concept of a floating LNG (FLNG) project has been decided. Our participation in this initiative will make us the first Japanese company to join an FLNG project. Activities aimed at obtaining equity in high-quality upstream businesses are ongoing.

## Investments in International Energy Businesses along the Energy Value Chain



### 1 Idemitsu Snorre Oil Development Co., Ltd. (North Sea Oil Field)

- Stake since 2005: 49.49%
- Estimated reserves: 85 million boe\* (crude, etc.)

\* boe = Barrels of Oil Equivalent



### 2 Amorebieta IPP

- Stake since 2005: 50%
- Power generation capacity: 370MW (Group stake)



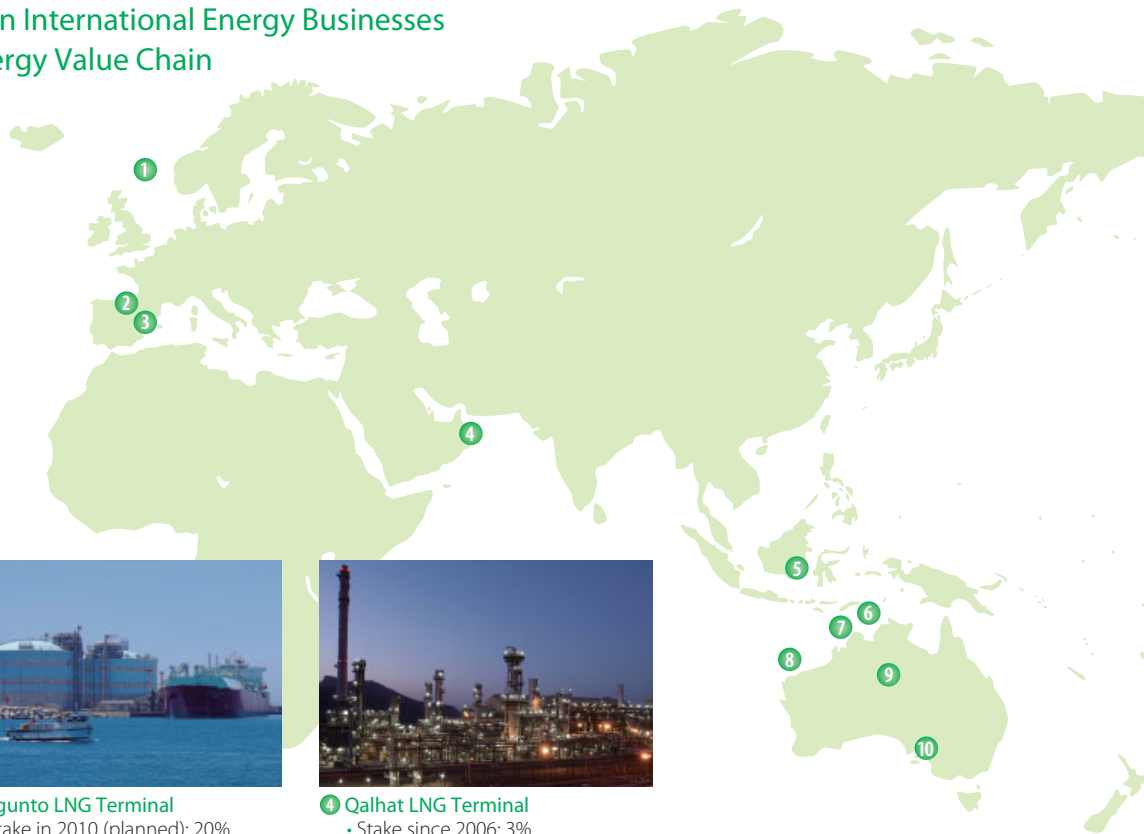
### 3 Sagunto LNG Terminal

- Stake in 2010 (planned): 20%
- Vaporization capacity: 6.4 million tons/year



### 4 Qalhat LNG Terminal

- Stake since 2006: 3%
- Liquefaction capacity: 3.3 million tons/year



## Mid- and Down-Stream Businesses

In these business segments, the Group intends to expand the know-how developed in its domestic business into foreign countries and secure stable revenues by developing mid- and down-stream businesses including LNG terminals, pipelines and IPP projects.

### ◆ LNG Terminal Projects in USA and Spain

In our LNG terminal business, the Group invested in the Freeport LNG terminal in the United States in February 2008. In 2010, we decided to invest in the Sagunto LNG terminal in Spain. In the LNG terminal business, Group policy is to acquire equity in LNG terminals that are located near LNG consumption areas of overseas industrialized nations. Our goal is to develop a trading business that will function in tandem with our upstream business.

### ◆ Pipeline and Wind Farm Projects in Australia

Apart from LNG terminal businesses, we are also operating several projects in Australia. In December 2008, we invested in Energy Infrastructure Investments Pty. Ltd., a wholly-owned subsidiary of APA Group, a major Australian energy company. In addition to participating in the planning of pipeline and other projects, October 2009 saw Osaka Gas form a consortium with APA Group and Marubeni Corporation to participate in the planning of the "Hallett 4" wind farm project.

By expanding its energy business in Australia, the Group intends to establish a base for its overseas mid- and down-stream businesses.

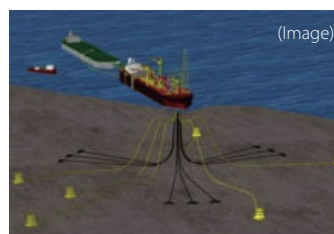
### ◆ IPP Projects in USA and Spain

In addition to these projects, the Group owns interests in various IPP projects; eight IPP projects in the USA through the acquisition of equity in an IPP holding company as well as investments in two IPPs, one in Texas, USA, and the other in Spain.

In the future, we will continue to seek out business opportunities, focusing on industrialized countries where the country risk is low.



**10 Hallett 4 Wind Farm Project**  
 • Stake since 2009: 39.9%  
 • Power generation capacity: 52MW (Group stake)  
 (Start of operation scheduled for June 2011)



**7 Crux Condensate Field**  
 • Stake since 2007: 15%  
 • Estimated reserves:  
 Approx. 60 million bbl condensate



**11 Freeport LNG Terminal**  
 • Stake since 2008: 10%  
 • Vaporization capacity: 13 million tons/year

Photo provided by: Freeport LNG Development LP.



**8 Gorgon Project Gas Field**  
 • Stake since 2009: 1.25%  
 • Projected output: 15 million tons/year (Start of production scheduled for 2014)  
 • Estimated reserves:  
 800 million tons natural gas (LNG equivalent)



**12 Tenaska Gateway IPP**  
 • Stake since 2004: 40%  
 • Power generation capacity: 330MW (Group stake)



**5 Universe Gas & Oil Company, Inc. (Sanga Sanga Gas Field)**  
 • Stake since 1990  
 • 4.375% stake in mining concession



**6 Sunrise Gas Field**  
 • Stake since 2000: 10%  
 • Estimated reserves:  
 110 million tons natural gas (LNG equivalent)  
 Approx. 230 million bbl condensate



**9 EII**  
 • Stake since 2008: 30.2%  
 • Four pipelines, two gas-refining facilities, two power plants, two interconnected power lines



**13 IPPs in USA (including Guam)**  
 • Stake since 2005  
 • 8 IPP projects  
 • Power generation capacity: 450MW (Group stake)

## Procurement of Energy Resources

### ◆ Conclusion of New Procurement Contracts

At the present time, the LNG used by the Company is comprised entirely of procurements from abroad. With the expansion of global energy demand driven by emerging nations, and the changes in energy market conditions accompanying economic fluctuations, it is a key management issue for the Group to ensure a long-term stable supply of LNG.

In the fiscal year ended March 31, 2010, we concluded long-term contracts with the Australian Gorgon Project and the Papua New Guinean PNG Project for a total of approximately 2,875 thousand tons/year of LNG. Furthermore, in July 2010, we concluded a long-term contract with Shell Eastern Trading Pte. Ltd. for up to almost 800 thousand tons/year. These account for a significant percentage of the Company's gross LNG demand. In our LNG procurement policy, we are focused primarily on long-term contracts, but they are combined with mid- and short-term arrangements to improve supply flexibility to meet changing demand. In the fiscal year ended March 31, 2010, the Group procured 6.75 million tons of LNG, most of which was secured through long-term contracts with six countries (Brunei, Indonesia, Australia, Malaysia, Qatar, and Oman).

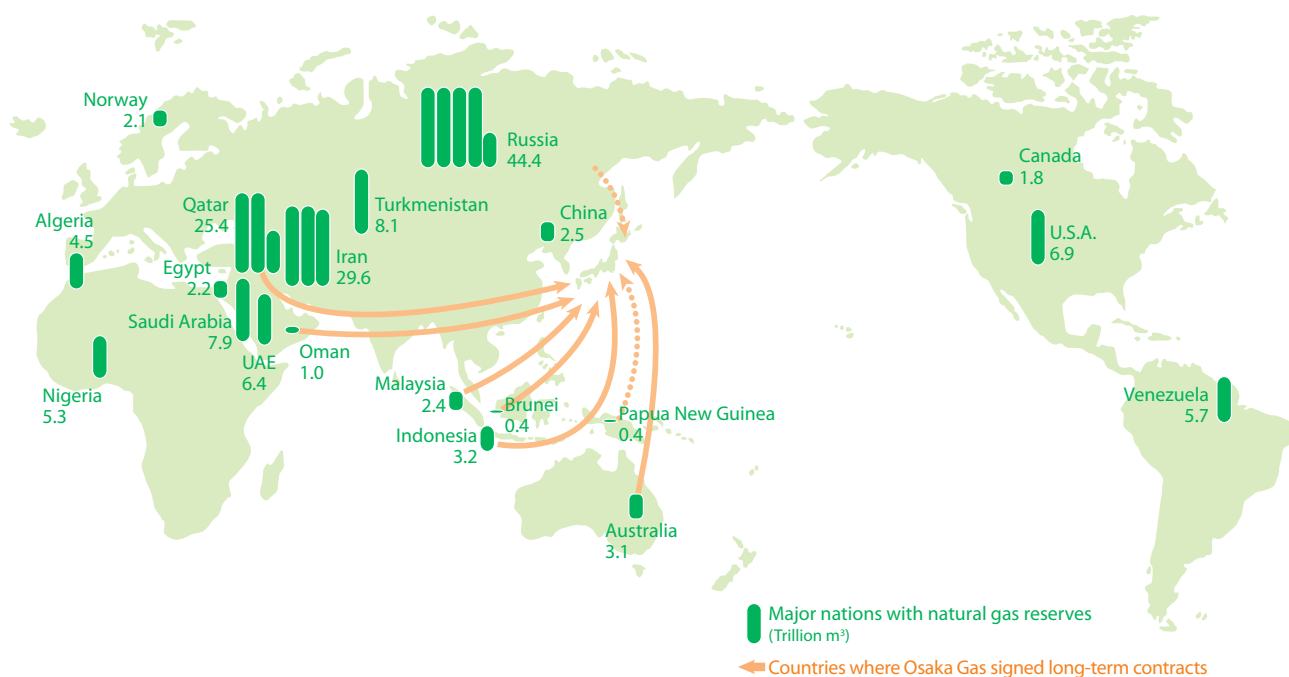
### ◆ LNG Transportation

The Company has interests in six LNG vessels. By transporting LNG using these vessels, we are able to reduce transportation costs and expand our businesses by transporting third parties' LNG and sales of LNG to other companies. Therefore, we intend to increase our future transportation capacity.

### ◆ Expanding Sales of LNG

The Company's gas sales are not limited to its supply area of the Kansai region. We also sell LNG wholesale to other energy providers using large tankers. In addition to Nippon Gas Co., Ltd., to whom we already supply LNG, we concluded new MOUs for the supply of LNG to the Okinawa Electric Power Company, Inc. and Shizuoka Gas Co., Ltd. in 2010. We will continue to increase our competitive edge in the procurement of LNG by capturing the majority of demand.

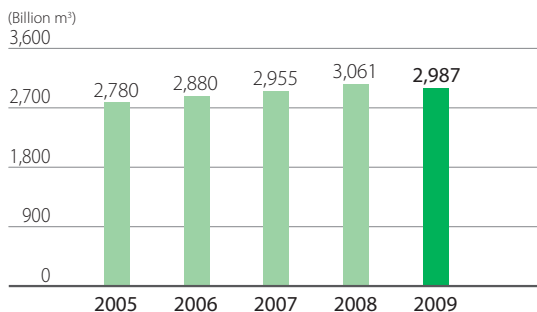
## Major Nations with Natural Gas Reserves and Suppliers to Osaka Gas



Source: BP Statistical Review of World Energy 2010

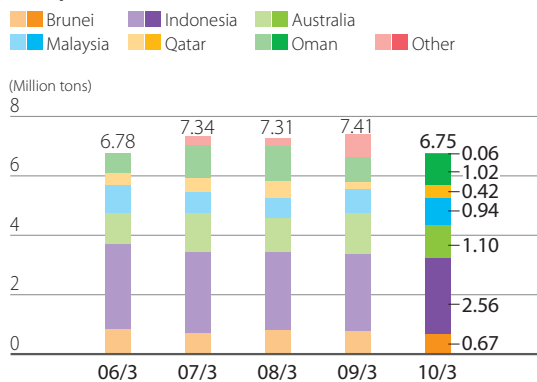


### Global natural gas production



Source: BP Statistical Review of World Energy 2010

### LNG purchase volumes



### LNG Vessels Utilized by Osaka Gas



LNG Flora



LNG Vesta



LNG Jamal



LNG DREAM



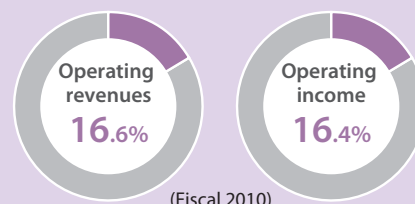
LNG BARKA



LNG JUPITER

# Environment and Non-Energy Businesses

The Group is drawing upon its technical expertise and eyeing business development in the environmental field — especially real estate, information technology, and advanced materials — to deepen and expand its business.



## Real Estate Business (Urbanex Group)

### Business Characteristics and Strengths

In addition to the development and leasing business of commercial office building and housing, the company also operates a condominium sales business. Through the operation of these businesses, the real estate business optimizes usage of the Group's real estate holdings and acquires new, superior assets. Furthermore, it efficiently manages and maintains commercial facilities such as office buildings and works to increase the value of customer holdings by proposing energy-saving and CO<sub>2</sub>-reducing solutions.

### Overview of Fiscal 2010 and Future Initiatives

In the leasing business, 14 new residential assets became fully operational, which made a significant contribution to sales growth. The condominium sales business was substantially depressed by the economic downturn, particularly in the first half of the year. In the second half, however, the company saw signs of a recovery, including favorable sales. In the future, it will expand sales by continuing to invest in high-quality assets in both its condominium sales and leasing businesses. Furthermore, in addition to developing homes that highlight the superiority of gas energy with a full array of advanced gas amenities such as "Mist Sauna," gas stoves



Urbanex Kobe Mizuki-Dori

with glass-tops, and floor heating, it will further strengthen ties with the energy business of the Group in its quest to be one of the Kansai region's top real estate groups.

## Information Technology Business (OGIS-RI Group)

### Business Characteristics and Strengths

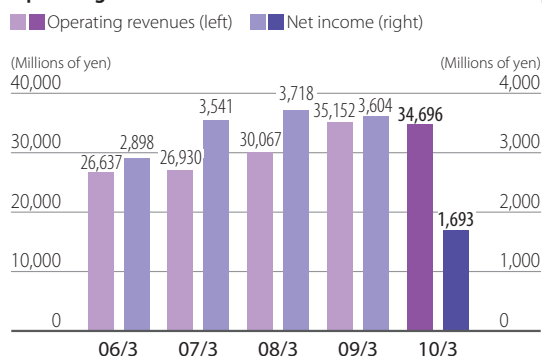
Information technology business operations started as a business that mainly developed systems for the gas businesses of Osaka Gas. This sector offers a wide range of services to customers in the manufacturing, finance and distribution fields including design, consulting, development operation and maintenance of IT systems. It also has some of the most advanced technology in Japan related to Model Base Development using the effective Unified Modeling Language (UML) to develop efficient systems.

### Overview of Fiscal 2010 and Future Initiatives

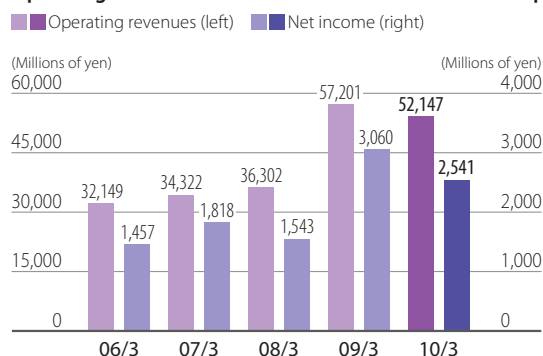
In the fiscal year ended March 31, 2010, revenues declined due to companies' efforts to curb capital spending, but our solution menu grew. One such solution is Cloud Integration — developed in response to the recent growth in cloud computing — which integrates network systems with customer systems. Other services include "virtual hosting" and the business support service "Business Guru Map," which is linked to Google Maps®. These are solution services that minimize initial outlays. The group plans to continue developing services that meet customer needs and grow its business as a total solutions provider.

\*Google Maps® is a registered trademark of Google Inc.

#### Operating revenues and net income of the Urbanex Group



#### Operating revenues and net income of the OGIS-RI Group



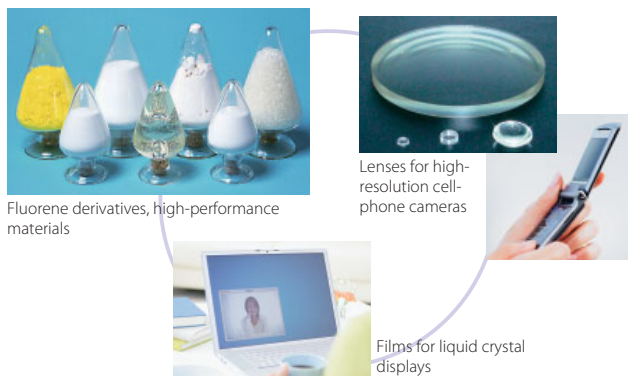
## Advanced Materials Business (Osaka Gas Chemicals Group)

### Business Characteristics and Strengths

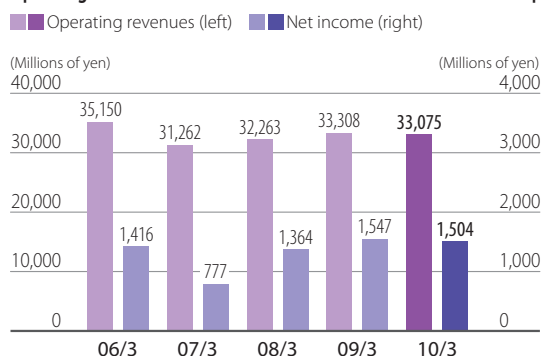
In the advanced materials business, the group draws on its accumulated carbon-related technology at Osaka Gas to develop a variety of businesses. In the fine materials field, the group manufactures and sells fluorine derivatives with excellent optical properties and outstanding heat resistance used as coating materials for LCD films, and camera optical lens resin materials for cell-phones and digital cameras. The group boasts a significant share of the global market. In the carbon materials field, the group manufactures and sells carbon fiber for use in molded insulation for photovoltaic cell production kilns and activated carbon fiber for water purifier cartridges and air purifying filters. It also manufactures and sells activated charcoal for a wide variety of applications and preservatives such as wood protective paints which are powerful brands.

### Overview of Fiscal 2010 and Future Initiatives

In the fiscal year ended March 31, 2010, the fine materials field performed solidly amid the economic downturn, with earnings largely in line with those of the previous year. Going forward, the group will continue to focus on maintaining its existing market share, expanding applications and launching new products in the growing fine materials market. In its carbon materials business, it will increase sales of molded heat insulation materials for photovoltaic cell production kilns. It also plans to promote growth by developing negative electrode materials for lithium-ion rechargeable batteries, which are expected to grow substantially, and marketing state-of-the-art chemical materials leveraging its technical know-how as well as environment-friendly materials.



#### Operating revenues and net income of the Osaka Gas Chemicals Group



## Service-Related Businesses

### Business Characteristics and Strengths

The Group is involved in a wide array of business fields, including sports facilities management through its operation of the COSPA fitness centers, leasing including cars, facilities management, temporary staffing, wedding services, and a for-profit retirement home. These businesses help raise the brand value of the Group and contribute to efficient Group operations.

### Overview of Fiscal 2010 and Future Initiatives

In the fiscal year ended March 31, 2010, the fitness industry suffered from weak consumption, but the wedding service business remained firm by adeptly meeting customer needs. The Group will continue to closely watch growth in each business, and develop businesses that hedge the risks of the gas industry.

#### Main businesses and major operating companies

- Operation of sports facilities  
OG sports Co., Ltd.

- Leasing  
Osaka Gas Autoservice Co., Ltd.  
OGIC Co., Ltd.

- Regional information business  
L-NET Co., Ltd.

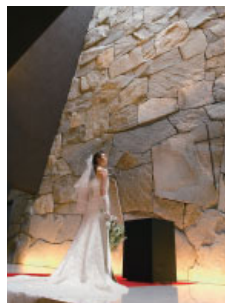
- Facilities management and temporary staffing  
Osaka Gas Business Create Co., Ltd.

- For-profit retirement home business  
Active Life Inc.

- Wedding service business  
Planetnetwork Co., Ltd.



COSPA fitness center



"Mia Via" wedding facility

## — Open Innovation — Our R&D Policy

The Osaka Gas Group views research and development as the most effective means to differentiate itself from others and to strengthen its competitive edge. For this reason, the Group strategically invests in fields such as energy and the environment and develops and commercializes new technologies. In recent years, the Company has pursued a policy of “Open Innovation” in an effort to speed up and increase the efficiency of R&D by leveraging external technologies. “Open Innovation” refers to

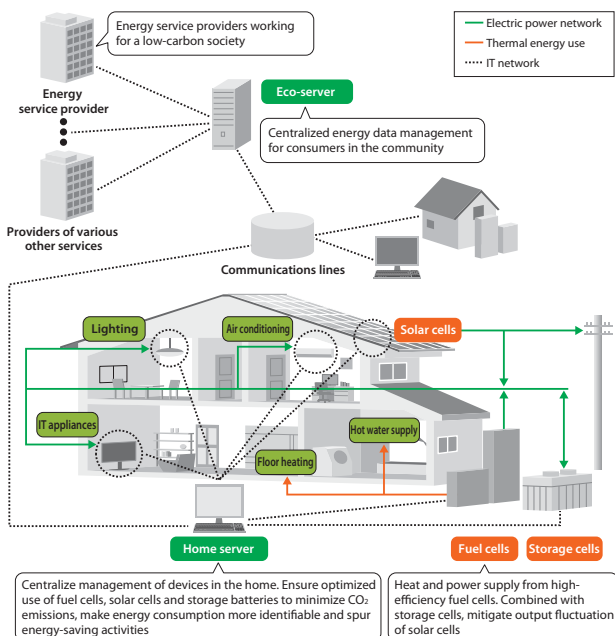
making information about the key technological challenges that we are contending with available to external entities such as major corporations, small-to-medium sized companies, venture businesses, government-affiliated organizations, universities and international research institutes. By linking both external and internal resources, we seek to develop technologies that will contribute to the realization of a low-carbon society and support the expansion of our business fields.

## Technology Development for the Realization of a Low-Carbon Society .....

### Efforts to Increase Energy Efficiency in Households

#### ◆ Smart Energy Houses

The Company is currently conducting verification tests on “smart energy houses” that conserve energy and reduce CO<sub>2</sub> emissions in households. This is made possible by combining three batteries — residential fuel cells, solar cells and rechargeable batteries — for optimal operation. In the fiscal year ended March 31, 2010, we participated in the planning of “The Smart House Verification Project” commissioned by the Ministry of Economy, Trade and Industry (METI) in an effort to determine the feasibility of optimal operation control systems that use three batteries. In the fiscal year ending March 31, 2011, in order to accelerate development and raise social awareness about smart energy houses, we constructed new residences for technical assessment (at our laboratory at Torishima, Konohana-ku, Osaka City), and experimental dwelling residences (Oji, Kitakatsuragi District, Nara Prefecture), where we plan to demonstrate the underlying



technology and verify their advantages. So that “smart energy houses” can be launched in the shortest possible time, we are planning to conduct verification tests until the end of the fiscal year ending March 31, 2014 and to complete technical development to the level of practical use in 2015.

#### ◆ Residential Solid Oxide Fuel Cells (SOFCs)

Following the release of the “ENE-FARM” residential fuel cell cogeneration system, the Company has joined forces with Kyocera Corporation, Toyota Motor Corporation and Aisin Seiki Co., Ltd. to co-develop solid oxide fuel cells (SOFCs) for households. SOFCs generate power very efficiently (LHV standard: 45%), and therefore, households with a relatively low thermal demand can enjoy the environmental and economic benefits. As the power-generating unit is compact, it can be installed in residences where space is limited, such as detached homes and apartments. In the fiscal year ended March 31, 2008, the Company joined in the planning of an experimental study that was conducted by The New Energy Foundation. By the fiscal year ended March 31, 2010, a total of 80 units had been installed and operated in actual residences for the purpose of collecting various data. This project will leverage the technology and know-how of the co-developers, with the market launch of SOFCs scheduled sometime before 2015.



Residential solid oxide fuel cells (SOFCs)

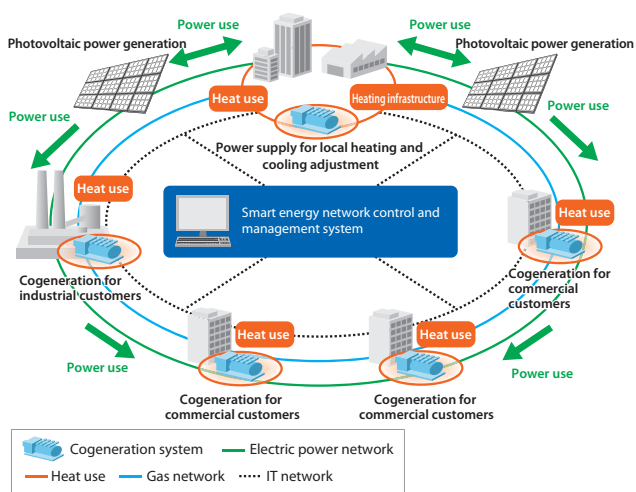
### Efforts to Increase Energy Efficiency in the Community

#### ◆ Smart Energy Networks

A smart energy network is a system that leverages information technology to optimally control energy demand by combining multiple power sources including renewable energy and

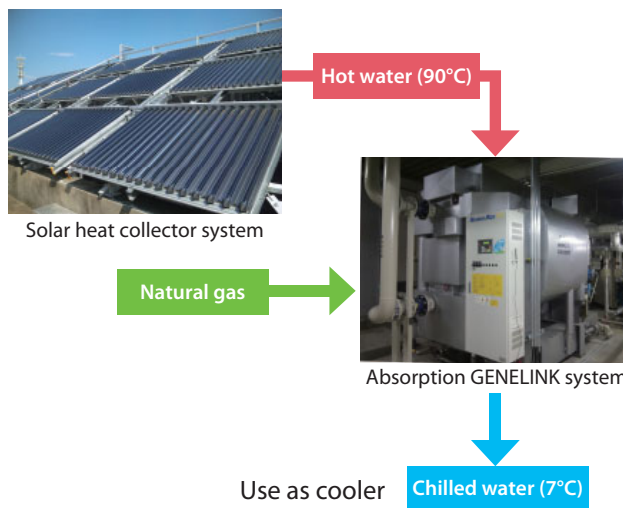
cogeneration to share electricity and heat among consumers in a mutually accommodating manner. The system aims to achieve the efficient use of heat (which accounts for more than 50% of final energy consumption), harmony between the grid and dispersed systems and the active utilization of renewable energy in order to facilitate significant energy savings and CO<sub>2</sub> emission reductions within communities that are linked by information and communications technology.

The Company commenced construction of the network in May 2010 and will gather and analyze data and conduct system improvements. In this experimental project, photovoltaic units installed in four locations and five customer cogeneration systems have been linked together around an existing district heating and cooling facility (the Iwasaki Energy Center). Remote monitoring and control will be conducted based on the interchange of electrical power while heat is utilized at each site. Through this project, we expect to achieve CO<sub>2</sub> emission reductions of approximately 30%.



## Solar Cooling: Solar-Powered Air-Conditioning Systems that Utilize Solar Energy

“Solar Cooling,” solar-powered air-conditioning systems for commercial and industrial use, are systems that efficiently utilize solar energy to provide cooling in summer and heating in winter. In June 2009, the Company commenced verification tests within business facilities with the goal of system commercialization. The system is composed of a solar collector, which heats water by efficiently gathering solar energy and transforming it into a more usable form, and a gas absorption chiller heater with auxiliary waste heat recovery (GENELINK), developed as an exhaust heat utilization unit for the cogeneration system. The heated water produced by transforming solar energy is used as a thermal source for GENELINK in the summer, providing cooling through the production of chilled water. In winter, the warm water is used directly for heating. As the preferred thermal source is solar energy, the system is able to achieve highly energy-efficient space heating and cooling.

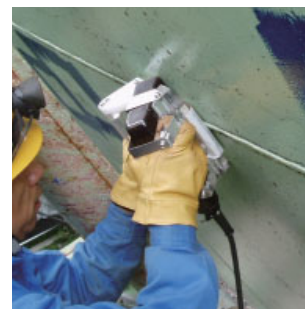


Solar cooling enables approx. 30% energy-saving

## Technology for Stable Gas Supply, Safety and Peace of Mind .....

The Company is working on technological innovations to provide customers with a safe and reliable supply of gas. In the fiscal year ended March 2010, the Company developed “sealed magnetic particle testing” as a new non-destructive testing method that will be used to examine discontinuities on the surface of spherical gas holders. Sealing suspension containing magnetic particles in a transparent inspection sheet eliminates the effects of flaws and other defects in the coating, thus removing the need to strip paint or perform other pre-treatments that were previously required in

magnetic particle inspections. This method therefore facilitates the overall reduction of inspection time and shortens work time. The Company will continue to develop technology that improves safety and enables a stable gas supply.



Field test

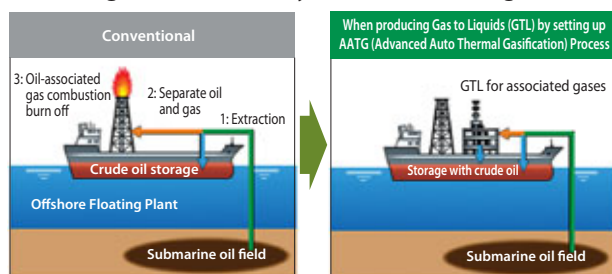
## Technology Development that Contributes to Environmental Conservation.....

### ◆ New Syngas Manufacturing Process (AATG Process)

Syngas (H<sub>2</sub> + CO) is manufactured using oil-associated gas as a raw material which has been conventionally combusted and discarded in large volumes. The gas is then turned into liquid fuel. This process facilitates the reduction of CO<sub>2</sub> emissions and the effective utilization of raw materials. The Company has worked in cooperation with JGC Corporation to conduct a pilot demonstration of this compact syngas manufacturing technology, Advanced Auto Thermal Gasification (AATG) Process, which is suited to offshore plants. The process capitalizes on the AATG characteristic of easy CO<sub>2</sub> recovery. As part of our campaign for commercialization of this process, we are currently proposing its adoption by Japanese chemical manufacturers who are planning to construct new facilities or refurbish existing ones as a means of manufacturing syngases used in chemical processes.

\* The Japan Oil, Gas and Metals National Corporation (JOGMEC) commissioned the Company to conduct this research.

#### Technologies that effectively use oil-associated gas



• CO<sub>2</sub> emissions per year  
**600,000 tons-CO<sub>2</sub>**  
(per offshore floating plant)

• CO<sub>2</sub> emissions per year  
**300,000 tons-CO<sub>2</sub>**  
**(-300,000 tons-CO<sub>2</sub>)**  
• GTL production  
(extra crude production)  
**+3,000 barrels/day**

Note: Oil fields size 10,000–100,000 barrels/day



AATG Pilot Equipment (Experimental)

### ◆ Coal Mine Methane (CMM) Enrichment Technology

In our quest to contribute to the fight against global warming, we have developed “coal mine methane (CMM) enrichment equipment,” which enables coal extraction-associated low-concentration methane gas that is released into the atmosphere to be enriched and effectively utilized as cogeneration and boiler fuel, as well as other uses. We have succeeded in conducting a verification test using pilot equipment at the Fuxin Coal Mine (Liaoning Province, China)\*. Since the fiscal year ended March 31, 2010, we have been working to further improve performance and reduce costs, aiming for early launch onto market. The equipment leverages the Company’s materials technology, which enables selective adsorption of methane from a mixed gas composed of air and methane.



Low-concentration CMM (coal mine methane) enrichment equipment (verified)

\* New Energy and Industrial Technology Development Organization (NEDO) Collaborative Research Project for fiscal years ended March 31, 2008 and 2009.

### ◆ Energy-Creating Wastewater Treatment Process (Hydrothermal Gasification Process)

The Company is currently developing technology that will facilitate wastewater treatment through the breakdown of industrial effluents — which had been impossible with conventional biological treatment methods — using a hydrothermal gasification process, while facilitating the creation of methane for use as fuel. Pilot plants have been established in semiconductor foundries and demonstration operation is scheduled to commence in November 2010. Going forward, we will commercialize this technology as a wastewater treatment process for similar types of chemical plants.

### ◆ High-Efficiency Methane Fermentation Technology (Methasolution) that Utilizes Sludge and Raw Garbage

The Company has developed new technology for turning waste into highly efficient biogas, which can then be used as a renewable energy source. The Company has employed its own unique resin reforming technology and ultra-high temperature solubilizing technology (registered trademark: Methasolution) to break down and ferment “whole” garbage and plastic bags used to hold garbage in a short period of time.

## Efforts to Improve Services and Enhance Productivity through the Observation of Human Behavior . . .

In the past, services relied heavily on human experience and intuition. Now, however, we are engaged in research on and promotion of “service science” to enhance productivity through the adoption of scientific methods. These methods have already produced many successful results in the form of a consignment business, including the sharing of sales and marketing know-how, the development of store layouts that facilitate easy product

selection by customers and productivity enhancement through the creation of workplace environments that are easy to work in — all based on the observation of human behavior. The Osaka Gas Human Behavior Observation Research Center was established in July 2009 to promote the dissemination of service science, which employs behavior observation methods. We are working to expand the human observation business throughout the Group.

# Intellectual Property Activities of the Osaka Gas Group

## Intellectual Property Strategy .....

We believe that technology development is an important foundation for growth. For this reason, we have set down the following three basic policies on intellectual property activities and are taking active steps to implement them.

### Reinforce intellectual property rights acquisition in important technology areas

We are working to reinforce acquisition of intellectual property rights capable of helping to strengthen business operations in areas of strategic management importance for the Group now or in the future, including residential energy systems.

### Promote open innovation through utilization of intellectual property

In actively disclosing technologies in which we are proficient outside the Company and effectively implementing technologies which have a competitive advantage, we promote open innovation through maximum utilization of our intellectual property as key technologies.

### Strengthen intellectual property throughout the Group

We are currently working to strengthen intellectual property throughout the Group by creating a common infrastructure for intellectual property expertise within the Group that covers areas such as risk management and personnel development.

## Strategic Patent Applications .....

The Group has been developing strong rights coverage by identifying the extent of rights that must be obtained, centering on key technological areas, and then submitting patent applications. To that end, we have employed various methods including patent portfolio management. In particular, we are strategically filing patent applications in technologies related to cogeneration systems for households such as fuel cells.

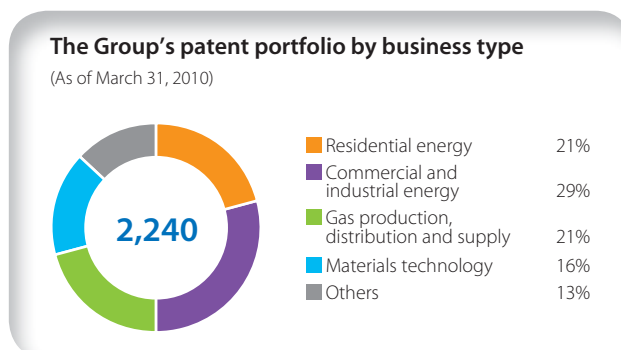
In the fiscal year ended March 31, 2010, the Group submitted 449 patent applications.

06/3	07/3	08/3	09/3	10/3
471	407	390	353	449

## Patents Held by the Group and their Use .....

At the present time, in the area of energy for households, the Company holds patents in technologies including cogeneration systems and mist saunas. In the area of commercial and industrial energy, we hold patents in such technologies as cogeneration systems and gas air conditioners. In the production, distribution and supply area, we hold patents in technologies including LNG tank technologies and non-excavation pipeline installation methods. Furthermore, in the materials technologies area, we hold patents in fine chemicals and other related technologies.

Patents are utilized in the Company's businesses, and also actively licensed to other companies. As of March 31, 2010, 2,240 patents were held Group-wide.



## Intellectual Property Risk Management and Related Personnel Training .....

In order to reduce intellectual property risk for the Group as a whole, we continue conducting risk reviews and plan to standardize review systems and widely share information, the foundation of intellectual property activities. We also conduct intellectual property training and awareness-raising activities so as to raise

the knowledge level of Osaka Gas Group employees. These varied activities include training sessions run by instructors from inside and outside the Company for different objectives and employee ranks, and publication of an email magazine that includes intellectual property news and administrative reminders.

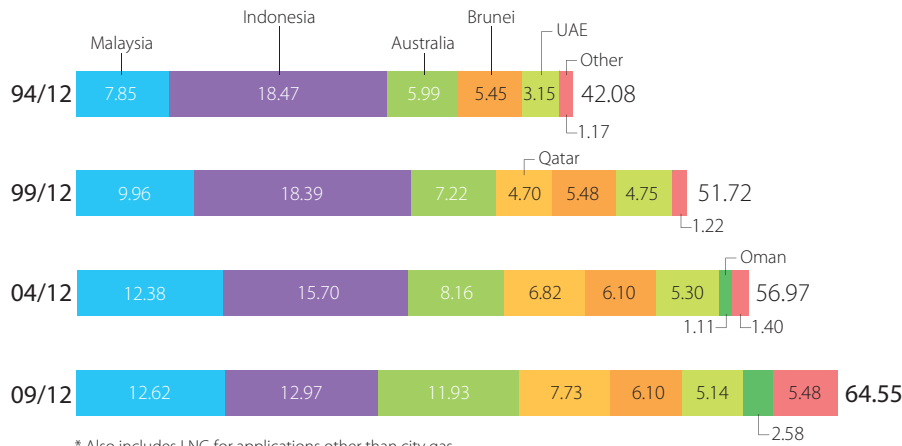
## Characteristics of the Japanese Gas Business .....

There are 211 gas companies in Japan, but the majority of gas sales by volume is accounted for by a few major companies. Japan relies on imported LNG for most of the gas supplied in the country. It was first imported in 1969. In contrast to many other countries, Japan does not have any international gas pipelines or gas pipelines interlinked nationally. Furthermore, the gas business is operated in an integrated manner — from importation, storage, production and sales.

### Comparison of gas business: Japan and western nations

	Japan	Western nations
<b>Procurement</b>	Dependent on imported LNG	Domestically produced or procured from neighboring countries via pipelines
<b>Infrastructure</b>	Pipelines that link to major gas markets are under-developed	Well-developed pipeline network that links gas supply and markets
<b>Competitive environment</b>	Strong inter-fuel competition New players participate in the market	Competition exists only between suppliers of the same kinds of energy
<b>Technology development</b>	Mostly gas suppliers	Mostly manufacturers
<b>Security and safety</b>	Responsible for consumers' assets (even house gas pipes and gas appliances)	Not responsible for customers' assets (only up to gas meter)

### Japan's LNG imports (Unit: million tons)



Source: Ministry of Finance Japan, Trade Statistics of Japan

### ◆ Characteristics of Natural Gas

Natural gas has the following characteristics. Compared to other fossil fuels, the environmental footprint of natural gas is small and, unlike oil, its reserves are distributed in many regions of the world. Compared to oil, natural gas reserves\* are relatively abundant. In these times of heightened environmental awareness, the

environmental advantages of natural gas make it a particularly attractive energy source. Therefore, demand can be expected to grow further in the future.

\* Please refer to International Energy Businesses along the Energy Value Chain on pages 30 through 33.

### Reserve/production ratios for natural gas and oil (Years)



Source: BP Statistical Review of World Energy 2010

### Emissions of combustion by-products from fossil fuels (Coal = 100)

	CO <sub>2</sub>	SO <sub>x</sub>	NO <sub>x</sub>
Coal	100	100	100
Oil	80	68	71
Natural Gas	57	0	20-37

Sources: Institute of Applied Energy (IAE) Report on Thermal Power Plant Atmospheric Impact Assessment Technology Demonstration Survey (1990/3); International Energy Agency (IEA) Natural Gas Prospects (1986)

## Deregulation of the Gas Industry in Japan .....

Ever since partial retail liberalization was adopted in 1995, deregulation of the Japanese gas business has progressed steadily and market opening has expanded. Currently, deregulation applies to

customers with annual contract volumes of 100,000 cubic meters or more. Measured by sales volume, approximately 60% of the gas industry is now deregulated.

### 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 <sup>3</sup> or more per year	47%	Introduction of third-party access to pipelines and fuel cost adjustment system	Large factories and large commercial facilities
1999/2000	More than 2,000kW	26%	Creation of retail power generation and supply business	1 million m <sup>3</sup> or more per year	52%	Third-party access to pipelines made mandatory (four major companies only)	
2004	More than 500kW	40%	Abolishment of zone-based transmission tariff (pancake pricing)	500,000m <sup>3</sup> or more per year	55%	Third-party access to pipelines made fully mandatory	Medium-sized factories, city hotels, etc.
2005	More than 50kW	63%	Creation of power exchange market	—	—	—	Small factories, hospitals, business hotels, supermarkets, etc.
2007	—	—	—	100,000m <sup>3</sup> or more per year	62%	—	

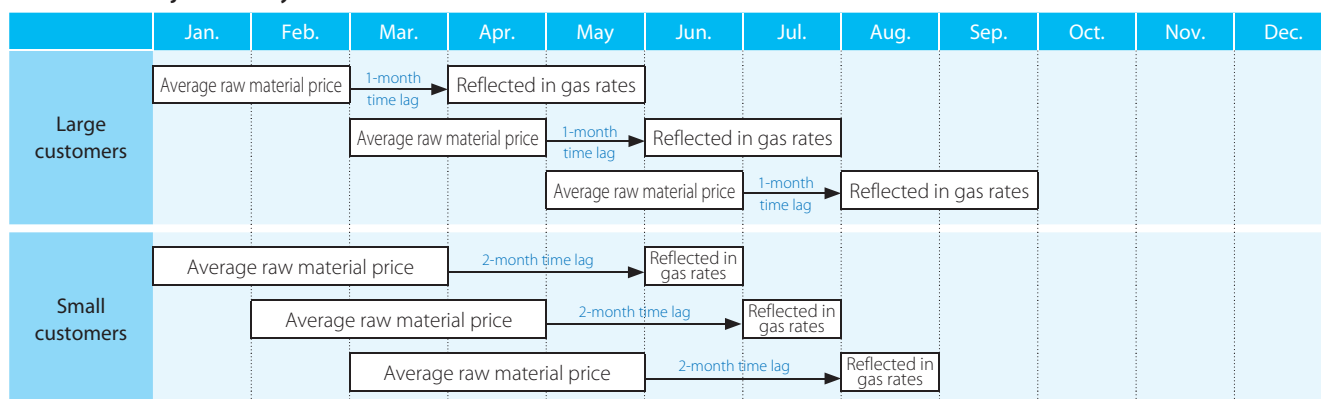
Sources: Denki Shimbum, "Description of Electric Power Liberalization and New Systems," and Market Monitoring Subcommittee, Urban Thermal Energy Subcommittee of the 2009 Advisory Committee on Energy and Natural Resources

## Characteristics of the Gas Rate System .....

The price of gas is determined on the basis of the fuel cost adjustment mechanism by reflecting the external factors of foreign exchange rate and crude oil prices. Due to this system, the impact of exchange rate and crude oil price fluctuations on Company

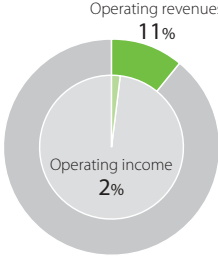
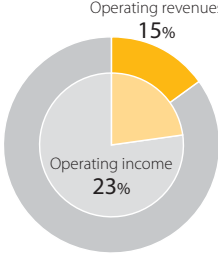
performance is neutral over the medium to long term. However, over the short term, performance is affected by changes in these factors because of the time lag between when fuel costs change and when they are incorporated into gas rates.

### The fuel cost adjustment system



# Business Domain and Earnings Structure

The Osaka Gas Group divides its operations into five business segments: Gas; Gas Appliances and House-Pipe Installation; LPG, Electricity and Other Energies; Real Estate; and Others. The Group has adopted a new approach to its management strategy based on the realignment of the Group organization into four segments from the year ending March 31, 2011.

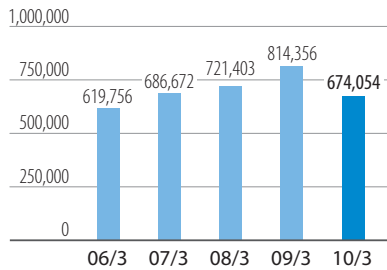
	Main business and major affiliated companies	Percentage of operating revenues and operating income (FY2010)
 <p><b>Gas</b></p>	<p><b>Main business</b> Production, supply and sales of gas, inspection and maintenance of gas equipment and appliances, gas meter reading, collection of gas bills, etc.</p> <p><b>Major operating companies</b> Osaka Gas Co., Ltd., Toyooka Energy Co., Ltd., Nabari Kintetsu Gas, Ltd., Shingu Gas Co., Ltd., Osaka Gas Customer Relations Co., Ltd.</p>	 <p>Operating revenues 58%</p> <p>Operating income 58%</p>
 <p><b>Gas Appliances and House-Pipe Installation</b></p>	<p><b>Main business</b> Sales of gas appliances, housing equipment and appliances, gas piping works, etc.</p> <p><b>Major operating companies</b> Osaka Gas Co., Ltd., Enetec Kyoto Co., Ltd., Osaka Gas Housing &amp; Equipment Co., Ltd., Kinpai Co., Ltd.</p>	 <p>Operating revenues 11%</p> <p>Operating income 2%</p>
 <p><b>LPG, Electricity and Other Energies</b></p>	<p><b>Main business</b> Sales of LPG, sales of industrial gas, production, supply and sales of electricity, LNG transportation, development of oil and natural gas, research and investment relating to energy supply businesses, etc.</p> <p><b>Major operating companies</b> Osaka Gas Co., Ltd., Liquid Gas Co., Ltd., Osaka Gas LPG Co., Ltd., Nissho Petroleum Gas Corporation, Nissho Propane Sekiyu Co., Ltd., Gas and Power Co., Ltd., Nakayama Joint Power Generation Co., Ltd., Nakayama Nagoya Joint Power Generation Co., Ltd., Osaka Gas International Transport Inc., Osaka Gas Summit Resources Co., Ltd., Osaka Gas Australia Pty. Ltd., Osaka Gas Energy America Corporation</p>	 <p>Operating revenues 15%</p> <p>Operating income 23%</p>
 <p><b>Real Estate</b></p>	<p><b>Main business</b> Development, leasing, management and sales of real estate, operation, management and maintenance of building and facilities, etc.</p> <p><b>Major operating companies</b> Urbanex Co., Ltd., Kyoto Research Park Corp., Osaka Gas Maison Co., Ltd., OSC Engineering Co., Ltd., Osaka Gas Total Facilities Co., Ltd.</p>	 <p>Operating revenues 3%</p> <p>Operating income 7%</p>
 <p><b>Others</b></p>	<p><b>Main business</b> Development of computer software, computer data processing services, manufacture and sales of fine materials and carbon products, manufacture and sales of activated carbon and wood protective coating, maintenance and provision of anti-disaster services, operation of sports facilities, leasing, etc.</p> <p><b>Major operating companies</b> Osaka Gas Information System Research Institute Co., Ltd., Sakura Information Systems Co., Ltd., Osaka Gas Chemicals Co., Ltd., Japan EnviroChemicals, Ltd., OG Sports Co., Ltd., Osaka Gas Security Service Co., Ltd.</p>	 <p>Operating revenues 14%</p> <p>Operating income 9%</p>

Note 1: On page 43, intersegment revenues and transfers are included in revenues for each segment.

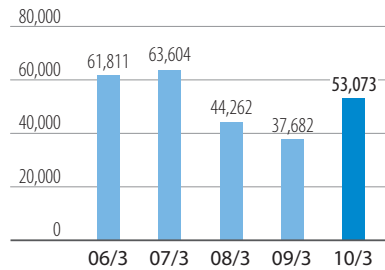
Note 2: Operating income percentages do not reach 100% due to effect of discounting for adjustment in consolidation.

**New segments**  
(from the fiscal year ending  
March 31, 2011)

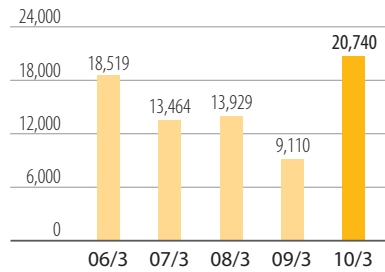
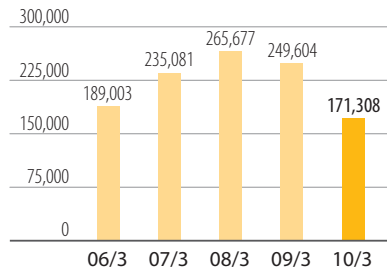
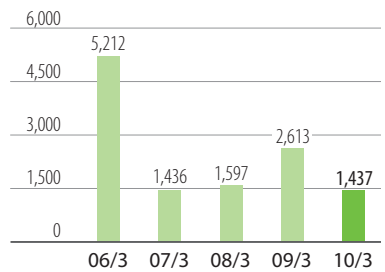
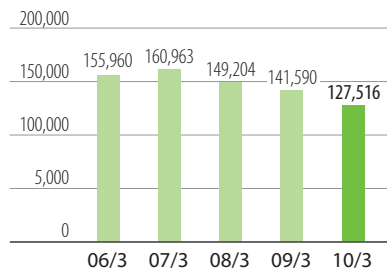
Operating revenues (Millions of yen)



Operating income (Millions of yen)

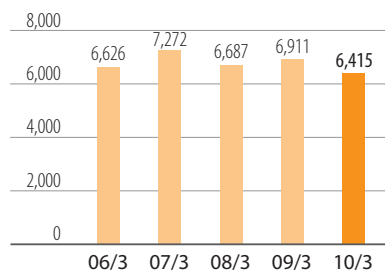
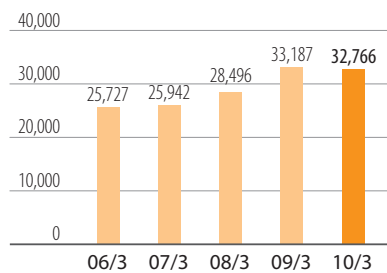


Gas

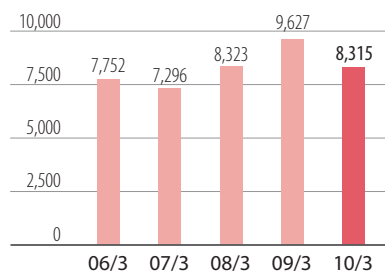
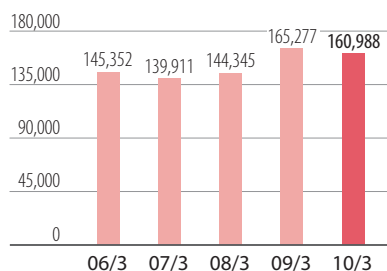


LPG, Electricity and  
Other Energies

Overseas Energy



Environment and  
Non-Energy



# Consolidated Financial Summary

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Fiscal years ended March 31, 2000 through 2010

	2000/3	2001/3	2002/3	2003/3	2004/3
<b>Financial Data</b>					
Operating revenues .....	¥ 849,225	¥ 951,926	¥ 973,565	¥ 947,977	¥ 951,324
Operating income.....	62,723	74,055	96,676	85,974	92,096
Income before income taxes and minority interests.....	45,943	59,844	65,363	51,025	78,161
Net income.....	27,345	36,097	39,418	29,685	47,065
Capital expenditure.....	93,951	91,233	89,938	67,107	69,779
Depreciation.....	80,842	92,461	88,793	82,805	89,564
Total assets .....	1,219,514	1,310,976	1,243,520	1,209,627	1,199,228
Net assets.....	428,523	475,019	468,706	453,284	495,635
Cash flows from operating activities...	91,064	140,981	155,121	92,573	132,891
Cash flows from investing activities....	(103,525)	(109,047)	(88,546)	(49,629)	(67,877)
Cash flows from financing activities....	(16,996)	(27,015)	(82,868)	(30,093)	(75,930)
Number of shares issued and outstanding (thousands).....	2,477,760	2,429,564	2,369,011	2,369,011	2,369,011
<b>Per Share Data</b>					
Earnings per share (EPS) (yen and U.S. dollars).....	¥ 10.94	¥ 14.72	¥ 16.33	¥ 12.56	¥ 20.56
Book value per share (BPS) (yen and U.S. dollars).....	172.95	195.52	197.85	197.28	222.15
<b>Key Ratios</b>					
Equity ratio.....	35.1%	36.2%	37.7%	37.5%	41.3%
Debt ratio.....	40.3%	38.9%	37.4%	40.9%	38.0%
Interest coverage ratio (times).....	7.6	9.8	13.2	14.2	12.9
Return on assets (ROA).....	2.3%	2.9%	3.1%	2.4%	3.9%
Return on equity (ROE).....	6.8%	8.0%	8.4%	6.4%	9.9%
<b>Gas Sales Volume (million m<sup>3</sup>) .....</b>	<b>7,326</b>	<b>7,580</b>	<b>7,479</b>	<b>7,701</b>	<b>7,779</b>
<b>Number of Meters Installed (thousands).....</b>	<b>6,305</b>	<b>6,401</b>	<b>6,484</b>	<b>6,579</b>	<b>6,650</b>
<b>Number of Employees .....</b>	<b>15,201</b>	<b>15,160</b>	<b>14,878</b>	<b>15,020</b>	<b>15,276</b>

Notes:

- The conversion of Japanese yen into U.S. dollars is based on the exchange rate of 1 USD = 93.04 JPY (spot rate as of March 31, 2010).
- Equity ratio = equity/total assets (as of the end of the fiscal years ended March 31, 2008 through 2010)
- Debt ratio = interest-bearing debt/total assets (as of the end of the fiscal years ended March 31, 2008 through 2010)
- 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 2006/3, "average equity" was "shareholders' assets [average]")
- All figures in the financial data are rounded down.
- Gas sales volume and number of gas meters installed through 2002/3 are shown on a non-consolidated basis.

					Millions of yen	Thousands of U.S. dollars	
	2005/3	2006/3	2007/3	2008/3	2009/3	2010/3	
	¥ 975,340	¥1,065,961	¥1,174,456	¥1,238,145	¥1,326,785	¥1,096,628	\$11,786,629
	95,992	100,657	93,729	75,611	66,932	91,140	979,578
	83,904	132,393	88,078	72,478	64,510	82,572	887,489
	50,683	80,710	52,929	40,283	36,041	48,384	520,034
	65,517	117,455	95,267	111,087	106,087	98,246	1,055,954
	86,858	84,250	84,031	95,253	86,549	95,402	1,025,386
	1,217,463	1,398,692	1,405,682	1,467,934	1,452,457	1,483,895	15,949,000
	530,862	628,510	686,664	666,657	634,757	690,561	7,422,194
	116,902	152,935	98,354	134,282	120,691	229,714	2,468,981
	(65,679)	(162,989)	(99,765)	(132,029)	(108,102)	(111,265)	(1,195,883)
	(23,912)	13,245	(22,009)	12,495	(3,438)	(49,553)	(532,598)
	2,369,011	2,235,669	2,235,669	2,158,383	2,158,383	2,158,383	
	¥ 22.69	¥ 36.18	¥ 23.77	¥ 18.27	¥ 16.72	¥ 22.50	\$0.241
	238.15	282.12	300.61	300.76	284.21	310.39	3.336
	43.6%	44.9%	47.6%	44.2%	42.2%	44.9%	
	36.8%	34.9%	34.7%	38.5%	39.5%	36.3%	
	16.1	23.6	10.3	13.6	11.5	23.1	
	4.2%	6.2%	3.8%	2.8%	2.5%	3.3%	
	9.9%	13.9%	8.1%	6.1%	5.7%	7.6%	
	8,072	8,469	8,764	8,917	8,416	8,150	
	6,725	6,785	6,848	6,913	6,971	7,009	
	15,992	16,077	16,435	16,682	19,009	19,268	

# Management's Discussion and Analysis

## 1. Operating Environment

In the fiscal year ended March 31, 2010, the Kansai region, the main business area of the Company, continued to emerge from the severe economic downturn that began in fall 2008, as exports to China and Asia improved and other signs of growth appeared. The economic outlook for the region, however, remains uncertain

due to surging oil prices and weak capital spending before realizing a self-sustaining recovery. Though private consumption is showing signs of improvement, a real economic recovery remains elusive due to the continued severe labor environment and falling housing starts.

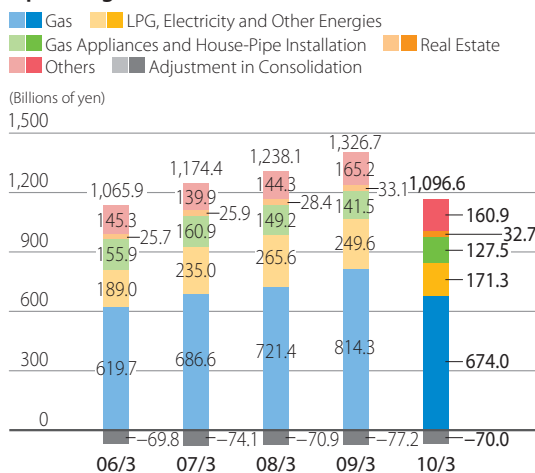
## 2. Highlights of the Fiscal Year Ended March 31, 2010

Consolidated operating revenues decreased due to a decline in gas sales volume and lower unit sales prices. Sales of consolidated subsidiaries decreased due to the integration of primary retail and wholesale functions of the LPG businesses. As a result, consolidated operating revenues were ¥1,096.6 billion for the fiscal year ended March 31, 2010, down by ¥230.1 billion (-17.3%) from the previous fiscal year. Ordinary profit increased by ¥20.2 billion (+31.5%), to ¥84.8 billion because of lower raw materials prices due to lower LNG prices, causing gas gross margin to increase,

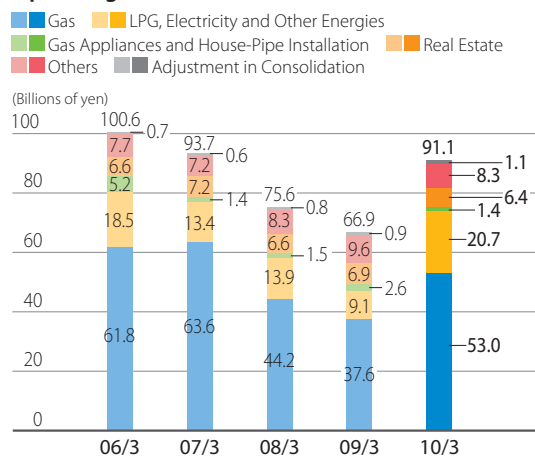
and also because incidental business profit increased, primarily electricity. Consolidated net income was ¥48.3 billion, up by ¥12.3 billion (+34.2%) from the fiscal year ended March 31, 2009.

As of March 31, 2010, the Company had 128 consolidated subsidiaries. During the year, 11 companies were excluded and three companies were added to the consolidation. One company was added to affiliates reported by the equity method, totaling six affiliates at the current year-end.

**Operating revenues**



**Operating income**



## 3. Non-Consolidated Gas Sales

Osaka Gas sales volume overall declined by 3.1% in the fiscal year ended March 31, 2010 from the previous fiscal year to 8,119 million m<sup>3</sup>. Residential gas sales increased by 0.2% from the previous fiscal year, to 2,244 million m<sup>3</sup>, as the Company focused on strategic equipment sales and as average annual temperatures were relatively low. Industrial gas sales decreased by 6.1% to 3,877 million m<sup>3</sup>, as they were substantially impacted by customers' reduced facilities usage because of the economic downturn, despite the sales increase on the back of efforts to explore new

demand. Commercial gas sales declined by 3.8% year on year, to 935 million m<sup>3</sup> while gas sales for public and medical uses were down by 0.1%, to 609 million m<sup>3</sup>. This was due to lower demand for air conditioning because summer temperatures were lower than in 2008, as well as energy conservation efforts by customers. As a result, commercial and industrial gas sales decreased by 5.0% from the previous fiscal year, to 5,420 million m<sup>3</sup>. Wholesale gas sales increased by 4.9%, to 455 million m<sup>3</sup>.

## Non-consolidated gas sales

[45MJ/m <sup>3</sup> ]		2009/3	2010/3	Change	Change (%)
Customers (Meters installed) (Thousands)	Residential	6,611	6,650	+39	+0.6
	Commercial and industrial	328	330	+2	+0.6
	Total	6,939	6,980	+41	+0.6
Average monthly usage per customer (m <sup>3</sup> /month)		32.3	32.3	0.0	+0.1
Gas sales volume (Million m <sup>3</sup> )	Residential	2,238	2,244	5	+0.2
	Commercial and industrial	5,708	5,420	-288	-5.0
	Industrial	4,128	3,877	-250	-6.1
	Commercial	971	935	-37	-3.8
	Public and medical	609	609	-1	-0.1
	Wholesale	434	455	21	+4.9
	Total	8,380	8,119	-261	-3.1
Average temperature (Celsius)		17.2	17.0		

## 4. Overview by Business Segment

### ◆ Gas

Operating revenues from the gas segment declined by ¥140.3 billion (-17.2%) from the previous fiscal year, to ¥674.0 billion, as sales volume decreased and gas sales unit prices were lowered with the fuel cost adjustment system as LNG prices fell. Operating income increased by ¥15.3 billion (+40.8%), to ¥53.0 billion because of a significant drop in fuel costs.

### ◆ LPG, Electricity and Other Energies

Operating revenues from the LPG, electricity and other energies segment decreased by ¥78.2 billion (-31.4%) compared with the previous fiscal year, to ¥171.3 billion due to the integration of primary retail and wholesale functions of the LPG business and other factors. Operating income increased by ¥11.6 billion (+127.6%), to ¥20.7 billion as the electricity business expanded, due in part to the launch of the Semboku Natural Gas Power Plant.

### ◆ Gas Appliances and House-Pipe Installation

Operating revenues from this segment decreased by ¥14.0 billion (-9.9%) year on year, to ¥127.5 billion, due to falling sales of gas appliances and installation orders. Operating income dropped by ¥1.1 billion (-45.0%), to ¥1.4 billion.

### ◆ Real Estate

Operating revenues from this segment decreased by ¥400 million (-1.3%), to ¥32.7 billion compared with the previous fiscal year. Operating income decreased by ¥400 million (-7.2%), to ¥6.4 billion.

### ◆ Others

Operating revenues from this segment decreased by ¥4.2 billion (-2.6%) year on year, to ¥160.9 billion due to a decline in information-related business. Operating income was down by ¥1.3 billion (-13.6%), to ¥8.3 billion.

## Operating revenues and operating income by segment for the fiscal year ended March 31, 2010

(Billions of yen)

	Gas	LPG, Electricity and Other Energies	Gas Appliances and House-Pipe Installation	Real Estate	Others	Adjustment in Consolidation	Consolidated
Operating revenues	-17.2%	-31.4%	-9.9%	-1.3%	-2.6%		-17.3%
	674.0	171.3	127.5	32.7	160.9	(70.0)	1,096.6
	[-140.3]	[-78.2]	[-14.0]	[-0.4]	[-4.2]		[-230.1]
Operating income	+40.8%	+127.6%	-45.0%	-7.2%	-13.6%		+36.2%
	53.0	20.7	1.4	6.4	8.3	1.1	91.1
	[+15.3]	[+11.6]	[-1.1]	[-0.4]	[-1.3]		[+24.2]

% figures indicate change versus the fiscal year ended March 31, 2009. Figures in square brackets "[ ]" indicate absolute year-on-year change. Figures in round brackets "( )" indicate negative figures.

## 5. Assets, Liabilities and Net Assets Analysis .....

### ◆ Asset Management Policies

The Group plans to reduce assets in unprofitable business fields and day-to-day operations and intends to aggressively expand its operations in growth fields, especially Domestic Energy Businesses, International Energy Businesses along the Energy Value Chain, and Environment and Non-Energy Businesses. To minimize investment risk caused by changes in the operating environment, the Group is further tightening its procedures for investment decisions, as well as subsequent follow-up and evaluation based on Group-wide investment criteria for individual investment proposals. Going forward, the Group will conduct quantitative risk management and pursue returns through active business investments within the scope of the allowed risk amount

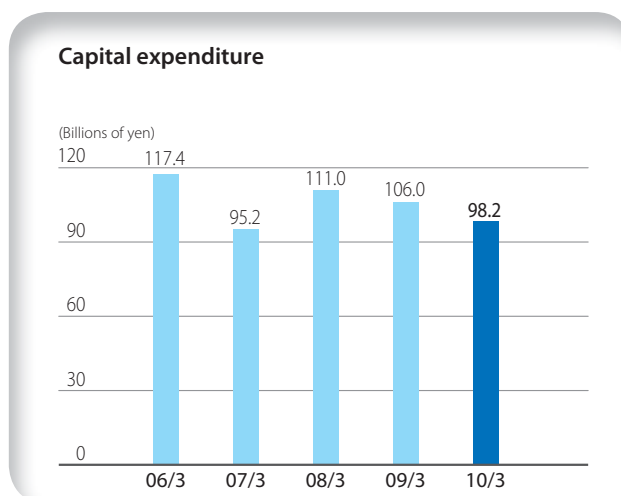
of the entire Group.

We aim to maximize capital efficiency by targeting a ratio of interest-bearing debt to equity of approximately one and a shareholders' equity ratio of 40% or over. In deciding the weighting of third-party capital versus internal capital, we 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%, we intend to promote business investment in growth fields through new interest-bearing debt in line with the growth in shareholders' equity as profits increase.

### ◆ Capital Expenditure

In the fiscal year ended March 31, 2010, non-consolidated capital expenditure totaled ¥57.9 billion, down by ¥1.2 billion year on year, even with the ongoing construction of the Mie-Shiga Line. Despite acquiring equity in the Gorgon Project, consolidated capital expenditure declined by ¥7.8 billion, to ¥98.2 billion, as construction of the Semboku Natural Gas Power Plant and LNG carriers was completed.

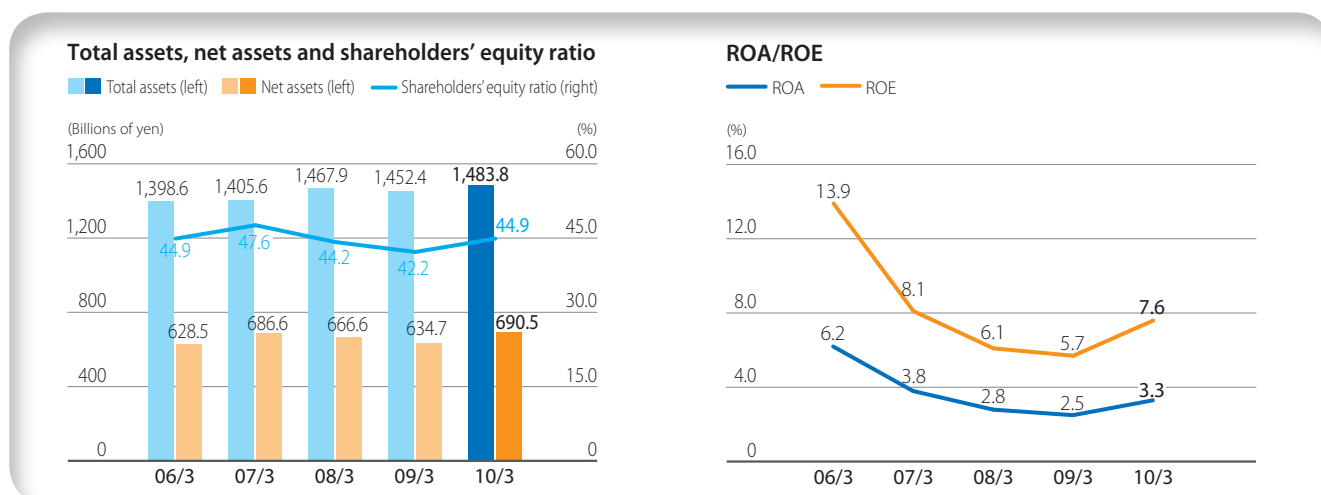
The Group is aggressively investing in both domestic and overseas electric power businesses as potential future growth drivers. Investment targets include such upstream businesses as natural gas fields and LNG carriers, as well as IPPs and other electric power businesses. In the fiscal year ended March 31, 2010, we made new and additional investments totaling ¥44.9 billion in the Semboku Natural Gas Power Plant, the Gorgon Project in Australia, real estate, advanced materials and other areas. This was less than initially planned, but we have decided to invest in this fiscal year a total in excess of ¥130.0 billion in projects including the construction of the Himeji-Okayama Line and participation in a wind power generation project in Australia.



## ◆ Assets, Liabilities, and Net Assets Analysis

Total assets as of March 31, 2010 increased by ¥31.4 billion from the previous year-end, to ¥1,483.8 billion, mainly due to an increase in fixed assets. Liabilities decreased by ¥24.3 billion, to ¥793.3 billion, and net assets increased by ¥55.8 billion, to ¥690.5

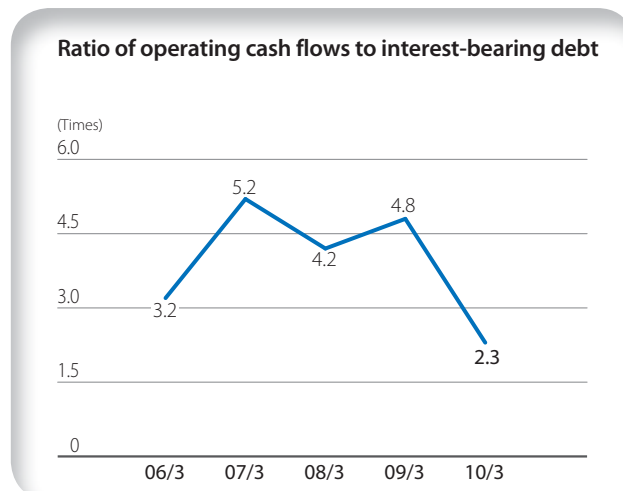
billion. Consequently, the shareholders' equity ratio increased from 42.2% at the previous year-end, to 44.9%. Return on Assets (ROA) improved 0.8 points, to 3.3%, while Return on Equity (ROE) rose 1.9 points, to 7.6%.



## 6. Overview of Cash Flows

Net cash provided by operating activities during the fiscal year ended March 31, 2010 increased by ¥109.0 billion, to ¥229.7 billion. This increase was mainly due to an increase in net income before income taxes and minority interests. Net cash used for investing activities was ¥111.2 billion, an increase of ¥3.1 billion from the previous year. This increase was mainly due to an increase in expenditures due to acquisitions of intangible fixed assets. Net cash used for financing activities increased by ¥46.1 billion, to ¥49.5 billion, mainly due to repayment of long-term loans payable.

Consequently, cash and cash equivalents for the fiscal year ended March 31, 2010 increased by ¥67.2 billion. Adding an initial balance of ¥46.7 billion to this, the year-end balance of cash and cash equivalents for the fiscal year ended March 31, 2010 stood at ¥113.9 billion.



(Billions of yen)	2009/3	2010/3	Change
Cash flows from operating activities	120.6	229.7	+109.0
Cash flows from investing activities	-108.1	-111.2	-3.1
Cash flows from financing activities	-3.4	-49.5	-46.1
Change in cash and cash equivalents	7.5	67.2	+59.7
Cash and cash equivalents at year-end	46.7	113.9	+67.2
Interest-bearing debt at year-end	573.4	539.0	+34.4

## 7. Ratings

The Company recognizes that improving fund-raising competitiveness is an important issue in a sound financial strategy.

The Company has been rated AA and Aa by foreign ratings agencies and AA by a domestic ratings agency. The Company intends to continue to boost and maintain its core capital and improve its financial standing.

### Ratings

R&I (Rating and Investment Information)	AA+
Moody's	Aa2
Standard & Poor's	AA

## 8. Basic Policy Regarding the Distribution of Profits and Dividends

The Company has been striving to grow the business and improve the efficiency of operations, and has appropriated the increased profit resulting from these efforts for internal reserves for future business growth and strengthening of the financial structure of the Company, and for payment of steady dividends to shareholders. We will endeavor to continue paying steady dividends (interim and year-end) to shareholders, and comprehensively take alternative profit distribution plans and other measures into consideration, based on operational results, future business management and other plans. We will aim at keeping a consolidated payout ratio exceeding 30%, within the

non-consolidated retained earnings distributable to Osaka Gas shareholders, excluding temporary factors affecting the profit situation. Internal reserves will be appropriated for capital investments and investment in new businesses.

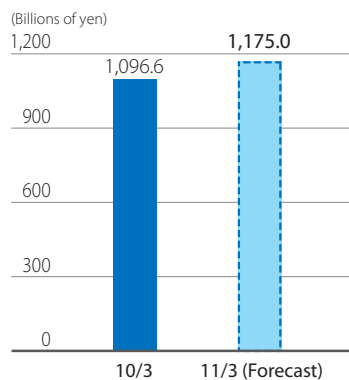
The Company paid an annual dividend of ¥7 per share (including an interim dividend of ¥3.5 per share) for the fiscal year ended March 31, 2010. The Company also plans to raise its annual dividend payment to ¥8 per share in the fiscal year ending March 31, 2011, up ¥1 from the previous fiscal year (including an interim dividend of ¥4 per share).

## 9. Outlook for Fiscal 2011

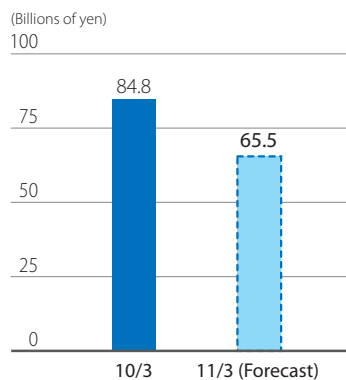
We project that revenues will increase in the fiscal year ending March 31, 2011, with total operating revenues expected to increase by ¥78.3 billion (+7.1%), to ¥1.175 trillion. LNG prices will be higher in the fiscal year ending March 31, 2011 than in the previous fiscal year, and gas sales unit prices will increase due to the fuel cost adjustment system. The Semboku Natural Gas Power

Plant will also become operational year-round. Ordinary profit is expected to decline by ¥19.3 billion (-22.8%), to ¥65.5 billion due to higher raw materials prices, as LNG prices increase despite larger sales volumes of gas. Net income in the fiscal year ending March 31, 2011 is projected to decrease by ¥11.3 billion (-23.5%) year on year, to ¥37.0 billion.

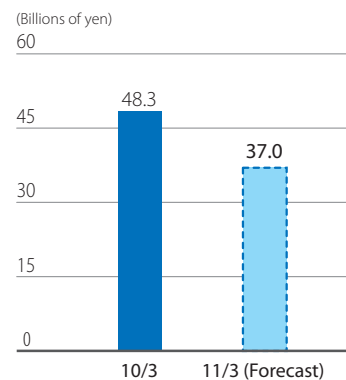
### Operating revenues



### Ordinary profit



### Net income



## 10. Business Risks .....

The following are risks that could affect the business performance or financial position of the Group.

### ◆ Risks Related to All Businesses within the Group

#### a. Worsening of economic and financial conditions

In the event of a decrease in operating revenues, difficulties in fund-raising, and insolvency of partner companies, due to worsening of economic and financial conditions in Japan and/or other countries, the Group's business performance may be affected.

#### b. Changes in foreign exchange rates and borrowing rates

Changes in foreign exchange rates and/or borrowing rates could affect the business performance of the Group.

#### c. Occurrence of catastrophic disaster, accident and infectious disease

Occurrence of catastrophic natural disasters, terrorist events, accidents, or infectious disease epidemics such as the new strains of influenza or other diseases could affect the business performance of the Group.

#### d. Changes in policies, laws and regulations, and institutional systems

Changes in the Gas Utility Industry Law, the Electricity Utilities Industry Law, the Companies Act, the Financial Instruments and Exchange Law, environment-related laws or other policies, laws and regulations, and institutional systems in Japan and/or other countries could affect the business performance of the Group.

#### e. Intensifying competition

Intensified competition with other operators in the gas business and other business areas related to the Group could affect the business performance of the Group.

#### f. Breakdown or malfunction of critical IT systems

Breakdown or malfunction of critical IT systems, such as systems related to gas production/supply or billing, could affect the business performance of the Group.

#### g. Information leaks

If important information used in the course of its business, including customer information or technical information possessed by the Group is leaked outside the Group, the Group's business performance could be affected.

#### h. Non-compliance with laws and regulations

If any act carried out by the Group or by any person related to the Group is in violation of any law or regulation, the Group might incur expenditures to correct such non-complying act, or experience a decline in its social reputation, which could affect the business performance of the Group.

### ◆ Risks Related to Major Businesses

#### 1) Gas business

##### a. Impact of fluctuation in temperature/water temperature on gas demand

Gas sales volume increases or decreases depending on the atmospheric or water temperature conditions. Thus, a

fluctuation in these factors could adversely affect the business performance of the Group.

##### b. Changes in fuel costs

The prices of liquefied natural gas (LNG), from which gas is produced, could be affected by changes in crude oil prices, exchange rates and other relevant factors. Although most of this impact may be offset by the fuel cost adjustment system, under which gas rates are revised to reflect changes in fuel costs, a time lag until the actual adjustment is made and the composition of material suppliers could affect the business performance of the Group. Renewal of contracts or price negotiations with suppliers might result in settlement of fuel costs, which might also affect the business performance of the Group.

##### c. Difficulty in procuring raw materials

Because LNG, from which gas is produced, is purchased from suppliers, problems with suppliers' facilities or operations could affect the business performance of the Group.

##### d. Production and supply difficulties

Catastrophic natural disasters or accidents could disrupt the production or supply of gas, which might adversely affect the business performance of the Group.

##### e. Gas equipment and facility issues

If serious problems arise with gas equipment or facilities sold to customers, these could adversely affect the business performance of the Group.

#### 2) Electricity business

Any interruption in the operation of any electric power plant due to a natural disaster, accident, trouble in fuel purchasing or other incident could adversely affect the business performance of the Group.

#### 3) Overseas energy businesses

If a gas field development or other development project is delayed or canceled as a result of global economic stagnation, a drop in crude oil prices, worsening social conditions or other factor, or if any other business environment involving the Group changes, the business performance of the Group could be adversely affected.

The Group strives to minimize the potential impact of these risks through various measures, including derivative contracts to hedge against fluctuations in exchange rates and fuel costs, accident and other insurance contracts, maintenance and management of critical IT systems, adherence to compliance and strict information control, security measures, and monitoring and proper supervision of subsidiaries' business management.

# Consolidated Balance Sheets

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
March 31, 2009 and 2010

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
<b>Assets</b>			
<b>Fixed Assets</b>			
<b>Property, plant and equipment</b>			
Production facilities	¥ 94,853	¥ 90,195	\$ 969,421
Distribution facilities	323,928	309,186	3,323,151
Administrative facilities	64,934	71,177	765,015
Other facilities	250,953	333,746	3,587,123
Construction in progress	87,634	22,524	242,089
Total property, plant and equipment	822,305	826,830	8,886,822
<b>Intangible fixed assets</b>			
Goodwill	6,585	5,046	54,234
Others	25,836	37,794	406,212
Total intangible fixed assets	32,422	42,840	460,447
<b>Investments and other assets</b>			
Investment in securities (Note 8)	133,554	147,185	1,581,953
Others (Note 17)	105,407	94,389	1,014,499
Allowance for doubtful accounts	(1,029)	(1,761)	(18,927)
Total investments and other assets	237,931	239,812	2,577,515
Total fixed assets	1,092,659	1,109,484	11,924,806
<b>Current Assets</b>			
Cash and deposits	44,828	95,411	1,025,483
Notes and trade accounts receivable	132,507	121,458	1,305,438
Securities (Note 8)	—	24,482	263,134
Inventories	83,984	64,084	688,779
Deferred tax assets (Note 17)	23,409	—	—
Others (Note 17)	75,986	70,403	756,696
Allowance for doubtful accounts	(918)	(1,428)	(15,348)
Total current assets	359,798	374,411	4,024,193
<b>Total assets</b>	<b>¥1,452,457</b>	<b>¥1,483,895</b>	<b>\$15,949,000</b>

See accompanying consolidated financial statements notes.

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
<b>Liabilities</b>			
<b>Long-term liabilities</b>			
Bonds (Note 9)	¥ 261,200	¥ 260,790	\$ 2,802,987
Long-term loans payable (Note 9)	238,610	217,914	2,342,153
Deferred tax liabilities (Note 17)	15,776	15,964	171,582
Deferred tax liabilities related to land revaluation (Note 12)	57	57	612
Reserve for severance benefits (Note 16)	13,821	13,598	146,152
Reserve for 44 repairs	1,726	1,732	18,615
Reserve for safety actions	—	11,569	124,344
Allowance for investment loss	—	3,280	35,253
Others	17,174	15,993	171,893
Total long-term liabilities	548,366	540,901	5,813,639
<b>Current liabilities</b>			
Long-term debt due within one year (Note 9)	38,616	22,655	243,497
Notes and trade accounts payable	74,909	70,322	755,825
Short-term loans payable (Note 9)	33,708	37,153	399,322
Income taxes payable	19,706	28,947	311,124
Reserve for safety actions	2,023	—	—
Others (Note 17)	100,369	93,353	1,003,364
Total current liabilities	269,334	252,432	2,713,155
Total liabilities	817,700	793,334	8,526,805
<b>Net Assets (Note 10)</b>			
<b>Shareholders' equity</b>			
Common stock	132,166	132,166	1,420,528
Capital surplus	19,482	19,482	209,393
Retained earnings	459,658	492,974	5,298,516
Treasury stock	(1,251)	(3,530)	(37,940)
Total shareholders' equity	610,056	641,093	6,890,509
<b>Valuation and translation adjustments</b>			
Difference between market price and acquisition cost of other securities	16,999	23,542	253,030
Deferred hedge gains (losses)	(1,663)	4,939	53,084
Land revaluation excess (Note 12)	(103)	(103)	(1,107)
Foreign currency translation adjustments	(12,724)	(2,782)	(29,901)
Total valuation and translation adjustments	2,508	25,596	275,107
<b>Minority interests</b>	22,191	23,871	256,567
Total net assets	634,757	690,561	7,422,194
Total liabilities and net assets	¥1,452,457	¥1,483,895	\$15,949,000

# Consolidated Statements of Income

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2009 and 2010

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
Net sales	¥1,326,785	¥1,096,628	\$11,786,629
Cost of sales (Note 13)	921,915	645,248	6,935,167
Gross profit on sales	404,870	451,380	4,851,461
Selling, general and administrative expenses (Note 13)	337,937	360,239	3,871,872
Operating income	66,932	91,140	979,578
Nonoperating revenues			
Interest income	1,695	694	7,459
Dividend income	2,269	2,228	23,946
Equity in net income of affiliates	7,481	1,264	13,585
Foreign exchange gains	—	2,342	25,171
Other income	6,609	5,580	59,974
Total nonoperating revenues	18,056	12,110	130,159
Nonoperating expenses			
Interest expenses	10,461	9,965	107,104
Losses from derivatives	2,651	—	—
Provision of allowance for investment loss	—	3,280	35,253
Other expenses	7,365	5,198	55,868
Total nonoperating expenses	20,478	18,444	198,237
Ordinary profit	64,510	84,806	911,500
Extraordinary loss			
Loss on sales of fixed assets	—	140	1,504
Loss from impairment of fixed assets (Note 19)	—	2,093	22,495
Total extraordinary loss	—	2,234	24,011
Income before income taxes and minority interests	64,510	82,572	887,489
Income taxes			
Current	18,751	30,585	328,729
Deferred	6,425	2,312	24,849
Total corporate tax and other taxes (Note 17)	25,176	32,898	353,589
Minority interests	3,292	1,289	13,854
Net income	¥ 36,041	¥ 48,384	\$ 520,034

	Yen		U.S. Dollars
	2009	2010	2010
Per share of common stock			
Net income	¥ 16.72	¥ 22.50	\$ 0.241
Net income — diluted	—	—	—
Cash dividends applicable to the year	7.00	7.00	0.075

See accompanying consolidated financial statements notes.

# Consolidated Statements of Changes in Shareholders' Equity

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2009 and 2010

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
<b>Shareholders' equity</b>			
Common stock			
Balance as of previous year-end	¥132,166	¥132,166	\$1,420,528
Balance as of current year-end	132,166	132,166	1,420,528
Capital surplus			
Balance as of previous year-end	19,482	19,482	209,393
Balance as of current year-end	19,482	19,482	209,393
Retained earnings			
Balance as of previous year-end	439,226	459,658	4,940,434
Changes from:			
Cash dividends paid	(15,093)	(15,061)	(161,876)
Net income	36,041	48,384	520,034
Disposal of treasury stock	(18)	(4)	(42)
Decrease due to decrease in number of consolidated subsidiaries	—	(1)	(10)
Decrease due to change in affiliates' accounting policies	(498)	—	—
Total changes during the year	20,431	33,316	358,082
Balance as of current year-end	459,658	492,974	5,298,516
Treasury stock			
Balance as of previous year-end	(806)	(1,251)	(13,445)
Changes from:			
Purchase of treasury stock	(610)	(2,315)	(24,881)
Disposal of treasury stock	165	36	386
Total changes during the year	(444)	(2,278)	(24,484)
Balance as of current year-end	(1,251)	(3,530)	(37,940)
<b>Total shareholders' equity</b>			
Balance as of previous year-end	590,069	610,056	6,556,921
Changes from:			
Dividends paid	(15,093)	(15,061)	(161,876)
Net income	36,041	48,384	520,034
Purchase of treasury stock	(610)	(2,315)	(24,881)
Disposal of treasury stock	146	32	343
Decrease due to decrease in number of consolidated subsidiaries	—	(1)	(10)
Decrease due to change in affiliates' accounting policies	(498)	—	—
Total changes during the year	19,986	31,037	333,587
Balance as of current year-end	¥610,056	¥641,093	\$6,890,509

See accompanying consolidated financial statements notes.

## Consolidated Statements of Changes in Shareholders' Equity

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
<b>Valuation and translation adjustments</b>			
Difference between market price and acquisition cost of other securities			
Balance as of previous year-end	¥ 31,790	¥ 16,999	\$ 182,706
Net changes in net assets other than shareholders' equity during the year	(14,790)	6,542	70,313
Total changes during the year	(14,790)	6,542	70,313
Balance as of current year-end	16,999	23,542	253,030
Deferred hedge gains (losses)			
Balance as of previous year-end	12,628	(1,663)	(17,874)
Net changes in net assets other than shareholders' equity during the year	(14,292)	6,602	70,958
Total changes during the year	(14,292)	6,602	70,958
Balance as of current year-end	(1,663)	4,939	53,084
Land revaluation excess			
Balance as of previous year-end	83	(103)	(1,107)
Net changes in net assets other than shareholders' equity during the year	(186)	—	—
Total changes during the year	(186)	—	—
Balance as of current year-end	(103)	(103)	(1,107)
Foreign currency translation adjustments			
Balance as of previous year-end	14,020	(12,724)	(136,758)
Net changes in net assets other than shareholders' equity during the year	(26,744)	9,941	106,846
Total changes during the year	(26,744)	9,941	106,846
Balance as of current year-end	(12,724)	(2,782)	(29,901)
Total valuation and translation adjustments			
Balance as of previous year-end	58,523	2,508	26,956
Net changes in net assets other than shareholders' equity during the year	(56,014)	23,087	248,140
Total changes during the year	(56,014)	23,087	248,140
Balance as of current year-end	2,508	25,596	275,107
<b>Minority interests</b>			
Balance as of previous year-end	18,065	22,191	238,510
Net changes in net assets other than shareholders' equity during the year	4,126	1,679	18,046
Total changes during the year	4,126	1,679	18,046
Balance as of current year-end	22,191	23,871	256,567
<b>Total net assets</b>			
Balance as of previous year-end	666,657	634,757	6,822,409
Changes from:			
Dividends from retained earnings	(15,093)	(15,061)	(161,876)
Net income	36,041	48,384	520,034
Purchase of treasury stock	(610)	(2,315)	(24,881)
Disposal of treasury stock	146	32	343
Decrease due to decrease in number of consolidated companies	—	(1)	(10)
Decrease due to change in affiliates' accounting policies	(498)	—	—
Net changes in net assets other than shareholders' equity during the year	(51,887)	24,767	266,197
Total changes during the year	(31,900)	55,804	599,785
Balance as of current year-end	¥634,757	¥690,561	\$7,422,194

# Consolidated Statements of Cash Flows

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2009 and 2010

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
<b>Cash Flows from Operating Activities</b>			
Net income before income taxes	¥ 64,510	¥ 82,572	\$ 887,489
Depreciation	86,549	95,402	1,025,386
Amortization of long-term prepaid expenses	6,234	6,186	66,487
Loss from impairment of fixed assets	—	2,093	22,495
Increase (decrease) in allowance for safety actions	—	9,546	102,601
Increase (decrease) in allowance for investment loss	—	3,280	35,253
(Increase) decrease in prepaid pension expenses	(5,943)	3,471	37,306
Interest and dividend income	(3,965)	(2,922)	(31,405)
Interest expenses	10,461	9,965	107,104
Equity in net income of affiliates	(7,481)	(1,264)	(13,585)
Loss on disposal of tangible fixed assets	—	1,751	18,819
(Increase) decrease in notes and trade accounts receivables	16,946	10,809	116,175
(Increase) decrease in inventories	(18,370)	16,511	177,461
Increase (decrease) in notes and trade accounts payables	—	(4,201)	(45,152)
Increase (decrease) in accrued expenses	2,990	(7,890)	(84,802)
Others	(6,421)	26,433	284,103
<b>Total</b>	<b>145,510</b>	<b>251,746</b>	<b>2,705,782</b>
Interest and dividends received	7,900	7,365	79,159
Interest paid	(10,122)	(9,928)	(106,706)
Income and enterprise taxes paid	(22,597)	(19,468)	(209,243)
<b>Net cash flow from operating activities</b>	<b>120,691</b>	<b>229,714</b>	<b>2,468,981</b>
<b>Cash Flows from Investing Activities</b>			
Acquisition of tangible fixed assets	(100,626)	(87,252)	(937,790)
Acquisition of intangible fixed assets	(2,077)	(10,254)	(110,210)
Payment of long-term prepaid expenses	(7,193)	(5,791)	(62,242)
Proceeds from sale and redemption of investment securities	3,876	—	—
Purchase of affiliates' shares	(4,323)	(3,164)	(34,006)
Proceeds from acquisition of shares of subsidiaries accompanied by change in scope of consolidation	6,682	—	—
Net (increase) decrease in short-term loans receivable	(2,741)	—	—
Expense for time deposits	(1,744)	(4,314)	(46,367)
Proceeds from withdrawal of time deposits	—	2,065	22,194
Others	46	(2,553)	(27,439)
<b>Net cash flow from investment activities</b>	<b>(108,102)</b>	<b>(111,265)</b>	<b>(1,195,883)</b>
<b>Cash Flows from Financing Activities</b>			
Net increase (decrease) in short-term loans payable	(6,421)	6,718	72,205
Net increase (decrease) in commercial paper	(64,000)	—	—
Proceeds from long-term loans payable	42,848	6,439	69,206
Repayment of long-term loans payable	(18,702)	(23,022)	(247,441)
Proceeds from issuance of bonds	90,000	—	—
Repayment of bonds	(30,660)	(20,454)	(219,840)
Purchase of treasury stocks	—	(2,315)	(24,881)
Dividends paid	(15,071)	(15,048)	(161,736)
Others	(1,430)	(1,870)	(20,098)
<b>Net cash flow from financial activities</b>	<b>(3,438)</b>	<b>(49,553)</b>	<b>(532,598)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(1,630)</b>	<b>(1,654)</b>	<b>(17,777)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>7,519</b>	<b>67,241</b>	<b>722,710</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>39,244</b>	<b>46,764</b>	<b>502,622</b>
<b>Decrease in Cash and Cash Equivalents Due to Exclusion of Subsidiaries from the Consolidation</b>	<b>—</b>	<b>(6)</b>	<b>(64)</b>
<b>Cash and Cash Equivalents at Year-End</b>	<b>¥ 46,764</b>	<b>¥113,998</b>	<b>\$1,225,257</b>

See accompanying consolidated financial statements notes.

# Notes to Consolidated Financial Statements

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
March 31, 2009 and 2010

## 1. Basis of Presenting Consolidated Financial Statements .....

The accompanying consolidated financial statements of Osaka Gas Co., Ltd. (the "Company") and its consolidated subsidiaries 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 the Company's consolidated 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, 2010, which was ¥93.04 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.

As permitted, amounts of less than one million yen are omitted in the presentation for 2009 and 2010. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

## 2. Significant Accounting Policies .....

### (1) Consolidation

The consolidated financial statements include the accounts of the Company and those of its consolidated subsidiaries (together, the "Companies"). For purpose of the consolidated financial statements, companies which are owned 40% or more and substantially controlled by the Company are considered subsidiaries and included in the consolidation.

The consolidated financial statements for the years ended March 31, 2009 and 2010 included the accounts of the Company and its 136 and 128 subsidiaries, respectively. For the year ended March 31, 2010, 3 subsidiaries were newly consolidated and 11 subsidiaries were excluded from consolidation. Intercompany transactions and accounts were eliminated. All material unrealized profit resulting from intercompany transactions and included in assets was eliminated.

The accounts of 46 of the subsidiaries were included on the basis of their fiscal years that end on December 31. These subsidiaries do not prepare for consolidation purposes statements with periods that correspond to the fiscal year of the Company. For these 46 consolidated subsidiaries, if there were significant transactions between their fiscal year-end 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 the date of acquisition is amortized within 20 years on a straight-line basis. If the difference is insignificant, it is charged or credited to income in the first year of consolidation.

Investments in significant affiliates are accounted for by the equity method. Affiliates that have an insignificant impact on consolidated net income and consolidated retained earnings are not accounted for by the equity method. In March 31, 2009 and 2010, 5 and 6 significant affiliates, respectively, were 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. The method used to value inventories held for sale in the ordinary course of business subjects the amounts carried on the balance sheet to a write-down as a result of reduced profitability.

### (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 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 and 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 consolidated statements of income.

#### **(5) 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 on 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 gain arising from beneficiaries' contribution offset against the acquisition cost of property, plant and equipment at March 31, 2009 and 2010 was ¥254,419 million and ¥260,351 million (\$2,798,269 thousand), respectively. The current capital gain arising from expropriation of property offset against the acquisition cost of property, plant and equipment at March 31, 2009 and 2010 was ¥301 million and ¥76 million (\$816 thousand), respectively.

#### **(6) Intangible Assets**

The Companies include goodwill and software in intangible assets. Goodwill is amortized using the straight-line method within 20 years, and software is amortized over its estimated useful life.

#### **(7) Leased Assets**

Property, plant and equipment that are capitalized under finance lease arrangements and that do not transfer ownership of the leased asset to the lessee are depreciated using the straight-line method over the term of the lease with the assumption of no residual value.

#### **(8) Allowance for Doubtful Receivables**

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

#### **(9) Reserve for 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.

Generally, 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 the future expenditures arising from such repairs and charging them to income in equal annual amounts. The difference between the actual expenditure and the estimated amount 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 consumer safety by estimating the future expenditures required for the promotion of replacements with safety-enhanced models, strengthening of incidental inspections and publicity, and maintenance work on aging gas pipelines.

#### **(12) Allowance for Investment Loss**

The Company provides for future payments for potential losses on the business of affiliates by estimating the expected losses.

#### **(13) Income Taxes**

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

The Companies recognize the tax effects of loss carryforwards and the 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.

#### **(14) 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.

#### **(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 interest rate swap contracts are used as hedges and meet certain hedging criteria, forward foreign currency exchange contracts, and interest rate 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

## Notes to Consolidated Financial Statements

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 is executed to hedge a future transaction denominated in a foreign currency, the future

Below are derivatives to which hedge accounting is applied.

Type	Instruments	Hedge accounting method	Hedged items	Millions of Yen		
				Contract amounts	More than one year	Fair value
(a) Interest rates	Interest rate swap	Exceptional accounting of interest rate swap	Long-term loans payable	¥ 32,368	¥ 26,116	
		Principal method of accounting	Long-term loans payable and bonds	74,658	70,634	¥ (921)
(b) Currencies	Forward foreign currency exchange contracts and currency option transactions	Exceptional accounting such as forward foreign currency exchange contracts, etc., or principal method of accounting	Anticipated foreign currency denominated transactions	63,345	21,344	715
(c) Products	Swap transactions and option transactions of oil prices, etc.	Principal method of accounting	Purchase prices of raw materials, etc.	94,847	67,981	7,991
Total				¥265,219	¥186,076	¥7,785

Type	Instruments	Hedge accounting method	Hedged items	Thousands of U.S. Dollars		
				Contract amounts	More than one year	Fair value
(a) Interest rates	Interest rate swap	Exceptional accounting of interest rate swap	Long-term loans payable	\$ 347,893	\$ 280,696	
		Principal method of accounting	Long-term loans payable and bonds	802,429	759,178	\$ (9,898)
(b) Currencies	Forward foreign currency exchange contracts and currency option transactions	Exceptional accounting such as forward foreign currency exchange contracts, etc., or principal method of accounting	Anticipated foreign currency denominated transactions	680,836	229,406	7,684
(c) Products	Swap transactions and option transactions of oil prices, etc.	Principal method of accounting	Purchase prices of raw materials, etc.	1,019,421	730,664	85,887
Total				\$2,850,591	\$1,999,957	\$83,673

Notes:

1. Fair values are calculated by using prices presented by main financial institutions.

2. Fair values of interest rate swaps to which exceptional accounting is applied are included in those of the corresponding long-term loans payable, as such, values are accounted for together with hedged long-term loans payable.

### (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 the fiscal year.

Diluted net income per share of common stock for the years ended March 31, 2009 and 2010 was not shown since there were no outstanding convertible bonds or other common stock equivalents.

## 3. Changes in Accounting Policies

### (1) Change in Standards and Methods Used for Asset Valuation

Since the fiscal year ended March 31, 2009, the Company and consolidated domestic subsidiaries have applied the "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan ("ASBJ") Statement No. 9, issued on July 5, 2006). As permitted under the superseded accounting standard, the Company and its consolidated domestic subsidiaries had previously stated inventories at cost. The new accounting standard, however, requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value. With the application of this standard, operating income, ordinary income, and income before income taxes and minority interests

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.

all were ¥1,463 million less than the amounts that would have been reported using the previous method. The effects on segment information are described in Note 18.

### (2) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Since the fiscal year ended March 31, 2009, the Company has applied the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" ("PITF No. 18," issued on May 17, 2006). PITF No. 18 maintains that accounting policies and procedures applied by a parent company and its subsidiaries to

similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. The application of the new rule had no impact on the Company's profit and loss account.

### (3) Application of Accounting Standards for Lease Transactions

The Company and its consolidated domestic subsidiaries previously accounted for finance leases that did not transfer ownership of the leased property to the lessee as operating leases, with the disclosure of certain "as if capitalized" information in the notes to the consolidated financial statements. Since fiscal 2008, however, the Company and its consolidated domestic subsidiaries have applied the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, issued on June 17, 1993 by the First Subcommittee of the Business Accounting Council and revised on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, issued on January 18, 1994 by Accounting System Committee of the Japanese Institute of Certified Public Accountants and revised on March 30, 2007) and have capitalized assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases. The impact of the application of the standard and the guidance on the Company's profit and loss account has been insignificant.

As permitted, finance leases that were entered into as lessee and that commenced before the beginning of the year ended March 31, 2009 and have been accounted for as operating leases continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

### (4) Changes in the Basis for Accounting for Net Sales and Cost of Sales of Completed Construction Contracts

Previously, the Company had used the completed-contract method to account for its income from contract construction, but it has now applied the "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, December 27, 2007) from the fiscal year ended March 2010. Accordingly, beginning with construction contracts that were commenced during the fiscal year ended March 2010, the percentage-of-completion method shall be applied to construction activities whose outcome is deemed certain up until March 31, 2010. The completed-contract method shall be applied to other construction activities. The impact of the application of the standard and the guidance on the Company's profit and loss account was insignificant.

### (5) Adoption of "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)"

From the fiscal year ended March 2010, the Company has applied the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, July 31, 2008). The application of the standard had no impact on the Company's profit and loss account.

## 4. Additional Information

### (1) Reserve for Safety Actions

Previously, the Company had ensured that aging gas pipelines were replaced according to a predetermined plan, following the publication of "Prevention of Accidents in the City Gas Industry" by the Japan Gas Association. Now that the plan has progressed, however, it has become possible to make a reasonable estimate of the remaining costs as of the end of March 2010 based on past construction records, and so the Company has decided to report such costs as reserve. Accordingly, the Company recorded ¥9,121 million (\$98,033 thousand) in reserve for safety actions, and operating income, ordinary profit, and income before income taxes and minority interests have each decreased by the same amount.

### (2) Allowance for Investment Loss

At the end of the fiscal year ended March 2010, there existed a strong likelihood of future losses being incurred from the businesses of affiliates, the amounts of which can be rationally estimated. As such, the Company recorded ¥3,280 million (\$35,253 thousand) in allowance for investment loss. Accordingly, ordinary income and income before income taxes and minority interests have each decreased by the same amount.

### (3) Raw Material Purchasing Prices

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

## 5. Cash and Cash Equivalents

The relationship between the closing balance of cash and cash equivalents on the consolidated statements of cash flows and the amount of cash and deposits on the consolidated balance sheets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
Cash and cash equivalents- balance sheets	¥44,828	¥ 95,411	\$1,025,483
Time deposits with more than 3 months to maturity	(3,559)	(5,412)	(58,168)
Short-term investments with an original maturity of three months or less, presenting negligible risk of change in value, included in other current assets	5,495	23,999	257,942
Cash and cash equivalents-statements of cash flow	¥46,764	¥113,998	\$1,225,257

## 6. Inventories

Inventories at March 31, 2009 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
Finished products	¥21,146	¥16,572	\$178,116
Work-in-process	8,673	9,228	99,183
Raw materials and supplies	54,164	38,283	411,468
Total	¥83,984	¥64,084	\$688,779

## 7. Financial Instruments

The carrying amount, fair value, and difference as of March 31, 2010 were as follows. In addition, financial instruments for which it is extremely difficult to determine the fair value are not included in the table below.

	Carrying amount		Fair value		Difference	
	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
(1) Cash and deposits	¥ 95,411	\$1,025,483	¥ 95,411	\$1,025,483	—	—
(2) Notes and trade accounts receivable	121,458	1,305,438	121,458	1,305,438	—	—
(3) Marketable securities and investment in securities	85,325	917,078	85,325	917,078	—	—
Total assets	¥302,194	\$3,248,000	¥302,194	\$3,248,000	—	—
(1) Notes and trade accounts payable	¥ 70,322	\$ 755,825	¥ 70,322	\$755,825	—	—
(2) Short-term loans payable	37,153	399,322	37,153	399,322	—	—
(3) Bonds	261,273	2,808,179	271,265	2,915,573	¥ 9,992	\$107,394
(4) Long-term loans payable due after one year	239,726	2,576,590	250,626	2,693,744	10,900	117,153
Total liabilities	¥608,474	\$6,539,918	¥629,367	\$6,764,488	¥20,892	\$224,548
Derivative transactions	¥ 7,785	\$ 83,673	¥ 7,785	\$ 83,673	—	—

Shown in the table below is financial instruments for which it is extremely difficult to determine the fair value.

	Carrying amount	
	Millions of Yen	Thousands of U.S. Dollars
Affiliated company securities	¥72,461	\$778,815
Non-listed equity securities	¥13,880	\$149,183

Amounts of receivables and securities with maturities to be redeemed after the consolidated closing date.

	Millions of Yen			
	One year or less	One to five years	Five to ten years	More than ten years
Cash and deposits	¥ 95,411			
Notes and trade accounts receivable	121,458			
Marketable securities and investment securities				
Held-to-maturity securities (corporate bonds)	12	¥50	¥ 37	
Other securities with maturity (Government bonds, municipal bonds)	70			¥49
Other securities with maturity (Negotiable deposits)	20,400			
Other securities with maturity (Commercial paper)	3,999			
Other securities with maturity (Other)			300	
Total	¥241,351	¥50	¥337	¥49

	Thousands of U.S. Dollars			
	One year or less	One to five years	Five to ten years	More than ten years
Cash and deposits	\$1,025,483			
Notes and trade accounts receivable	1,305,438			
Marketable securities and investment securities				
Held-to-maturity securities (corporate bonds)	128	\$537	\$ 397	
Other securities with maturity (Government bonds, municipal bonds)	752			\$526
Other securities with maturity (Negotiable deposits)	219,260			
Other securities with maturity (Commercial paper)	42,981			
Other securities with maturity (Other)			3,224	
Total	\$2,594,056	\$537	\$3,622	\$526

## 8. Securities

(1) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair value as of March 31, 2009 and 2010:

Securities with available fair value (book value) that exceeds acquisition cost were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	Acquisition Cost	Book Value	Difference	Difference
For 2009:				
Equity securities	¥19,638	¥46,997	¥27,358	
Bonds	109	110	0	
Total	¥19,748	¥47,107	¥27,358	
For 2010:				
Equity securities	¥59,910	¥22,667	¥37,243	\$400,290
Bonds	10	10	0	0
Total	¥59,920	¥22,677	¥37,243	\$400,290

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

	Millions of Yen			Thousands of U.S. Dollars
	Acquisition Cost	Book Value	Difference	Difference
For 2009:				
Equity securities	¥ 4,196	¥ 3,834	¥(361)	
Bonds	60	60	0	
<b>Total</b>	<b>¥ 4,256</b>	<b>¥ 3,895</b>	<b>¥(361)</b>	
For 2010:				
Equity securities	¥ 895	¥ 966	¥ (71)	\$ (763)
Bonds	24,509	24,509	—	—
<b>Total</b>	<b>¥25,404</b>	<b>¥25,475</b>	<b>¥ (71)</b>	<b>\$ (763)</b>

(2) The following table summarizes book values of significant available-for-sale securities with no available fair value as of March 31, 2009:

	Millions of Yen
	2009
Non-listed (non-quoted) equity securities	¥14,441
Commercial paper	¥ 5,495
Corporate bonds	¥ 100

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

	Millions of Yen				
	Within One Year	Over One Year but Within Five Years	Over Five Years but Within Ten Years	Over Ten Years	Total
For 2009:					
Commercial paper	¥5,495	¥ —	¥—	¥ —	¥5,495
Government bonds	100	70	—	—	170
Corporate bonds	—	50	50	—	100
Other	—	—	—	300	300
<b>Total</b>	<b>¥5,595</b>	<b>¥120</b>	<b>¥50</b>	<b>¥300</b>	<b>¥6,065</b>

(4) Total sales of available-for-sale securities in the years ended March 31, 2009 and 2010 amounted to ¥104 million and ¥674 million (\$7,244 thousand), respectively. The related gains and losses amounted to ¥72 million and ¥4 million, respectively, for the year ended March 31, 2009 and ¥7 million (\$75 thousand) and ¥85 million (\$913 thousand), respectively, for the year ended March 31, 2010.

## 9. Short-Term Loans and Long-Term Debt .....

Short-term loans consisted of short-term notes payable bearing interest at an annual average rate of 0.9% and 0.6% at March 31, 2009 and 2010.

Long-term debt at March 31, 2009 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
Loans principally from banks and insurance companies at the average rate of 2.0% both in 2009 and 2010			
due within one year	¥ 17,816	¥ 21,811	\$ 234,426
maturing through 2030	238,610	217,914	2,342,153
<b>Total</b>	<b>¥256,426</b>	<b>¥239,726</b>	<b>\$2,576,590</b>
Bonds			
3.4% bonds payable due 2017	¥ 15,700	¥ 15,700	\$ 168,744
1.95% bonds payable due 2009	20,000	—	—
1.46% bonds payable due 2012	19,999	19,999	214,950
1.47% bonds payable due 2022	19,980	19,982	214,767
1.83% bonds payable due 2020	19,989	19,990	214,853
1.79% bonds payable due 2020	19,981	19,983	214,778
2.33% bonds payable due 2026	9,993	9,993	107,405
1.79% bonds payable due 2016	19,987	19,989	214,843
2.14% bonds payable due 2019	19,994	19,995	214,907
1.59% bonds payable due 2014	19,996	19,997	214,929
1.21% bonds payable due 2015	30,000	30,000	322,441
1.782% bonds payable due 2018	30,000	30,000	322,441
1.199% bonds payable due 2013	30,000	30,000	322,441
7.73% bonds payable in U.S. dollars due 2015	6,018	5,642	60,640
<b>Total</b>	<b>¥281,642</b>	<b>¥261,273</b>	<b>\$2,808,179</b>

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

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.

The Company remains contingently liable on the amounts assumed by the banks.

The annual maturities of corporate bonds at March 31, 2010 were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 482	\$ 5,180
2012	531	5,707
2013	20,816	223,731
2014	31,146	334,759
2015	21,384	229,836
April 1, 2015 and thereafter	186,980	2,008,931
<b>Total</b>	<b>¥261,342</b>	<b>\$2,808,179</b>

The annual maturities of long-term debt at March 31, 2010 were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 21,811	\$ 234,426
2012	29,430	316,315
2013	11,761	126,407
2014	35,453	381,051
2015	13,882	149,204
April 1, 2015 and thereafter	127,386	1,369,153
<b>Total</b>	<b>¥239,726</b>	<b>\$2,576,590</b>

Assets pledged as collateral mainly for short-term loans and long-term debt totaling ¥34,140 million and ¥30,071 million (\$323,205 thousand) at March 31, 2009 and 2010, respectively, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
Property, plant and equipment	¥46,261	<b>¥41,525</b>	<b>\$446,313</b>
Investment in securities	14,337	<b>14,212</b>	<b>152,751</b>
Other investments	1,595	—	—
Cash and time deposits	1,351	<b>934</b>	<b>10,038</b>
Accounts receivable	2,617	<b>1,180</b>	<b>12,682</b>
Inventories and other	4,677	<b>4,048</b>	<b>43,508</b>
<b>Total</b>	<b>¥70,841</b>	<b>¥61,901</b>	<b>\$665,315</b>

## 10. 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, additional paid-in capital and legal earnings reserve 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.

## 11. Contingent Liabilities

At March 31, 2009 and 2010, the Companies were contingently liable as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
As guarantor of indebtedness of:			
Affiliates	¥ 1,419	<b>¥ 4,522</b>	<b>\$ 48,602</b>
Employees	38	<b>29</b>	<b>311</b>
Debt assumption agreements	41,309	<b>39,235</b>	<b>421,700</b>
<b>Total</b>	<b>¥42,766</b>	<b>¥43,787</b>	<b>\$470,625</b>

## 12. 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 in the consolidated balance sheets as "Deferred tax liabilities related to land revaluation" in liabilities and "Land revaluation excess" in net assets. The

land prices used for the revaluation were based mainly on 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. The difference between the market price and the revalued amount was minus ¥926 million (minus \$9,952 thousand) on March 31, 2010.

## 13. 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 ¥9,603 million and

¥10,670 million (\$114,681 thousand) for the years ended March 31, 2009 and 2010, respectively.

## 14. Leases

### (1) Finance Lease Transactions

As discussed in 3(3), finance leases which commenced before the beginning of fiscal 2008 and did not transfer ownership of leased assets to lessee are accounted for as operating leases.

Information for noncapitalized finance leases at March 31, 2009 and 2010 was as follows:

#### As lessee (noncapitalized)

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
Original lease obligations (including finance charges)	¥6,040	¥5,315	\$57,125
Less accumulated depreciation	3,657	3,839	41,261
Balance at fiscal year end	2,383	1,475	15,853
Payments remaining:			
Payments due within one year	¥ 847	¥ 591	\$ 6,352
Payments due over one year	1,535	884	9,501
Total	¥2,383	¥1,475	\$15,853

Lease payments for such leases for the years ended March 31, 2009 and 2010 were ¥1,023 million and ¥818 million (\$8,791 thousand), respectively.

Assumed depreciation charges are computed by the straight-line method over the term of the lease with the assumption of no residual value. Such depreciation for the years ended March 31, 2009 and 2010 was ¥1,023 million and ¥818 million (\$8,791 thousand), respectively.

### (2) Operating Lease Transactions

Obligations under non-cancelable operating leases at March 31, 2009 and 2010 were as follows:

#### As lessee (noncapitalized)

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
Due within one year	¥ 794	¥ 960	\$10,318
Due over one year	1,734	3,525	37,886
Total	¥2,529	¥4,485	\$48,205

## 15. 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 in foreign currency exchange rates with respect to foreign currency payables for the purchase of materials and foreign currency bonds and loans payable, risks of interest rate increases with respect to borrowings within the amounts of such borrowings and foreign currency payables, risks of fluctuations in material prices and risks of fluctuations in gas sales. In turn, 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:

Interest rate swap contracts  
Forward foreign exchange contracts or currency options  
Material and other price swap contracts and options  
Weather derivatives

#### Hedged items:

Interest on bonds and loans payable  
Foreign currency debt  
Purchase cost of materials and other  
Gas sales

The Companies evaluate hedge effectiveness by analyzing the relationship between hedging instruments and hedged items.

All derivative transactions as of March 31, 2009 and 2010 were recorded by using hedge accounting.

## 16. 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, 2009 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
Projected benefit obligation	¥263,976	¥261,662	\$2,812,360
Prepaid pension expenses	46,867	43,361	466,046
Unrecognized actuarial differences	(49,758)	(45,256)	(486,414)
Less fair value of pension assets	(247,263)	(246,168)	(2,645,829)
Liability for severance and retirement benefits	¥ 13,821	¥ 13,598	\$ 146,152

## Notes to Consolidated Financial Statements

Included in the consolidated statements of income for the years ended March 31, 2009 and 2010 were severance and retirement benefit expenses consisting of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
Service costs—benefits earned during the year	¥ 7,481	¥7,346	\$78,955
Interest cost on projected benefit obligation	4,770	4,644	49,914
Expected return on plan assets	(10,988)	(7,606)	(81,749)
Amortization of actuarial gains and losses	(1,054)	4,701	50,526
Prior service costs	(16)	2	21
Severance and retirement benefit expenses	¥ 192	¥9,089	\$97,689

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

	2009	2010
Discount rates	Mainly 1.8%	Mainly 1.8%
Expected rate of return on plan assets	Mainly 3.6%	Mainly 3.1%

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.

## 17. 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 both the years ended March 31, 2009 and 2010.

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, 2009 and 2010:

	2009	2010
Statutory tax rate	36.2%	36.2%
Nondeductible expenses	3.0	2.5
Statutory tax rate difference between the Company and certain subsidiaries	2.1	0.8
Per capital inhabitants taxes	0.3	0.3
Other	(2.6)	0
Effective tax rate	39.0%	39.8%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2009 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
<b>Deferred tax assets:</b>			
Fuel costs	¥10,011	¥ —	\$ —
Excess depreciation of depreciable assets	5,136	5,809	62,435
Excess depreciation of deferred assets	5,259	5,217	56,072
Reserve for safety actions	—	4,188	45,012
Loss on impairment of fixed assets	7,652	5,124	55,073
Write-down of securities	4,682	4,312	46,345
Reserve for severance benefits	5,184	4,234	45,507
Enterprise taxes	3,067	2,673	28,729
Other	13,644	27,164	291,960
Total deferred tax assets	54,637	58,723	631,158
Valuation allowance	(4,692)	(8,337)	(89,606)
Net deferred tax assets	49,944	50,386	541,552
<b>Deferred tax liabilities:</b>			
Net unrealized gains on securities	(9,988)	(13,649)	(146,700)
Prepaid pension expenses	(16,945)	(15,631)	(168,003)
Unrealized gains on hedging derivatives	(469)	(4,883)	(52,482)
Special reserve for tax purpose	(5,821)	(6,640)	(71,367)
Deferred gains on real property	(342)	(342)	(3,675)
Other	(2,201)	(5,884)	(63,241)
Total deferred tax liabilities	(35,769)	(47,031)	(505,492)
Net deferred tax assets	¥14,174	¥ 3,354	\$ 36,049

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

	Millions of Yen		Thousands of U.S. Dollars
	2009	2010	2010
Current assets	¥23,409		
Current assets (included in "Others")		¥12,677	\$136,253
Investments and other assets (included in "Others")	6,618	6,714	72,162
Current liabilities (included in "Others")	(20)	(15)	(161)
Fixed liabilities	(15,833)	(16,022)	(172,205)
Total	¥14,174	¥ 3,354	\$ 36,049

## 18. 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; and (5) Other Businesses.

A summary of segment information is as follows:

For 2009:	Millions of Yen						Elimination and Corporate	Consolidated
	Gas	LPG, Electricity and Other Energies	Gas Appliance and House-pipe Installation	Real Estate	Other Businesses	Total		
<b>Operating revenues</b>								
Outside customers	¥789,514	¥246,575	¥141,150	¥ 21,353	¥128,192	¥1,326,785	¥ —	¥1,326,785
Inside group	24,841	3,029	439	11,834	37,085	77,231	(77,231)	—
Total	814,356	249,604	141,590	33,187	165,277	1,404,017	(77,231)	1,326,785
Cost and expenses	776,674	240,493	138,976	26,276	155,650	1,338,071	(78,218)	1,259,852
Operating income	¥ 37,682	¥ 9,110	¥ 2,613	¥ 6,911	¥ 9,627	¥ 65,945	¥ 987	¥ 66,932
Identifiable assets	¥662,082	¥356,033	¥ 62,548	¥127,524	¥173,332	¥1,381,521	¥70,936	¥1,452,457
Depreciation	60,805	15,108	354	4,574	6,257	87,099	(550)	86,549
Capital expenditure	46,175	42,400	533	9,379	8,012	106,501	(414)	106,087

For 2010:	Millions of Yen						Elimination and Corporate	Consolidated
	Gas	LPG, Electricity and Other Energies	Gas Appliance and House-pipe Installation	Real Estate	Other Businesses	Total		
<b>Operating revenues</b>								
Outside customers	¥660,096	¥168,958	¥127,009	¥ 20,360	¥120,204	¥1,096,628	¥ —	¥1,096,628
Inside group	13,957	2,350	506	12,405	40,784	70,005	(70,005)	—
Total	674,054	171,308	127,516	32,766	160,988	1,166,634	(70,005)	1,096,628
Cost and expenses	620,980	150,568	126,079	26,350	152,673	1,076,651	(71,163)	1,005,488
Operating income	¥ 53,073	¥ 20,740	¥ 1,437	¥ 6,415	¥ 8,315	¥ 89,983	¥ 1,157	¥ 91,140
Identifiable assets	¥650,977	¥389,943	¥ 53,949	¥144,793	¥178,686	¥1,418,351	¥65,544	¥1,483,895
Depreciation	60,895	23,008	51	5,075	6,877	95,908	(506)	95,402
Impairment loss	19	125			1,949	2,093	—	2,093
Capital expenditure	50,284	23,975	969	16,850	6,646	98,726	(479)	98,246

For 2010:	Thousands of U.S. Dollars						Elimination and Corporate	Consolidated
	Gas	LPG, Electricity and Other Energies	Gas Appliance and House-pipe Installation	Real Estate	Other Businesses	Total		
<b>Operating revenues</b>								
Outside customers	\$7,094,754	\$1,815,971	\$1,365,101	\$ 218,830	\$1,291,960	\$11,786,629	\$ —	\$11,786,629
Inside group	150,010	25,257	5,438	133,329	438,349	752,418	(752,418)	—
Total	7,244,776	1,841,229	1,370,550	352,171	1,730,309	12,539,058	(752,418)	11,786,629
Cost and expenses	6,674,333	1,618,314	1,355,105	283,211	1,640,939	11,571,915	(764,864)	10,807,050
Operating income	\$ 570,432	\$ 222,914	\$ 15,444	\$ 68,948	\$ 89,370	\$ 967,143	\$ 12,435	\$ 979,578
Identifiable assets	\$6,996,743	\$4,191,132	\$ 579,847	\$1,556,244	\$1,920,528	\$15,244,529	\$704,471	\$15,949,000
Depreciation	654,503	247,291	548	54,546	73,914	1,030,825	(5,438)	1,025,386
Impairment loss	204	1,343			20,947	22,495	—	22,495
Capital expenditure	540,455	257,684	10,414	181,104	71,431	1,061,113	(5,148)	1,055,954

As described in Note 3, "Changes in Accounting Policies," since the fiscal year ended March 31, 2009, the Company and its consolidated domestic subsidiaries have applied the "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan ("ASBJ") Statement No. 9, issued on July 5, 2006). As a result, cost and expenses were ¥137 million more in the Gas segment, ¥545 million more in the LPG, Electricity and Other Energies segment, ¥68 million more in the Gas Appliance and House-pipe Installation segment, ¥608 million more in the Real Estate

segment, and ¥102 million more in the Other segment than they would have been without the revision. Operating income was less in each segment by the corresponding amount.

Geographic segment information is not disclosed since domestic sales and assets accounted for more than 90% of the totals for all segments.

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

## 19. 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 unit.

② Fixed assets used for operating businesses other than those described above are generally categorized into groups based on the business division controlling the fixed asset.

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 ¥2,093 million (\$2,495 thousand) was recognized in the fiscal year ended March 31, 2010.

Significant properties included in this loss are listed in the table below.

Asset	Location	Type	Loss from Impairment	
			Millions of Yen	Thousands of U.S. Dollars
Fitness facilities	Nagoya-shi, Aichi etc.	Property	2010 ¥1,897	2010 \$20,389

The recoverable values of these assets were assessed based on value in use.

These assets were acquired for use by a fitness club facility. However, it is now deemed difficult to recoup this investment due to the recent economic slowdown. Therefore, the book value has been reduced to the

recoverable value and the reduction has been recorded as impairment loss under extraordinary loss.

It is the Company's policy to calculate the recoverable value of an asset on the basis of the asset's values in use by discounting future cash flows by 5.0%.

## 20. Significant Subsequent Events .....

### Appropriations of retained earnings

The appropriation of retained earnings of the Company proposed by the Board of Directors and approved at the shareholders' meeting held on June 29, 2010 included cash dividends applicable to the year ended March 31, 2010 and the payment of cash dividends to shareholders of record at March 31, 2010 in the aggregate amount of ¥7,517 million (\$80,793 thousand) or ¥3.5 per share.

## Independent Auditors' Report

To the 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, 2009 and 2010, and 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 consolidated subsidiaries as of March 31, 2009 and 2010, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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 AZSA & Co.*

Osaka, Japan

June 29, 2010

# Major Consolidated Subsidiaries

(As of March 31, 2010)

	Name of Subsidiary	Capital (Million yen)	Osaka Gas shareholding (%)
Gas	<b>Osaka Gas Customer Relations Co., Ltd.</b> Maintenance checks on gas equipment and appliances / Checking gas meters / Collection of gas bills	50	100
	<b>Toyooka Energy Co., Ltd.</b> Production, supply and sales of gas	100	100
	<b>Nabari Kintetsu Gas Co., Ltd.</b> Production, supply and sales of gas / Sales of LPG and other products	100	85
LPG, Electricity and Other Energies	<b>Osaka Gas International Transport Inc.</b> LNG vessel leasing	3,190	100
	<b>Osaka Gas Summit Resources Co., Ltd.</b> Development and investment of petroleum and natural gas	100	70
	<b>Osaka Gas LPG Co., Ltd.</b> Sales of LPG and other products	100	100
	<b>Gas and Power Co., Ltd.</b> Electric power supply	1,368	100
	<b>Creative Techno Solution Co., Ltd.</b> Sales and construction of energy equipment, heating system supplies, etc.	1,150	100
	<b>Senboku Natural Gas Power Generation Co., Ltd.</b> Electric power supply	2,000	90
	<b>Nakayama Joint Power Generation Co., Ltd.</b> Electric power supply	300	95
	<b>Nakayama Nagoya Joint Power Generation Co., Ltd.</b> Electric power supply	450	95
	<b>Nissho Petroleum Gas Corporation</b> Sales of LPG and other products	1,726	52.5
	<b>Nissho Propane Sekiyu Co., Ltd.</b> Sales of LPG and other products	60	100
	<b>Liquid Gas Co., Ltd.</b> Sales of industrial gas, LNG, LPG and other products	1,030	100
	<b>Osaka Gas Australia Pty. Ltd.</b> Development and investment of petroleum and natural gas	A\$453 million	100
	<b>Osaka Gas Energy America Corporation</b> Research and investment relating to energy supply business	US\$1	100
	<b>Osaka Gas Gorgon Pty. Ltd.</b> Oil and natural gas investment and development, etc.	A\$143 million	100

	Name of Subsidiary	Capital (Million yen)	Osaka Gas shareholding (%)
Gas Appliances and House-Pipe Installation	<b>Enetec Kyoto Co., Ltd.</b> Sales of gas appliances, and housing equipment and appliances / Gas appliance works	30	100
	<b>Osaka Gas Housing &amp; Equipment Co., Ltd.</b> Sales of housing equipment and appliances	450	100
	<b>Kinpai Co., Ltd.</b> Gas piping works / Sales of gas appliances, and housing equipment and appliances	300	100
	<b>Kinpai Corporation</b> Business administration of the Kinpai Group, and other activities	112	100
Real Estate	<b>Urbanex Co., Ltd.</b> Development, leasing, management and sales of real estate	1,570	100
	<b>OSC Engineering Co., Ltd.</b> Operation, management and maintenance of buildings and facilities	50	90
	<b>Osaka Gas Total Facilities Co., Ltd.</b> Operation, management and maintenance of buildings and facilities	100	100
	<b>OG Capital Co., Ltd.</b> Development, leasing, and management of real estate	3,000	100
	<b>Kyoto Research Park Corp.</b> Development, leasing, and management of real estate	100	100
	<b>Osaka Gas Maison Co., Ltd.</b> Sales of condominiums	300	100
	<b>Osaka Gas Autoservice Co., Ltd.</b> Leasing and servicing of automobiles, and other activities	100	100
Others	<b>Osaka Gas Chemicals Co., Ltd.</b> Manufacture and sales of fine materials, carbon material products, and others	2,500	100
	<b>Osaka Gas Security Service Co., Ltd.</b> Provision of security and disaster protection services / Sales of home security systems	100	100
	<b>Osaka Gas Business Create Co., Ltd.</b> Temporary staffing services / Operation of facilities	100	100
	<b>OG Sports Co., Ltd.</b> Management and contract operation of sports facilities	100	100
	<b>Osaka Gas Information System Research Institute Co., Ltd.</b> Software development / Computer data processing services	400	100
	<b>OGIC Co., Ltd.</b> Leasing / Credit / Insurance sales	600	100
	<b>Sakura Information Systems Co., Ltd.</b> Software development / Computer-based data processing services	600	51
	<b>Japan EnviroChemicals, Ltd.</b> Manufacture and sales of activated carbon, wood protective coatings and other products	2,055	100
	<b>Total 128 companies</b>		

# 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
1905	Established Iwasaki Plant; commenced gas supply (Number of customers: 3,351)		Established Urbanex Co., Ltd.
1933	Completed construction of head office building	1990	Completed natural gas conversion
1940	Torishima Plant completed	1991	Established Liquid Gas Co., Ltd. and Osaka Gas Chemicals Co., Ltd. Opened the DILIPA showroom to exhibit residential gas appliances
1950	Keihan Connecting Pipeline completed (currently No. 1 Keihan Line)	1992	Established Osaka Gas Information System Research Institute Co., Ltd.
1952	Hanshin Connecting Pipeline completed (currently No. 1 Hanshin Line)	1994	Completed the Kinki Trunk Line's No. 3 West Line Closed down the coke oven at Torishima Energy Center
1955	Held first Gas Exhibition	1995	The Great Hanshin (Kobe) Earthquake (supply of gas to approx. 860,000 customers halted) Commenced import of LNG from Malaysia
1958	Launched gas-powered automatic rice cooker Number of customers exceeded one million	1996	Commenced fuel-cost adjustment system
1964	Raised calorific value of gas supplied in Kyoto/Osaka/Kobe region (from 3,600 kcal/m <sup>3</sup> to 4,500 kcal/m <sup>3</sup> )	1997	Completed installation of microcomputer-controlled meters in all households Number of customers exceeded six million
1966	Number of customers exceeded two million	1998	Commenced import of LNG from Qatar
1967	Commenced operation of the first gas-powered cooling system at Kobe City's main public sports center	1999	Undertook first retirement of treasury stock
1969	Installed first gas absorption-type cooler/heater at Osaka Toryo Hall	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
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	2003	Adjusted calorific value of gas supply (from 11,000 kcal/m <sup>3</sup> to 10,750 kcal/m <sup>3</sup> (45 MJ/m <sup>3</sup> )) Launched sales of "ECOWILL" residential gas engine cogeneration system Completed the Kinki Trunk Line's Keiji and Himeji Lines
1971	Commenced operations at Semboku Plant Number of customers exceeded three million	2004	Acquired equity interests in Spanish and U.S. IPP projects Commenced commercial operation of power generation facility at Himeji LNG Terminal
1972	Commenced import of LNG from Brunei Completed the Kinki Trunk Line's No. 1 East Line	2005	100 <sup>th</sup> 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
1975	Commenced natural gas conversion (from 4,500 kcal/m <sup>3</sup> to 11,000 kcal/m <sup>3</sup> )	2006	Completed Shiga Line of Kinki Trunk Line
1977	Commenced operations at Semboku LNG Terminal No. 2 Facility Commenced import of LNG from Indonesia	2009	Semboku Natural Gas Power Plant commenced operations Launched sales of "ENE-FARM" residential fuel cell cogeneration system
1978	Completed the Kinki Trunk Line's No. 2 East Line Number of customers exceeded four 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 five million		

# Company Data

(As of June 29, 2010)

## Directory

### Head Office

4-1-2, Hiranomachi, Chuo-ku, Osaka 541-0046, Japan Tel: (+81)-6-6205-4715 (IR team, Corporate Strategy Dept.)

### Tokyo Office

Shin-Otemachi Building 6F, 2-2-1, Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan Tel: (+81)-3-3211-2551

### London Office

1<sup>st</sup> Floor, Carrington House, 126-130 Regent Street, London W1B 5SE, U.K. Tel: (+44)-20-7851-7483

### 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 2010 regular general meeting was held on June 29.

### Common Stock:

Authorized: 3,707,506,909 shares

Issued: 2,158,383,539 shares

### Listing of Shares:

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

### Number of Shareholders:

159,968

### Stock Transaction Units:

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

### Common Stock Price Range (Yen):

(Tokyo Stock Exchange)

	2009/3		2010/3	
	High	Low	High	Low
First quarter	430	359	326	297
Second quarter	420	356	327	303
Third quarter	419	282	328	288
Fourth quarter	422	293	340	306

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

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

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

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

### Osaka Gas Co., Ltd.

Email: [keiri@osakagas.co.jp](mailto:keiri@osakagas.co.jp)

Please note that we do not accept files attached to emails, such as image files.

## Unit Conversion List

### Weight

kg	Metric ton	Imperial (short) ton	U.S. (long) ton
1	$1 \times 10^{-3}$	$0.984 \times 10^{-3}$	$1.102 \times 10^{-3}$
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	$0.622 \times 10^{-3}$
0.3048	1	0.333	$0.189 \times 10^{-3}$
0.9144	3	1	$0.568 \times 10^{-3}$
1,609	5,280	1,760	1

### Volume (Liquid)

m <sup>3</sup> (kl)	ft	Imperial gallon	U.S. gallon
1	35.315	219.97	264.17
$28.32 \times 10^{-3}$	1	6.288	7.481
$4.55 \times 10^{-3}$	0.1606	1	1.2011
$3.78 \times 10^{-3}$	0.1337	0.8327	1

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

### Volume (Gas)

m <sup>3</sup> (n)	m <sup>3</sup> (s)	SCF
1	1.055	37.33
0.9476	1	35.37
0.0268	0.0283	1

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

### Energy

kcal	Btu	MJ	kWh
1	3.969	$4.186 \times 10^{-3}$	$1.162 \times 10^{-3}$
0.2520	1	$1.055 \times 10^{-3}$	$0.2929 \times 10^{-3}$
238.9	948.2	1	0.2778
860.1	3,414	3.600	1

### Heating Value (Gas)

kcal/m <sup>3</sup> (n)	Btu/SCF	MJ/m <sup>3</sup> (s)
1	0.1063	$3.97 \times 10^{-3}$
9.406	1	$3.73 \times 10^{-3}$
252.1	26.81	1

1 ton of LNG =  $13 \times 10^6$  kcal =  $52 \times 10^6$  Btu

Design Your Energy 夢ある明日を



**Osaka Gas Co., Ltd.**

4-1-2, Hiranomachi, Chuo-ku,  
Osaka 541-0046, Japan

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

