

# Consolidated Balance Sheets

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
March 31, 2010 and 2011

|   | 2010       | Millions of Yen<br>2011 | Thousands of<br>U.S. Dollars<br>(Note 1)<br>2011 |
|---|------------|-------------------------|--|
| <b>Assets</b>                                 |            |                         |  |
| <b>Fixed Assets</b>                           |            |                         |  |
| <b>Property, plant and equipment</b> (Note 9) |            |                         |  |
| Production facilities                         | ¥ 90,195   | ¥ 84,785                | \$ 1,019,663                                     |
| Distribution facilities                       | 309,186    | 296,526                 | 3,566,157  |
| Administrative facilities                     | 71,177     | 70,981                  | 853,650  |
| Other facilities                              | 333,746    | 324,993                 | 3,908,514  |
| Construction in progress                      | 22,524     | 23,106                  | 277,883  |
| Total property, plant and equipment           | 826,830    | 800,394                 | 9,625,904  |
| <b>Intangible fixed assets</b>                |            |                         |  |
| Goodwill                                      | 5,046      | 3,172                   | 38,147   |
| Others  | 37,794     | 37,089                  | 446,049  |
| Total intangible fixed assets                 | 42,840     | 40,262                  | 484,209  |
| <b>Investments and other assets</b>           |            |                         |  |
| Investment in securities (Notes 8 and 9)      | 147,185    | 136,179                 | 1,637,751  |
| Others (Note 18)                              | 94,389     | 95,785                  | 1,151,954  |
| Allowance for doubtful accounts               | (1,761)    | (2,102)                 | (25,279)   |
| Total investments and other assets            | 239,812    | 229,862                 | 2,764,425  |
| Total fixed assets                            | 1,109,484  | 1,070,520               | 12,874,564                                       |
| <b>Current Assets</b>                         |            |                         |  |
| Cash and deposits (Notes 5 and 9)             | 95,411     | 98,422                  | 1,183,668  |
| Notes and trade accounts receivable (Note 9)  | 121,458    | 136,930                 | 1,646,782  |
| Securities (Note 8)                           | 24,482     | 23,112                  | 277,955  |
| Inventories (Notes 6 and 9)                   | 64,084     | 49,400                  | 594,107  |
| Others (Note 18)                              | 70,403     | 60,277                  | 724,918  |
| Allowance for doubtful accounts               | (1,428)    | (1,366)                 | (16,428)   |
| Total current assets                          | 374,411    | 366,776                 | 4,411,016  |
| Total assets                                  | ¥1,483,895 | ¥1,437,297              | \$17,285,592                                     |

|   | Millions of Yen |            | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|------------|--|
|   | 2010            | 2011       | 2011                                     |
| <b>Liabilities</b>  |                 |            |  |
| <b>Long-term liabilities</b>  |                 |            |  |
| Bonds (Note 9)  | ¥ 260,790       | ¥ 269,733  | \$ 3,243,932                             |
| Long-term loans payable (Note 9)  | 217,914         | 190,430    | 2,290,198                                |
| Deferred tax liabilities (Note 18)                                      | 15,964          | 11,079     | 133,241                                  |
| Deferred tax liabilities related to land revaluation (Note 13)          | 57              | 149        | 1,791                                    |
| Employees' severance and retirement benefits (Note 17)                  | 13,598          | 14,548     | 174,960                                  |
| Reserve for gas holder repairs  | 1,732           | 1,715      | 20,625                                   |
| Reserve for safety actions  | 11,569          | 9,508      | 114,347                                  |
| Allowance for investment loss   | 3,280           | 3,280      | 39,446                                   |
| Others  | 15,993          | 17,927     | 215,598                                  |
| Total long-term liabilities   | 540,901         | 518,373    | 6,234,191                                |
| <b>Current liabilities</b>  |                 |            |  |
| Long-term debt due within one year (Note 9)                             | 22,655          | 30,833     | 370,811                                  |
| Notes and trade accounts payable  | 70,322          | 38,218     | 459,627                                  |
| Short-term loans payable (Note 9)                                       | 37,153          | 40,660     | 488,995                                  |
| Income taxes payable  | 28,947          | 32,614     | 392,230                                  |
| Others (Note 18)  | 93,353          | 87,900     | 1,057,125                                |
| Total current liabilities   | 252,432         | 230,228    | 2,768,827                                |
| Total liabilities   | 793,334         | 748,601    | 9,003,018                                |
| <b>Net Assets (Note 10)</b>   |                 |            |  |
| <b>Shareholders' equity</b>   |                 |            |  |
| Common stock  |                 |            |  |
| Authorized—3,707,506,909 shares   |                 |            |  |
| Issued—2,083,400,000 shares in 2011<br>and 2,158,383,539 shares in 2010 | 132,166         | 132,166    | 1,589,488                                |
| Capital surplus   | 19,482          | 19,482     | 234,299                                  |
| Retained earnings   | 492,974         | 499,366    | 6,005,604                                |
| Treasury stock  |                 |            |  |
| 1,019,059 shares in 2011 and 10,473,574 shares in 2010                  | (3,530)         | (323)      | (3,884)                                  |
| Total shareholders' equity  | 641,093         | 650,692    | 7,825,520                                |
| <b>Accumulated other comprehensive income</b>                           |                 |            |  |
| Valuation difference on available-for-sale securities                   | 23,542          | 18,037     | 216,921                                  |
| Deferred hedge gains (losses)   | 4,939           | 4,116      | 49,500                                   |
| Land revaluation difference (Note 13)                                   | (103)           | (519)      | (6,241)                                  |
| Foreign currency translation adjustments                                | (2,782)         | (7,367)    | (88,598)                                 |
| Total accumulated other comprehensive income                            | 25,596          | 14,267     | 171,581                                  |
| <b>Minority interests</b>   | 23,871          | 23,735     | 285,447                                  |
| Total net assets  | 690,561         | 688,695    | 8,282,561                                |
| Total liabilities and net assets  | ¥1,483,895      | ¥1,437,297 | \$17,285,592                             |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Income

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2010 and 2011

|  | Millions of Yen |                   | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|-----------------|-------------------|--|
|  | 2010            | 2011              | 2011                                     |
| Net sales  | ¥1,096,628      | <b>¥1,187,142</b> | <b>\$14,277,113</b>                      |
| Cost of sales (Note 14)  | 645,248         | <b>750,159</b>    | <b>9,021,755</b>                         |
| Gross profit on sales  | 451,380         | <b>436,983</b>    | <b>5,255,357</b>                         |
| Selling, general and administrative expenses (Note 14)                                 | 360,239         | <b>348,399</b>    | <b>4,190,006</b>                         |
| Operating income   | 91,140          | <b>88,584</b>     | <b>1,065,351</b>                         |
| Nonoperating revenues  |                 |                   |  |
| Interest income  | 694             | <b>608</b>        | <b>7,312</b>                             |
| Dividend income  | 2,228           | <b>1,956</b>      | <b>23,523</b>                            |
| Equity in net income of affiliates   | 1,264           | <b>2,161</b>      | <b>25,989</b>                            |
| Foreign exchange gains   | 2,342           | –                 | –  |
| Other income   | 5,580           | <b>5,396</b>      | <b>64,894</b>                            |
| Total nonoperating revenues  | 12,110          | <b>10,124</b>     | <b>121,755</b>                           |
| Nonoperating expenses  |                 |                   |  |
| Interest expenses  | 9,965           | <b>9,059</b>      | <b>108,947</b>                           |
| Provision of allowance for investment loss   | 3,280           | –                 | –  |
| Other expenses   | 5,198           | <b>7,276</b>      | <b>87,504</b>                            |
| Total nonoperating expenses  | 18,444          | <b>16,335</b>     | <b>196,452</b>                           |
| Ordinary income  | 84,806          | <b>82,372</b>     | <b>990,643</b>                           |
| Extraordinary losses   |                 |                   |  |
| Loss on sales of fixed assets  | 140             | –                 | –  |
| Loss from impairment of fixed assets (Note 21)   | 2,093           | –                 | –  |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | –               | <b>784</b>        | <b>9,428</b>                             |
| Total extraordinary losses   | 2,234           | <b>784</b>        | <b>9,428</b>                             |
| Income before income taxes and minority interests                                      | 82,572          | <b>81,587</b>     | <b>981,202</b>                           |
| Income taxes   |                 |                   |  |
| Current  | 30,585          | <b>35,604</b>     | <b>428,190</b>                           |
| Deferred   | 2,312           | <b>(1,875)</b>    | <b>(22,549)</b>                          |
| Total income taxes (Note 18)   | 32,898          | <b>33,729</b>     | <b>405,640</b>                           |
| Income before minority interests   | –               | <b>47,858</b>     | <b>575,562</b>                           |
| Minority interests   | 1,289           | <b>1,890</b>      | <b>22,730</b>                            |
| Net income   | ¥ 48,384        | <b>¥ 45,968</b>   | <b>\$ 552,832</b>                        |

|  | Yen     |                | U.S. Dollars<br>(Note 1) |
|--|---------|----------------|--------------------------|
|  | 2010    | 2011           | 2011                     |
| Amounts per Share of Common Stock (Note 2) |         |                |                          |
| Net income                                 | ¥ 22.50 | <b>¥ 21.62</b> | <b>\$ 0.260</b>          |
| Cash dividends applicable to the year      | 7.00    | <b>8.00</b>    | <b>0.096</b>             |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Comprehensive Income

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2010 and 2011

|  | Millions of Yen |          | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|-----------------|----------|--|
|  | 2010            | 2011     | 2011                                     |
| Income before minority interests   | –               | ¥ 47,858 | \$ 575,562                               |
| Other comprehensive income   |                 |          |  |
| Valuation difference on available-for-sale securities                                  | –               | (5,505)  | (66,205)                                 |
| Deferred hedge gains (losses)  | –               | (724)    | (8,707)                                  |
| Land revaluation difference  | –               | (112)    | (1,346)                                  |
| Foreign currency translation adjustments   | –               | (2,280)  | (27,420)                                 |
| Share of other comprehensive income of associates accounted<br>for using equity method | –               | (3,401)  | (40,901)                                 |
| Total other comprehensive income   | –               | (12,024) | (144,606)                                |
| Comprehensive income   | –               | ¥ 35,833 | \$ 430,944                               |
| Attributable to:   |                 |          |  |
| Owners of the parent   | –               | ¥ 34,943 | \$ 420,240                               |
| Minority interests   | –               | ¥ 890    | \$ 10,703                                |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Net Assets

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2010 and 2011

|   | Millions of Yen |                 | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|-----------------|-----------------|--|
|   | 2010            | 2011            | 2011                                     |
| <b>Shareholders' equity</b>                                     |                 |                 |  |
| Common stock  |                 |                 |  |
| Balance as of previous year-end                                 | ¥132,166        | <b>¥132,166</b> | <b>\$1,589,488</b>                       |
| Balance as of current year-end                                  | 132,166         | <b>132,166</b>  | <b>1,589,488</b>                         |
| Capital surplus   |                 |                 |  |
| Balance as of previous year-end                                 | 19,482          | <b>19,482</b>   | <b>234,299</b>                           |
| Balance as of current year-end                                  | 19,482          | <b>19,482</b>   | <b>234,299</b>                           |
| Retained earnings   |                 |                 |  |
| Balance as of previous year-end                                 | 459,658         | <b>492,974</b>  | <b>5,928,731</b>                         |
| Changes from:   |                 |                 |  |
| Cash dividends paid   | (15,061)        | <b>(16,108)</b> | <b>(193,722)</b>                         |
| Net income  | 48,384          | <b>45,968</b>   | <b>552,832</b>                           |
| Disposal of treasury stock                                      | (4)             | <b>(1)</b>      | <b>(12)</b>                              |
| Cancellation of treasury stock                                  | –               | <b>(23,770)</b> | <b>(285,868)</b>                         |
| Decrease due to decrease in number of consolidated subsidiaries | (1)             | –               | –  |
| Reversal of land revaluation difference                         | –               | <b>303</b>      | <b>3,644</b>                             |
| Total changes during the year                                   | 33,316          | <b>6,391</b>    | <b>76,861</b>                            |
| Balance as of current year-end                                  | 492,974         | <b>499,366</b>  | <b>6,005,604</b>                         |
| Treasury stock  |                 |                 |  |
| Balance as of previous year-end                                 | (1,251)         | <b>(3,530)</b>  | <b>(42,453)</b>                          |
| Changes from:   |                 |                 |  |
| Purchase of treasury stock                                      | (2,315)         | <b>(20,583)</b> | <b>(247,540)</b>                         |
| Disposal of treasury stock                                      | 36              | <b>20</b>       | <b>240</b>                               |
| Cancellation of treasury stock                                  | –               | <b>23,770</b>   | <b>285,868</b>                           |
| Total changes during the year                                   | (2,278)         | <b>3,207</b>    | <b>38,568</b>                            |
| Balance as of current year-end                                  | (3,530)         | <b>(323)</b>    | <b>(3,884)</b>                           |
| Total shareholders' equity                                      |                 |                 |  |
| Balance as of previous year-end                                 | 610,056         | <b>641,093</b>  | <b>7,710,078</b>                         |
| Changes from:   |                 |                 |  |
| Cash dividends paid   | (15,061)        | <b>(16,108)</b> | <b>(193,722)</b>                         |
| Net income  | 48,384          | <b>45,968</b>   | <b>552,832</b>                           |
| Purchase of treasury stock                                      | (2,315)         | <b>(20,583)</b> | <b>(247,540)</b>                         |
| Disposal of treasury stock                                      | 32              | <b>19</b>       | <b>228</b>                               |
| Cancellation of treasury stock                                  | –               | –               | –  |
| Decrease due to decrease in number of consolidated subsidiaries | (1)             | –               | –  |
| Reversal of land revaluation difference                         | –               | <b>303</b>      | <b>3,644</b>                             |
| Total changes during the year                                   | 31,037          | <b>9,598</b>    | <b>115,429</b>                           |
| Balance as of current year-end                                  | ¥641,093        | <b>¥650,692</b> | <b>\$7,825,520</b>                       |

|   | 2010     | Millions of Yen<br>2011 | Thousands of<br>U.S. Dollars<br>(Note 1)<br>2011 |
|---|----------|-------------------------|--|
| <b>Accumulated other comprehensive income</b>                             |          |                         |  |
| Valuation difference on available-for-sale-securities                     |          |                         |  |
| Balance as of previous year-end   | ¥ 16,999 | ¥ 23,542                | \$ 283,126                                       |
| Net changes in net assets other than shareholders' equity during the year | 6,542    | (5,505)                 | (66,205)   |
| Total changes during the year   | 6,542    | (5,505)                 | (66,205)   |
| Balance as of current year-end  | 23,542   | 18,037                  | 216,921  |
| Deferred hedge gains (losses)   |          |                         |  |
| Balance as of previous year-end   | (1,663)  | 4,939                   | 59,398   |
| Net changes in net assets other than shareholders' equity during the year | 6,602    | (822)                   | (9,885)  |
| Total changes during the year   | 6,602    | (822)                   | (9,885)  |
| Balance as of current year-end  | 4,939    | 4,116                   | 49,500   |
| Land revaluation difference   |          |                         |  |
| Balance as of previous year-end   | (103)    | (103)                   | (1,238)  |
| Net changes in net assets other than shareholders' equity during the year | -        | (416)                   | (5,003)  |
| Total changes during the year   | -        | (416)                   | (5,003)  |
| Balance as of current year-end  | (103)    | (519)                   | (6,241)  |
| Foreign currency translation adjustments                                  |          |                         |  |
| Balance as of previous year-end   | (12,724) | (2,782)                 | (33,457)   |
| Net changes in net assets other than shareholders' equity during the year | 9,941    | (4,584)                 | (55,129)   |
| Total changes during the year   | 9,941    | (4,584)                 | (55,129)   |
| Balance as of current year-end  | (2,782)  | (7,367)                 | (88,598)   |
| Total accumulated other comprehensive income                              |          |                         |  |
| Balance as of previous year-end   | 2,508    | 25,596                  | 307,829  |
| Net changes in net assets other than shareholders' equity during the year | 23,087   | (11,328)                | (136,235)  |
| Total changes during the year   | 23,087   | (11,328)                | (136,235)  |
| Balance as of current year-end  | 25,596   | 14,267                  | 171,581  |
| <b>Minority interests</b>   |          |                         |  |
| Balance as of previous year-end   | 22,191   | 23,871                  | 287,083  |
| Net changes in net assets other than shareholders' equity during the year | 1,679    | (135)                   | (1,623)  |
| Total changes during the year   | 1,679    | (135)                   | (1,623)  |
| Balance as of current year-end  | 23,871   | 23,735                  | 285,447  |
| <b>Total net assets</b>   |          |                         |  |
| Balance as of previous year-end   | 634,757  | 690,561                 | 8,305,003  |
| Changes from:   |          |                         |  |
| Cash dividends paid   | (15,061) | (16,108)                | (193,722)  |
| Net income  | 48,384   | 45,968                  | 552,832  |
| Purchase of treasury stock  | (2,315)  | (20,583)                | (247,540)  |
| Disposal of treasury stock  | 32       | 19                      | 228  |
| Decrease due to decrease in number of consolidated subsidiaries           | (1)      | -                       | -  |
| Reversal of land revaluation difference                                   | -        | 303                     | 3,644  |
| Net changes in net assets other than shareholders' equity during the year | 24,767   | (11,464)                | (137,871)  |
| Total changes during the year   | 55,804   | (1,865)                 | (22,429)   |
| Balance as of current year-end  | ¥690,561 | ¥688,695                | \$8,282,561                                      |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2010 and 2011

|  | Millions of Yen  |                 | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|------------------|-----------------|--|
|  | 2010             | 2011            | 2011                                     |
| <b>Cash Flows from Operating Activities</b>  |                  |                 |  |
| Income before income taxes and minority interests  | ¥ 82,572         | ¥ 81,587        | \$ 981,202                               |
| Depreciation   | 95,402           | 97,569          | 1,173,409                                |
| Amortization of long-term prepaid expenses   | 6,186            | 6,096           | 73,313                                   |
| Loss from impairment of fixed assets   | 2,093            | -               | -  |
| Increase (decrease) in reserve for safety actions  | 9,546            | (2,061)         | (24,786)                                 |
| Increase (decrease) in allowance for investment loss   | 3,280            | -               | -  |
| (Increase) decrease in prepaid pension costs   | 3,471            | 3,370           | 40,529                                   |
| Interest and dividend income   | (2,922)          | (2,565)         | (30,847)                                 |
| Interest expenses  | 9,965            | 9,059           | 108,947                                  |
| Equity in net income of affiliates   | (1,264)          | (2,161)         | (25,989)                                 |
| Loss on adjustment for changes of accounting standard for asset retirement obligations           | -                | 784             | 9,428                                    |
| Loss on disposal of property, plant and equipment  | 1,751            | 1,549           | 18,628                                   |
| (Increase) decrease in notes and trade accounts receivable                                       | 10,809           | (15,301)        | (184,016)                                |
| (Increase) decrease in inventories   | 16,511           | 14,652          | 176,211                                  |
| Increase (decrease) in notes and trade accounts payable  | (4,201)          | (32,085)        | (385,868)                                |
| Increase (decrease) in accrued expenses  | (7,890)          | (1,571)         | (18,893)                                 |
| Others   | 26,433           | 3,390           | 40,769                                   |
| <b>Total</b>   | <b>251,746</b>   | <b>162,313</b>  | <b>1,952,050</b>                         |
| Interest and dividends received  | 7,365            | 4,558           | 54,816                                   |
| Interest paid  | (9,928)          | (9,127)         | (109,765)                                |
| Income and enterprise taxes paid   | (19,468)         | (31,345)        | (376,969)                                |
| <b>Net cash provided by operating activities</b>   | <b>229,714</b>   | <b>126,399</b>  | <b>1,520,132</b>                         |
| <b>Cash Flows from Investing Activities</b>  |                  |                 |  |
| Purchase of property, plant and equipment  | (87,252)         | (66,843)        | (803,884)                                |
| Purchase of intangible fixed assets  | (10,254)         | (1,838)         | (22,104)                                 |
| Purchase of long-term prepaid expenses   | (5,791)          | (5,294)         | (63,668)                                 |
| Purchase of affiliates' shares   | (3,164)          | (4,152)         | (49,933)                                 |
| Net (increase) decrease in short-term loans receivable   | -                | 2,194           | 26,386                                   |
| Payment of long-term loans receivable  | -                | (1,550)         | (18,641)                                 |
| Payment of time deposits   | (4,314)          | (1,792)         | (21,551)                                 |
| Proceeds from withdrawal of time deposits  | 2,065            | 1,972           | 23,716                                   |
| Others   | (2,553)          | (5,103)         | (61,371)                                 |
| <b>Net cash used in investing activities</b>   | <b>(111,265)</b> | <b>(82,408)</b> | <b>(991,076)</b>                         |
| <b>Cash Flows from Financing Activities</b>  |                  |                 |  |
| Net increase (decrease) in short-term loans payable  | 6,718            | 3,381           | 40,661                                   |
| Proceeds from long-term loans payable  | 6,439            | 5,221           | 62,790                                   |
| Repayment of long-term loans payable   | (23,022)         | (21,649)        | (260,360)                                |
| Proceeds from issuance of bonds  | -                | 10,000          | 120,264                                  |
| Repayment of bonds   | (20,454)         | -               | -  |
| Purchase of treasury stock   | (2,315)          | (20,583)        | (247,540)                                |
| Dividends paid   | (15,048)         | (16,095)        | (193,565)                                |
| Others   | (1,870)          | (1,533)         | (18,436)                                 |
| <b>Net cash used in financing activities</b>   | <b>(49,553)</b>  | <b>(41,257)</b> | <b>(496,175)</b>                         |
| <b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>                              | <b>(1,654)</b>   | <b>(501)</b>    | <b>(6,025)</b>                           |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                      | <b>67,241</b>    | <b>2,232</b>    | <b>26,843</b>                            |
| <b>Cash and Cash Equivalents at Beginning of Year</b>  | <b>46,764</b>    | <b>113,998</b>  | <b>1,370,992</b>                         |
| <b>Decrease in Cash and Cash Equivalents Due to Exclusion of Subsidiaries from Consolidation</b> | <b>(6)</b>       | <b>-</b>        | <b>-</b>                                 |
| <b>Cash and Cash Equivalents at Year-End (Note 5)</b>  | <b>¥ 113,998</b> | <b>¥116,230</b> | <b>\$1,397,835</b>                       |

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
March 31, 2010 and 2011

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Osaka Gas Co., Ltd. (the "Company") and its consolidated subsidiaries (together, the "Companies") 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 is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2011, which was ¥83.15 to U.S.\$1.00. The convenience 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 2010 and 2011. 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. 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, 2010 and 2011 included the accounts of the Company and its 128 and 131 subsidiaries, respectively. For the year ended March 31, 2011, 6 subsidiaries were newly consolidated and 3 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 48 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 48 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. On March 31, 2010 and 2011, 6 and 7 significant affiliates, respectively, were accounted for by the equity method.

### (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 in the event 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 a loss in the period of the decline. If the fair value of equity securities issued by subsidiaries or 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 by 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 the beneficiaries' contributions and offset against the acquisition cost of property, plant and equipment at March 31, 2010 and 2011 was ¥260,351 million and ¥259,490 million (\$3,120,745 thousand), respectively. The current capital gain arising from the expropriation of property offset against the acquisition cost of property, plant and equipment at March 31, 2010 and 2011 was ¥76 million and ¥410 million (\$4,930 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 Accounts

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) 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 Gas Holder Repairs

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 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 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.

#### (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, 2010 and 2011 was not shown since there were no outstanding convertible bonds or other common stock equivalents.

### 3. Changes in Accounting Policies

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

Previously, the Company and its consolidated domestic subsidiaries had used the completed contract method to account for its income from contract construction, but now have applied the "Accounting Standard for Construction Contracts" (Accounting Standards Board of Japan ("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 31, 2010. Accordingly, beginning with construction contracts that were commenced during the fiscal year ended March 31, 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 change had no material impact on the consolidated financial statements.

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

Effective from the fiscal year ended March 31, 2010, the Company and its consolidated domestic subsidiaries have applied the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, July 31, 2008). The change had no impact on the consolidated financial statements.

#### (3) Adoption of "Accounting Standard for Equity Method" and "Transitional Treatment of Accounting Method for Affiliates Reported by Equity Method"

Effective from the fiscal year ended March 31, 2011, the Company has adopted the "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (Practical Issue Task Force ("PITF") No. 24, March 10, 2008).

The change had no impact on the consolidated financial statements.

#### (4) Adoption of "Accounting Standard for Asset Retirement Obligations"

Effective from April 1, 2010, the Company and its consolidated domestic subsidiaries have adopted the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008).

As a result of adopting these standards, operating income, ordinary income and income before income taxes and minority interests were ¥81 million (\$974 thousand), ¥26 million (\$312 thousand) and ¥811 million (\$9,753 thousand) less for the fiscal year ended March 31, 2011 than the amounts that would have been recorded without the change.

### 4. Additional Information

#### Comprehensive Income

Effective from the fiscal year ended March 31, 2011, the Company has adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, June 30, 2010).

Please note, however, that the amounts reported on the lines "Accumulated other comprehensive income" and "Total

accumulated other comprehensive income" for the year ended March 31, 2010, presented for comparison, were the amounts of "Valuation and translation adjustments" and "Total valuation and translation adjustments" reported on the consolidated balance sheets for the same year, respectively.

### 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 was as follows:

|   | Millions of Yen |          | Thousands of U.S. Dollars |
|---|-----------------|----------|---------------------------|
|   | 2010            | 2011     | 2011                      |
| Cash and cash equivalents—balance sheets  | ¥ 95,411        | ¥ 98,422 | \$1,183,668               |
| Time deposits with more than 3 months to maturity   | (5,412)         | (4,891)  | (58,821)                  |
| Short-term investments with an original maturity of three months or less, presenting negligible risk of change in value, and included in current assets | 23,999          | 22,699   | 272,988                   |
| Cash and cash equivalents—statements of cash flows  | ¥113,998        | ¥116,230 | \$1,397,835               |

### 6. Inventories

Inventories at March 31, 2010 and 2011 consisted of the following:

|                            | Millions of Yen |         | Thousands of U.S. Dollars |
|----------------------------|-----------------|---------|---------------------------|
|                            | 2010            | 2011    | 2011                      |
| Finished products          | ¥16,572         | ¥13,790 | \$165,844                 |
| Work-in-process            | 9,228           | 5,792   | 69,657                    |
| Raw materials and supplies | 38,283          | 29,817  | 358,592                   |
| Total                      | ¥64,084         | ¥49,400 | \$594,107                 |

## 7. Financial Instruments

Book value, fair value and any difference as of March 31, 2010 are set forth in the table below. Financial instruments for which it was extremely difficult to determine the fair value are not included in the table below.

|  | Millions of Yen |                 |                |
|--|-----------------|-----------------|----------------|
|  | Book Value      | Fair Value      | Difference     |
| (1) Cash and deposits                                  | ¥ 95,411        | ¥ 95,411        | ¥ -            |
| (2) Notes and trade accounts receivable                | 121,458         | 121,458         | -              |
| (3) Marketable securities and investment in securities | 85,325          | 85,325          | -              |
| <b>Total assets</b>                                    | <b>¥302,194</b> | <b>¥302,194</b> | <b>¥ -</b>     |
| (1) Notes and trade accounts payable                   | ¥ 70,322        | ¥ 70,322        | ¥ -            |
| (2) Short-term loans payable                           | 37,153          | 37,153          | -              |
| (3) Bonds  | 261,273         | 271,265         | 9,992          |
| (4) Long-term loans payable                            | 239,726         | 250,626         | 10,900         |
| <b>Total liabilities</b>                               | <b>¥608,474</b> | <b>¥629,367</b> | <b>¥20,892</b> |
| Derivative transactions                                | ¥ 7,785         | ¥ 7,785         | ¥ -            |

### Notes on the calculation method of fair value for financial instruments, securities and derivatives

#### Assets

(1) Cash and deposits and (2) Notes and trade accounts receivable  
Fair values in the table are determined by the book value, which is almost equivalent to the fair value due to the short-time nature of the financial transactions.

#### (3) Marketable securities and investment in securities

The fair value of stock in the table are determined by market prices. The fair value of bonds are derived from market prices or prices presented by the corresponding financial institution. Refer to notes on securities for information about securities classified by the purpose for which they are held.

#### Liabilities

(1) Notes and trade accounts payable and (2) Short-term loans payable

The fair values in the table are determined by book values, which are almost equivalent to the fair values due to the short-time nature of the financial transactions.

#### (3) Bonds

Market prices of the bonds issued by Osaka Gas and each of its group companies are the fair values if available, otherwise fair value is calculated as the present value, which is the total amount of principal and interest discounted at the rate reflecting the time to maturity of the bonds and the credit risk.

#### (4) Long-term loans payable

The fair value of long-term loans payable based on fixed interest rates are calculated by discounting the total amount of principal and interest at the estimated interest rate of a new loan which is similar to the long-term loans.

The fair value of long-term loans payable based on floating interest rates are determined by book values, because their market value is deemed similar to book value.

Interest rate swap transactions, which determine the interest rate level of long-term loans based on floating interest rates, are treated as extraordinary account items. The transaction amount is calculated by discounting the sum of principal and interest at the reasonably estimated rate of a new loan which is similar to the long-term loans.

#### Derivative transactions

Refer to notes on derivative transactions.

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

|                               | Millions of Yen |
|-------------------------------|-----------------|
|                               | Book Value      |
| Affiliated company securities | ¥72,461         |
| Non-listed equity securities  | ¥13,880         |

The expected redemption amounts of monetary receivables and securities with maturities after the consolidated fiscal year-end were as follows:

| Millions of Yen  |                     |                      |                      |                        |
|--|---------------------|----------------------|----------------------|------------------------|
|  | One Year<br>or Less | One to<br>Five Years | Five to<br>Ten Years | More than<br>Ten Years |
| Cash and deposits  | ¥ 95,411            |                      |                      |                        |
| Notes and trade accounts receivable  | 121,458             |                      |                      |                        |
| Marketable securities and investment in securities                                   |                     |                      |                      |                        |
| Held-to-maturity debt securities (corporate bonds)                                   | 12                  | ¥50                  | ¥ 37                 |                        |
| Available-for-sale securities with maturities (Government bonds and municipal bonds) | 70                  |                      |                      | ¥49                    |
| Available-for-sale securities with maturities (Negotiable certificate of deposits)   | 20,400              |                      |                      |                        |
| Available-for-sale securities with maturities (Commercial paper)                     | 3,999               |                      |                      |                        |
| Available-for-sale securities with maturities (Other)                                |                     |                      | 300                  |                        |
| <b>Total</b>   | <b>¥241,351</b>     | <b>¥50</b>           | <b>¥337</b>          | <b>¥49</b>             |

Book value, fair value and any difference as of March 31, 2011 are set forth in the table below. Financial instruments for which it was extremely difficult to determine the fair value are not included in the table below.

|  | Book Value      |                           | 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                                  | ¥ 98,422        | \$ 1,183,668              | ¥ 98,422        | \$ 1,183,668              | ¥ -             | \$ -                      |
| (2) Notes and trade accounts receivable                | 136,930         | 1,646,782                 | 136,930         | 1,646,782                 | -               | -                         |
| (3) Marketable securities and investment in securities | 75,705          | 910,463                   | 75,705          | 910,463                   | -               | -                         |
| Total assets   | ¥311,058        | \$3,740,926               | ¥311,058        | \$3,740,926               | ¥ -             | \$ -                      |
| (1) Notes and trade accounts payable                   | ¥ 38,218        | \$ 459,627                | ¥ 38,218        | \$ 459,627                | ¥ -             | \$ -                      |
| (2) Short-term loans payable                           | 40,660          | 488,995                   | 40,660          | 488,995                   | -               | -                         |
| (3) Bonds  | 270,203         | 3,249,585                 | 281,819         | 3,389,284                 | 11,616          | 139,699                   |
| (4) Long-term loans payable                            | 220,253         | 2,648,863                 | 231,010         | 2,778,232                 | 10,756          | 129,356                   |
| Total liabilities                                      | ¥569,336        | \$6,847,095               | ¥591,709        | \$7,116,163               | ¥22,373         | \$269,067                 |
| Derivative transactions                                | ¥ 5,197         | \$ 62,501                 | ¥ 5,197         | \$ 62,501                 | ¥ -             | \$ -                      |

### Notes on the calculation method of fair value for financial instruments, securities and derivatives

#### Assets

(1) Cash and deposits and (2) Notes and trade accounts receivable  
Fair values in the table are determined by the book value, which is almost equivalent to the fair value due to the short-time nature of the financial transactions.

(3) Marketable securities and investment in securities

The fair value of stock in the table are determined by market prices. The fair value of bonds is derived from market prices or prices presented by the corresponding financial institution. Refer to notes on securities for information about securities classified by the purpose for which they are held.

#### Liabilities

(1) Notes and trade accounts payable and (2) Short-term loans payable

The fair values in the table are determined by book values, which are almost equivalent to the fair values due to the short-time nature of the financial transactions.

(3) Bonds

Market prices of the bonds issued by Osaka Gas and each of its group companies are the fair values if available, otherwise fair value is calculated as the present value, which is the total amount of principal and interest discounted at the rate reflecting the time to maturity of the bonds and the credit risk.

(4) Long-term loans payable

The fair value of long-term loans payable based on fixed interest rates are calculated by discounting the total amount of principal and interest at the estimated interest rate of a new loan which is similar to the long-term loans.

The fair value of long-term loans payable based on floating interest rates are determined by book values, because their market value is deemed similar to book value.

Interest rate swap transactions, which determine the interest rate level of long-term loans based on floating interest rates, are treated as extraordinary account items. The transaction amount is calculated by discounting the sum of principal and interest at the reasonably estimated rate of a new loan which is similar to the long-term loans.

#### Derivative transactions

Refer to notes on derivative transactions.

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

|                               | Book Value      |                           |
|-------------------------------|-----------------|---------------------------|
|                               | Millions of Yen | Thousands of U.S. Dollars |
| Affiliated company securities | ¥70,214         | \$844,425                 |
| Non-listed equity securities  | ¥13,371         | \$160,805                 |

The expected redemption amounts of monetary receivables and securities with maturities after the consolidated fiscal year-end were as follows:

| Millions of Yen  | One Year or Less | One to Five Years | Five to Ten Years | More than Ten Years |
|--|------------------|-------------------|-------------------|---------------------|
| Cash and deposits  | ¥ 98,422         |                   |                   |                     |
| Notes and trade accounts receivable  | 136,930          |                   |                   |                     |
| Marketable securities and investment in securities                                   |                  |                   |                   |                     |
| Held-to-maturity debt securities (corporate bonds)                                   | 12               | ¥50               | ¥ 25              |                     |
| Available-for-sale securities with maturities (Government bonds and municipal bonds) |                  | 9                 |                   | ¥98                 |
| Available-for-sale securities with maturities (Negotiable certificate of deposits)   | 20,400           |                   |                   |                     |
| Available-for-sale securities with maturities (Commercial paper)                     | 2,699            |                   |                   |                     |
| Available-for-sale securities with maturities (Other)                                |                  |                   | 200               |                     |
| Total  | ¥258,465         | ¥59               | ¥225              | ¥98                 |

## Notes to Consolidated Financial Statements

| Thousands of U.S. Dollars  | One Year<br>or Less | One to<br>Five Years | Five to<br>Ten Years | More than<br>Ten Years |
|--|---------------------|----------------------|----------------------|------------------------|
| Cash and deposits  | <b>\$1,183,668</b>  |                      |                      |                        |
| Notes and trade accounts receivable  | <b>1,646,782</b>    |                      |                      |                        |
| Marketable securities and investment in securities                                   |                     |                      |                      |                        |
| Held-to-maturity debt securities (corporate bonds)                                   | <b>144</b>          | <b>\$601</b>         | <b>\$ 300</b>        |                        |
| Available-for-sale securities with maturities (Government bonds and municipal bonds) |                     | <b>108</b>           |                      | <b>\$1,178</b>         |
| Available-for-sale securities with maturities (Negotiable certificate of deposits)   | <b>245,339</b>      |                      |                      |                        |
| Available-for-sale securities with maturities (Commercial paper)                     | <b>32,459</b>       |                      |                      |                        |
| Available-for-sale securities with maturities (Other)                                |                     |                      | <b>2,405</b>         |                        |
| <b>Total</b>   | <b>\$3,108,418</b>  | <b>\$709</b>         | <b>\$2,705</b>       | <b>\$1,178</b>         |

## 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, 2010 and 2011:

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

|                   | Millions of Yen  |                |                |
|-------------------|------------------|----------------|----------------|
|                   | Acquisition Cost | Book Value     | Difference     |
| For 2010:         |                  |                |                |
| Equity securities | ¥59,910          | ¥22,667        | ¥37,243        |
| Bonds             | 10               | 10             | 0              |
| <b>Total</b>      | <b>¥59,920</b>   | <b>¥22,677</b> | <b>¥37,243</b> |

|                   | Millions of Yen  |                |                |
|-------------------|------------------|----------------|----------------|
|                   | Acquisition Cost | Book Value     | Difference     |
| For 2011:         |                  |                |                |
| Equity securities | ¥47,511          | ¥19,124        | ¥28,387        |
| <b>Total</b>      | <b>¥47,511</b>   | <b>¥19,124</b> | <b>¥28,387</b> |

|                   | Thousands of U.S. Dollars |                  |                  |
|-------------------|---------------------------|------------------|------------------|
|                   | Acquisition Cost          | Book Value       | Difference       |
| For 2011:         |                           |                  |                  |
| Equity securities | \$571,389                 | \$229,993        | \$341,395        |
| <b>Total</b>      | <b>\$571,389</b>          | <b>\$229,993</b> | <b>\$341,395</b> |

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

|                   | Millions of Yen  |                |              |
|-------------------|------------------|----------------|--------------|
|                   | Acquisition Cost | Book Value     | Difference   |
| For 2010:         |                  |                |              |
| Equity securities | ¥ 895            | ¥ 966          | ¥(71)        |
| Bonds             | 24,509           | 24,509         | —            |
| <b>Total</b>      | <b>¥25,404</b>   | <b>¥25,475</b> | <b>¥(71)</b> |

|                   | Millions of Yen  |                |             |
|-------------------|------------------|----------------|-------------|
|                   | Acquisition Cost | Book Value     | Difference  |
| For 2011:         |                  |                |             |
| Equity securities | ¥ 4,986          | ¥ 4,990        | ¥(4)        |
| Bonds             | 23,207           | 23,207         | (0)         |
| <b>Total</b>      | <b>¥28,193</b>   | <b>¥28,198</b> | <b>¥(4)</b> |

|                   | Thousands of U.S. Dollars |                  |               |
|-------------------|---------------------------|------------------|---------------|
|                   | Acquisition Cost          | Book Value       | Difference    |
| For 2011:         |                           |                  |               |
| Equity securities | \$ 59,963                 | \$ 60,012        | \$(48)        |
| Bonds             | 279,098                   | 279,098          | (0)           |
| <b>Total</b>      | <b>\$339,061</b>          | <b>\$339,122</b> | <b>\$(48)</b> |

(2) Total sales of available-for-sale securities in the years ended March 31, 2010 and 2011 amounted to ¥674 million and ¥258 million (\$3,102 thousand), respectively. The related gains and losses amounted to ¥7 million and ¥85 million, respectively, for the year ended March 31, 2010. The related gains and losses amounted to ¥45 million (\$541 thousand) and ¥0 million (\$0 thousand) for the year ended March 31, 2011.

(3) For "Available-for-sale securities," impairment losses of ¥1,206 million and ¥228 million (\$2,742 thousand) were recorded for the years ended March 31, 2010 and 2011, respectively.

## 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 0.6% and 0.4% at March 31, 2010 and 2011.

Long-term debt at March 31, 2010 and 2011 consisted of the following:

|  | Millions of Yen |                 | Thousands of<br>U.S. Dollars |
|--|-----------------|-----------------|------------------------------|
|  | 2010            | 2011            | 2011                         |
| Loans principally from banks and insurance companies at the average rate of 2.0% both in 2010 and 2011 |                 |                 |                              |
| Due within one year  | ¥ 21,811        | ¥ 29,823        | \$ 358,665                   |
| Maturing through 2030  | 217,914         | 190,430         | 2,290,198                    |
| <b>Total</b>   | <b>¥239,726</b> | <b>¥220,253</b> | <b>\$2,648,863</b>           |

|  | Millions of Yen |                 | Thousands of<br>U.S. Dollars |
|--|-----------------|-----------------|------------------------------|
|  | 2010            | 2011            | 2011                         |
| <b>Bonds</b>                                 |                 |                 |                              |
| 3.4% bonds payable due 2017                  | 15,700          | <b>15,700</b>   | <b>188,815</b>               |
| 1.46% bonds payable due 2012                 | 19,999          | <b>19,999</b>   | <b>240,517</b>               |
| 1.47% bonds payable due 2022                 | 19,982          | <b>19,983</b>   | <b>240,324</b>               |
| 1.83% bonds payable due 2020                 | 19,990          | <b>19,991</b>   | <b>240,420</b>               |
| 1.79% bonds payable due 2020                 | 19,983          | <b>19,984</b>   | <b>240,336</b>               |
| 2.33% bonds payable due 2026                 | 9,993           | <b>9,993</b>    | <b>120,180</b>               |
| 1.79% bonds payable due 2016                 | 19,989          | <b>19,990</b>   | <b>240,408</b>               |
| 2.14% bonds payable due 2019                 | 19,995          | <b>19,995</b>   | <b>240,469</b>               |
| 1.59% bonds payable due 2014                 | 19,997          | <b>19,997</b>   | <b>240,493</b>               |
| 1.21% bonds payable due 2015                 | 30,000          | <b>30,000</b>   | <b>360,793</b>               |
| 1.782% bonds payable due 2018                | 30,000          | <b>30,000</b>   | <b>360,793</b>               |
| 1.199% bonds payable due 2013                | 30,000          | <b>30,000</b>   | <b>360,793</b>               |
| 1.345% bonds payable due 2021                |                 | <b>10,000</b>   | <b>120,264</b>               |
| 7.73% bonds payable in U.S. dollars due 2015 | 5,642           | <b>4,564</b>    | <b>54,888</b>                |
| <b>Total</b>                                 | <b>¥261,273</b> | <b>¥270,203</b> | <b>\$3,249,585</b>           |

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, 2011 were as follows:

| Years ending March 31,       | Millions of Yen | Thousands of<br>U.S. Dollars |
|------------------------------|-----------------|------------------------------|
| 2012                         | ¥ 470           | \$ 5,652                     |
| 2013                         | 20,722          | 249,212                      |
| 2014                         | 31,014          | 372,988                      |
| 2015                         | 21,224          | 255,249                      |
| 2016                         | 31,132          | 374,407                      |
| April 1, 2016 and thereafter | 165,700         | 1,992,784                    |
| <b>Total</b>                 | <b>¥270,262</b> | <b>\$3,250,294</b>           |

The annual maturities of long-term debt at March 31, 2011 were as follows:

| Years ending March 31,       | Millions of Yen | Thousands of<br>U.S. Dollars |
|------------------------------|-----------------|------------------------------|
| 2012                         | ¥ 29,823        | \$ 358,665                   |
| 2013                         | 11,429          | 137,450                      |
| 2014                         | 35,081          | 421,900                      |
| 2015                         | 13,576          | 163,271                      |
| 2016                         | 20,559          | 247,251                      |
| April 1, 2016 and thereafter | 109,783         | 1,320,300                    |
| <b>Total</b>                 | <b>¥220,253</b> | <b>\$2,648,863</b>           |

Assets pledged as collateral mainly for short-term loans and long-term debt totaling ¥30,071 million and ¥23,954 million (\$288,081 thousand) at March 31, 2010 and 2011, respectively, were as follows:

|                               | Millions of Yen |                | Thousands of<br>U.S. Dollars |
|-------------------------------|-----------------|----------------|------------------------------|
|                               | 2010            | 2011           | 2011                         |
| Property, plant and equipment | ¥41,525         | <b>¥37,379</b> | <b>\$449,536</b>             |
| Investment in securities      | 14,212          | <b>12,138</b>  | <b>145,977</b>               |
| Cash and time deposits        | 934             | <b>500</b>     | <b>6,013</b>                 |
| Accounts receivable           | 1,180           | <b>1,403</b>   | <b>16,873</b>                |
| Inventories and other         | 4,048           | <b>3,448</b>   | <b>41,467</b>                |
| <b>Total</b>                  | <b>¥61,901</b>  | <b>¥54,871</b> | <b>\$659,903</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.

The appropriation of retained earnings of the Company proposed by the Board of Directors and approved at the shareholders' meeting held on June 29, 2011 included cash dividends applicable to the year ended March 31, 2011 and the payment of cash dividends to shareholders of record at March 31, 2011 in the

## Notes to Consolidated Financial Statements

aggregate amount of ¥8,329 million (\$100,168 thousand) or ¥4 per share.

The appropriations have not been accrued in the consolidated

financial statements for the year ended March 31, 2011. Such appropriations are recognized in the period in which they are approved by the shareholders.

### 11. Treasury Stock

Change in the treasury stock is as follows:

| As of March 31, 2010 | Increase | Decrease | (thousand shares)    |
|----------------------|----------|----------|----------------------|
|                      |          |          | As of March 31, 2011 |
| 10,473               | 65,589   | 75,044   | <b>1,019</b>         |

(Overview of reasons for change)

Overview of reasons for increase

Increase by market acquisition 63,724 thousand shares

Increase by repurchase under Article 155-(8) of the Law 1,496 thousand shares

Increase by repurchase of fractional shares 369 thousand shares

Overview of reasons for decrease

Decrease by cancellation of treasury stock 74,983 thousand shares

Decrease by disposal of fractional shares 60 thousand shares

### 12. Contingent Liabilities

At March 31, 2010 and 2011, the Companies were contingently liable as follows:

|                                  | Millions of Yen |                | Thousands of U.S. Dollars |
|----------------------------------|-----------------|----------------|---------------------------|
|                                  | 2010            | 2011           | 2011                      |
| As guarantor of indebtedness of: |                 |                |                           |
| Non-consolidated affiliates      | ¥ 4,522         | <b>¥ 5,803</b> | <b>\$ 69,789</b>          |
| Employees                        | 29              | <b>22</b>      | <b>264</b>                |
| Debt assumption agreements       | 39,235          | <b>39,000</b>  | <b>469,031</b>            |
| Total                            | ¥43,787         | <b>¥44,825</b> | <b>\$539,085</b>          |

### 13. 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 difference" in net assets. The land prices used for the revaluation were based 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 market value of the land was ¥926 million and ¥1,071 million (\$12,880 thousand) lower than the revalued book amount at March 31, 2010 and 2011, respectively.

### 14. 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 ¥10,670 million and ¥10,918 million (\$131,304 thousand) for the years ended March 31, 2010 and 2011, respectively.

### 15. Leases

#### (1) Finance Lease Transactions

Finance leases which commenced before the beginning of fiscal 2008 and did not transfer ownership of the leased assets to the lessee are accounted for as operating leases.

Information for non-capitalized finance leases at March 31, 2010 and 2011 was as follows:

#### As lessee (non-capitalized)

|  | Millions of Yen |               | Thousands of U.S. Dollars |
|--|-----------------|---------------|---------------------------|
|  | 2010            | 2011          | 2011                      |
| Original lease obligations (including finance charges) | ¥5,315          | <b>¥4,207</b> | <b>\$50,595</b>           |
| Less accumulated depreciation                          | 3,839           | <b>3,066</b>  | <b>36,873</b>             |
| Balance at fiscal year end                             | ¥1,475          | <b>¥1,140</b> | <b>\$13,710</b>           |
| Payments remaining:                                    |                 |               |                           |
| Payments due within one year                           | ¥ 591           | <b>¥ 442</b>  | <b>\$ 5,315</b>           |
| Payments due over one year                             | 884             | <b>698</b>    | <b>8,394</b>              |
| Total  | ¥1,475          | <b>¥1,140</b> | <b>\$13,710</b>           |

Lease payments for such leases for the years ended March 31, 2010 and 2011 were ¥818 million and ¥669 million (\$8,045 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, 2010 and 2011 was ¥818 million and ¥669 million (\$8,045 thousand), respectively.

#### (2) Operating Lease Transactions

Obligations under non-cancelable operating leases at March 31, 2010 and 2011 were as follows:

#### As lessee (non-capitalized)

|                              | Millions of Yen |               | Thousands of U.S. Dollars |
|------------------------------|-----------------|---------------|---------------------------|
|                              | 2010            | 2011          | 2011                      |
| Payments due within one year | ¥ 960           | <b>¥1,017</b> | <b>\$12,230</b>           |
| Payments due over one year   | 3,525           | <b>3,180</b>  | <b>38,244</b>             |
| Total                        | ¥4,485          | <b>¥4,197</b> | <b>\$50,475</b>           |

## 16. Derivative Transactions

Fair market value information for the derivative transactions to which hedge accounting was applied is as follows:

| Type               | Instruments  | Hedge Accounting Method   | Hedged Items  | Contract amounts (Millions of Yen) |          | Fair Value<br>(Millions of Yen) |
|--------------------|--|---|---|------------------------------------|----------|---------------------------------|
|                    |  |   |   | More than One Year                 |          |                                 |
| (a) Interest rates | Interest rate swaps  | Exceptional accounting of interest rate swaps   | Long-term loans payable                               | ¥ 32,368                           | ¥ 26,116 | (Note 2)                        |
|                    |  | 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                          |

Fair market value information for the derivative transactions to which hedge accounting was applied is as follows:

| Type               | Instruments  | Hedge Accounting Method   | Hedged Items  | Contract amounts (Millions of Yen / Thousands of U.S. Dollars) |                          | Fair Value<br>(Millions of Yen / Thousands of U.S. Dollars) |
|--------------------|--|---|---|--|--------------------------|---|
|                    |  |   |   | More than One Year   |                          |   |
| (a) Interest rates | Interest rate swaps  | Exceptional accounting of interest rate swaps   | Long-term loans payable                               | ¥ 24,055<br>\$ 289,296   | ¥ 22,769<br>\$ 273,830   | (Note 2)  |
|                    |  | Principal method of accounting  | Long-term loans payable and bonds                     | ¥ 70,620<br>\$ 849,308   | ¥ 66,663<br>\$ 801,719   | ¥ 181<br>\$ 2,176   |
| (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 | ¥ 43,864<br>\$ 527,528   | ¥ 2,276<br>\$ 27,372     | ¥ 709<br>\$ 8,526   |
| (c) Products       | Swap transactions and option transactions of oil prices, etc.                | Principal method of accounting  | Purchase prices of raw materials, etc.                | ¥ 74,061<br>\$ 890,691   | ¥ 52,256<br>\$ 628,454   | ¥ 4,306<br>\$51,785   |
| Total              |  |   |   | ¥ 212,601<br>\$2,556,837                                       | ¥ 143,965<br>\$1,731,389 | ¥ 5,197<br>\$62,501   |

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.

## 17. Employees' Severance and Retirement Benefits

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2010 and 2011 consisted of the following:

|  | Millions of Yen |           | Thousands of U.S. Dollars |
|--|-----------------|-----------|---------------------------|
|  | 2010            | 2011      | 2011                      |
| Projected benefit obligation                 | ¥ 261,662       | ¥ 259,293 | \$ 3,118,376              |
| Prepaid pension costs                        | 43,361          | 39,963    | 480,613                   |
| Unrecognized actuarial differences           | (45,256)        | (44,060)  | (529,885)                 |
| Unrecognized prior service costs             | —               | 292       | 3,511                     |
| Less fair value of pension assets            | (246,168)       | (240,941) | (2,897,666)               |
| Employees' severance and retirement benefits | ¥ 13,598        | ¥ 14,548  | \$ 174,960                |

Included in the consolidated statements of income for the years ended March 31, 2010 and 2011 were severance and retirement benefit expenses that consisted of the following:

|   | Millions of Yen |         | Thousands of U.S. Dollars |
|---|-----------------|---------|---------------------------|
|   | 2010            | 2011    | 2011                      |
| Service costs—benefits earned during the year | ¥ 7,346         | ¥ 7,538 | \$ 90,655                 |
| Interest cost on projected benefit obligation | 4,644           | 4,612   | 55,466                    |
| Expected return on plan assets                | (7,606)         | (7,572) | (91,064)                  |
| Amortization of actuarial differences         | 4,701           | 4,718   | 56,740                    |
| Amortization of prior service costs           | 2               | (163)   | (1,960)                   |
| Severance and retirement benefit expenses     | ¥ 9,089         | ¥ 9,134 | \$109,849                 |

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

|  | 2010        | 2011        |
|--|-------------|-------------|
| Discount rates                         | Mainly 1.8% | Mainly 1.8% |
| Expected rate of return on plan assets | Mainly 3.1% | 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.

## 18. 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, 2010 and 2011.

The following table summarizes the significant differences between the Company's statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2010 and 2011:

|  | 2010  | 2011         |
|--|-------|--------------|
| Statutory tax rate   | 36.2% | <b>36.2%</b> |
| Nondeductible expenses   | 2.5   | <b>1.8</b>   |
| Statutory tax rate difference between the Company and certain subsidiaries | 0.8   | <b>1.1</b>   |
| Per capita inhabitants' taxes  | 0.3   | <b>0.3</b>   |
| Other  | 0.0   | <b>1.9</b>   |
| Effective tax rate   | 39.8% | <b>41.3%</b> |

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2010 and 2011 were as follows:

|  | Millions of Yen |                | Thousands of U.S. Dollars |
|--|-----------------|----------------|---------------------------|
|  | 2010            | 2011           | 2011                      |
| Deferred tax assets:                         |                 |                |                           |
| Excess depreciation of depreciable assets    | ¥ 5,809         | <b>¥ 5,791</b> | <b>\$ 69,645</b>          |
| Excess depreciation of deferred assets       | 5,217           | <b>5,342</b>   | <b>64,245</b>             |
| Reserve for safety actions                   | 4,188           | <b>3,441</b>   | <b>41,383</b>             |
| Losses on impairment of fixed assets         | 5,124           | <b>5,401</b>   | <b>64,954</b>             |
| Write-down of securities                     | 4,312           | <b>3,556</b>   | <b>42,766</b>             |
| Employees' severance and retirement benefits | 4,234           | <b>5,512</b>   | <b>66,289</b>             |
| Accrued enterprise taxes                     | 2,673           | <b>2,941</b>   | <b>35,369</b>             |
| Others                                       | 27,164          | <b>28,330</b>  | <b>340,709</b>            |
| Subtotal deferred tax assets                 | 58,723          | <b>60,317</b>  | <b>725,399</b>            |
| Valuation allowance                          | (8,337)         | <b>(8,835)</b> | <b>(106,253)</b>          |
| Total deferred tax assets                    | 50,386          | <b>51,481</b>  | <b>619,134</b>            |

## 19. Investment and Rental Property

The Company and several of its consolidated subsidiaries own office buildings and other real properties for rent (including land) in Osaka Prefecture and other prefectures. In the years ended March 31, 2010 and March 31, 2011, we reported gains of ¥3,933 million and ¥4,667 million (\$56,127 thousand), respectively, from such real properties for rent (mainly recorded as operating income).

Book value of such real properties for rent in the consolidated balance sheets in this fiscal year and the fair value were as follows:

### As of March 31, 2010

| Book Value (Millions of Yen) |                      |                      | (Millions of Yen)               |
|------------------------------|----------------------|----------------------|---------------------------------|
| As of March 31, 2009         | Increase or Decrease | As of March 31, 2010 | Fair Value as of March 31, 2010 |
| ¥88,176                      | ¥12,414              | ¥100,591             | ¥161,032                        |

|   | Millions of Yen |                 | Thousands of U.S. Dollars |
|---|-----------------|-----------------|---------------------------|
|   | 2010            | 2011            | 2011                      |
| Deferred tax liabilities:                               |                 |                 |                           |
| Net unrealized gains on securities                      | (13,649)        | <b>(10,331)</b> | <b>(124,245)</b>          |
| Prepaid pension costs                                   | (15,631)        | <b>(14,411)</b> | <b>(173,313)</b>          |
| Unrealized gains on hedging derivatives                 | (4,883)         | <b>(4,278)</b>  | <b>(51,449)</b>           |
| Reserve defined under the special taxation measures law | (6,640)         | <b>(5,929)</b>  | <b>(71,304)</b>           |
| Reserve for advanced depreciation of noncurrent assets  | (342)           | <b>(342)</b>    | <b>(4,113)</b>            |
| Others  | (5,884)         | <b>(7,106)</b>  | <b>(85,460)</b>           |
| Total deferred tax liabilities                          | (47,031)        | <b>(42,397)</b> | <b>(509,885)</b>          |
| Net deferred tax assets                                 | ¥ 3,354         | <b>¥ 9,084</b>  | <b>\$ 109,248</b>         |

Net deferred tax assets (liabilities) were included in the consolidated balance sheets as follows:

|   | Millions of Yen |                 | Thousands of U.S. Dollars |
|---|-----------------|-----------------|---------------------------|
|   | 2010            | 2011            | 2011                      |
| Current assets (included in "Others")               | ¥ 12,677        | <b>¥ 13,410</b> | <b>\$ 161,274</b>         |
| Investments and other assets (included in "Others") | 6,714           | <b>6,756</b>    | <b>81,250</b>             |
| Current liabilities (included in "Others")          | (15)            | <b>(3)</b>      | <b>(36)</b>               |
| Long-term liabilities                               | (16,022)        | <b>(11,079)</b> | <b>(133,241)</b>          |
| Total   | ¥ 3,354         | <b>¥ 9,084</b>  | <b>\$ 109,248</b>         |

### As of March 31, 2011

| Book Value (Millions of Yen) |                      |                      | (Millions of Yen)               |
|------------------------------|----------------------|----------------------|---------------------------------|
| As of March 31, 2010         | Increase or Decrease | As of March 31, 2011 | Fair Value as of March 31, 2011 |
| ¥100,591                     | ¥4,801               | ¥105,392             | ¥159,924                        |

### As of March 31, 2011

| Book Value (Thousands of U.S. Dollars) |                      |                      | (Thousands of U.S. Dollars)     |
|--|----------------------|----------------------|---------------------------------|
| As of March 31, 2010                   | Increase or Decrease | As of March 31, 2011 | Fair Value as of March 31, 2011 |
| \$1,209,753                            | \$57,739             | \$1,267,492          | \$1,923,319                     |

- Notes: 1. The book value stated in the consolidated balance sheets was acquisition costs reduced by accumulated depreciation and accumulated impairment losses.  
2. The major factor regarding the increase in the years ended March 31, 2010 and March 31, 2011 was the acquisition of real property of ¥15,385 million and ¥5,423 million (\$65,219 thousand), respectively.  
3. The fair values as of the end of the fiscal year were mainly determined based on the Real Estate Appraisal Standards or similar evaluation methods (including values adjusted using indicators).

## 20. Segment Information

### (1) Overview of reportable segment

The Company's three business segments of "Domestic Energy Service Businesses," "International Energy Businesses along energy value chain," and "Environment and Non-Energy Businesses" are divided by product and service, and organized into the four reporting segments of "Gas Businesses," "LPG, Electricity and Other Energies Businesses," "International Energies Businesses," and "Environment and Non-Energies Businesses," considering the similarities between product and services and other relevant factors.

"Gas Businesses" includes marketing of gas and gas equipment, gas piping work, and heat supply. "LPG, Electricity, and Other Energies Businesses" includes LPG marketing, industrial gas marketing, and electric power supply. "International Energies Businesses" includes overseas energy supply, LNG vessel

chartering businesses, and oil and natural gas business development and investment. "Environment and Non-Energies Businesses" includes real estate development and leasing, IT services, marketing of fine materials and carbon material products, fitness gym operation, engineering services, and leasing of automobiles and IT-related equipment.

### (2) Calculation methods for sales, income (loss), assets, liabilities and other items by reportable segment

The method used to account for sales, income (loss), assets, liabilities and other items by reportable segment are consistent with the accounting principles described in Note 2, "Significant Accounting Policies." The pricing of intergroup transactions is based on arms-length market values.

### (3) Sales, income (loss), assets, liabilities, and other items by reportable segment

| For 2010:  | Millions of Yen |                                     |                        |                              |            |                      |                       |
|--|-----------------|-------------------------------------|------------------------|------------------------------|------------|----------------------|-----------------------|
|  | Gas             | LPG, Electricity and Other Energies | International Energies | Environment and Non-Energies | Total      | Adjustments (Note 1) | Consolidated (Note 2) |
| <b>Operating revenues</b>                          |                 |                                     |                        |                              |            |                      |                       |
| Outside customers                                  | ¥813,177        | ¥141,030                            | ¥ 11,083               | ¥131,336                     | ¥1,096,628 | ¥ -                  | ¥1,096,628            |
| Inside group                                       | 12,344          | 2,373                               | 69                     | 44,330                       | 59,119     | (59,119)             | -                     |
| Total  | 825,522         | 143,404                             | 11,153                 | 175,667                      | 1,155,748  | (59,119)             | 1,096,628             |
| <b>Segment income</b>                              |                 |                                     |                        |                              |            |                      |                       |
| Operating income                                   | ¥ 57,241        | ¥ 14,505                            | ¥ 3,461                | ¥ 14,039                     | ¥ 89,248   | ¥ 1,892              | ¥ 91,140              |
| Equity in net income of affiliates                 | 64              | 389                                 | 810                    | -                            | 1,264      | -                    | 1,264                 |
| Total  | 57,305          | 14,895                              | 4,271                  | 14,039                       | 90,512     | 1,892                | 92,404                |
| Segment assets                                     | ¥741,181        | ¥189,068                            | ¥142,553               | ¥305,687                     | ¥1,378,490 | ¥105,405             | ¥1,483,895            |
| Depreciation                                       | 63,183          | 15,439                              | 5,501                  | 10,064                       | 94,189     | (506)                | 93,682                |
| Amortization of goodwill                           | 80              | 451                                 | 209                    | 977                          | 1,719      | -                    | 1,719                 |
| Investment in affiliates reported by equity method | 398             | 3,822                               | 39,568                 | -                            | 43,789     | -                    | 43,789                |
| Increase in tangible and intangible fixed assets   | 54,073          | 9,606                               | 12,587                 | 22,458                       | 98,726     | (479)                | 98,246                |

| For 2011:  | Millions of Yen |                                     |                        |                              |            |                      |                       |
|--|-----------------|-------------------------------------|------------------------|------------------------------|------------|----------------------|-----------------------|
|  | Gas             | LPG, Electricity and Other Energies | International Energies | Environment and Non-Energies | Total      | Adjustments (Note 1) | Consolidated (Note 2) |
| <b>Operating revenues</b>                          |                 |                                     |                        |                              |            |                      |                       |
| Outside customers                                  | ¥865,382        | ¥172,660                            | ¥ 11,007               | ¥138,091                     | ¥1,187,142 | ¥ -                  | ¥1,187,142            |
| Inside group                                       | 14,495          | 2,105                               | 123                    | 47,315                       | 64,040     | (64,040)             | -                     |
| Total  | 879,878         | 174,766                             | 11,130                 | 185,407                      | 1,251,182  | (64,040)             | 1,187,142             |
| <b>Segment income</b>                              |                 |                                     |                        |                              |            |                      |                       |
| Operating income                                   | ¥ 41,913        | ¥ 25,243                            | ¥ 3,178                | ¥ 15,652                     | ¥ 85,988   | ¥ 2,595              | ¥ 88,584              |
| Equity in net income of affiliates                 | 5               | 365                                 | 1,790                  | -                            | 2,161      | -                    | 2,161                 |
| Total  | 41,919          | 25,609                              | 4,968                  | 15,652                       | 88,150     | 2,595                | 90,746                |
| Segment assets                                     | ¥728,047        | ¥171,342                            | ¥144,397               | ¥306,489                     | ¥1,350,277 | ¥ 87,019             | ¥1,437,297            |
| Depreciation                                       | 63,318          | 17,041                              | 5,540                  | 10,567                       | 96,467     | (730)                | 95,737                |
| Amortization of goodwill                           | 514             | 751                                 | 223                    | 342                          | 1,831      | -                    | 1,831                 |
| Investment in affiliates reported by equity method | 399             | 4,049                               | 38,805                 | -                            | 43,254     | -                    | 43,254                |
| Increase in tangible and intangible fixed assets   | 50,185          | 9,210                               | 102                    | 10,644                       | 70,142     | (542)                | 69,600                |

| For 2011:  | Thousands of U.S. Dollars |                                     |                        |                              |              |                      |                       |
|--|---------------------------|-------------------------------------|------------------------|------------------------------|--------------|----------------------|-----------------------|
|  | Gas                       | LPG, Electricity and Other Energies | International Energies | Environment and Non-Energies | Total        | Adjustments (Note 1) | Consolidated (Note 2) |
| <b>Operating revenues</b>                          |                           |                                     |                        |                              |              |                      |                       |
| Outside customers                                  | \$10,407,480              | \$2,076,488                         | \$ 132,375             | \$1,660,745                  | \$14,277,113 | \$ -                 | \$14,277,113          |
| Inside group                                       | 174,323                   | 25,315                              | 1,479                  | 569,031                      | 770,174      | (770,174)            | -                     |
| Total  | 10,581,815                | 2,101,815                           | 133,854                | 2,229,789                    | 15,047,288   | (770,174)            | 14,277,113            |
| <b>Segment income</b>                              |                           |                                     |                        |                              |              |                      |                       |
| Operating income                                   | \$ 504,064                | \$ 303,583                          | \$ 38,220              | \$ 188,238                   | \$ 1,034,131 | \$ 31,208            | \$ 1,065,351          |
| Equity in net income of affiliates                 | 60                        | 4,389                               | 21,527                 | -                            | 25,989       | -                    | 25,989                |
| Total  | 504,137                   | 307,985                             | 59,747                 | 188,238                      | 1,060,132    | 31,208               | 1,091,352             |
| Segment assets                                     | \$ 8,755,826              | \$2,060,637                         | \$1,736,584            | \$3,685,977                  | \$16,239,049 | \$1,046,530          | \$17,285,592          |
| Depreciation                                       | 761,491                   | 204,942                             | 66,626                 | 127,083                      | 1,160,156    | (8,779)              | 1,151,377             |
| Amortization of goodwill                           | 6,181                     | 9,031                               | 2,681                  | 4,113                        | 22,020       | -                    | 22,020                |
| Investment in affiliates reported by equity method | 4,798                     | 48,695                              | 466,686                | -                            | 520,192      | -                    | 520,192               |
| Increase in tangible and intangible fixed assets   | 603,547                   | 110,763                             | 1,226                  | 128,009                      | 843,559      | (6,518)              | 837,041               |

Notes: 1. Adjustments are as follows:

- (1) Major adjustment in segment income is elimination of inter-segment transactions.
- (2) Major adjustment in segment assets is investment in securities possessed by the Company.
2. Segment income is adjusted by adding or subtracting equity in net income of affiliates to or from operating income.

(Additional Information)

Effective from April 1, 2010 the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, March 27, 2009) and the "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, March 21, 2008) have been adopted.

## (4) Information about amount depreciated and the undepreciated balance of goodwill by segment

| For 2011:                                | Millions of Yen |                                     |                        |                              |          |                          | Total  |
|--|-----------------|-------------------------------------|------------------------|------------------------------|----------|--------------------------|--------|
|  | Gas             | LPG, Electricity and Other Energies | International Energies | Environment and Non-Energies | Subtotal | Elimination or corporate |        |
| Amount depreciated in 2011               | ¥ 514           | ¥751                                | ¥ 223                  | ¥ 342                        | ¥1,831   | ¥-                       | ¥1,831 |
| Undepreciated balance at fiscal year end | (186)           | 957                                 | 2,603                  | (202)                        | 3,172    | -                        | 3,172  |

| For 2011:                                | Thousands of U.S. Dollars |                                     |                        |                              |          |                          | Total    |
|--|---------------------------|-------------------------------------|------------------------|------------------------------|----------|--------------------------|----------|
|  | Gas                       | LPG, Electricity and Other Energies | International Energies | Environment and Non-Energies | Subtotal | Elimination or corporate |          |
| Amount depreciated in 2011               | \$ 6,181                  | \$ 9,031                            | \$ 2,681               | \$ 4,113                     | \$22,020 | \$-                      | \$22,020 |
| Undepreciated balance at fiscal year end | (2,236)                   | 11,509                              | 31,304                 | (2,429)                      | 38,147   | -                        | 38,147   |

## 21. 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 Loss from Impairment of Fixed Assets

In accordance with the grouping described in (1) above, an impairment loss of ¥2,093 million 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 |
|--------------------|--------------------------------|----------|----------------------|
|                    |                                |          | of fixed assets      |
|                    |                                |          | Millions of Yen      |
|                    |                                |          | 2010                 |
| Fitness facilities | Nagoya, Aichi Prefecture, etc. | Property | ¥1,897               |

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 was 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 value in use by discounting future cash flows by 5.0%.

## 22. Consolidated Statement of Comprehensive Income

Comprehensive income for the fiscal year ended March 31, 2010 was as follows:

|                                      | Millions of Yen |
|--------------------------------------|-----------------|
|                                      | 2010            |
| Attributable to owners of the parent | ¥71,471         |
| Attributable to minority interests   | 2,782           |
| Total                                | ¥74,254         |

Other comprehensive income for the fiscal year ended March 31, 2010 was as follows:

|   | Millions of Yen |
|---|-----------------|
|   | 2010            |
| Valuation difference on available-for-sale securities                                   | ¥ 6,539         |
| Deferred hedge gains (losses)   | 7,218           |
| Foreign currency translation adjustments  | 5,833           |
| Share of other comprehensive income of associates accounted for using the equity method | 4,988           |
| Total   | ¥24,579         |

# 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, 2010 and 2011, the related consolidated statements of income and comprehensive income for the year ended March 31, 2011, the consolidated statement of income for the year ended March 31, 2010, and the consolidated statements of changes in net assets and cash flows for each of the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Osaka Gas Co., Ltd. and subsidiaries as of March 31, 2010 and 2011, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 22 to the consolidated financial statements, in which the comprehensive income for the year ended March 31, 2010 is disclosed.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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 LLC*

Osaka, Japan

June 29, 2011