

Consolidated Balance Sheets

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES
As of March 31, 2004 and 2005

| ASSETS | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|-------------|---------------------------------------|
| | 2004 | 2005 | 2005 |
| Property, Plant and Equipment, at Cost: | | | |
| Production facilities | ¥ 493,383 | ¥ 495,677 | \$ 4,615,672 |
| Distribution facilities | 1,443,000 | 1,471,008 | 13,697,812 |
| Service and maintenance facilities | 167,821 | 145,835 | 1,357,994 |
| Other | 335,363 | 363,727 | 3,386,973 |
| Construction in progress | 27,146 | 27,257 | 253,813 |
| | 2,466,713 | 2,503,504 | 23,312,264 |
| Less accumulated depreciation | (1,670,893) | (1,736,681) | (16,171,720) |
| | 795,820 | 766,823 | 7,140,544 |
| Intangibles and Deferred Assets | 27,511 | 27,921 | 259,996 |
| Investments and Other Assets: | | | |
| Investments in securities: | | | |
| Unconsolidated subsidiaries and affiliated companies | 14,556 | 8,863 | 82,531 |
| Other (Note 4) | 98,329 | 93,587 | 871,469 |
| Deferred tax assets (Note 13) | 20,195 | 14,440 | 134,463 |
| Other investments and other assets | 41,925 | 53,456 | 497,775 |
| Allowance for doubtful receivables | (2,985) | (2,657) | (24,742) |
| | 172,020 | 167,689 | 1,561,496 |
| Current Assets: | | | |
| Cash and time deposits | 19,998 | 48,513 | 451,746 |
| Receivables: | | | |
| Trade notes and accounts | 108,085 | 114,045 | 1,061,971 |
| Allowance for doubtful receivables | (787) | (760) | (7,077) |
| | 107,298 | 113,285 | 1,054,894 |
| Inventories | 31,826 | 40,786 | 379,793 |
| Deferred tax assets (Note 13) | 14,828 | 15,348 | 142,918 |
| Other current assets | 29,928 | 37,098 | 345,451 |
| Total current assets | 203,878 | 255,030 | 2,374,802 |
| | ¥ 1,199,229 | ¥ 1,217,463 | \$ 11,336,838 |

See accompanying notes

| LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|-------------|---------------------------------------|
| | 2004 | 2005 | 2005 |
| Long-Term Debt Due after One Year (Note 5) | ¥ 376,651 | ¥ 367,265 | \$ 3,419,918 |
| Deferred tax liabilities related to land revaluation (Note 8) | — | 56 | 521 |
| Employees' Severance and Retirement Benefits (Note 12) | 42,889 | 18,344 | 170,817 |
| Reserve for Repairs of Gas Holders | 1,531 | 1,610 | 14,992 |
| Other Non-Current Liabilities (Note 13) | 21,335 | 27,438 | 255,499 |
| Current Liabilities: | | | |
| Short-term loans | 23,190 | 26,564 | 247,360 |
| Long-term debt due within one year (Note 5) | 29,859 | 54,692 | 509,284 |
| Trade notes and accounts payable | 35,779 | 43,827 | 408,111 |
| Accrued income and enterprise taxes | 29,767 | 25,815 | 240,385 |
| Accrued expenses | 63,427 | 52,476 | 488,649 |
| Other current liabilities (Note 13) | 70,690 | 58,452 | 544,296 |
| Total current liabilities | 252,712 | 261,826 | 2,438,085 |
| Contingent Liabilities (Note 7) | | | |
| Minority Interests | 8,476 | 10,062 | 93,696 |
| Shareholders' Equity (Note 6): | | | |
| Common stock | | | |
| Authorized-3,840,849 thousand shares in 2005 and 3,840,849 thousand shares in 2004 | | | |
| Issued - 2,369,012 thousand shares in 2005 and 2,369,012 thousand shares in 2004 | 132,167 | 132,167 | 1,230,720 |
| Capital surplus | 19,482 | 19,498 | 181,563 |
| Retained earnings | 346,558 | 384,350 | 3,579,011 |
| Revaluation reserve for land (Note 8) | — | 81 | 754 |
| Net unrealized gains on securities | 35,903 | 33,677 | 313,595 |
| Foreign currency translation adjustments | 2,931 | 3,145 | 29,286 |
| Treasury stock, at cost: | | | |
| 140,284,727 shares in 2005 and 138,236,978 shares in 2004 | (41,406) | (42,056) | (391,619) |
| Total shareholders' equity | 495,635 | 530,862 | 4,943,310 |
| | ¥ 1,199,229 | ¥ 1,217,463 | \$ 11,336,838 |

Consolidated Statements of Income

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES
For the years ended March 31, 2004 and 2005

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|-----------|---------------------------------------|
| | 2004 | 2005 | 2005 |
| Operating Revenues (Note 14) | ¥ 951,324 | ¥ 975,340 | \$ 9,082,224 |
| Costs and Expenses (Note 14): | | | |
| Costs | 497,397 | 534,043 | 4,972,930 |
| Selling, general and administrative expenses | 361,831 | 345,305 | 3,215,430 |
| | 859,228 | 879,348 | 8,188,360 |
| Operating Income (Note 14) | 92,096 | 95,992 | 893,864 |
| Other Income (Expenses): | | | |
| Interest and dividend income | 1,205 | 1,143 | 10,643 |
| Interest expense | (7,238) | (6,041) | (56,253) |
| Gain on sale of investment securities | 2,721 | 5,966 | 55,555 |
| Loss on debt assumption | (3,742) | — | — |
| Loss on write-down of investment securities | (1,231) | — | — |
| Loss on write-down of investments in unconsolidated subsidiaries and affiliates | (230) | — | — |
| Gain on sale of property, plant and equipment | 1,555 | 1,184 | 11,025 |
| Loss on sale of property, plant and equipment | (4,684) | — | — |
| Loss on offset against the acquisition cost of property, plant and equipment | (156) | (850) | (7,915) |
| Loss from impairment of fixed assets (Note 15) | — | (13,910) | (129,528) |
| Other, net | (2,134) | 421 | 3,920 |
| | (13,934) | (12,087) | (112,553) |
| Income before Income Taxes and Minority Interests | 78,162 | 83,905 | 781,311 |
| Income Taxes — Current | 26,870 | 26,027 | 242,360 |
| — Deferred | 3,484 | 6,453 | 60,089 |
| Minority Interests | (742) | (742) | (6,909) |
| Net Income | ¥ 47,066 | ¥ 50,683 | \$ 471,953 |

| | Yen | | U.S. Dollars (Note 1) |
|---|---------|---------|--------------------------|
| | 2004 | 2005 | 2005 |
| Net Income per Share — Basic | ¥ 20.56 | ¥ 22.69 | \$ 0.211 |
| Cash Dividends per Share | 6.00 | 6.00 | 0.056 |

See accompanying notes

Consolidated Statements of Shareholders' Equity

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES
For the years ended March 31, 2004 and 2005

| | Shares of Common Stock Issued (Thousands) | Millions of Yen | | | | | | |
|---|--|-----------------|--------------------|----------------------|------------------------------------|--|--|----------------------------|
| | | Common Stock | Capital Surplus | Retained Earnings | Revaluation reserve for land | Net Unrealized Gains on Securities | Foreign Currency Translation Adjustments | Treasury Stock, at Cost |
| Balance at March 31, 2003 | 2,369,012 | ¥ 132,167 | ¥ 19,482 | ¥ 312,831 | ¥ — | ¥ 9,825 | ¥ 85 | ¥ (21,105) |
| Net income | | | | 47,066 | | | | |
| Increase in net unrealized gains on securities | | | | | | 26,078 | | |
| Adjustments from translation of foreign currency financial statements | | | | | | | 2,846 | |
| Cash dividends (including interim dividends) | | | | (13,783) | | | | |
| Bonuses to directors | | | | (81) | | | | |
| Increase due to newly consolidated subsidiaries | | | | 492 | | | | |
| Increase due to a subsidiary excluded from consolidation | | | | 33 | | | | |
| Increase in treasury stock, net | | | | | | | | (20,301) |
| Balance at March 31, 2004 | 2,369,012 | 132,167 | 19,482 | 346,558 | — | 35,903 | 2,931 | (41,406) |
| Net income | | | | 50,683 | | | | |
| Increase in net revaluation reserve for land | | | | | 81 | | | |
| Decrease in net unrealized gains on securities | | | | | | (2,226) | | |
| Adjustments from translation of foreign currency financial statements | | | | | | | 214 | |
| Cash dividends (including interim dividends) | | | | (13,383) | | | | |
| Bonuses to directors | | | | (85) | | | | |
| Increase due to newly consolidated subsidiaries and equity method companies | | | | 577 | | | | |
| Increase due to sale of treasury stock | | | 16 | | | | | |
| Increase in treasury stock, net | | | | | | | | (650) |
| Balance at March 31, 2005 | 2,369,012 | ¥ 132,167 | ¥ 19,498 | ¥ 384,350 | ¥ 81 | ¥ 33,677 | ¥ 3,145 | ¥ (42,056) |

| | Thousands of U.S. Dollars (Note 1) | | | | | | |
|--|------------------------------------|--------------------|----------------------|------------------------------------|--|--|----------------------------|
| | Common Stock | Capital Surplus | Retained Earnings | Revaluation reserve for land | Net Unrealized Gains on Securities | Foreign Currency Translation Adjustments | Treasury Stock, at Cost |
| Balance at March 31, 2004 | \$ 1,230,720 | \$ 181,414 | \$ 3,227,098 | \$ — | \$ 334,323 | \$ 27,293 | \$ (385,567) |
| Net income | | | 471,953 | | | | |
| Increase in net revaluation reserve for land | | | | 754 | | | |
| Decrease in net unrealized gains on securities | | | | | (20,728) | | |
| Adjustments from translation of foreign currency financial statements | | | | | | 1,993 | |
| Cash dividends (including interim dividends) | | | (124,621) | | | | |
| Bonuses to directors | | | (792) | | | | |
| Increase due to newly consolidated subsidiaries and equity method companies | | | 5,373 | | | | |
| Increase due to sale of treasury stock | | 149 | | | | | |
| Increase in treasury stock, net | | | | | | | (6,052) |
| Balance at March 31, 2005 | \$ 1,230,720 | \$ 181,563 | \$ 3,579,011 | \$ 754 | \$ 313,595 | \$ 29,286 | \$ (391,619) |

See accompanying notes

Consolidated Statements of Cash Flows

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES
For the years ended March 31, 2004 and 2005

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|----------|---------------------------------------|
| | 2004 | 2005 | 2005 |
| Cash Flows from Operating Activities: | | | |
| Income before income taxes and minority interests | ¥ 78,162 | ¥ 83,905 | \$ 781,311 |
| Adjustments to reconcile net income before income taxes to net cash provided by operating activities: | | | |
| Depreciation | 89,564 | 86,859 | 808,818 |
| Loss from impairment of fixed assets | — | 13,910 | 129,528 |
| Decrease in employees' retirement benefits | (27,411) | (24,596) | (229,034) |
| Decrease (increase) in prepaid pension expenses | 568 | (12,218) | (113,772) |
| Interest and dividend income | (1,205) | (1,143) | (10,643) |
| Interest expense | 7,238 | 6,041 | 56,253 |
| Loss on debt assumption | 3,742 | — | — |
| Gain on sale of investments | (2,721) | (5,966) | (55,555) |
| Loss on write-down of investment securities | 1,231 | — | — |
| Loss on write-down of investments in unconsolidated subsidiaries and affiliates | 230 | — | — |
| Loss on disposal of property, plant and equipment | 2,155 | 2,406 | 22,404 |
| Decrease (increase) in receivables | 1,912 | (4,341) | (40,423) |
| Decrease (increase) in inventories | (3,238) | (8,583) | (79,924) |
| Increase (decrease) in payables | (4,178) | 6,700 | 62,390 |
| Increase (decrease) in accrued expenses | 9,407 | (2,361) | (21,985) |
| Decrease in consumption tax payable | (428) | (1,529) | (14,238) |
| Other | (1,003) | 12,839 | 119,555 |
| Total adjustments | 75,863 | 68,018 | 633,374 |
| Interest and dividends received | 1,230 | 1,336 | 12,441 |
| Interest paid | (7,809) | (6,055) | (56,383) |
| Income and enterprise taxes paid | (14,555) | (30,301) | (282,159) |
| Net cash provided by operating activities | 132,891 | 116,903 | 1,088,584 |
| Cash Flows from Investing Activities: | | | |
| Purchase of property, plant and equipment | (68,116) | (63,839) | (594,460) |
| Purchase of investments in securities | (182) | (1,584) | (14,750) |
| Proceeds from sale of investment securities | 5,522 | 8,584 | 79,933 |
| Purchase of investments in subsidiaries and affiliates | (6,606) | (6,995) | (65,136) |
| Other | 1,504 | (1,846) | (17,190) |
| Net cash used in investing activities | (67,878) | (65,680) | (611,603) |
| Cash Flows from Financing Activities: | | | |
| Increase (decrease) in short-term loans | 3,940 | 2,329 | 21,687 |
| Net increase in commercial paper | 2,000 | (26,000) | (242,108) |
| Proceeds from long-term debt | 44,284 | 27,589 | 256,905 |
| Repayment of long-term debt | (67,256) | (33,676) | (313,586) |
| Proceeds from issuance of bonds | — | 19,986 | 186,107 |
| Repayment of bonds | (24,743) | — | — |
| Cash dividends paid | (13,732) | (13,341) | (124,229) |
| Cash dividends paid to minority shareholders | (122) | (165) | (1,537) |
| Other | (20,301) | (635) | (5,913) |
| Net cash used in financing activities | (75,930) | (23,913) | (222,674) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 71 | (6) | (56) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (10,846) | 27,304 | 254,251 |
| Cash and Cash Equivalents at Beginning of Year | 26,094 | 15,744 | 146,606 |
| Cash and Cash Equivalents of Newly Consolidated Subsidiaries | 1,095 | 1,312 | 12,217 |
| Decrease in Cash and Cash Equivalents by Exclusion | | | |
| from Consolidation | (599) | (81) | (754) |
| Cash and Cash Equivalents | ¥ 15,744 | ¥ 44,279 | \$ 412,320 |
| Supplemental Disclosures of Cash Flow Information: | | | |
| Cash and Cash Equivalents: | | | |
| Cash and time deposits in the balance sheet | ¥ 19,998 | ¥ 48,513 | \$ 451,746 |
| Time deposits with maturities over three months | (4,254) | (4,234) | (39,426) |
| Cash and Cash Equivalents at End of Year | ¥ 15,744 | ¥ 44,279 | \$ 412,320 |

See accompanying notes

Notes to Consolidated Financial Statements

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES
For the years ended March 31, 2004 and 2005

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Gas Utility Law and related regulations, the Japanese Securities 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 of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) 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 Securities 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. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 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.

Certain 2004 consolidated financial statement items have been reclassified to conform to the presentation for 2005.

2. Significant accounting policies

(1) Consolidation

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

The consolidated financial statements include the accounts of the Company and all of its 118 subsidiaries. Intercompany transactions and accounts have been eliminated. (The consolidated financial statements include the accounts of the Company and its 77 significant subsidiaries in 2004. Consolidation of the remaining subsidiaries would have had no material effect on the accompanying consolidated financial statements in 2004.)

The accounts of 20 consolidated subsidiaries are included on the basis of their fiscal years that end on December 31 (February 28 for 3 other subsidiaries). These subsidiaries do not prepare, for consolidation purposes, statements for the period that corresponds with the fiscal year of the Company. For these 23 consolidated subsidiaries, when there are significant transactions between their respective fiscal year ends and the Company's year-end, necessary adjustments are made to reflect such transactions properly in the accompanying consolidated financial statements.

The difference between the cost of investments and equity in their net assets at dates of acquisition of consolidated companies is charged or credited to income within 20 years. If the difference isn't significant, it is charged or credited to income in the first year of consolidation.

Two affiliates are newly accounted for by the equity method, in the current fiscal year due to becoming significant. Affiliates that have an insignificant impact on consolidated net income and consolidated retained earnings are not accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates are not accounted for by the equity method in 2004, because they were insignificant.)

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

(2) Consolidated statements of cash flows

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

(3) Inventories

Inventories are mainly valued at moving average cost.

(4) Securities

Under the Japanese accounting standard for financial instruments, all companies are required to examine the intent of holding each security 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, not reflected in earnings but directly reported as a separate component of shareholders' equity. Realized gains or losses on sales 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 non-consolidated subsidiaries and affiliated companies and available-for-sale securities declines significantly, such securities are stated at fair value and the difference between fair value and the carrying amount is recognized as loss in the period of the decline. If the fair

value of equity securities issued by such subsidiaries and affiliated companies is not readily available, such securities should be written down to net asset value in the event net asset value declines significantly. Unrealized losses on these securities are reported in the income statement.

(5) Derivatives and hedge accounting

Derivatives are stated at market value. See Note 2 (14).

(6) Property, plant and equipment

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

Repair and maintenance expenditures, excluding 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. Cumulative capital gains offset against the acquisition cost of property, plant and equipment at March 31, 2004 and 2005 were ¥281,343 million and ¥ 287,364 million (\$ 2,675,892 thousand), respectively.

(7) Software costs

The Companies include software in intangible assets and depreciate it using the straight-line method over estimated useful lives.

(8) Allowance for doubtful receivables

The Company and its consolidated subsidiaries (the "Companies") provide the allowance for doubtful accounts principally at an amount computed based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts based on the analysis 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 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 the plan assets.

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

(10) Reserve for repairs of gas holders

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

(11) Income taxes

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

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

(12) Translation of foreign currencies

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

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at year-end rates. Shareholders' equity is translated into Japanese yen at the 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 the consolidated balance sheets.

(13) Accounting for leases

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

(14) 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 gains or losses unless 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 gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

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

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

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

(15) Net income per share

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

Diluted net income per share of common stock for the years ended March 31, 2004 and 2005 is not shown since there were no outstanding convertible bonds or other common stock equivalents.

3. Change in accounting policy

Accounting Standards for Impairment of Fixed Assets (Statement Regarding Establishment of Accounting Standards for Impairment of Fixed Assets) (issued by the Business Accounting Deliberation Council on August 9, 2002) and Guideline for Application of Accounting Standards for Impairment of Fixed Assets (guideline No. 6 for application of business accounting standards, issued by the Accounting Standards Board on October 31, 2003) may be adopted for financial statements for the year ending March 31,

2004 and thereafter. Accordingly, the Company adopted these standards and guidelines for the current year. Due to the adoption of new accounting policy, net income before taxes decreased by ¥13,906 million (\$129,491 thousand). The accumulated losses from impairment of fixed assets were directly deducted from the applicable fixed assets, in accordance with the revised Rules for Consolidated Financial Statements. See Note 15.

4. Securities

(1) The following tables summarize acquisition costs, book values (fair values) of available-for-sale securities with available fair values as of March 31, 2004 and 2005:

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

| | Millions of Yen | | | Thousands of U.S. Dollars Difference |
|-------------------|------------------|------------|------------|--------------------------------------|
| | Acquisition Cost | Book Value | Difference | |
| For 2004: | | | | |
| Equity securities | ¥ 22,943 | ¥ 80,185 | ¥ 57,242 | |
| Bonds | 1 | 1 | — | |
| Total | ¥ 22,944 | ¥ 80,186 | ¥ 57,242 | |
| For 2005: | | | | |
| Equity securities | ¥ 21,442 | ¥ 75,237 | ¥ 53,795 | \$ 500,931 |
| Bonds | 51 | 51 | — | — |
| Total | ¥ 21,493 | ¥ 75,288 | ¥ 53,795 | \$ 500,931 |

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

| | Millions of Yen | | | Thousands of U.S. Dollars Difference |
|-------------------|------------------|------------|------------|--------------------------------------|
| | Acquisition Cost | Book Value | Difference | |
| For 2004: | | | | |
| Equity securities | ¥ 95 | ¥ 75 | ¥ (20) | |
| Bonds | 9 | 9 | — | |
| Total | ¥ 104 | ¥ 84 | ¥ (20) | |
| For 2005: | | | | |
| Equity securities | ¥ 261 | ¥ 244 | ¥ (17) | \$ (158) |

(2) The following table summarizes book values of significant available-for-sale securities with no available fair values as of March 31, 2004 and 2005:

| | Millions of Yen | | Thousands of U.S. Dollars 2005 |
|---|-----------------|----------|--------------------------------|
| | 2004 | 2005 | |
| Non-listed (non quoted) equity securities | ¥ 18,059 | ¥ 17,447 | \$ 162,464 |

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

| | Millions of Yen | | | | Total |
|------------------|-----------------|-------------------------------------|--------------------------------------|----------------|-------|
| | Within One Year | Over One Year but Within Five Years | Over Five Years but Within Ten Years | Over Ten Years | |
| For 2004: | | | | | |
| Government Bonds | ¥ 9 | ¥ 1 | ¥ — | ¥ — | ¥ 10 |
| For 2005: | | | | | |
| Government Bonds | ¥ 1 | ¥ — | ¥ — | ¥ — | ¥ 1 |
| Other | 50 | — | — | 400 | 450 |
| Total | ¥ 51 | ¥ — | ¥ — | ¥ 400 | ¥ 451 |

| | Thousands of U.S. Dollars | | | | Total |
|------------------|---------------------------|-------------------------------------|--------------------------------------|----------------|----------|
| | Within One Year | Over One Year but Within Five Years | Over Five Years but Within Ten Years | Over Ten Years | |
| For 2005: | | | | | |
| Government Bonds | \$ 9 | \$ — | \$ — | \$ — | \$ 9 |
| Other | 466 | — | — | 3,725 | 4,191 |
| Total | \$ 475 | \$ — | \$ — | \$ 3,725 | \$ 4,200 |

(4) Total sales of available-for-sale securities in the year ended March 31, 2004 and 2005 amounted to ¥5,522 million and ¥8,584 million (\$79,933 thousand) and the related gains and losses amounted to ¥2,721 million and ¥5,966 million (\$55,555 thousand) and ¥276 million and ¥243 million (\$2,263 thousand), respectively.

5. Short-Term loans and Long-term debt

Short-term loans consisted of short-term notes payable, bearing interest at an annual average rate of 0.4% and 0.4% at March 31, 2004 and 2005.

Long-term debt at March 31, 2004 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|-----------|---------------------------|
| | 2004 | 2005 | 2005 |
| Loans principally from banks and insurance companies, principally at 0.08%-3.82%, maturing through 2019 | ¥ 187,630 | ¥ 182,877 | \$ 1,702,924 |
| 2.95% notes payable due 2005 | 15,000 | 15,000 | 139,678 |
| 3.4% notes payable due 2017 | 15,700 | 15,700 | 146,196 |
| 2.9% notes payable due 2018 | 29,000 | 29,000 | 270,044 |
| 1.47% notes payable due 2008 | 30,000 | 30,000 | 279,356 |
| 1.95% notes payable due 2009 | 20,000 | 20,000 | 186,237 |
| 1.23% notes payable due 2005 | 20,000 | 20,000 | 186,237 |
| 1.46% notes payable due 2012 | 20,000 | 20,000 | 186,237 |
| 1.47% notes payable due 2022 | 20,000 | 20,000 | 186,237 |
| 1.83% notes payable due 2020 | — | 20,000 | 186,237 |
| 7.125% bonds payable in U.S. dollars due 2007 | 48,960 | 48,960 | 455,908 |
| 0.66% notes payable due 2008 | — | 200 | 1,862 |
| 2.06% notes payable due 2007 | 220 | 220 | 2,049 |
| | 406,510 | 421,957 | 3,929,202 |
| Less amounts due within one year | 29,859 | 54,692 | 509,284 |
| | ¥ 376,651 | ¥ 367,265 | \$ 3,419,918 |

In the year ended March 31, 2000, the Company entered into debt assumption agreements with banks for loans from banks (¥9,577 million due through the year ended March 31, 2010).

In the year ended March 31, 2002, the Company entered into debt assumption agreements with banks for 2.95% notes payable

due 2005 (¥33,900 million) and loans from banks (¥5,455 million due through the year ended March 31, 2010).

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

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

The annual maturities of long-term debt are as follows at March 31, 2005:

| Years ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|-----------------------|-----------------|---------------------------|
| 2006 | ¥ 54,692 | \$ 509,284 |
| 2007 | 68,443 | 637,331 |
| 2008 | 39,064 | 363,758 |
| 2009 | 43,337 | 403,548 |
| 2010 | 34,436 | 320,663 |
| 2011 and thereafter | 181,985 | 1,694,618 |
| Total | ¥ 421,957 | \$ 3,929,202 |

Assets pledged as collateral mainly for short-term loans and long-term debt totaling ¥34,794 million and ¥29,232 million (\$272,204 thousand) at March 31, 2004 and 2005, respectively, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------------|-----------------|----------|---------------------------|
| | 2004 | 2005 | 2005 |
| Property, plant and equipment | ¥ 60,281 | ¥ 55,901 | \$ 520,542 |
| Cash and time deposits | 2,035 | 2,022 | 18,829 |
| Accounts receivable | 515 | 988 | 9,200 |
| Inventories and other | 841 | 1,444 | 13,446 |
| Total | ¥ 63,672 | ¥ 60,355 | \$ 562,017 |

6. Shareholders' equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate

or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital exceeds 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code.

7. Contingent liabilities

At March 31, 2004 and 2005, the Companies were contingently liable as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|----------------------------------|-----------------|-----------------|---------------------------|
| | 2004 | 2005 | 2005 |
| As guarantor of indebtedness of: | | | |
| affiliates | ¥ 2,926 | ¥ 2,336 | \$ 21,753 |
| Employees | 157 | 106 | 987 |
| Debt assumption agreements | 82,707 | 58,932 | 548,766 |
| Total | ¥ 85,790 | ¥ 61,374 | \$ 571,506 |

8. Land revaluation

Pursuant to the Law Concerning Land Revaluation and the Amended Land

Revaluation Law, a consolidated subsidiary revalued their land used for business activities on March 31, 2002. The difference between the revalued amount and the book value before the revaluation was recorded as "Deferred tax liabilities related to land revaluation" in liabilities and "Revaluation reserve for land" in shareholders' equity in the consolidated balance sheets. The land

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

The book value of the revalued land exceeded its market value as of March 31, 2005 in the amount ¥1,788 million (\$16,650 thousand).

9. 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 ¥12,379 million and ¥11,404 million (\$106,192 thousand) for the years ended March 31, 2004 and 2005.

10. Finance leases

Information for non-capitalized finance leases at March 31, 2004 and 2005 is as follows:

As lessee (non-capitalized)

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|----------------|---------------------------|
| | 2004 | 2005 | 2005 |
| Original lease obligations (including finance charges) | ¥ 3,904 | ¥ 3,846 | \$ 35,813 |
| Payments remaining: | | | |
| Payments due within one year | ¥ 620 | ¥ 577 | \$ 5,373 |
| Payments due over one year | 1,328 | 1,371 | 12,766 |
| Total | ¥ 1,948 | ¥ 1,948 | \$ 18,139 |

Lease payments for such leases for the years ended March 31, 2004 and 2005 were ¥1,063 million and ¥733 million (\$6,826 thousand), respectively.

As lessor

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------------------|-----------------|----------------|---------------------------|
| | 2004 | 2005 | 2005 |
| Original cost | ¥ 13,450 | ¥ 17,605 | \$ 163,935 |
| Less accumulated depreciation | 8,009 | 8,457 | 78,750 |
| Total | ¥ 5,441 | ¥ 9,148 | \$ 85,185 |
| Receipts remaining: | | | |
| Receipts due within one year | ¥ 2,694 | ¥ 3,051 | \$ 28,411 |
| Receipts due over one year | 5,480 | 6,536 | 60,862 |
| Total | ¥ 8,174 | ¥ 9,587 | \$ 89,273 |

Lease receipts under such leases for the years ended March 31, 2004 and 2005 were ¥3,023 million and ¥3,529 million (\$32,862 thousand), respectively.

Depreciation for the years ended March 31, 2004 and 2005 were ¥1,857 million and ¥2,118 million (\$19,723 thousand), respectively.

11. Derivative transactions

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

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

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

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

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

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

All derivative transactions as of March 31, 2004 and 2005 are recorded by hedge accounting.

12. Employees' severance and pension benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2005 consist of the following:

| | Millions of Yen | | Thousands of |
|---|-----------------|------------------|--------------------|
| | 2004 | 2005 | U.S. Dollars |
| Projected benefit obligation | ¥ 286,310 | ¥ 261,365 | \$2,433,793 |
| Prepaid pension expenses | 673 | 12,904 | 120,160 |
| Less unrecognized actuarial differences | (7,657) | 13,076 | 121,762 |
| Less fair value of pension assets | (236,437) | (269,001) | (2,504,898) |
| Liability for severance and retirement benefits | ¥ 42,889 | ¥ 18,344 | \$ 170,817 |

Included in the consolidated statement of income for the years ended March 31, 2004 and 2005 are severance and retirement benefit expenses comprised of the following:

| | Millions of Yen | | Thousands of |
|---|-----------------|----------------|------------------|
| | 2004 | 2005 | U.S. Dollars |
| Service costs – benefits earned during the year | ¥ 8,514 | ¥ 8,706 | \$ 81,069 |
| Interest cost on projected benefit obligation | 4,901 | 5,343 | 49,753 |
| Expected return on plan assets | (2,869) | (4,237) | (39,454) |
| Amortization of actuarial gains and losses | 4,941 | 1,730 | 16,109 |
| Prior service costs | 71 | (9,778) | (91,051) |
| Severance and retirement benefit expenses | ¥ 15,558 | ¥ 1,764 | \$ 16,426 |

The discount rate and the rate of expected return on plan assets used by the Company are mainly 1.8 % in the years ended March 31, 2004 and 2005. 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 as an expense in equal amounts over 10 years.

13. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 36.2%, in case of the Company (40.6% for certain consolidated subsidiaries) for the years ended March 31, 2004 and 2005.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rates for financial statement purposes for the years ended March 31, 2004 and 2005:

| | 2004 | 2005 |
|--|--------------|--------------|
| Statutory tax rate | 36.2% | 36.2% |
| Non-deductible expenses | 1.2 | 1.5 |
| Statutory tax rate difference between the Company and certain subsidiaries .. | 1.0 | 0.7 |
| Per capita inhabitant tax | 0.2 | 0.2 |
| Other | 0.2 | 0.1 |
| Effective tax rate | 38.8% | 38.7% |

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2004 and 2005 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|-----------------|------------------------------|
| | 2004 | 2005 | 2005 |
| Deferred tax assets: | | | |
| Retirement benefits | ¥ 10,381 | ¥ 3,250 | \$ 30,264 |
| Excess depreciation | 11,871 | 11,246 | 104,721 |
| Loss on cancellation of construction plan | 7,089 | 4,607 | 42,900 |
| Loss on impairment of fixed assets | — | 5,192 | 48,347 |
| Write-down of securities | 5,251 | 3,642 | 33,914 |
| Enterprise taxes | 3,095 | 3,077 | 28,652 |
| Other | 18,636 | 18,906 | 176,050 |
| Total deferred tax assets | 56,323 | 49,920 | 464,848 |
| Valuation allowance | (478) | (436) | (4,060) |
| Net deferred tax assets | 55,845 | 49,484 | 460,788 |
| Deferred tax liabilities: | | | |
| Special reserve for tax purposes | (4,642) | (4,764) | (44,362) |
| Deferred gains on real properties | (344) | (344) | (3,203) |
| Net unrealized gains on securities | (21,285) | (20,059) | (186,787) |
| Other | (1,404) | (1,085) | (10,103) |
| Total deferred tax liabilities | (27,675) | (26,252) | (244,455) |
| Net deferred tax assets | ¥ 28,170 | ¥ 23,232 | \$ 216,333 |

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------------------|-----------------|-----------------|------------------------------|
| | 2004 | 2005 | 2005 |
| Current assets | ¥ 14,828 | ¥ 15,348 | \$ 142,918 |
| Investments and other assets .. | 20,195 | 14,440 | 134,463 |
| Other current liabilities | (12) | (20) | (186) |
| Other non-current liabilities | (6,841) | (6,536) | (60,862) |
| | ¥ 28,170 | ¥ 23,232 | \$ 216,333 |

14. Segment information

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

A summary of segment information is as follows:

| For 2004 | Millions of Yen | | | | | | | |
|---------------------------|-----------------|-------------------------------------|---|-------------|-----------|-------------|---------------------------|--------------|
| | Gas | LPG, Electricity and Other Energies | Gas Appliance and House-pipe Installation | Real Estate | Others | Total | Elimination and Corporate | Consolidated |
| Operating revenues | | | | | | | | |
| Outside customers | ¥ 568,047 | ¥ 130,671 | ¥ 143,164 | ¥ 13,745 | ¥ 95,697 | ¥ 951,324 | ¥ — | ¥ 951,324 |
| Inside group | 5,856 | 1,499 | 397 | 20,153 | 40,318 | 68,223 | (68,223) | — |
| | 573,903 | 132,170 | 143,561 | 33,898 | 136,015 | 1,019,547 | (68,223) | 951,324 |
| Cost and expenses | 515,860 | 116,429 | 141,330 | 26,820 | 128,529 | 928,968 | (69,740) | 859,228 |
| Operating income | ¥ 58,043 | ¥ 15,741 | ¥ 2,231 | ¥ 7,078 | ¥ 7,486 | ¥ 90,579 | ¥ 1,517 | ¥ 92,096 |
| Identifiable assets | ¥ 676,782 | ¥ 172,638 | ¥ 69,145 | ¥ 102,526 | ¥ 115,158 | ¥ 1,136,249 | ¥ 62,980 | ¥ 1,199,229 |
| Depreciation | 64,778 | 11,772 | 793 | 4,503 | 8,674 | 90,520 | (956) | 89,564 |
| Capital expenditure | 47,234 | 7,860 | 676 | 4,085 | 10,320 | 70,175 | (395) | 69,780 |

| For 2005 | Millions of Yen | | | | | | | |
|--------------------------------------|-----------------|-------------------------------------|---|-------------|-----------|-------------|---------------------------|--------------|
| | Gas | LPG, Electricity and Other Energies | Gas Appliance and House-pipe Installation | Real Estate | Others | Total | Elimination and Corporate | Consolidated |
| Operating revenues | | | | | | | | |
| Outside customers | ¥ 564,678 | ¥ 155,425 | ¥ 136,434 | ¥ 15,615 | ¥ 103,188 | ¥ 975,340 | ¥ — | ¥ 975,340 |
| Inside group | 8,229 | 1,695 | 377 | 21,504 | 40,061 | 71,866 | (71,866) | — |
| | 572,907 | 157,120 | 136,811 | 37,119 | 143,249 | 1,047,206 | (71,866) | 975,340 |
| Cost and expenses | 509,384 | 143,144 | 135,852 | 29,463 | 134,859 | 952,702 | (73,354) | 879,348 |
| Operating income | ¥ 63,523 | ¥ 13,976 | ¥ 959 | ¥ 7,656 | ¥ 8,390 | ¥ 94,504 | ¥ 1,488 | ¥ 95,992 |
| Identifiable assets | ¥ 674,313 | ¥ 178,561 | ¥ 66,333 | ¥ 107,870 | ¥ 125,826 | ¥ 1,152,903 | ¥ 64,560 | ¥ 1,217,463 |
| Depreciation | 61,410 | 12,312 | 682 | 4,319 | 9,006 | 87,729 | (870) | 86,859 |
| Loss from Impairment of fixed assets | 10,771 | 744 | 513 | 1,746 | 136 | 13,910 | — | 13,910 |
| Capital expenditure | 39,952 | 8,130 | 651 | 3,801 | 13,355 | 65,889 | (372) | 65,517 |

| For 2005 | Thousands of US. Dollars | | | | | | | |
|--------------------------------------|--------------------------|-------------------------------------|---|--------------|--------------|---------------|---------------------------|---------------|
| | Gas | LPG, Electricity and Other Energies | Gas Appliance and House-pipe Installation | Real Estate | Others | Total | Elimination and Corporate | Consolidated |
| Operating revenues | | | | | | | | |
| Outside customers | \$ 5,258,199 | \$ 1,447,295 | \$ 1,270,453 | \$ 145,405 | \$ 960,872 | \$ 9,082,224 | \$ — | \$ 9,082,224 |
| Inside group | 76,627 | 15,784 | 3,511 | 200,242 | 373,042 | 669,206 | (669,206) | — |
| | 5,334,826 | 1,463,079 | 1,273,964 | 345,647 | 1,333,914 | 9,751,430 | (669,206) | 9,082,224 |
| Cost and expenses | 4,743,309 | 1,332,937 | 1,265,034 | 274,355 | 1,255,787 | 8,871,422 | (683,062) | 8,188,360 |
| Operating income | \$ 591,517 | \$ 130,142 | \$ 8,930 | \$ 71,292 | \$ 78,127 | \$ 880,008 | \$ 13,856 | \$ 893,864 |
| Identifiable assets | \$ 6,279,104 | \$ 1,662,734 | \$ 617,683 | \$ 1,004,470 | \$ 1,171,673 | \$ 10,735,664 | \$ 601,174 | \$ 11,336,838 |
| Depreciation | 571,841 | 114,648 | 6,351 | 40,218 | 83,862 | 816,920 | (8,102) | 808,818 |
| Loss from Impairment of fixed assets | 100,298 | 6,928 | 4,777 | 16,259 | 1,266 | 129,528 | — | 129,528 |
| Capital expenditure | 372,027 | 75,706 | 6,062 | 35,394 | 124,360 | 613,549 | (3,464) | 610,085 |

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

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

15. Loss from impairment of fixed assets

(1) Grouping

1. All fixed assets used in processes related to the gas business from production to sales of gas are categorized into one asset group, because these assets generate cash flow from the gas business as one whole asset.
2. Fixed assets used for other businesses other than those described above are generally categorized into groups based on business divisions controlling such fixed assets.
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, a loss from impairment of ¥13,910 million (\$129,530 thousand) was recognized. Significant properties included in this loss are listed in the table below.

| Asset | Location | Type | Loss from Impairment (million yen) (Thousands of U.S. Dollars) | |
|----------------------------------|--|------|---|--------|
| Land in Keihanna | Seika-cho and Kizu-cho, Kyoto Prefecture | Land | 3,189 | 29,696 |
| Land in Kamiyama | Kita-ku, Osaka City | Land | 2,843 | 26,474 |
| Land adjacent to Himeji terminal | Himeji City | Land | 1,608 | 14,973 |

Recoverable values of these assets are assessed based on selling prices in the market. The market prices are based on appraisal by real estate appraiser. These were assets acquired for future construction of facilities for operation, or operational facilities not currently in use. It was determined that recovery of these investments was difficult as there are no specific use plans for these assets under the current economic condition. Therefore, their book values were reduced to their recoverable values, and the differences were recorded as losses from impairment of fixed assets.

16. Significant subsequent events

(1) Retirement of treasury

At the board of directors meeting held on March 29, 2005, it was resolved to retire 133,342,000 ordinary shares acquired in accordance with shareholders' resolutions at the ordinary general meetings of shareholders on June 27, 2002 and June 27, 2003 on April 12, 2005.

(2) Acquisition of Life-Environment Business companies

Osaka Gas Chemicals Co., Ltd., a the subsidiary, acquired the shares of Japan EnviroChemicals, Ltd. (owned 100%), Minabe Chemical Industries, Ltd. (owned 100%), Hakata Chemical Industries, Ltd. (owned 40%), Davao Central Chemical Corporation (owned 80%) and Century Chemical Works Sdn.Bhd.(owned 25%)who operate in the life-environment business of manufacturing and sales of activated carbon. They were owned by Takeda Pharmaceutical Co., Ltd. who agreed on the transfer on March 30, 2005. Osaka Gas Chemicals Co., Ltd. acquired the stock for a total of ¥11,900 million (\$110,811 thousand) on April 1, 2005.

(3) Acquisition of Idemitsu Snorre Oil Development Co., Ltd

On June 7, 2005, the Company decided to acquire on July 1, 2005, 49.5% (149,660 common shares) equity of Idemitsu Snorre Oil Development Co., Ltd. from the national government of Japan for ¥32,425 million (\$301,937 thousand). Idemitsu Snorre Oil Development Co.,Ltd. ,through its Norwegian subsidiary, produces crude oil and natural gas in the Norwegian sector of the North Sea. The Company has placed a high priority on the upstream sector as a business segment contributing to enhancing its competitiveness and profitability through an intensive deployment of its managerial resources. It is believed that the acquisition would enrich the technical, managerial and upstream resources expertise of The Company, thereby contributing to stable and economical procurement of LNG and other energy resources in the future.

Independent Auditors' Report



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

We have audited the accompanying consolidated balance sheets of Osaka Gas Co., Ltd. and subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Osaka Gas Co., Ltd. and subsidiaries as of March 31, 2004 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion in 2005, we draw attention to Notes 3 and 16 to the consolidated financial statements, which state that 1.) the Company and consolidated domestic subsidiaries adopted the new Japanese accounting standards for impairment of fixed assets, 2.) the Company retired treasury shares on April 12, 2005, 3.) Osaka Gas Chemicals Co., a consolidated subsidiary acquired Japan EnviroChemicals, Ltd. and others on April 1, 2005., and 4.) the Company decided to acquire 49.5% of Idemitsu Snorre Oil Development Co., Ltd. on June 7, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 29, 2005

List of Major Consolidated Subsidiaries (As of March 31, 2005)

| | Name of Subsidiary | Capital (million yen) | Osaka Gas Shareholding (%) | |
|--|--|--|-------------------------------|-----|
| Gas | Osaka Gas Customer Relations Co., Ltd. • Checking gas meters, clerical administration concerning gas rates, and collection of gas charges | 50 | 100 | |
| | Sasayama City Gas Co.,Ltd • Gas business, piping work, and sale and repair of housing equipment | 100 | 66.7 | |
| | Toyooka Enegy Co., Ltd. • Gas business, piping work, and sale and repair of housing equipment | 100 | 100 | |
| | Nabari Kintetsu Gas Co., Ltd. • Sales of natural gas, simplified gas, LPG, auto gas and gas appliances, and design and installation of piping | 100 | 85 | |
| | Osaka Gas International Transport Inc. • Vessel leasing | 3,190 | 100 | |
| LPG, Electricity and Other Energies | Gas and Power Co., Ltd. • Electric power supply • Prospecting, development, production and supply of petroleum and natural gas • Investment in energy infrastructure • Energy environmental service • Research and planning relating to the above-mentioned businesses | 450 | 100 | |
| | Gas and Power Investment Co., Ltd. • Domestic and overseas energy businesses, and research, planning, development and investment relating to these businesses | 2,100 | 100 | |
| | Cogen Techno Service Co., Ltd. • Design, installation and sale of cogeneration systems and service by contract • Processing of electric power and cold/hot air by contract | 400 | 56 | |
| | Liquid Gas Co., Ltd. • Manufacture, sale and transport of LNG and high-pressure gases • Sale of cold air generated from LNG production and sale of LPG | 1,030 | 100 | |
| | Nakayama Joint Power Generation Co.,Ltd. • Electric power supply | 300 | 95 | |
| | Nakayama Nagoya Joint Power Generation Co., Ltd. • Electric power supply | 450 | 95 | |
| | Nissho Petroleum Gas Corporation • Import and sale of LPG | 1,726 | 70 | |
| | Nissho Propane Sekiyu Co., Ltd. • Sale of LPG, gas appliances and petroleum | 60 | 100 | |
| | Osaka Gas Australia Pty. Ltd. • Mining of crude oil, natural gas and other mineral resources and their development, production and sales | A\$157 million | 100 | |
| | Osaka Gas Energy America Corporation • Investigation, planning, development, and investment concerning the energy supply business in the U.S.A. | US\$1 | 100 | |
| | Osaka Gas Rusk Power, LLC. • Investment in Tenaska Gateway Generating Station, U.S.A. | US\$1 | 100 | |
| | 48 other companies | | | |
| | Gas Appliances andHouse- Pipe Installation | Enetech Kyoto Co., Ltd. • Design, installation, operation, maintenance and sale of air-conditioning, water supply • Drainage, hot water supply, ventilation and kitchen facilities and equipment • Design and performance of piping work and electric work | 30 | 100 |
| | | Enetech Osaka Co., Ltd. • Design, installation, operation, maintenance and sale of air-conditioning, water supply • Drainage, hot water supply, ventilation and kitchen facilities and equipment | 20 | 100 |
| | | OG Road Co., Ltd. • Investigation and design concerning recycling of excavated soil and the manufacturing and sales of road construction materials | 50 | 100 |
| Hearts Co., Ltd. • Sales and repair of gas appliances, gas works, piping works and house refurbishment | | 85 | 98.8 | |

| | Name of Subsidiary | Capital (million yen) | Capital (million yen) |
|--|---|--------------------------|--------------------------|
| Gas Appliances and House-Pipe Installation | Kinpai Co., Ltd. • Gas piping works • Construction work and road paving • Sales and installation of housing equipment • Piping renewal work | 300 | 100 |
| | Kinpai Corporation • Business administration, accounting, personnel, and general affairs of the Kinpai Group | 112 | 100 |
| | 10 other companies | | |
| Real Estate Leasing | OSC Engineering Co., Ltd. • Maintenance, security service, and cleaning of buildings and facility designing and construction | 50 | 67.3 |
| | Urbanex Inc. • Management, maintenance and leasing of real estate • Surveys and research on urban development | 1,570 | 100 |
| | Urbanex Development Inc. • Management, operation, lease, sale, and purchase of real estate | 500 | 100 |
| | OG Capital Co., Ltd. • Management control of affiliated companies • Management, maintenance and leasing of real estate | 3,000 | 100 |
| | Serendi Co., Ltd. • Management of real estate and operation and management of parking lots • Sale of office automation equipment and related products • Domestic tourist bureau, travel agency • Staffing and placement services • Office service and business service • Billing service | 100 | 100 |
| | Kyoto Research Park Co., Ltd. • Management of the Research Park, interchange between the industrial and academic societies, development of venture businesses | 100 | 100 |
| | 5 other companies | | |
| | | | |
| Others | Osaka Gas Engineering Co., Ltd. • Investigation, design, installation and technical consulting for gas facilities, facilities using cold air and facilities for environmental protection • Investigation, purchase and sale of industrial properties | 100 | 100 |
| | Osaka Gas Chemicals Co., Ltd. • Manufacture and sale of coke, chemical products and carbon products | 480 | 100 |
| | Osaka Gas Housing Equipment Co., Ltd. • Sale of housing equipment • Design and performance of installation work of housing equipment • Sale of kitchen utensils • Construction of new housing and renovation of housing | 450 | 100 |
| | Osaka Gas Security Service Co., Ltd. • Provision of security and disaster protection services • Maintenance and inspection of gas facilities and equipment • Sale, lease, installation, maintenance and inspection of security and disaster protection equipment • Sale of home security systems | 100 | 100 |
| | OG Autoservice Co., Ltd. • Lease, servicing, and sales of automobiles and non-life insurance agency | 100 | 100 |
| | Active Life Inc. • Operation and management of nursing homes for the aged • Provision of home healthcare services • Health consulting service • Consulting on the operation of housing for the aged and nursing facilities | 900 | 76.7 |
| | OG Sports, Co., Ltd. • Management, construction and operation of sports facilities and resort facilities • Sale of sports goods | 100 | 100 |
| | OGIS Research Institute Co., Ltd. • Computer data processing services • Sale of computer-related equipment and software • Software development • Provision of computer education | 400 | 100 |
| | OGIC Co., Ltd. • Leasing • Consumer credit • Telemarketing • Life and property insurance agency • Automatic collection service • Land and building dealer | 600 | 100 |
| | Kinrei Co., Ltd. • Operation of restaurants • Manufacture and sale of frozen foods | 966 | 74.8 |
| | 17 other companies | | |

Directory (As of June 29, 2005)

Head Office
4-1-2, Hiranomachi, Chuo-ku, Osaka 541-0046 Japan
Tel: (06) 6205-4715 IR office

Tokyo Office
Shin-Otemachi Building 6F
2-2-1, Otemachi, Chiyoda-ku, Tokyo 100-0004 Japan
Tel: (03) 3211-2551

Investor Information

Date of Establishment:
April 10, 1897

Regular General Meeting:
The regular general meeting of shareholders is held in June each year.
The 2005 Regular General Meeting was held on June 29.

Common Stock:
Authorized: 3,840,849 thousand shares
Issued: 2,369,012 thousand shares

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

Number of Shareholders:
202,076

Stock Transaction Units:
The Company's stock is traded in units of 1,000 shares.

Common Stock Price Range (Yen)
(Tokyo Stock Exchange)

| | FY2004 | | FY2005 | |
|----------------|--------|-----|--------|-----|
| | High | Low | High | Low |
| First quarter | 346 | 297 | 294 | 309 |
| Second quarter | 325 | 291 | 292 | 306 |
| Third quarter | 308 | 281 | 298 | 320 |
| Fourth quarter | 316 | 292 | 309 | 330 |

Independent Certified Public Accountants:
KPMG AZSA & Co.

Transfer Agent:
The Sumitomo Trust & Banking Co., Ltd.
1-10, Nikko-cho, Fuchu-City, Tokyo 183-8701, Japan
Tel: (06) 6833-4700
(0423) 51-2211

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

The address of the Osaka Gas Co., Ltd. Web site is:
<http://www.osakagas.co.jp>

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

Osaka Gas Co., Ltd.
IR office
TEL: (06) 6205-4715
FAX: (06) 6202-4637
E-mail: keiri@osakagas.co.jp
Please note that we do not accept files attached to email, such as image files.

Unit Conversion List

Weight

| kg | Metric ton | Imperial (short) ton | U.S. (long) ton |
|---------|--------------------|------------------------|------------------------|
| 1 | 1×10^{-3} | 0.984×10^{-3} | 1.102×10^{-3} |
| 1,000 | 1 | 0.9842 | 1.1023 |
| 1,016.0 | 1.0160 | 1 | 1.1200 |
| 907.19 | 0.9072 | 0.8927 | 1 |

Length

| m | ft | yard | mile |
|--------|--------|--------|------------------------|
| 1 | 3.2808 | 1.0936 | 0.622×10^{-3} |
| 0.3048 | 1 | 0.333 | 0.189×10^{-3} |
| 0.9144 | 3 | 1 | 0.568×10^{-3} |
| 1,609 | 5,280 | 1,760 | 1 |

Volume (Liquid)

| m ³ (kl) | ft | Imperial gallon | U.S. gallon |
|------------------------|--------|-----------------|-------------|
| 1 | 35.315 | 219.97 | 264.17 |
| 28.32×10^{-3} | 1 | 6.288 | 7.481 |
| 4.55×10^{-3} | 0.1606 | 1 | 1.2011 |
| 3.78×10^{-3} | 0.1337 | 0.8327 | 1 |

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

Volume (Gas)

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

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

Energy

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

Heating Value (Gas)

| kcal/m ³ (n) | Btu/SCF | MJ/m ³ (s) |
|-------------------------|---------|-----------------------|
| 1 | 0.1063 | 3.97×10^{-3} |
| 9.406 | 1 | 3.73×10^{-3} |
| 252.1 | 26.81 | 1 |

1 ton of LNG = 13×10^8 kcal = 52×10^6 Btu



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