Consolidated Balance Sheets

Osaka Gas Co., Ltd.
March 31, 2005 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2005	2006	2006
Property, Plant and Equipment, at Cost:			
Production facilities	¥ 495,677	¥ 495,219	$ 4,215,706
Distribution facilities	1,471,008	1,501,529	12,782,234
Service and maintenance facilities	145,835	144,906	1,233,557
Other	363,727	385,168	3,278,863
Construction in progress	27,257	64,202	546,539
	2,503,504	2,591,024	22,056,899
Less accumulated depreciation	(1,736,681)	(1,805,979)	(15,373,959)
	766,823	785,045	6,682,940
Intangibles and Deferred Assets	27,921	29,240	248,915
Investments and Other Assets:			
Investments in securities:			
Unconsolidated subsidiaries and affiliated companies	8,863	51,975	442,453
Other (Note 4)	93,587	137,226	1,168,179
Other investments and other assets (Note 13)	67,896	111,678	950,694
Allowance for doubtful receivables	(2,657)	(1,665)	(14,174)
	167,689	299,214	2,547,152
Current Assets:			
Cash and time deposits	48,513	49,496	421,350
Receivables:			
Trade notes and accounts	114,045	126,800	1,079,424
Allowance for doubtful receivables	(760)	(851)	(7,244)
	113,285	125,949	1,072,180
Inventories	40,786	44,868	381,953
Deferred tax assets (Note 13)	15,348	13,139	111,850
Other current assets	37,098	51,742	440,470
Total current assets	255,030	285,194	2,427,803
	¥ 1,217,463	¥ 1,398,693	$ 11,906,810

See accompanying notes.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2006
Long-term Debt Due after One Year (Note 5)	¥ 367,265	¥ 388,055	$ 3,303,439
Deferred Tax Liabilities (Note 13)	6,536	23,267	198,068
Deferred Tax Liabilities Related to Land Revaluation (Note 8)	56	42	357
Employees' Severance and Retirement Benefits (Note 12)	18,344	8,732	74,334
Reserve for Repairs of Gas Holders	1,610	1,730	14,727
Other Non-current Liabilities	20,902	20,957	178,403
Current Liabilities:			
Short-term loans (Note 5)	26,564	31,943	271,925
Long-term debt due within one year (Note 5)	54,692	67,513	574,725
Trade notes and accounts payable	43,827	45,803	389,912
Accrued income and enterprise taxes	25,815	39,772	338,572
Accrued expenses	52,476	58,230	495,701
Other current liabilities (Note 13)	58,452	65,463	557,274
Total current liabilities	261,826	308,724	2,628,109
Contingent Liabilities (Note 7)			
Minority Interests	10,062	18,675	158,977
Shareholders' Equity (Note 6)**:**			
Common stock			
Authorized — 3,707,507 thousand shares in 2006 and 3,840,849 thousand shares in 2005			
Issued — 2,235,670 thousand shares in 2006 and 2,369,012 thousand shares in 2005	132,167	132,167	1,125,113
Capital surplus	19,498	19,521	166,178
Retained earnings	384,350	410,683	3,496,067
Revaluation reserve for land (Note 8)	81	62	528
Net unrealized gains on securities	33,677	63,649	541,832
Foreign currency translation adjustments	3,145	4,986	42,445
Treasury stock, at cost: 8,148,986 shares in 2006 and 140,284,727 shares in 2005	(42,056)	(2,557)	(21,767)
Total shareholders' equity	530,862	628,511	5,350,396
	¥1,217,463	¥1,398,693	$11,906,810

Consolidated Statements of Income

Osaka Gas Co., Ltd.
Years ended March 31, 2005 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Operating Revenues (Note 14)	¥975,340	**¥1,065,961**	**$9,074,325**
Costs and Expenses (Notes 9, 14)**:**			
Costs	534,043	**636,479**	**5,418,226**
Selling, general and administrative expenses	345,305	**328,825**	**2,799,225**
	879,348	**965,304**	**8,217,451**
Operating Income (Note 14)	95,992	**100,657**	**856,874**
Other Income (Expenses):			
Interest and dividend income	1,143	**2,113**	**17,988**
Interest expense	(6,041)	**(6,475)**	**(55,120)**
Equity in net income of affiliates	303	**2,435**	**20,729**
Gain on sale of investment securities	5,966	**5,088**	**43,313**
Gain on sale of investments in subsidiaries	190	**5,400**	**45,969**
Gain on disposion of LNG handling facilities	–	**23,025**	**196,007**
Gain on sale of property, plant and equipment	1,184	**661**	**5,627**
Loss on offset against the acquisition cost of property, plant and equipment	(850)	**–**	**–**
Loss from impairment of fixed assets (Note 15)	(13,910)	**–**	**–**
Other, net	(72)	**(510)**	**(4,342)**
	(12,087)	**31,737**	**270,171**
Income before Income Taxes and Minority Interests	83,905	**132,394**	**1,127,045**
Income Taxes — Current	26,027	**41,804**	**355,869**
— Deferred	6,453	**9,134**	**77,756**
Minority Interests	(742)	**(745)**	**(6,342)**
Net Income	¥ 50,683	**¥ 80,711**	**$ 687,078**

	Yen		U.S. Dollars (Note 1)
	2005	2006	2006
Per share of Common stock:			
Net income	¥ 22.69	**¥ 36.18**	**$ 0.308**
Net income – diluted	–	**–**	**–**
Cash dividends applicable to the year	6.00	**7.00**	**0.060**

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Osaka Gas Co., Ltd.
Years ended March 31, 2005 and 2006

	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, 2004	2,369,012	¥132,167	¥19,482	¥346,558	¥ –	¥35,903	¥2,931	¥(41,406)
Net income				50,683				
Increase in 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)
Net income				**80,711**				
Increase in net unrealized gains on securities						**29,972**		
Adjustments from translation of foreign currency financial statements							**1,841**	
Cash dividends (including interim dividends)				**(14,485)**				
Bonuses to directors				**(86)**				
Increase due to exclusion from consolidated subsidiaries				**153**				
Retirement of treasury stock	**(133,342)**			**(39,979)**				
Reversal of land revaluation				**19**	**(19)**			
Increase due to sale of treasury stock			**23**					
Increase in treasury stock, net								**39,499**
Balance at March 31, 2006	**2,235,670**	**¥132,167**	**¥19,521**	**¥410,683**	**¥ 62**	**¥63,649**	**¥4,986**	**¥ (2,557)**

	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, 2005	**$1,125,113**	**$165,983**	**$3,271,899**	**$ 690**	**$286,686**	**$26,773**	**$(358,015)**
Net income			**687,078**				
Increase in net unrealized gains on securities					**255,146**		
Adjustments from translation of foreign currency financial statements						**15,672**	
Cash dividends (including interim dividends)			**(123,308)**				
Bonuses to directors			**(732)**				
Increase due to exclusion from consolidated subsidiaries			**1,302**				
Retirement of treasury stock			**(340,334)**				
Reversal of land revaluation			**162**	**(162)**			
Increase due to sale of treasury stock		**195**					
Increase in treasury stock, net							**336,248**
Balance at March 31, 2006	**$1,125,113**	**$166,178**	**$3,496,067**	**$ 528**	**$541,832**	**$42,445**	**$ (21,767)**

See accompanying notes.

Consolidated Statements of Cash Flows

Osaka Gas Co., Ltd.
Years ended March 31, 2005 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2006	2006
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 83,905	¥ 132,394	$ 1,127,045
Adjustments to reconcile net income before income taxes to net cash provided by operating activities:			
Depreciation	86,859	84,251	717,213
Amortization of long-term prepaid expenses	1,063	2,244	19,103
Decrease in employees' retirement benefits	(24,596)	(9,654)	(82,183)
Increase in prepaid pension expenses	(12,218)	(2,703)	(23,010)
Interest and dividend income	(1,143)	(2,113)	(17,988)
Interest expense	6,041	6,475	55,120
Equity in net income of affiliates	(303)	(2,435)	(20,729)
Gain on sale of investments	(5,966)	(5,088)	(43,313)
Gain on sales of investments in subsidiaries	(190)	(5,400)	(45,969)
Loss on disposal of property, plant and equipment	2,406	2,349	19,997
Increase in receivables	(4,341)	(8,329)	(70,903)
Increase in inventories	(8,583)	(2,270)	(19,324)
Increase (decrease) in accrued expenses	(2,361)	6,509	55,410
Other	31,350	(10,224)	(87,035)
Total adjustments	68,018	53,612	456,389
Interest and dividends received	1,336	1,977	16,830
Interest paid	(6,055)	(6,497)	(55,308)
Income and enterprise taxes paid	(30,302)	(28,551)	(243,049)
Net cash provided by operating activities	116,902	152,935	1,301,907
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(64,800)	(115,244)	(981,050)
Acquisition of intangibles	(1,201)	(2,462)	(20,959)
Payment for long-term prepaid expenses	(1,093)	(5,941)	(50,575)
Purchase of investments in securities	(1,583)	(2,741)	(23,334)
Proceeds from sale of investment securities	8,584	12,260	104,367
Purchase of investments in subsidiaries and affiliates	(6,995)	(40,037)	(340,827)
Proceeds from sales of investments in subsidiaries and affiliates	294	2,749	23,402
Purchase of investments resulting from change in the scope of consolidation	–	(22,554)	(191,998)
Proceeds from sales of investments resulting from change in the scope of consolidation	–	11,509	97,974
Decrease (increase) in short-term loans receivable	1,185	(1,539)	(13,101)
Payments for long-term loans receivable	(708)	(6,986)	(59,471)
Proceeds from maturity of time deposits	369	2,564	21,827
Proceeds from collection of long-term loans receivable	151	3,098	26,373
Other	118	2,334	19,869
Net cash used in investing activities	(65,679)	(162,990)	(1,387,503)
Cash Flows from Financing Activities:			
Net decrease in commercial paper	(26,000)	–	–
Proceeds from long-term debt	27,589	54,224	461,599
Repayment of long-term debt	(33,676)	(21,989)	(187,188)
Proceeds from issuance of bonds	19,986	19,976	170,052
Repayment of bonds	–	(35,000)	(297,949)
Proceeds from issuance of common stock to minority shareholders	–	9,796	83,391
Cash dividends paid	(13,341)	(14,437)	(122,900)
Cash dividends paid to minority shareholders	(165)	(150)	(1,277)
Other	1,694	826	7,032
Net cash provided by (used in) financing activities	(23,913)	13,246	112,760
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(6)	273	2,324
Net Increase in Cash and Cash Equivalents	27,304	3,464	29,488
Cash and Cash Equivalents at Beginning of Year	15,744	44,279	376,939
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	1,312	–	–
Decrease in Cash and Cash Equivalents by Exclusion from Consolidation	(81)	(16)	(136)
Cash and Cash Equivalents at End of Year	¥ 44,279	¥ 47,727	$ 406,291
Supplemental Disclosures of Cash Flow Information:			
Cash and Cash Equivalents:			
Cash and time deposits in the balance sheet	¥ 48,513	¥ 49,496	$421,350
Time deposits with maturities over three months	(4,234)	(1,769)	(15,059)
Cash and Cash Equivalents at End of Year	¥ 44,279	¥ 47,727	$406,291

See accompanying notes.

Notes to Consolidated Financial Statements

Osaka Gas Co., Ltd.
March 31, 2005 and 2006

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, 2006, which was ¥117.47 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 consolidated financial statement items in 2005 have been reclassified to conform to the presentation in 2006.

2. Significant Accounting Policies

(1) Consolidation

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

The consolidated financial statements in 2005 and 2006 include the accounts of the Company and all of its 118 and 136 subsidiaries, respectively. Twenty-three subsidiaries are newly consolidated and five subsidiaries are excluded from consolidation. Intercompany transactions and accounts have been eliminated. All material unrealized profit included in assets resulting from intercompany transactions is eliminated.

The accounts of 39 and three consolidated subsidiaries are included on the basis of their fiscal years that end on December 31 and February 28, respectively. These subsidiaries do not prepare, for consolidation purposes, statements for the period that corresponds with the fiscal year of the Company. For these 42 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 amortized over within 20 years on a straight-line basis. If the difference isn't significant, it is charged or credited to income in the first year of consolidation.

Investments in four significant affiliates (two affiliates at March 31, 2005) are accounted for by the equity method. Two affiliates are newly included in the equity method as they became affiliates when the Company acquired their shares. Affiliates that have an insignificant impact on consolidated net income and consolidated retained earnings are not accounted for by the equity method.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective 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, 2005 and 2006 were ¥287,364 million and ¥291,936 million ($2,485,196 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, 2005 and 2006 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 year ended March 31, 2005. Due to the adoption of new accounting policy, net income before taxes decreased by ¥13,906 million. 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, 2005 and 2006:

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

	Millions of Yen			Thousands of U.S. Dollars
	Acquisition Cost	Book Value	Difference	Difference
For 2005:				
Equity securities	¥ 21,442	¥ 75,237	¥ 53,795	
Bonds	51	51	–	
Total	¥ 21,493	¥ 75,288	¥ 53,795	
For 2006:				
Equity securities	**¥21,348**	**¥122,965**	**¥101,617**	**$865,046**

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

	Millions of Yen			Thousands of U.S. Dollars
	Acquisition Cost	Book Value	Difference	Difference
For 2005:				
Equity securities	¥ 261	¥ 244	¥(17)	
For 2006:				
Equity securities	**¥ 44**	**¥ 42**	**¥ (2)**	**$(17)**
Bonds	**10**	**10**	**(0)**	**(0)**
Other	**100**	**97**	**(3)**	**(26)**
Total	**¥154**	**¥149**	**¥ (5)**	**$(43)**

(2) The following table summarizes book values of significant available-for-sale securities with no available fair values as of March 31, 2005 and 2006:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Non-listed (non-quoted) equity securities	¥17,447	**¥13,538**	**$115,246**

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

	Millions of Yen				
	Within One Year	Over One Year but Within Five Years	Over Five Years but Within Ten Years	Over Ten Years	Total
For 2005:					
Government bonds	¥ 1	¥ –	¥–	¥ –	¥ 1
Other	50	–	–	400	450
Total	¥ 51	¥ –	¥–	¥ 400	¥ 451
For 2006:					
Government bonds	**¥ –**	**¥10**	**¥–**	**¥ –**	**¥ 10**
Other	**97**	**–**	**–**	**425**	**522**
Total	**¥97**	**¥10**	**¥–**	**¥425**	**¥532**

	Thousands of U.S Dollars				
	Within One Year	Over One Year but Within Five Years	Over Five Years but Within Ten Years	Over Ten Years	Total
For 2006:					
Government bonds	**$ –**	**$85**	**$–**	**$ –**	**$ 85**
Other	**826**	**–**	**–**	**3,618**	**4,444**
Total	**$826**	**$85**	**$–**	**$3,618**	**$4,529**

(4) Total sales of available-for-sale securities in the year ended March 31, 2005 and 2006 amounted to ¥8,584 million and ¥6,697 million ($57,010 thousand) and the related gains and losses amounted to ¥5,966 million and ¥5,088 million ($43,313 thousand) and ¥243 million and ¥34 million ($289 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 0.3% at March 31, 2005 and 2006.

Long-term debt at March 31, 2005 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Loans principally from banks and insurance companies, principally at 0.102% – 5.059%, maturing through 2022	¥182,877	**¥216,055**	**$1,839,236**
2.95% notes payable due 2005	15,000	**–**	**–**
3.4% notes payable due 2017	15,700	**15,700**	**133,651**
2.9% notes payable due 2018	29,000	**29,000**	**246,872**
1.47% notes payable due 2008	30,000	**30,000**	**255,384**
1.95% notes payable due 2009	20,000	**20,000**	**170,256**
1.23% notes payable due 2005	20,000	**–**	**–**
1.46% notes payable due 2012	20,000	**20,000**	**170,256**
1.47% notes payable due 2022	20,000	**20,000**	**170,256**
1.83% notes payable due 2020	20,000	**20,000**	**170,256**
7.125% bonds payable in U.S. dollars due 2007	48,960	**48,960**	**416,786**
1.790% notes payable due 2020	–	**20,000**	**170,256**
10.00% bonds payable in U.S. dollars due 2010	–	**5,062**	**43,092**
7.73% bonds payable in U.S. dollars due 2015	–	**10,371**	**88,287**
0.66% notes payable due 2008	200	**200**	**1,703**
2.06% notes payable due 2007	220	**220**	**1,873**
	421,957	**455,568**	**3,878,164**
Less amounts due within one year	54,692	**67,513**	**574,725**
	¥367,265	**¥388,055**	**$3,303,439**

In the year ended March 31, 2000, the Company entered into debt assumption agreements with banks for loans from banks (¥11,412 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, 2006:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 67,513	$ 574,725
2008	43,519	370,469
2009	47,261	402,324
2010	37,409	318,456
2011	16,792	142,947
2012 and thereafter	243,074	2,069,243
Total	¥455,568	$3,878,164

Assets pledged as collateral mainly for short-term loans and long-term debt totaling ¥29,232 million and ¥41,958 million ($357,181 thousand) at March 31, 2005 and 2006, respectively, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
Property, plant and equipment	¥55,901	**¥48,863**	**$415,962**
Investments	–	**32,260**	**274,623**
Cash and time deposits	2,022	**2,752**	**23,427**
Accounts receivable	988	**1,248**	**10,624**
Inventories and other	1,444	**3,325**	**28,305**
Total	¥60,355	**¥88,448**	**$752,941**

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 Commercial Code allows a company to purchase treasury stock by the resolution of the shareholders' meeting and to retire stock by resolution of the Board of Directors within profits available for dividends.

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, 2005 and 2006, the Companies were contingently liable as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	**2006**	**2006**
As guarantor of indebtedness of:			
Affiliates	¥ 2,336	**¥ 2,788**	**$ 23,734**
Employees	106	**77**	**656**
Debt assumption agreements	58,932	**21,412**	**182,276**
Total	¥61,374	**¥24,277**	**$206,666**

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, 2006 in the amount ¥1,550 million ($13,195 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 ¥11,404 million and ¥11,324 million ($96,399 thousand) for the years ended March 31, 2005 and 2006.

10. Finance Leases

Information for non-capitalized finance leases at March 31, 2005 and 2006 is as follows:

As lessee (non-capitalized)

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Original lease obligations (including finance charges)	¥3,846	¥4,038	$34,375
Payments remaining:			
Payments due within one year	¥ 577	¥ 599	$ 5,099
Payments due over one year	1,371	1,559	13,272
Total	¥1,948	¥2,158	$18,371

Lease payments for such leases for the years ended March 31, 2005 and 2006 were ¥733 million and ¥647 million ($5,508 thousand), respectively.

As lessor

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Original cost	¥17,605	¥20,205	$172,001
Less accumulated depreciation	8,457	9,939	84,608
Total	¥ 9,148	¥10,266	$ 87,393
Receipts remaining			
Receipts due within one year	¥ 3,051	¥ 3,752	$ 31,940
Receipts due over one year	6,536	7,659	65,200
Total	¥ 9,587	¥11,411	$ 97,140

Lease receipts under such leases for the years ended March 31, 2005 and 2006 were ¥3,529 million and ¥4,215 million ($35,882 thousand), respectively.

Depreciation for the years ended March 31, 2005 and 2006 was ¥2,118 million and ¥2,639 million ($22,465 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, 2005 and 2006 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, 2005 and 2006 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Projected benefit obligation	¥ 261,365	**¥ 257,352**	**$ 2,190,789**
Prepaid pension expenses	12,904	**15,621**	**132,979**
Less unrecognized actuarial differences	13,076	**63,955**	**544,437**
Less fair value of pension assets	(269,001)	**(328,196)**	**(2,793,871)**
Liability for severance and retirement benefits	¥ 18,344	**¥ 8,732**	**$ 74,334**

Included in the consolidated statements of income for the years ended March 31, 2005 and 2006 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Service costs – benefits earned during the year	¥ 8,706	**¥ 7,279**	**$ 61,965**
Interest cost on projected benefit obligation	5,343	**4,563**	**38,844**
Expected return on plan assets	(4,237)	**(9,615)**	**(81,851)**
Amortization of actuarial gains and losses	1,730	**(232)**	**(1,975)**
Prior service costs	(9,778)	**(3,440)**	**(29,284)**
Severance and retirement benefit expenses	¥ 1,764	**¥(1,445)**	**$(12,301)**

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

	2005	2006
Discount rates	Mainly 1.8%	**Mainly 1.8%**
Expected rate of return on plan assets	Mainly 1.8%	**Mainly 3.6%**

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Prior service costs are recognized as incurred and actuarial gains/losses are recognized 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, 2005 and 2006.

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, 2005 and 2006:

	2005	2006
Statutory tax rate	36.2%	**36.2%**
Non-deductible expenses	1.5	**1.2**
Statutory tax rate difference between the Company and certain subsidiaries	0.7	**0.6**
Per capita inhabitants' tax	0.2	**0.1**
Other	0.1	**0.2**
Effective tax rate	38.7%	**38.3%**

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2005 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Deferred tax assets:			
Retirement benefits	¥ 3,250	¥ 3,543	$ 30,161
Excess depreciation	11,246	10,767	91,658
Loss on cancellation of construction plan	4,607	4,700	40,010
Loss on impairment of fixed assets	4,432	3,014	25,658
Write-down of securities	3,642	3,000	25,538
Enterprise taxes	3,077	2,522	21,469
Other	19,666	15,905	135,396
Total deferred tax assets	49,920	43,451	369,890
Valuation allowance	(436)	(260)	(2,213)
Net deferred tax assets	49,484	43,191	367,677
Deferred tax liabilities:			
Special reserve for tax purposes	(4,764)	(4,479)	(38,129)
Deferred gains on real properties	(344)	(344)	(2,928)
Net unrealized gains on securities	(20,059)	(37,963)	(323,172)
Other	(1,085)	(5,612)	(47,774)
Total deferred tax liabilities	(26,252)	(48,398)	(412,003)
Net deferred tax assets	¥ 23,232	¥ (5,207)	$ (44,326)

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Current assets	¥15,348	¥ 13,139	$ 111,850
Investments and other assets	14,440	4,937	42,028
Other current liabilities	(20)	(16)	(136)
Other non-current liabilities	(6,536)	(23,267)	(198,068)
	¥28,232	¥ (5,207)	$ (44,326)

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.

Changes in the composition of the Companies in business segments and the method of allocating operating expenses and assets

In accordance with the Osaka Gas Group's management philosophy "Value-creating Management in New Century for Business Opportunities," formulated in January 2005, the Group's management organization was restructured on July 1, 2005 to recognize and integrate Group companies by segments and by functions in order to maximize the Group's overall capabilities. Under the corporate reorganization program, the composition of the Companies in business segments was changed and the business operations of some companies were transferred to different categories of business. In keeping with this business segment change, the method of allocating operating expenses (mainly general expenses associated with the management divisions of the Company), which are distributed chiefly as direct expenses for each business category, assets (chiefly the Companies' assets associates with the management divisions of the Company), depreciation expense, and the capital expenditure was revised in compliance with amendments to the Gas Utility Industry Accounting Regulations.

The segment information for 2005 has been restated to conform to the 2006 presentation.

A summary of segment information is as follows:

For 2005:	Gas	LPG, Electricity and Other Energies	Gas Appliances and House-pipe Installation	Real Estate	Others	Total	Elimination and Corporate	Consolidated
	Millions of Yen							
Operating revenues								
Outside customers	¥564,678	¥155,987	¥149,981	¥ 12,382	¥ 92,310	¥ 975,340	¥ –	¥ 975,340
Inside group	8,228	1,903	393	12,878	40,084	63,490	(63,490)	–
	572,906	157,891	150,375	25,261	132,395	1,038,830	(63,490)	975,340
Cost and expenses	510,451	143,753	147,618	18,157	124,344	944,326	(64,978)	879,348
Operating income	¥ 62,455	¥ 14,138	¥ 2,756	¥ 7,103	¥ 8,050	¥ 94,503	¥ 1,488	¥ 95,992
Identifiable assets	¥688,639	¥180,394	¥ 58,268	¥102,550	¥123,051	¥1,152,903	¥ 64,559	¥1,217,463
Depreciation	61,676	12,325	487	4,189	9,050	87,729	(870)	86,858
Loss from impairment of fixed assets	10,771	743	513	1,745	135	13,910	–	13,910
Capital expenditure	40,120	8,155	528	3,688	13,394	65,889	(371)	65,517

For 2006:	Gas	LPG, Electricity and Other Energies	Gas Appliances and House-pipe Installation	Real Estate	Others	Total	Elimination and Corporate	Consolidated
	Millions of Yen							
Operating revenues								
Outside customers	**¥608,142**	**¥186,342**	**¥155,339**	**¥ 12,908**	**¥103,227**	**¥1,065,961**	**¥ –**	**¥1,065,961**
Inside group	**11,613**	**2,660**	**620**	**12,819**	**42,124**	**69,839**	**(69,839)**	**–**
	619,756	**189,003**	**155,960**	**25,727**	**145,352**	**1,135,800**	**(69,839)**	**1,065,961**
Cost and expenses	**557,945**	**170,483**	**150,748**	**19,101**	**137,600**	**1,035,879**	**(70,575)**	**965,304**
Operating income	**¥ 61,811**	**¥ 18,519**	**¥ 5,212**	**¥ 6,626**	**¥ 7,752**	**¥ 99,921**	**¥ 736**	**¥ 100,657**
Identifiable assets	**¥686,433**	**¥299,986**	**¥ 59,032**	**¥111,481**	**¥139,929**	**¥1,296,863**	**¥101,829**	**¥1,398,693**
Depreciation	**56,576**	**12,334**	**445**	**4,087**	**11,558**	**85,002**	**(751)**	**84,250**
Capital expenditure	**48,638**	**46,219**	**616**	**5,228**	**17,438**	**118,141**	**(685)**	**117,455**

For 2006:	Gas	LPG, Electricity and Other Energies	Gas Appliances and House-pipe Installation	Real Estate	Others	Total	Elimination and Corporate	Consolidated
	Thousands of U.S. Dollars							
Operating revenues								
Outside customers	**$5,177,007**	**$1,586,302**	**$1,322,372**	**$109,883**	**$ 878,761**	**$ 9,074,325**	**$ –**	**$ 9,074,325**
Inside group	**98,859**	**22,653**	**5,286**	**109,135**	**358,602**	**594,535**	**(594,535)**	**–**
	5,275,866	**1,608,955**	**1,327,658**	**219,018**	**1,237,363**	**9,668,860**	**(594,535)**	**9,074,325**
Cost and expenses	**4,749,681**	**1,451,298**	**1,283,289**	**162,612**	**1,171,371**	**8,818,251**	**(600,800)**	**8,217,451**
Operating income	**$ 526,185**	**$ 157,657**	**$ 44,369**	**$ 56,406**	**$ 65,992**	**$ 850,609**	**$ 6,265**	**$ 856,874**
Identifiable assets	**$5,843,475**	**$2,553,733**	**$ 502,528**	**$949,025**	**$1,191,198**	**$11,039,959**	**$ 866,851**	**$11,906,810**
Depreciation	**481,621**	**105,006**	**3,788**	**34,800**	**98,400**	**723,615**	**(6,402)**	**717,213**
Capital expenditure	**414,046**	**393,462**	**5,252**	**44,505**	**148,447**	**1,005,712**	**(5,831)**	**999,881**

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 losses from impairment of fixed assets

In accordance with the grouping described in (1) above, a loss from impairment of ¥13,910 million was recognized for the year ended March 31, 2005. Significant properties included in this loss are listed in the table below.

			Millions of Yen
Asset	Location	Type	2005
Land in Keihanna	Seika-cho and Kizu-cho, Kyoto Prefecture	Land	¥3,189
Land in Kamiyama	Kita-ku, Osaka City	Land	2,843
Land adjacent to Himeji terminal	Himeji City	Land	1,608

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

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. Retirement of Common Stock

The Company decided retirement of 133,342 thousand shares of common stock at an aggregate cost of ¥39,978 million ($340,325 thousand) in accordance with resolution of the Board of Directors held at March 29, 2005. The retirement of common stock has been effective since April 12, 2005.

17. Significant Subsequent Events

(1) The appropriation of retained earnings

The appropriation of retained earnings of the Company, including cash dividend applicable to the year ended March 31, 2006, which was proposed by the Board of Directors and approved at the shareholders' meeting held on June, 2006 was for the purpose of paying cash dividends to shareholders of record at March 31, 2006, in the aggregate amount of ¥7,796 million (¥66,365 thousand) (¥3.5 per share) and bonuses to directors in the aggregate amount of ¥60 million ($511 thousand).

(2) Issuance of bonds

In accordance with a resolution of the Board of Directors on May 19, 2006, the Company issued ¥10,000 million ($85,128 thousand) of unsecured 2.33% Japanese yen bonds on June 26, 2006. The bonds are due June 23, 2026. The issue price of the bonds was 100% of the face value of the bonds.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Osaka Gas Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2006, 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, 2005 and 2006, 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 the following.

(1) As discussed in Notes 3 to the consolidated financial statements, effective April 1, 2004, Osaka Gas Co., Ltd. and consolidated domestic subsidiaries adopted the new Japanese accounting standards for impairment of fixed assets.

(2) As discussed in Note 14 to the consolidated financial statements, the Company and consolidated subsidiaries have changed the composion of the the Companies in business segment and the method of allocating operating expenses and assets.

(3) As discussed in Note 17 to the consolidated financial statements, in accordance with a resolution of the Board of Directors on May 19, 2006, the Company issued unsecured Japanese yen bonds on June 23, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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, 2006