Business Report for the 188th Financial Year

(Year from 1 April 2005 through 31 March 2006)

Osaka Gas Co., Ltd.

Operating Report for the Year ended 31 March 2006

I. Overview

1. Business Operations and Results of the Company and the Group

(1) Operating Activities of the Company and the Group

The Japanese economy in this financial year has recovered gradually and seen moderate improvements supported by increased export, production and capital investment.

Against this economic background, the Osaka Gas Group (the "Group") has aggressively conducted its business based on "Value Creation Management" as its core management objective.

Revenues of the Company in the financial year ended 31 March 2006 increased by 8.8% to ¥786,350 million compared to the preceding financial year primarily due to an increase in the sales of gas resulting from development of new demands and the upward adjustment of the unit prices of gas under the sliding rate adjustment system. Despite a substantial increase in raw materials costs resulting from a significant rise in crude oil prices, ordinary profits increased by 9.2% to ¥82,040 million compared to the preceding financial year primarily as a result of the Company's efforts to improve overall management efficiency. Net income increased by 71.1% to ¥70,632 million compared to the preceding financial year due to the recording in this financial year of an extraordinary profit resulting from a refund received in connection with the amendment of an LNG processing service agreement and the recording in the preceding financial year of extraordinary losses for impairment of fixed assets.

<Please see chart>[Revenues / Ordinary Profits / Net Income of the Company]

Consolidated revenues of the Group in the financial year ended 31 March 2006 increased by 9.3% to ¥1,065,961 million compared to the preceding financial year primarily owing to increased revenues of the Company on an unconsolidated basis, the expansion of operations in the LPG, electric power and other energies business and an increase in the number of consolidated companies. Consolidated ordinary profits increased by 6.0% to ¥103,308 million compared to the preceding financial year primarily as a result of the Group's efforts to improve overall management efficiency. Consolidated net income increased by 59.2% to ¥80,710 million compared to the preceding financial year primarily owing to an increase in the net income of the Company on an unconsolidated basis.

<Please see chart>[Consolidated Revenues / Consolidated Ordinary Profits / Consolidated Net Income of the Group]

Sections (a) ~ (e) below provide a summary of segment results of the Company and the Group in the financial year ended 31 March 2006.

a) Gas

The number of customers (number of meters installed) of the Company increased by 61 thousand to 6.758 million as of the end of this term.

Total sales of gas for residential purposes increased by 4.0% to 2,329 million cubic metres compared to the preceding financial year primarily due to the generally lower temperature during the winter months compared to the last year.

Regarding gas for non-residential use, sales of gas for industrial use, commercial use and public services/medical use increased by 4.8%, 3.0% and 6.0%, respectively, primarily due to the Company's efforts to develop untapped demand. Total sales of gas for non-residential use increased by 4.6% compared to the preceding financial year to a total of 5,761 million cubic metres.

Sales of gas for wholesale increased by 17.5% to 359 million cubic metres compared to the preceding financial year.

As a result, total sales of gas of the Company increased by 4.9% to 8,448 million cubic metres compared to the preceding financial year.

<Please see chart>[Sales of gas by segment and the number of customers of the Company]

In addition, total sales of gas of the Group increased by 4.9% to 8,469 million cubic metres compared to the preceding financial year.

Revenues from gas sales increased by 8.2% to ¥619,756 million compared to the preceding financial year primarily due to an increase in the sales of gas and the upward adjustment of the unit prices of gas under the sliding rate adjustment system.

b) LPG, Electric Power and Other Energies

Primarily as a result of increased revenues from sales of LPG and an expansion of operations which include "power source cogeneration system," revenues increased by 19.7% to ¥189,003 million compared to the preceding financial year.

Regarding the LPG business, the Company sought to strengthen its competitiveness through various initiatives, including a possible business alliance with Itochu Corporation currently being reviewed.

LPG tanker train cars

Regarding the electric power business, the nation's largest "power source cogeneration system" (system designed for generating required electric power and heat using a highly efficient cogeneration system while selling any excess electric power) with a generating capacity of 62,000kW in Uji, Kyoto prefecture, which commenced operations in October 2004, operated for the full year and the revenues of this business increased.

In July 2005, the Company acquired an equity interest in Idemitsu Snorre Oil Development Co., Ltd. ("Idemitsu Snorre"). Idemitsu Snorre is a company that explores, develops, produces and sells, through a subsidiary, oil and natural gas in the Norwegian North Sea oil fields. Regarding the overseas wholesale power generation business (wholesale power supply), Gas and Power Investment Co., Ltd. ("GPI") acquired in December 2005 all equity interests in Fort Point Power LLC, which held equity interests in nine wholesale power generation companies, following its previous acquisitions of the Tenaska Gateway Generating Station in Texas, U.S.A. and the Amorebieta power plant in Spain.

marine drilling platform in the North Sea oil field (photo by Idemitsu Snorre Oil Development Co., Ltd.)

Amorebieta power plant

Cottage Grove power plant, in which Osaka Gas Power America LLC (formerly Fort Point Power LLC) holds an equity interest

c) Gas Appliances and Housepipe Installations

Revenues increased by 3.7% to ¥155,960 million compared to the preceding financial year primarily due to the Company's efforts to expand sales of gas appliances for residential and non-residential use. Revenues from sales of gas appliances of the Company increased by 7.2% to ¥98,669 million compared to the preceding financial year and revenues from housepipe installations of the Company decreased by 2.0% to ¥31,211 million compared to the preceding financial year.

Regarding gas appliances for residential use, sales of the residential gas cogeneration system, "ECOWILL," were favorable and the Company released a new model with improved economic efficiency. Also, sales increased for products such as the “ECO-JOZU” hot water heater with further improved heat, economic and environmental efficiency, the “MIST KAWAK” bathroom heater/dryer equipped with a mist sauna functionality and the glass-topped kitchen stove. The Company released a new model “MIST KAWAK” that is equipped with a mist generator in the wall-installed bathroom heater/dryer main unit and a new model that is equipped with a fine-grained micro mist sauna functionality which helps prevent the formation of moisture. For the glass-topped kitchen stove product category, the Company expanded its offering of products equipped with an over-heating prevention device on all burners for improved safety during deep-frying.

The "ECOWILL" residential gas cogeneration system


The "MIST KAWAK" bathroom heater/dryer equipped with a micro mist sauna functionality


The "CLASS S" glass-topped kitchen stove

Regarding gas appliances for non-residential use, sales increased for gas cogeneration systems and gas heat pump-type air conditioning, “GAS HEAT PUMP AIR-CONDITIONERS,” which uses gas for both cooling and heating. As to gas cogeneration systems, the Company released a 380 kW gas cogeneration system with a generating efficiency of 41.5%, which is the highest level of generating efficiency in the world for systems at the 300 kW class, and a 25kW gas micro-cogeneration system from which heat emitted is used for cooling. In addition, the Company was engaged in efforts to enhance the product lineup and expand sales of its “SUZUCHU” kitchen instruments for non-residential use, which reduce heat build-up in kitchens by efficient emission and heat insulation.

gas cogeneration system for non-residential use

gas micro-cogeneration system

The "GAS HEAT PUMP AIR-CONDITIONERS" gas heat pump-type air conditioning


The "SUZUCHU" kitchen instrument for non-residential use

d) Real Estate

Revenues increased by 1.8% to ¥25,727 million compared to the preceding financial year primarily owing to an increase in the number of new properties.

Urbanex Co., Ltd. made efforts to expand its business, including the construction and leasing of an urban training and accommodation facility in Kita-ku, Osaka-shi.

e) Other Businesses

Revenues increased by 9.8% to ¥145,352 million compared to the preceding financial year despite a decrease resulting from the exclusion of Kinrei Corporation from the scope of consolidation. This increase in revenues was primarily due to an increase in the number of consolidated companies including Japan EnviroChemicals, Ltd., an increase in sales by Osaka Gas Chemicals Co., Ltd. and an increase in sales by OG Sports Co., Ltd. resulting from an increase in the number of its fitness centers.

In April 2005, Osaka Gas Chemicals Co., Ltd. and the Company acquired all shares of Japan EnviroChemicals, Ltd., which was engaged in the production and sale of activated carbon and preservatives.

OG Sports Co., Ltd. newly opened six fitness centers under the “COSPA” name during this financial year (at Nagaokakyo, Mikage, Kongo, Tsurumiryokuchi, Tondabayashi and Seishinchuo) and currently operates 23 fitness centers in total.

Note: The percentage changes from last year are comparisons with restated figures for the preceding financial year, which reflect the reclassification of companies in each segment in July 2005.

The "KYUJO SHIRASAGI" activated carbon (left) and the "Xyladecor" lineup of protective and coloring coatings for wood (right) of Japan EnviroChemicals, Ltd.

The "COSPA" fitness center

[Revenues for each Segment]

(Amount: Yen in millions, Ratio: %)

Segment	Revenues	Percentage Change from Last Year	Percentage
Gas	619,756	8.2	54.6
LPG, Electric Power and Other Energies	189,003	19.7	16.6
Gas Appliances and Housepipe Installations	155,960	3.7	13.7
Real Estate	25,727	1.8	2.3
Other Businesses	145,352	9.8	12.8
On a Consolidated Basis	1,065,961	9.3	---

Notes:

1) Intersegment revenues are included in revenues for each segment but are eliminated from consolidated revenues.
2) The percentage changes from last year are comparisons with restated figures for the preceding financial year, which reflect the reclassification of companies in each segment in July 2005.

(2) Capital Investment Activities of the Company and the Group

The Company's capital investments amounted to ¥75,441 million. The main project during this financial year was the work on the Kinki Trunkline-Shiga Line which is still ongoing. The Company lengthened its trunk and branch lines by 574 kilometres, bringing the total length to 46,292 kilometres as of the end of the financial year ended 31 March 2006. In addition, the Group expects to commence construction of the Senboku Natural Gas Power Plant this year. The amount of capital investment made by the Group as a whole amounted to ¥117,455 million, in part reflecting the construction of carrier vessels for LNG and acquisition of assets for the leasing business by subsidiaries of the Company.

(3) Financing Activities of the Company and the Group

The Company has obtained additional long-term loans in the total amount of ¥20,000 million during this financial year. The Group as a whole has obtained additional long-term loans in the total amount of ¥54,224 million during this financial year. The Company issued straight corporate bonds (excluding short-term bonds, hereinafter the same) totaling ¥20,000 million in August 2005.

The Company repaid ¥6,557 million of long-term loans and the Group as a whole repaid ¥21,989 million. The Company redeemed ¥35,000 million of its corporate bonds.

(4) Outstanding Issues for the Group

The Japanese economy in this financial year experienced moderate improvements as indicated by strong activities mainly in the area of production and capital investment in the corporate sector and improved prospects for growth in employment and consumer spending. However, as there are concerns that the high prices of crude oil may continue and the foreign economy may slow down, it is too early to take an optimistic view of the future economy. In addition, as regulatory reform in the energy market further develops, intensive competitions in the market are expected to continue.

In such a business environment, it is of primary importance that the Group continues to be "the preferred choice" selected by customers and by local communities. In October 2005, the Company adopted its medium-term business plan, “Design 2008,” for the three years ending 31 March 2009 in accordance with the management principle for the Group, “Value Creation Management,” under which the Group will seek to maximize customer value as its first priority in addition to increasing the value of all stakeholders including its shareholders, the community and its employees through fair and transparent business activities. Having celebrated its 100th anniversary, the Group intends to develop its business in accordance with the business plan and aims to establish its operating base for achieving sustainable growth.

In terms of the energy businesses, the Group will seek to further develop a diversified energy business in which the Group integrally provides energies required by customers such as natural gas, electric power and LPG by capitalizing on new business opportunities arising from regulatory reforms in addition to maintaining and developing the existing city gas business.

With regard to the city gas business, the Company plans to conduct its business always from the viewpoint of customers and strengthen its price competitiveness by further promoting management efficiency. The Company will also seek to promote the widespread use of natural gas, which contributes to the enhancement of the customers’ quality of living and expansion of businesses as well as environmental protection, by not only providing customer-friendly rate plans but also actively making comprehensive proposals including those concerning services and engineering, based on a premise of stable energy supply and assurance of safety.

In terms of the household market, the Company has been proposing ways to use energies from a consumer-oriented perspective, including through its “MY HOME GENERATION” utilizing “ECOWILL,” “MY HOME BEAUTY TREATMENT” using a mist sauna functionality and “MY HOME COOKING” for using gas when cooking any kind of food. Also, the Company has been seeking to further popularize and promote the use of its products that contribute to environmentally friendly, economic, comfortable, convenient and safe lifestyle with gas, as embodied in the slogan “WITH GAS LIFE.” The Company will seek to comprehensively meet customers’ needs by providing not only energies but also various services, including a security service utilizing the Internet, called “AIRUSU,” provided in conjunction with one of the Company’s subsidiaries.

In terms of the market for non-residential use, the Company plans to promote a highly efficient and high-performance gas cogeneration system, the “HIGH POWER EXCEL” gas heat pump-type air conditioning system which generates electricity while air conditioning, the “SUZUCHU” gas kitchen instruments for non-residential use which reduce heat build-up in kitchens and natural gas powered automobiles. In addition, the Company intends to propose energy systems best suited for each customer by utilizing natural gas technology such as combustion and air conditioning and maintenance technology, which the Company has cultivated for many years.

With regard to the improvement of services, the Company expects to continue its efforts to make good use of customer comments for the improvement of operations, and take more speedy and appropriate measures to respond to customers' needs.

With regard to the assurance of safety, while providing sufficient preventive maintenance of gas production and supply facilities, the Company plans to continue its education and training programs for employee and workers. As to the safety of facilities at customer sites, the Company plans to continue its efforts to provide information from time to time on the need of improvement so as to ensure that regular inspections are conducted and appropriate repairs are performed. In addition, the Company intends to enhance safety, including the installation of fire prevention devices during deep-frying on all the burners of the Company's gas stoves.

With regard to the stability of supply, the Company intends to further diversify its sources of natural gas and strengthen its manufacturing and distribution capabilities, including initiatives such as the construction of Shiga Line which is expected to be completed in this financial year.

With regard to the electric power business, the Group aims to nurture it into a second core business next only to the city gas business. The Company intends to expand its current independent power producer (IPP) business, and also steadily proceed with the project plan for the Senboku Natural Gas Power Plant, whose construction is scheduled to be commenced this year, and promote a one-stop service model for both electricity and city gas by taking full advantage of the Company's business base.

With regard to the LPG business, the Group plans to focus on increasing sales as well as the number of customers by, among other things, leveraging the appliance and equipment products and its strengths in the marketing of energy systems that it has developed in the city gas business.

In terms of the non-energy businesses, the Group plans to pursue opportunities to expand profits on a consolidated basis by providing improved products and services in line with customers' needs and focusing its business on contributing to customers' quality of living and business prosperity. To further advance its business, the Group intends to be more proactive in making choices, staying focused and further developing growth businesses, thereby increasing its corporate value.

With regard to environmental issues, the Group intends to reduce the burden caused by its business activities on the environment through promoting energy conservation and the use of renewable resources. In addition, the Company hopes to reduce the burden on the environment through its products and services, such as by promoting the widespread use of natural gas as an environmentally friendly source of energy in line with the government's energy policy. The Company also plans to be actively involved in environmental protection activities in local communities, as well as both inside and outside Japan.

With regard to technological development, the Company intends to focus its efforts primarily on the development of fuel-cells for residential purposes and a more efficient and high-performance gas cogeneration system for non-residential use, which are expected to contribute to environmental and energy conservation as well as enhancing convenience for customers. In addition, the Company is dedicated to supporting the efficient operation of customer facilities through remote control systems and other information technologies.

The Group ensures its strict compliance practices and intends to implement the above measures in an appropriate manner and fulfill its core objective of "Value Creation Management." Also, the Group is devoted to complying with the "Osaka Gas Group CSR Charter" which codifies the Group's basic views on its corporate social responsibilities and making every effort to ensure its place as an ever-improving company.

The Company and the Group look forward to the continued support and encouragement from all shareholders.

2. Operating Results and Financial Position of the Company and the Group

(1) Operating Results and Financial Position of the Company on an unconsolidated basis

(Yen in millions)

Division	Year ended March 2002 (184th term)	Year ended March 2003 (185th term)	Year ended March 2004 (186th term)	Year ended March 2005 (187th term)	Year ended March 2006 (188th term)
Revenues	751,042	722,240	729,923	722,755	786,350
Ordinary Profits	70,327	54,177	64,379	75,159	82,040
Net Income	37,693	25,453	39,475	41,280	70,632
Net Income Per Share (yen)	15.62	10.77	17.24	18.48	31.67
Total Assets	1,004,378	972,954	977,805	981,501	1,078,437
Net Assets	405,922	391,983	417,741	442,805	518,171

(2) Operating Results and Financial Position of the Group on a consolidated basis

(Yen in millions)

Division	Year ended March 2002 (184th term)	Year ended March 2003 (185th term)	Year ended March 2004 (186th term)	Year ended March 2005 (187th term)	Year ended March 2006 (188th term)
Revenues	973,565	947,977	951,324	975,340	1,065,961
Ordinary Profits	75,983	65,079	81,446	97,480	103,308
Net Income	39,418	29,685	47,065	50,683	80,710
Net Income Per Share (yen)	16.33	12.56	20.56	22.69	36.18
Total Assets	1,243,520	1,209,627	1,199,228	1,217,463	1,398,692
Net Assets	468,706	453,284	495,635	530,862	628,510

Year ended March 2002 (184th term)

Although total sales of gas of the Company decreased by 1.3% compared to the preceding financial year, revenues from gas sales increased by 2.2% due to the upward adjustment of the unit prices of gas under the sliding rate adjustment system. Decreased raw materials costs caused by the decline in sales of gas and the Company's efforts to improve overall management efficiency resulted in a 30.4% increase in ordinary profits on an unconsolidated basis. Consolidated ordinary profits of the Group increased by 19.0%.

Year ended March 2003 (185th term)

Despite a 2.8% increase in total sales of gas of the Company compared to the preceding financial year, revenues from gas sales decreased by 4.2% primarily due to a reduction in gas prices and other causes. Although the Company has made efforts to improve overall management efficiency, ordinary profits decreased by 23.0% on an unconsolidated basis. Consolidated ordinary profits of the Group decreased by 14.4%.

Year ended March 2004 (186th term)

Total sales of gas of the Company increased by 1.0% compared to the preceding financial year primarily due to Company sales efforts and an increase in the number of customers. Despite an increase in depreciation costs resulting from the completion of major facilities, ordinary profits increased by 18.8% on an unconsolidated basis as a result of the Company’s efforts to improve overall management efficiency. Consolidated ordinary profits of the Group increased by 25.1%.

Year ended March 2005 (187th term)

Despite a 3.7% increase in total sales of gas of the Company compared to the preceding financial year, revenues from gas sales decreased by 0.2% primarily due to the downward adjustment of the unit prices of gas under the sliding rate adjustment system. Despite a substantial increase in raw materials costs under the impact of a significant rise in crude oil prices, ordinary profits increased by 16.7% on an unconsolidated basis as a result of the Company’s efforts to improve overall management efficiency. Consolidated ordinary profits of the Group increased by 19.7%.

Year ended March 2006 (188th term)

Please refer to "1. Business Operations and Results of the Company and the Group" above.

II. Outline of the Company (as of 31 March 2006)

1. Principal Activities of the Group

(1) Production, distribution and sales of gas
(2) Distribution and sales of LPG
(3) Generation, distribution and sales of electric power
(4) Sales of gas appliances
(5) Housepipe installations

2. Shares and Shareholders

(1) Number of Shares Issued and Number of Shareholders

Items	Contents
Number of Authorized Shares	3,707,506,909 shares
Number of Shares Issued and Outstanding	2,235,669,539 shares
Number of Shareholders (as of financial year end)	191,365

Note: As a result of cancellation of treasury shares (share retirement procedure), the number of authorized shares and the number of shares issued and outstanding each decreased by 133,342,000 shares.

(2) Principal Shareholders

Shareholders	The Shareholder's Holding in the Company		The Company’s Holding in the Shareholder	
	No. (1,000s)	Holding (%)	No. (1,000s)	Holding (%)
Nippon Life Insurance Company	120,103	5.37	---	---
Japan Trustee Services Bank, Ltd. (trust account)	77,458	3.46	---	---

The Bank of Tokyo-Mitsubishi UFJ, Ltd.	69,929	3.13	0	0
The Master Trust Bank of Japan, Ltd. (trust account)	67,540	3.02	---	---
State Street Bank and Trust Company 505103	58,796	2.63	---	---
Resona Bank, Limited	52,777	2.36	0	0
Meiji Yasuda Life Insurance Company	36,289	1.62	---	---
Nissay Dowa General Insurance	30,961	1.38	1,477	0.37
Kochi Shinkin Bank	27,922	1.25	---	---
Toyu-kai（Employees' Stockholding）	27,014	1.21	---	---

3. Repurchase, Reselling, Cancellation, etc. and Holding of Treasury Shares

(1) Repurchased Shares

Common shares:	1,605,143 shares	Total acquisition cost:	¥600,127,903

(2) Resold Shares

Common shares:	398,884 shares	Total proceeds:	¥144,667,039

(3) Retired Shares

Common shares:	133,342,000 shares

(4) Share holding as of financial year end

Common shares:	8,148,986 shares

4. Subsidiaries and Affiliates

Outline of Principal Subsidiaries

Company	Capital (Yen in millions)	Holding (%) (including in-direct holding)	Main Activities

Liquid Gas Co., Ltd.	1,030	100	Production, sales and delivery of LNG and other types of high pressure gases; sales of cold energy of LNG and sales of LPG
Nissho Petroleum Gas Corporation	1,726	52.5	Import and sales of LPG
Urbanex Co., Ltd.	1,570	100	Management, operation and lease of real estate; survey and research of urban development
Osaka Gas Information System Research Institute Co., Ltd.	400	100	Information processing services via computers; production, sales and lease of related equipment and software
Osaka Gas Chemicals Co., Ltd.	2,500	100	Manufacture and sales of chemical products, carbon products, etc.

(1) Developments relating to Subsidiaries and Affiliates

(i) Reorganization of the Group and Change in Principal Subsidiaries in connection therewith

For the purpose of maximizing the Group's overall capabilities, the Company implemented reforms in the Group management structure on 1 July 2005.

The Company classified its core companies into two categories: "core business related companies" (Liquid Gas Co., Ltd., Nissho Petroleum Gas Corporation, Urbanex Co., Ltd.), which will pursue growth by seeking maximum synergies with the energy businesses, and "strategic business companies" (Kinrei Corporation, Osaka Gas Information System Research Institute Co., Ltd., Osaka Gas Chemicals Co., Ltd.), which will seek to contribute to consolidated profits by independently generating revenues from outside the Group mainly in the non-energy businesses. Under this classification, each of these companies will aim to achieve growth in accordance with its role and position within its assigned category.

OG Capital Co., Ltd., which had been one of the core companies until the preceding financial year, ceased to be a core company of the Group in connection with the reforms mentioned above.

Note: The core companies are the key companies in each business area. The Company considers such core companies as its principal subsidiaries.

(ii) Transfer of Shares of Kinrei Corporation

All shares of Kinrei Corporation held by the Company and OG Capital Co., Ltd. were transferred to CAS Capital Holdings One Co., Ltd. on 28 October 2005 and Kinrei Corporation ceased to be a subsidiary of the Company.

(iii) Increase in Capital of Osaka Gas Chemicals Co., Ltd. (“Osaka Gas Chemicals”)

The Company subscribed for all of new shares which Osaka Gas Chemicals issued on 20 April 2005. As a result, the capital of Osaka Gas Chemicals increased by ¥2,020 million.

(2) Result of Company Affiliation

There are 140 consolidated companies (136 consolidated subsidiaries and 4 equity method affiliates), including the 5 principal subsidiaries mentioned above. Consolidated revenues for the financial year ended 31 March 2006 increased by 9.3% to ¥1,065,961 million, with a consolidated net income increase of 59.2% to ¥80,710 million compared to the preceding financial year.

5. Major Lenders

Lenders	Loans Outstanding on 31 March 2006 (Yen in millions)	Lenders' Holding in the Company	
		No. (1,000s)	Holding (%)
Nippon Life Insurance Company	31,300	120,103	5.37
Meiji Yasuda Life Insurance Company	18,800	36,289	1.62
Development Bank of Japan	18,054	0	0
Sumitomo Life Insurance Company	13,000	12,237	0.55
Daido Life Insurance Company	11,000	2,046	0.09

6. Major Plants and Offices of the Group

The Company	Head Office	Head Office (Osaka Prefecture)
	Residential Energy Business Unit	Osaka Residential Sales Dept. (Osaka Prefecture) Nanbu Residential Sales Dept. (Osaka Prefecture) Hokutobu Residential Sales Dept. (Osaka Prefecture) Hyogo Residential Sales Dept. (Hyogo Prefecture) Keiji Residential Sales Dept. (Kyoto Prefecture) Shiga-Higashi Office (Shiga Prefecture)
	Commercial & Industrial Energy Business Unit	Osaka Commercial & Industrial Energy Sales Dept. (Osaka Prefecture) Nanbu Commercial & Industrial Energy Sales Dept. (Osaka Prefecture) Hokutobu Commercial & Industrial Energy Sales Dept. (Osaka Prefecture) Hyogo Commercial & Industrial Energy Sales Dept. (Hyogo Prefecture) Keiji Commercial & Industrial Energy Sales Dept. (Kyoto Prefecture)
	Pipeline Business Unit	Osaka Pipeline Dept. (Osaka Prefecture) Nanbu Pipeline Dept. (Osaka Prefecture) Hokutobu Pipeline Dept. (Osaka Prefecture) Hyogo Pipeline Dept. (Hyogo Prefecture) Keiji Pipeline Dept. (Kyoto Prefecture)
	LNG Terminal & Power Generation Business Unit (Terminals)	Senboku LNG Terminals (Osaka Prefecture) Himeji LNG Terminal (Hyogo Prefecture)
	Technology Division (Laboratories)	Energy Technology Laboratories (Osaka Prefecture)
Subsidiaries (Principal Subsidiaries)		Liquid Gas Co., Ltd. (Osaka Prefecture) Nissho Petroleum Gas Corporation (Tokyo) Urbanex Co., Ltd. (Osaka Prefecture)

	Osaka Gas Information System Research Institute Co., Ltd. (Osaka Prefecture) Osaka Gas Chemicals Co., Ltd. (Osaka Prefecture)

7. Employees of the Company and the Group

(1) Employees of the Company

Number of Employees	Average Age (years)	Average Length of Service (years)
5,481	41.7	20.3

(2) Employees of the Group

Number of Employees
16,077

Note: The above number of employees of the Company and the Group includes employees on fixed term contracts but excludes employees seconded to other organizations.

8. Directors and Corporate Auditors

Name

Akio Nomura	Chairman	
Hirofumi Shibano	President	
Hidetoshi Nakatani	Executive Vice-President	Head of Safety
Seishiro Yoshioka	Executive Vice-President	Head of Business Innovation by Utilizing IT; President of Strategy & Finance Division; Head, Energy Resources Business Unit
Yukihiro Endo	Senior Managing Director	Head of Customer Services, Head, Residential Energy Business Unit
Zenzo Ideta	Senior Managing Director	President of Communication & HR Division
Hiroshi Yokokawa	Senior Managing Director	President of Tokyo Division
Takashi Nabari	Managing Director	Head, Commercial & Industrial Energy Business Unit
Hideaki Nagata	Managing Director	Head of Technology; President of Technology Division
Katsumi Makino	Managing Director	President of Administration & General Affairs Division
Yoichi Higuchi	Managing Director	Head, Pipeline Business Unit
Hiroshi Ozaki	Managing Director	Head, LNG Terminal & Power Generation Business Unit
Hiroshi Nishiura	Director	Senior Liaison Officer-Hyogo/Himeji; Senior Regional Liaison Officer-Hyogo
Tsuneo Mitsuda	Director	General Manager, Pipeline &

		Facilities Engineering Dept., Pipeline Business Unit
Masashi Kuroda	Director	Senior Liaison Officer-Kyoto/Shiga; Senior Regional Liaison Officer-Kyoto
Yuichi Funahashi	Director	General Manager, Hyogo Residential Sales Dept., Residential Energy Business Unit
Akira Narumiya	Director	General Manager, Commercial & Industrial Market Development Dept., Commercial & Industrial Energy Business Unit, General Manager, Large Customer Sales Dept., Commercial & Industrial Energy Business Unit
Akio Ukai	Director	General Manager, Residential Market Development Dept., Residential Energy Business Unit
Shigeki Hirano	Director	Head of Energy Technology Laboratories
Takashi Sakai	Director	General Manager, Corporate Communication Dept.
Tamotsu Okajima	Corporate Auditor (full-time)	
Akio Wada	Corporate Auditor (full-time)	
Reisuke Shimada	Corporate Auditor	Professor of Kansai University School of Law
Michitoshi Inoue	Corporate Auditor	Emeritus President of National Hospital Organization Osaka National Hospital

Notes:

1) The Chairman, President, Vice-Presidents and Senior Managing Directors are each a Representative Director.

2) The following persons were newly elected Directors and Corporate Auditor pursuant to the resolution adopted at the Annual Meeting of Shareholders held on 29 June 2005:

Akio Ukai	Director
Shigeki Hirano	Director
Takashi Sakai	Director
Michitoshi Inoue	Corporate Auditor

3) The following persons were transferred to new positions pursuant to the resolution adopted at the Meeting of the Board of Directors held on 29 June 2005 (previous positions in brackets):

Hiroshi Yokokawa	Senior Managing Director	(Managing Director)
Yoichi Higuchi	Managing Director	(Director)
Hiroshi Ozaki	Managing Director	(Director)

4) Corporate Auditors, Reisuke Shimada and Michitoshi Inoue, are both external auditors specified in Article 18, paragraph 1 of the Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha.

5) The following Directors and Corporate Auditor retired due to expiration of term of office at the end of the Annual Meeting of Shareholders held on 29 June 2005:

Yuji Matsumura	Executive Vice-President
Chiaki Gomi	Managing Director
Masateru Sato	Director
Masao Nishino	Director
Junjiro Kanamori	Corporate Auditor

6) Michitoshi Inoue resigned from his office as Corporate Auditor as of 31 March 2006.

9. Fees and Other Charges Paid to Independent Outside Auditors

(Yen in millions)

1	Total amount of fees and other charges paid to independent outside auditors by the Company and its subsidiaries	145
2	Of the total amount specified in 1 above, total amount of fees and other charges paid in consideration for audit attest services	129
3	Of the total amount specified in 2 above, total amount of fees and other charges paid to independent outside auditors by the Company	53

Note: As the audit fees payable under the Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha and those payable under the Securities and Exchange Law are not separated for the purpose of the audit contract executed between the Company and the independent outside auditors and are impractical to separate, the amount specified in 3 above is indicated as the total amount of audit fees payable under both Laws.

Balance Sheets

(As of 31 March 2006)

(Yen in millions)

Assets		Liabilities	
Non-current Assets	**873,529**	**Non-current Liabilities**	**316,585**
Property, Plant and Equipment	**578,402**	Corporate bonds maturing after one year	174,700
Production facilities	103,187	Long-term borrowings due after one year	118,681
		Deferred tax liabilities	8,147
Distribution facilities	342,198	Reserve for retirement allowance	3,345
Service and maintenance facilities	64,946	Reserve for repairs of gas holders	1,690
Incidental business facilities	5,714	Other non-current liabilities	10,020
Idle facilities	1,532	**Current Liabilities**	**243,679**
Construction in progress	60,822	Long-term debt due within one year	56,174
Intangible Fixed Assets	**4,766**	Trade accounts payable	15,983
Patents	4	Other payables	20,836
Leaseholds	3,084	Accrued expenses	48,364
Other	1,677	Accrued income and enterprise taxes	33,143
Investments and Other Assets	**290,360**	Advance received	7,140
Investments securities	93,600	Deposits received	1,226
Investment in associated companies	102,582	Short-term borrowings from associated companies	25,467
Long-term loans to associated companies	62,027	Short-term credits from associated companies	14,332
Financing receivables	10	Deferred income from hedge transactions	20,526
Long-term prepaid expenses	6,558	Other current liabilities	481
Prepaid pension expenses	15,489	**Total Liabilities**	**560,265**
Other investments and other assets	11,066	**Shareholders' Equity**	
Allowance for doubtful receivables	(-975)	**Common Stock**	**132,166**
Current Assets	**204,847**	**Capital Surplus**	**19,521**
Cash & time deposits	32,250	Capital reserve	19,482
Notes and bills receivable	912	Other capital surplus	38
Trade accounts receivable	69,422	Gain on sale of treasury shares	38
Trade accounts receivable from associated companies	5,559	**Retained Earnings**	**326,216**
Other receivables	14,293	Retained earnings reserve	33,041
Finished products	106	Reserve for deferred gain from replacement of designated properties, etc.	216
Raw materials	17,084	Reserve for depreciation of designated gas pipeline construction	1,306
Supplies	7,430	Reserve against losses on overseas investments, etc.	6,203
Short-term loans to associated companies	14,432	Raw material cost fluctuation adjustment reserve	89,000
Short-term credits against associated companies	3,807	Special reserves	62,000
Deferred tax assets	9,765	Unappropriated earnings	134,448
Derivatives	20,526	**Net Unrealized Holding Gains on Securities, etc.**	**42,823**
Other current assets	9,816	Net unrealized holding gains on other securities	42,823

Allowance for doubtful receivables	(-560)	**Treasury Stock**	**(-2,556)**
Deferred Assets	**60**	Treasury stock	(-2,556)
Discount on issued bonds	60	**Total Shareholders' Equity**	**518,171**
Total Assets	**1,078,437**	**Total Liabilities & Shareholders' Equity**	**1,078,437**

(Notes)

1. Significant accounting policies:
   (1) Property, plant and equipment is depreciated using the declining-balance method. However, the straight-line method has been used for buildings (excluding structures attached to buildings) acquired after 1 April 1998.

   (2) Valuation of marketable securities:

Shares of subsidiaries and associated companies:	stated at cost based on the moving-average method
Other marketable securities:	
Securities practicable to determine fair value:	stated at fair value (Unrealized holding gains and losses are accounted for as a component of shareholders' equity; cost of sales is determined using the moving-average method.)
Securities not practicable to determine fair value:	stated at cost based on the moving-average method

   (3) Finished products are stated at cost based on the weighted-average method and both raw materials and supplies are stated at cost based on the moving-average method.

   (4) Derivatives are stated at fair value.

   (5) Significant reserves:
   Reserve for retirement allowance:
   For the purposes of employee retirement allowance, an amount is provided based on the estimate of the retirement allowance obligation and pension assets at the end of the financial year.

   Reserve for repairs of gas holders:
   To provide for the necessary expenditure for periodical repairs of spherical gas holders, the amount for the next scheduled repair is provided based on the actual expenditure for the previous period, which is proportionally allotted for the period up to such next scheduled repair.

   (6) Consumption taxes etc. are computed using the net-of-tax method.

2. Accumulated depreciation of property, plant and equipment: ¥1,634,246 million

3. Shares held in subsidiaries that are included under investment in associated companies: ¥73,560 million

4. Of the credits against and credits from associated companies, the following are in relation to subsidiaries:
   Long-term credit against subsidiaries: ¥83,038 million
   Short-term credit against subsidiaries: ¥22,007 million
   Short-term credit from subsidiaries: ¥39,597 million

5. Reserve for repairs of gas holders is a reserve provided in accordance with Article 43 of the Commercial Code Enforcement Regulations.

6. Contingent liabilities:
   Guarantee liabilities: ¥31,358 million
   Debt assumption agreements with respect to bonds and loans: ¥21,412 million

7. Net assets as defined under Article 124, item 3 of the Commercial Code Enforcement Regulations: ¥42,823 million

<u>Income Statements</u>
<u>(1 April 2005 through 31 March 2006)</u>

(Yen in millions)

Costs and Expenses		Operating Revenues	
Ordinary Profit and Loss			
Operating Income and Expenses			
Cost of products sold	**284,604**	**Sales of products manufactured**	**613,825**
Inventory at the beginning of the period	90	Sales of gases	613,825
Cost of products manufactured	288,202		
Amount of products purchased	0		
Own use of products manufactured	3,582		
Inventory at the end of the period	106		
(Gross profit)	**(329,220)**		
Expenses for distribution and sales	**212,382**		
General administrative expenses	**58,679**		
(Income from operation)	**(58,158)**		
Miscellaneous operating expenses	**126,274**	**Miscellaneous operating revenues**	**132,997**
Installation expenses	30,608	Revenues from housepipe installations	31,211
Appliance sales expenses	95,666	Appliances sales revenues	98,669
		Other miscellaneous operating revenues	3,116
Expenses from incidental businesses	**27,789**	**Revenues from incidental businesses**	**39,526**
Expenses from the automatic alert service business	4,399	Revenues from the automatic alert service business	5,383
Expenses from the electric power supply business	7,446	Revenues from the electric power supply business	7,524
Expenses from the LNG sales business	5,389	Revenues from the LNG sales business	4,965
Expenses from other incidental businesses	10,554	Revenues from other incidental businesses	21,653
(Operating income)	**(76,619)**		
Non-Operating Income and Expenses			
Non-operating expenses	**6,856**	**Non-operating income**	**12,277**
Interest payments	1,414	Interest income	767
Interest payments on corporate bonds	3,232	Dividends income	1,867
Amortization of discount on issued bonds	4	Lease income	1,422
Amortization of bond-issue expenses	91	Gain on sale of investment securities	4,896
Derivative expenses	937	Other income	3,324
Other miscellaneous expenses	1,176		
(Ordinary profit)	**(82,040)**		
Extraordinary Profit and Losses			
		Extraordinary profit	**28,648**
		Gain on sale of fixed assets	132

		Gain on sale of investment securities in associated companies	5,491
		Refund resulting from amendment of an LNG processing service agreement	23,024
(Income before income taxes)	**(110,689)**		
Income taxes - current	**31,800**		
Income taxes – deferred	**8,256**		
Net income	**70,632**		
Total	**827,277**	**Total**	**827,277**
Net income			**70,632**
Retained earnings brought forward from previous financial year			**111,592**
Retirement of treasury shares			**39,978**
Interim dividends			**7,798**
Unappropriated earnings			**134,448**

Notes: 1. Transactions with subsidiaries

Sales	¥25,468 million
Purchases	¥81,107 million
Non-operating transactions	¥44,702 million

2. Net income per share ¥31.67

Proposed Appropriation of Earnings

	Yen
Unappropriated earnings	134,448,328,366
Reversal of reserve for depreciation of designated gas pipeline construction	370,875,076
Reversal of reserve against losses on overseas investments, etc.	1,020,800
Total	**134,820,224,242**
To be appropriated as follows:	
Cash dividends (¥3.50 per share) ordinary dividends: ¥3.00 commemorative dividends for the Company’s 100th anniversary: ¥0.50	7,796,321,936
Directors’ bonuses	60,000,000
Reserve against losses on overseas investments, etc.	33,816,418
Earnings to be carried forward	126,930,085,888

Notes:

1. An interim dividend amounting to the total of ¥7,798,388,759 (¥3.50 per share, including a commemorative dividend of ¥0.50 for the Company’s 100th anniversary) was paid on 30 November 2005.
2. The reversal amounts for the reserve for depreciation of designated gas pipeline construction and the reversal amounts and the provided amounts for the reserve against losses on overseas investments, etc. are made in accordance with the provisions specified in the Special Taxation Measures Law, and the figures take into account adjustments for tax effect.
3. Other capital surplus will be carried forward in full to the next financial year.

Certified Copy of Auditors' Report Prepared by Independent Outside Auditors

Report of Independent Certified Public Accountants

27 April 2006

To: The Board of Directors of Osaka Gas Co., Ltd.

AZSA & Co.

Designated Partner Engagement Partner	Certified Public Accountant	Hiroshi Sonoki	[seal]
Designated Partner Engagement Partner	Certified Public Accountant	Hiromi Ohashi	[seal]
Designated Partner Engagement Partner	Certified Public Accountant	Satoshi Kitamoto	[seal]

We have examined the financial statements, i.e., balance sheets, income statements, operating report (only in respect of the section concerning the accounts), the proposed appropriation of earnings, and the supporting schedules (only in respect of the section concerning the accounts) of Osaka Gas Co., Ltd. for the 188th business year which was from 1 April 2005 through 31 March 2006, in accordance with Article 2, paragraph 1 of "the Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha." The sections concerning the accounts in the operating report and the supporting schedules which were subject to our audit are those sections in the operating report and the supporting schedules that are based on the Company's accounting records. The management is responsible for the preparation of these financial statements and the supporting schedules, and it is our responsibility to form an independent opinion on such financial statements and supporting schedules.

We have carried out this audit in accordance with generally accepted auditing standards in Japan. These auditing standards require that we perform the audit to obtain reasonable assurance about whether the financial statements and the supporting schedules are free of material misstatement. The audit includes an overall examination, on a test basis, of the information in the financial statements and the supporting schedules including an assessment of the accounting policies adopted by the management and the method of application thereof, as well as of the estimates made by the management. We believe that our audit provides a reasonable basis for the expression of our opinion. In addition, this audit includes the examination of the Company's subsidiaries which we deemed necessary.

As a result of this audit, we have formed our opinions as follows:

1. The balance sheets and income statements give a true and proper account of the Company's assets and earnings in accordance with applicable laws and the Articles of Incorporation.
2. The operating report (only in respect of the section concerning the accounts) gives a true and proper account of the Company's operations in accordance with applicable laws and the Articles of Incorporation.
3. The proposed appropriation of earnings is appropriate in accordance with applicable laws and the Articles of Incorporation.
4. The supporting schedules (only in respect of the section concerning the accounts) do not include any items which were necessary to be pointed out in accordance with the Commercial Code.

Neither AZSA & Co. nor any of its engagement partners have any conflict of interests with Osaka Gas Co., Ltd., which is required to be described under the Certified Public Accountant Law.

AZSA & Co.

Certified Copy of Auditors' Report Prepared by the Board of Corporate Auditors

Corporate Auditors' Report

The current audit covers the 188th term which was from 1 April 2005 through 31 March 2006. The Board of Corporate Auditors received a report from each Corporate Auditor on the method and the results of the audit in respect of performances of Directors' duties and prepared this Corporate Auditors' Report based on the results of its deliberations. We report as follows:

1. Outline of the method of audit by the Corporate Auditors:
Each Corporate Auditor has conducted the audit in accordance with the policy and plan defined by the Board of Corporate Auditors.

(1) We have attended meetings of the Board of Directors and other important meetings and have been informed by the Directors and others in respect of the status of performance of their duties. Furthermore, we have examined important documents in respect of the authorization of corporate actions, etc., and inspected the operations and the assets of the Company at its principal business offices. We have also required subsidiaries to report on their activities, and visited them as necessary in order to inspect their operations and assets.
(2) We have received reports and explanations from the Independent Outside Auditors, and examined the financial statements and the supporting schedules.
(3) In addition to the above auditing procedures, each Corporate Auditor, when necessary, requested reports from Directors and others to examine in detail transactions of the following categories; transactions by Directors in competition with the Company, transactions involving conflict of interests between Directors and the Company, dealings in which the Company provided benefits without compensation, unusual dealings between the Company and subsidiaries or shareholders, and acquisition or disposal of the Company's own shares.

2. The results of the audit:

(1) Methods used by AZSA & Co. as the Independent Outside Auditors for this audit, and the results thereof, are fair and proper.
(2) The operating report gives a fair and proper account of its business in accordance with applicable laws and the Articles of Incorporation.
(3) The proposals for appropriation of earnings contain no matters which need to be pointed out in the light of the Company's assets or any other considerations.
(4) The supporting schedules give an accurate statement of the information required to be presented, and do not include any items which need to be pointed out.
(5) No misconduct or facts that are materially in breach of applicable laws or the Articles of Incorporation have been detected in respect of the performance by the Directors of their duties, including their duties relating to subsidiaries.
Additionally, we have found no breach of the duties of Directors regarding; transactions by Directors in competition with the Company, transactions involving conflict of interests between Directors and the Company, dealings in which the Company provided benefits without compensation, unusual dealings between the Company and subsidiaries or shareholders, or acquisition or disposal of the Company's own shares.

28 April 2006

Osaka Gas Co., Ltd. the Board of Corporate Auditors

Tamotsu Okajima	Corporate Auditor (Full-time)	[seal]
Akio Wada	Corporate Auditor (Full-time)	[seal]
Reisuke Shimada	Corporate Auditor	[seal]

Note: Corporate Auditor, Reisuke Shimada is an external auditor specified in Article 18, paragraph 1 of the Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha.

Consolidated Balance Sheets

(As of 31 March 2006)

(Yen in millions)

Assets		Liabilities	
Non-current Assets	**1,113,438**	**Non-current Liabilities**	**442,782**
Property, Plant and Equipment	**785,045**	Corporate bonds	188,694
Production facilities	104,801	Long-term borrowings due after one year	199,359
		Deferred tax liabilities	23,266
Distribution facilities	343,110	Deferred tax liabilities resulting from revaluation of assets	42
Service and maintenance facilities	65,699		
Other facilities	205,699	Reserve for retirement allowance	8,731
Idle facilities	1,532	Reserve for repairs of gas holders	1,729
Construction in progress	64,202	Other	20,957
Intangible fixed assets	**29,178**	**Current Liabilities**	**308,724**
Consolidation adjustment account	8,112	Long-term debt due within one year	71,091
Other	21,066	Notes, bills and trade accounts payable	45,802
Investments and other assets	**299,213**	Short-term borrowings	31,943
Investments securities	189,200	Accrued income and enterprise taxes	39,771
Other	111,678	Other	120,114
Allowance for doubtful receivables	(-1,664)	**Total Liabilities**	**751,506**
		Minority Interests	
Current Assets	**285,194**	**Minority Interests**	**18,675**
Cash & time deposits	49,495	**Shareholders' Equity**	
Notes, bills and trade accounts receivable	126,800	**Common Stock**	**132,166**
Inventories	44,868	**Capital Surplus**	**19,521**
Deferred tax assets	13,139	**Retained Earnings**	**410,682**
		Net Unrealized Holding Gains on Land	**62**
Other	51,741	**Net Unrealized Holding Gains on Securities**	**63,648**
Allowance for doubtful receivables	(-851)	**Foreign Currency Translation Adjustments**	**4,986**
Deferred Assets	**60**	**Treasury Stock**	**(-2,556)**
Discount on issued bonds	60	**Total Shareholders' Equity**	**628,510**
Total Assets	**1,398,692**	**Total Liabilities, Minority Interests & Shareholders' Equity**	**1,398,692**

Consolidated Income Statements
(1 April 2005 through 31 March 2006)

(Yen in millions)

Items	
(**Ordinary Profit and Loss**) (Operating Income and Expenses)	
Operating revenues	**1,065,961**
Cost of products sold	**636,478**
(Gross profit)	**(429,482)**
Expenses for distribution and sales and general administrative expenses	**328,825**
(Operating income)	**(100,657)**
(Non-Operating Income and Expenses)	
Non-operating income	**13,938**
Interest income	758
Dividends income	1,353
Gain on sale of investment securities	5,088
Equity in gains of associated companies	2,435
Other non-operating income	4,303
Non-operating expenses	**11,287**
Interest payments	6,474
Other non-operating expenses	4,813
(Ordinary profit)	**(103,308)**
(Extraordinary Profit and Losses)	
Extraordinary profit	**29,085**
Gain on sale of fixed assets	661
Gain on sale of shares of subsidiaries	5,400
Refund resulting from amendment of an LNG processing service agreement	23,024
(Income before income taxes)	**(132,393)**
Income taxes - current	**41,803**
Income taxes - deferred	**9,134**
Minority interests	**744**
Net income	**80,710**

(Notes)

1. Significant matters forming the basis of preparation for these consolidated financial statements:

(1) Scope of consolidation

Number of consolidated subsidiaries: 136

(Name of principal consolidated subsidiaries)

Osaka Gas Chemicals Co., Ltd., Urbanex Co., Ltd., Osaka Gas Information System Research Institute Co., Ltd., Liquid Gas Co., Ltd., Nissho Petroleum Gas Corporation

(Changes in consolidated subsidiaries)

Japan EnviroChemicals, Ltd., Osaka Gas Power America, LLC and 21 other companies became subsidiaries of the Group due to acquisition of shares or other reasons, and have been included as consolidated subsidiaries from the financial year ended 31 March 2006. Kinrei Corporation and four other companies ceased to be consolidated subsidiaries due to sales of shares or other reasons.

(2) Application of the equity method

Number of equity method affiliates: 4

(Name of principal equity method affiliates)

Idemitsu Snorre Oil Development Co., Ltd., Osaka Rinkai Energy Service Corporation

(Changes in equity method affiliates)

As Idemitsu Snorre Oil Development Co., Ltd. and Bizkaia Energia, S.L. became affiliates of the Group due to acquisition of shares, such companies have been included as equity method affiliates from the financial year ended 31 March 2006.

Affiliates not subject to the equity method includes primarily ENNET Corporation.

The equity method is not applied to these affiliates because they do not have a material impact on consolidated net income or losses or consolidated capital surplus, etc. and are not material as a whole.

(3) Significant accounting policies:

(i) The basis and methodology for the valuation of significant assets are as follows:

a) Inventories:	primarily stated at cost based on the moving-average method

b) Marketable securities:

Other marketable securities:

Securities practicable to determine fair value:	stated at fair value based on market prices as of the end of the financial year (Unrealized holding gains and losses are accounted for as a component of shareholders' equity; cost of sales is determined primarily using the moving-average method.)
Securities not practicable to determine fair value:	primarily stated at cost using the moving-average method

c) Derivatives: stated at fair value

(ii) Property, plant and equipment is depreciated primarily using the declining-balance method. However, the straight-line method has been used for buildings (excluding structures attached to buildings) acquired after 1 April 1998.

(iii) The basis for recording significant reserves are as follows:

Reserve for retirement allowance:

For the purposes of employee retirement allowance, an amount is provided based on the estimate of the retirement allowance obligation and pension assets at the end of the consolidated financial year.

Reserve for repairs of gas holders:

To provide for the necessary expenditure for periodical repairs of spherical gas holders, the estimated amount for the next scheduled repair is provided based on the actual expenditure for the previous repair, which is proportionally allotted for the period up to such next scheduled repair.

(iv) Valuation of assets and liabilities of consolidated subsidiaries:

Assets and liabilities of consolidated subsidiaries are valued using the full fair value method.

(v) Method and period of amortization of consolidation adjustment account:

Consolidation adjustment account is amortized on a straight line basis over a period of 20 years after the date of recognition. If the amount is immaterial, however, it is expensed as incurred.

(vi) Other significant matters for the preparation of these consolidated financial statements:

Consumption taxes are computed using the net-of-tax method.

2. Notes relating to the consolidated balance sheets

(1) Accumulated depreciation of property, plant and equipment: ¥1,805,978 million

(2) Assets pledged as collateral: ¥88,447 million

(3) Contingent liabilities
Guarantee liabilities: ¥2,864 million
Debt assumption agreements with respect to bonds and loans: ¥21,412 million

(4) Net unrealized holding gains on land
Commercial land of certain consolidated subsidiaries have been revalued in accordance with the Law Concerning Revaluation of Land (Law No. 34 of 31 March 1998) and the Law Related to Partial Revision to the Law Concerning Revaluation of Land (Law No. 19 of 31 March 2001). Any difference resulting from the revaluation (net of the related tax) is included in Shareholders' Equity as net unrealized holding gains on land.
(i) Revaluation method
The value of land is determined based on road rating adjusted reasonably as stipulated in Article 2, Item 4 of the Ordinance Implementing the Law Concerning Revaluation of Land (Government Ordinance No. 119 proclaimed on 31 March 1998).
(ii) Date of land revaluation
31 March 2002
(iii) Difference between the fair value of the land as of the end of this financial year and the carrying value of the land after revaluation
A decrease of ¥1,550 million

3. Notes relating to the consolidated income statements
Net income per share: ¥36.18

Certified Copy of Auditors' Report Prepared by Independent Outside Auditors on Consolidated Financial Statements

Report of Independent Certified Public Accountants

27 April 2006

To: The Board of Directors of Osaka Gas Co., Ltd.

AZSA & Co.

Designated Partner Engagement Partner	Certified Public Accountant	Hiroshi Sonoki	[seal]
Designated Partner Engagement Partner	Certified Public Accountant	Hiromi Ohashi	[seal]
Designated Partner Engagement Partner	Certified Public Accountant	Satoshi Kitamoto	[seal]

We have examined the consolidated financial statements, i.e., consolidated balance sheets and consolidated income statements of Osaka Gas Co., Ltd. for the 188th business year which was from 1 April 2005 through 31 March 2006, in accordance with Article 19-2, paragraph 3 of "the Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha." The management is responsible for the preparation of these consolidated financial statements, and it is our responsibility to form an independent opinion on such consolidated financial statements.
We have carried out this audit in accordance with generally accepted auditing standards in Japan. These auditing standards require that we perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The audit includes an overall examination, on a test basis, of the information in the consolidated financial statements including an assessment of the accounting policies adopted by the management and the method of application thereof, as well as of the estimates made by the management. We believe that our audit provides a reasonable basis for the expression of our opinion. In addition, this audit includes the examination of the Company's subsidiaries or consolidated subsidiaries which we deemed necessary.

As a result of this audit, we have concluded that the consolidated financial statements give a true and proper account of assets and earnings of the Osaka Gas Group consisting of the Company and its consolidated subsidiaries and other entities in accordance with applicable laws and the Articles of Incorporation.

Neither AZSA & Co. nor any of its engagement partners have any conflict of interests with Osaka Gas Co., Ltd., which is required to be described under the Certified Public Accountant Law.

AZSA & Co.

Certified Copy of Auditors' Report Prepared by the Board of Corporate Auditors on Consolidated Financial Statements

Corporate Auditors' Report on Consolidated Financial Statements

The current audit covers the 188th term which was from 1 April 2005 through 31 March 2006. The Board of Corporate Auditors received a report from each Corporate Auditor on the method and the results of the audit in respect of the consolidated financial statements (consolidated balance sheets and consolidated income statements) for the said term and prepared this Corporate Auditors' Report based on the results of it deliberations. We report as follows:

1. Outline of the method of audit:
Each Corporate Auditor has received reports and explanations from the Directors and others, and the Independent Outside Auditors in respect of the consolidated financial statements and has conducted the audit in accordance with the policy and plan defined by the Board of Corporate Auditors. We have also required subsidiaries and consolidated subsidiaries to report on their accounting, and inspected their operations and assets as necessary.

2. The results of the audit:

(1) Methods used by AZSA & Co. as the Independent Outside Auditors for this audit, and the results thereof, are fair and proper.
(2) The consolidated financial statements contain no matters which need to be pointed out as a result of inspection of subsidiaries and consolidated subsidiaries.

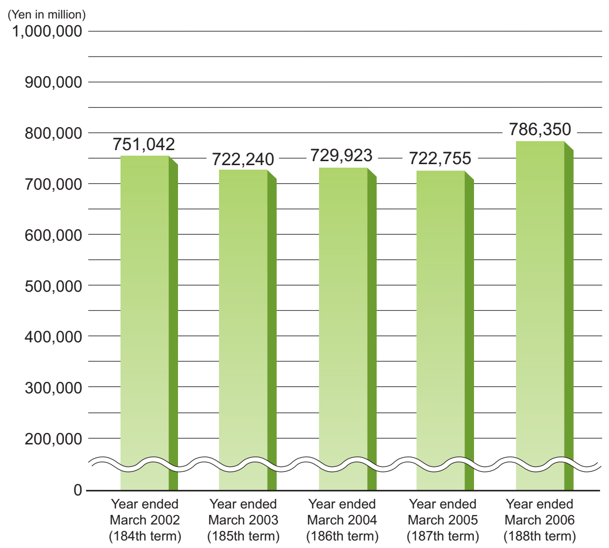
28 April 2006

Osaka Gas Co., Ltd. the Board of Corporate Auditors

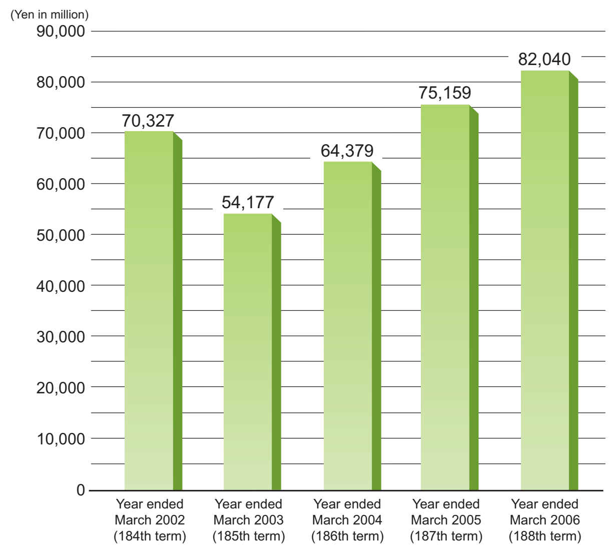
Tamotsu Okajima	Corporate Auditor (Full-time)	[seal]
Akio Wada	Corporate Auditor (Full-time)	[seal]
Reisuke Shimada	Corporate Auditor	[seal]

Note: Corporate Auditor, Reisuke Shimada is an external auditor specified in Article 18, paragraph 1 of the Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha.

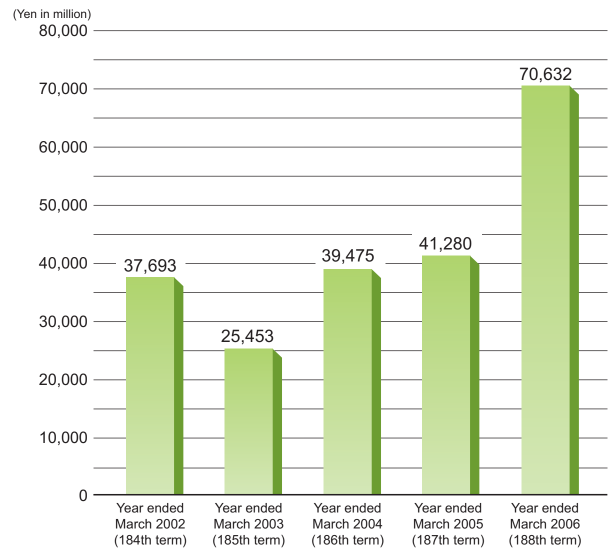
Revenues of the Company



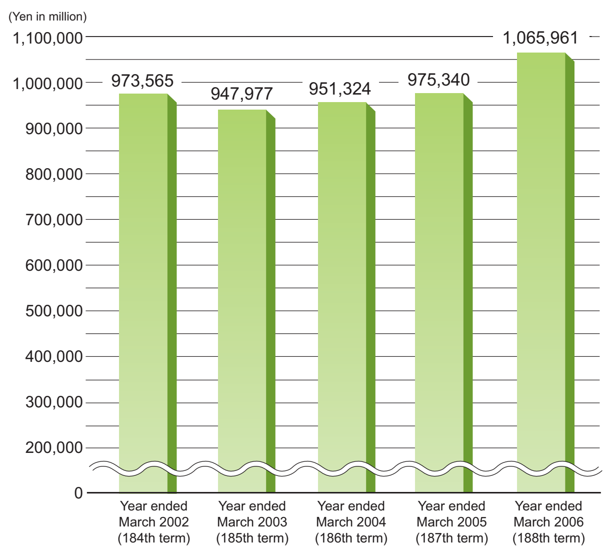
Ordinary Profits of the Company



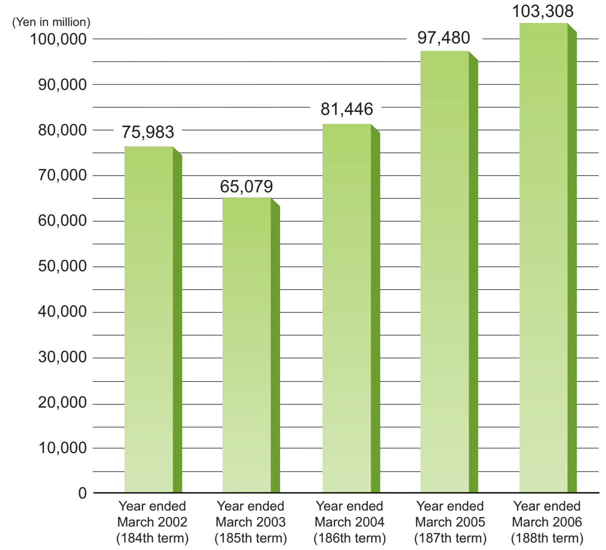
Net Income of the Company



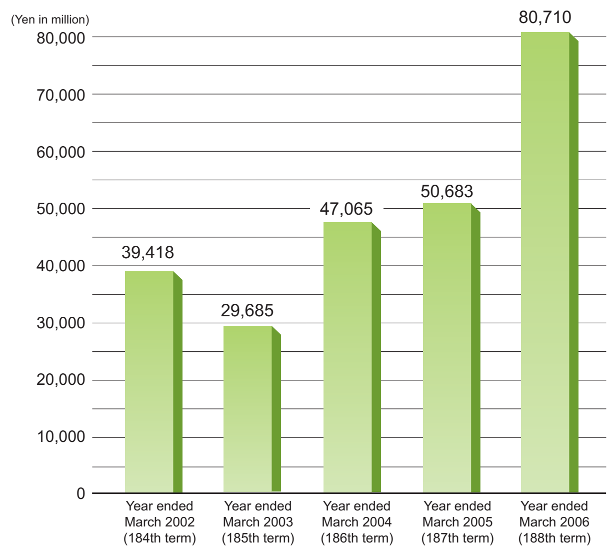
Consolidated Revenues of the Group



Consolidated Ordinary Profits of the Group



Consolidated Net Income of the Group



Sales of gas by segment and the number of customers of the Company