

Business Report for the 189th Financial Year
(Year from 1 April 2006 through 31 March 2007)

Osaka Gas Co., Ltd.

Operating Report for the Year ended 31 March 2007

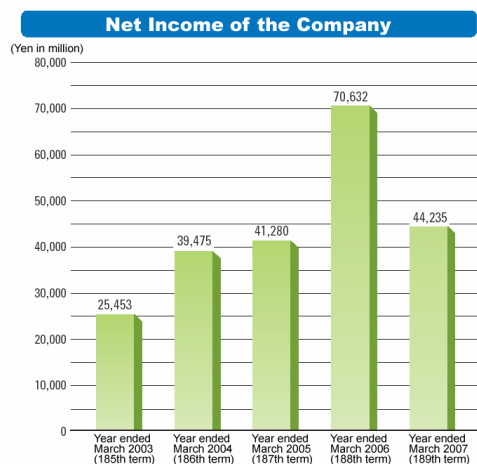
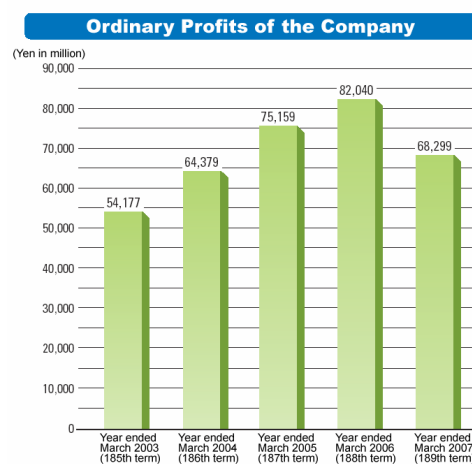
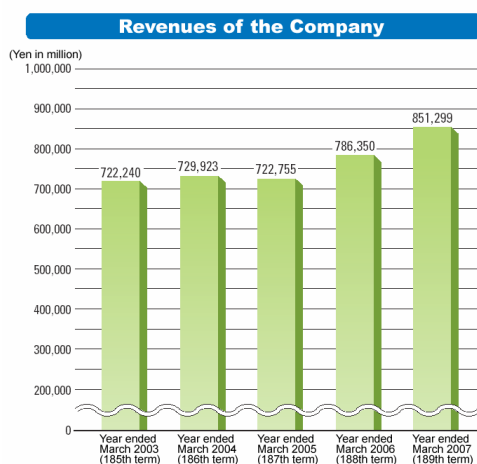
I. Current Situation of Business of the Group

1. Business Operations and Results

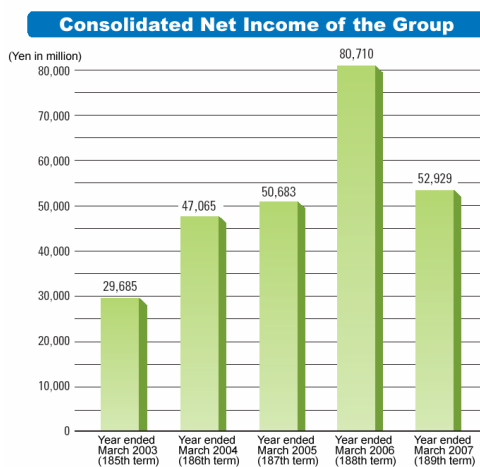
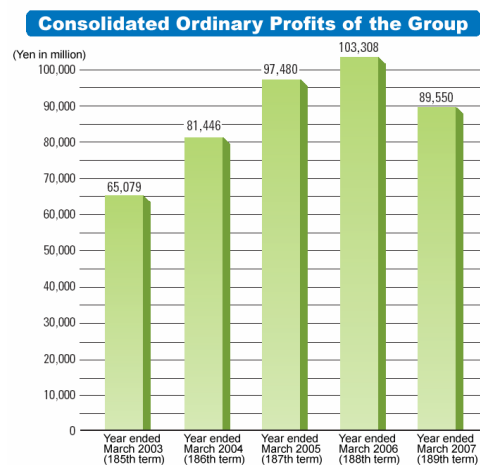
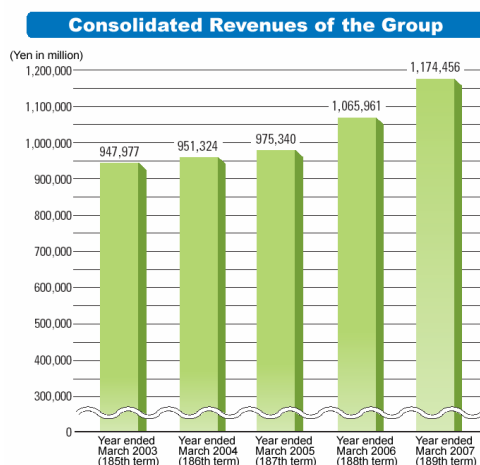
The Japanese economy in this financial year has seen moderate and steady growth supported by strong export, expansion of production and capital investment by companies and improvement of consumer spending.

With 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 2007 increased by 8.3% to ¥851,299 million compared to the preceding financial year due to an increase in the sales of gas primarily resulting from steady development of demands. Meanwhile, due to a substantial increase in raw materials costs resulting from a significant rise in crude oil prices, ordinary profits decreased by 16.7% to ¥68,299 million compared to the preceding financial year. Net income decreased by 37.4% to ¥44,235 million compared to the preceding financial year.



Consolidated revenues of the Group in the financial year ended 31 March 2007 increased by 10.2% to ¥1,174,456 million compared to the preceding financial year primarily owing to the increase in revenues of the Company and the expansion of businesses of consolidated subsidiaries. Consolidated ordinary profits decreased by 13.3% to ¥89,550 million compared to the preceding financial year. Consolidated net income decreased by 34.4% to ¥52,929 million compared to the preceding financial year.



Sections (1) ~ (5) below provide a summary of segment results of the Company and the Group in the financial year ended 31 March 2007.

(1) Gas

The number of customers (number of meters installed) of the Company increased by 62 thousand to 6.82 million as of the end of this financial year.

Total sales of gas for residential purposes decreased by 1.1% to 2,303 million cubic metres compared to the preceding financial year primarily due to the generally higher temperature during the winter months compared to the last year.

Regarding gas for non-residential use, sales of gas for industrial use increased by 7.5% compared to the preceding financial year primarily due to increased operation of gas facilities of existing customers in addition to steady development of demands. However, sales of gas for commercial use and public services/medical use decreased by 3.2% and 2.1%, respectively, compared to the preceding financial year primarily due to decreased demands for hot water and heating during the warmer winter. Total sales of gas for non-residential use increased by 4.5% compared to the preceding financial year to a total of 6,018 million cubic metres.

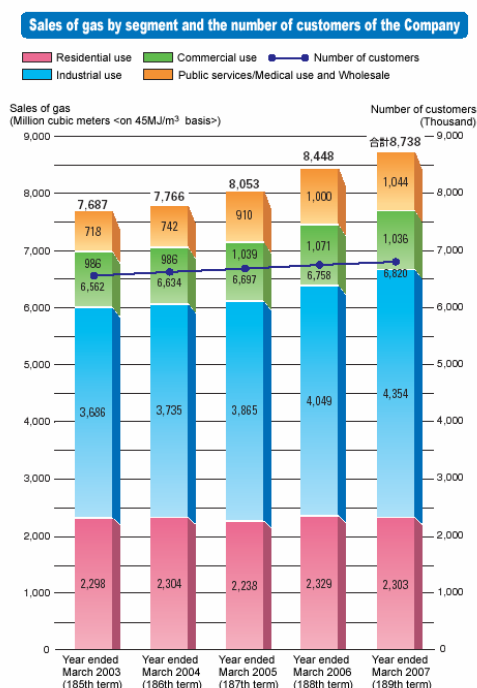
Sales of gas for wholesale increased by 16.1% to 416 million cubic metres compared to the preceding financial year.

As a result, total sales of gas of the Company increased by 3.4% to 8,738 million cubic metres compared to the preceding financial year.

In addition, total sales of gas of the Group increased by 3.5% to 8,764 million cubic metres compared to the preceding financial year.

Revenues from gas sales of the Group increased by 10.8% to ¥686,672 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.

In November 2006, the Company implemented the reduction of gas rates for small supplies and revised the discount scheme for options in selective contracts for residential use under the “Gas-Toku Plan” so that the use of gas would be facilitated.



(2) LPG, Electric Power and Other Energies

Primarily as a result of increased revenues from sales of LPG and an expansion of operations, revenues increased by 24.4% to ¥235,081 million compared to the preceding financial year.

Regarding the electric power business, the Group continues to strengthen its business base including the commencement of construction of the Senboku Natural Gas Power Plant and the Hirokawa Myojinyama Wind Power Plant during this financial year.



Completion image of The Senboku Natural Gas Power Plant

(3) Gas Appliances and Housepipe Installations

Revenues increased by 3.2% to ¥160,963 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 3.7% to ¥102,328 million compared to the preceding financial year and revenues from housepipe installations of the Company decreased by 1.9% to ¥30,629 million compared to the preceding financial year primarily due to a decrease in the number of new installations.

Regarding gas appliances for residential use, sales of the residential gas engine cogeneration system, "ECOWILL," were favorable and the Company released a new model with higher generating efficiency as well as improved economic and environmental efficiency. Also, the Company released a new gas hot water mist unit, "MIST PLUS," which enables users to enjoy a mist sauna by attaching it to an existing bathroom heater/dryer. For the glass-topped kitchen stove product category, the Company further expanded its offering of products equipped with an over-heating prevention device on all burners for improved safety during deep-frying in addition to other safety devices.

Regarding bathroom heaters/dryers (types 161-5501, 5510 and 5511) which have caused considerable inconvenience to some customers, various measures including replacement of components have been nearly completed during this financial year.

Regarding gas appliances for non-residential use, sales steadily increased for gas cogeneration systems including the “HIGH POWER EXCEL” gas heat pump-type air conditioning system with functions for electric generation and air conditioning, the “GAS HEAT PUMP AIR-CONDITIONERS,” which use gas for both cooling and heating and the “GENE-LIGHT” gas engine which enables use of exhaust heat 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.



The residential gas engine cogeneration system “ECOWILL”



The glass-topped kitchen stove “class S”



The “HIGH POWER EXCEL” gas heat pump-type air conditioning system with functions for electric generation and air conditioning



The “GENE-LIGHT” gas engine which enables use of exhaust heat for cooling

(4) Real Estate

Revenues increased by 0.8% to ¥25,942 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 acquisition of the “Genius Muromachi,” an apartment for lease in Shimogyo-ku, Kyoto-shi.



The “Genius Muromachi” an apartment for lease

(5) Other Businesses

Revenues decreased by 3.7% to ¥139,911 million compared to the preceding financial year primarily due to the sale of consolidated subsidiaries.

OG Sports Co., Ltd. opened three new fitness centers under the “COSPA” brand name during this financial year (at Nijo, Tsukamoto and Matsuiyamate) and currently operates 25 fitness centers in total.



The “COSPA” at Matsuiyamate

[Revenues for Each Segment]

(Amount: Yen in millions, Ratio: %)

Segment	Revenues	Percentage Change from Last Year	Percentage
Gas	686,672	10.8	55.0
LPG, Electric Power and Other Energies	235,081	24.4	18.8
Gas Appliances and Housepipe Installations	160,963	3.2	12.9
Real Estate	25,942	0.8	2.1
Other Businesses	139,911	-3.7	11.2
On a Consolidated Basis	1,174,456	10.2	---

(Note) Intersegment revenues are included in revenues for each segment but are eliminated from consolidated revenues.

2. Capital Investment Activities

The amount of capital investment made by the Group as a whole amounted to ¥95,267 million, including the Company's capital investment amounting to ¥61,601 million. The Company lengthened its gas trunk and branch lines by 618 kilometres during this financial year, bringing the total length to 46,910 kilometres as of the end of the financial year ended 31 March 2007. The main projects during this financial year were the work on the Kinki Trunkline-Shiga Line which was completed in October 2006 and the construction of the Senboku Natural Gas Power Plant which was commenced in October 2006. Subsidiaries of the Company constructed carrier vessels for LNG and acquired assets for the leasing business.

3. Financing Activities

The Company has obtained additional long-term loans in the total amount of ¥13,000 million during this financial year. The Group as a whole has obtained additional long-term loans in the total amount of ¥22,664 million during this financial year. The Company issued straight corporate bonds (excluding short-term bonds, hereinafter the same) in the aggregate principal amount of ¥10,000 million in June 2006 and in the aggregate principal amount of ¥20,000 million in December 2006.

The Company repaid ¥3,704 million of long-term loans and the Group as a whole repaid ¥18,254 million. The Company decreased its corporate bonds by ¥77,960 million primarily due to redemption and debt assumption agreements during this financial year.

4. Outstanding Issues

The Japanese economy experienced steady improvements as indicated by strong activities mainly in the area of production and capital investment in the corporate sector and improved prospects for consumer spending. However, as energy prices and material prices remain high and the outlook for the foreign economy remains unclear, it is too early to take an optimistic view of the future economy. In addition, as regulatory reform in the energy market further develops, competition in the market is expected to become more intensive.

In such a business environment, it is of primary importance that the Group provides products and services of improved quality and continues to be "the preferred choice" selected by customers and by local communities. The Group continues to carry out its medium-term business plan, "Design 2008," for the three years ending 31 March 2009 in accordance with the management principle of the Group, "Value Creation Management," under which the Group seeks 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. The year ending 31 March 2008 will be the second year in which the "Design 2008" will be carried out. The Group aims to obtain good business results in order to properly accomplish this three-year plan and establish its operating basis for 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 continues to aim to conduct its business always from the viewpoint of its customers and plans to make further efforts for the assurance of safety and stable energy supply to promote the safe use of city gas by customers. Also, in addition to promoting management efficiency and strengthening price competitiveness, the Company will seek to promote the widespread use of natural gas, which contributes to the enhancement of customers' quality of living and expansion of businesses as well as environmental protection, by actively making comprehensive proposals including those concerning services and engineering.

With regard to the assurance of safety, in addition to conducting regular inspections of customers' facilities, the Company intends to enhance its activities to provide information from time to time on the need of improvement so as to ensure that appropriate repairs are carried out and to publicize the safe method of use of gas facilities and appliances. Also, the Company intends to enhance safety through promoting the replacement of instantaneous gas hot water heaters without incomplete combustion prevention devices and gas stoves with metal mesh as well as promoting the use of kitchen stoves/built-in kitchen stoves with devices for fire prevention during deep-frying installed on all the burners. Moreover, while providing sufficient preventive maintenance of gas production and supply facilities such as taking appropriate measures on aged gas pipelines ahead of schedule, the Company plans to continue its education and training programs for employees and workers.

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.

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 the residential gas engine cogeneration system "ECOWILL," "MY HOME BEAUTY TREATMENT" using a mist sauna functionality and "MY HOME COOKING" using gas when cooking any kind of food. Based on the above, 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 also 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 the use of natural gas including 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 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 efficiently operate its current independent power producer (IPP) business, and also steadily proceed with the construction of the Senboku Natural Gas Power Plant, which was commenced in 2006, and promote a one-stop service model for both electricity and city gas by taking full advantage of the Group'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 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 Group 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 Group 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.

Although the Group has worked on compliance to fulfill the Group's corporate social responsibilities, in May 2007 a disposition was issued by the Japan Fair Trade Commission to a subsidiary of the Company for a violation of the Antimonopoly Act relating to a bid for construction work of Eco-Station. For the purpose of

recurrence prevention, the Group ensures the education of all of its employees and intends to enhance monitoring and further promote compliance practices.

The Group intends to respond to the above issues 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 to making every effort to ensure its place as an ever-improving group of companies.

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

5. Financial Position and Profits and Losses

(1) Financial Position and Profits and Losses of the Company on an Unconsolidated Basis

(Yen in millions)

Division	Year ended March 2003 (185th term)	Year ended March 2004 (186th term)	Year ended March 2005 (187th term)	Year ended March 2006 (188th term)	Year ended March 2007 (189th term)
Revenues	722,240	729,923	722,755	786,350	851,299
Ordinary Profits	54,177	64,379	75,159	82,040	68,299
Net Income	25,453	39,475	41,280	70,632	44,235
Net Income Per Share (yen)	10.77	17.24	18.48	31.67	19.87
Total Assets	972,954	977,805	981,501	1,078,437	1,076,946
Net Assets	391,983	417,741	442,805	518,171	548,721

(2) Financial Position and Profits and Losses of the Group on a Consolidated Basis

(Yen in millions)

Division	Year ended March 2003 (185th term)	Year ended March 2004 (186th term)	Year ended March 2005 (187th term)	Year ended March 2006 (188th term)	Year ended March 2007 (189th term)
Revenues	947,977	951,324	975,340	1,065,961	1,174,456
Ordinary Profits	65,079	81,446	97,480	103,308	89,550
Net Income	29,685	47,065	50,683	80,710	52,929
Net Income Per Share (yen)	12.56	20.56	22.69	36.18	23.77
Total Assets	1,209,627	1,199,228	1,217,463	1,398,692	1,405,682
Net Assets	453,284	495,635	530,862	628,510	686,664

(Note) The net assets of the Company and the Group were calculated by applying the “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Statement No. 5 of 9 December 2005) and the “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Guidance No. 8 of 9 December 2005).

6. Principal Activities of the Group (as of 31 March 2007)

- (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

7. Outline of Principal Subsidiaries (as of 31 March 2007)

Company	Capital (Yen in millions)	Holding (%) (including indirect 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.

(Note) Liquid Gas Co., Ltd. separated a part of its LPG division under a scheme of a corporate separation as of 1 April 2007, which, together with its nine LPG affiliates, was restructured and consolidated into three companies: Osaka Gas LPG Co., Ltd., Osaka Gas LPG Service Co., Ltd. and Liquid Gas Kyoto Co., Ltd.

8. Major Offices, Terminals and Employees (as of 31 March 2007)

(1) Major Offices and Terminals

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	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)	

(Note) The operations of Shiga-Higashi Office were transferred to Keiji Residential Sales Dept., Keiji Commercial & Industrial Energy Sales Dept. and Keiji Pipeline Dept. on 1 April 2007.

(2) Employees

(i) Employees of the Company

Number of Employees	Average Age (years)	Average Length of Service (years)
5,481	42.0	20.6

(ii) Employees of the Group

Number of Employees
16,435

(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.

9. Major Lenders (as of 31 March 2007)

Lenders	Loans Outstanding on 31 March 2007 (Yen in millions)
Nippon Life Insurance Company	40,761
Development Bank of Japan	28,286
Meiji Yasuda Life Insurance Company	25,169
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	22,260
The Dai-ichi Mutual Life Insurance Company	19,216

II. Directors and Corporate Auditors

1. Details of Directors and Corporate Auditors (as of 31 March 2007)

Position	Name	Business in Charge	Representation of Other Entities or Important Concurrent Post
Chairman	Akio Nomura		Chairman of the Osaka Chamber of Commerce and Industry* Chairman of the Japan Gas Association* Director of West Japan Railway Company Director of Urbanex Co., Ltd. Director of Osaka Gas Information System Research Institute Co., Ltd. Member of Osaka Prefectural Public Safety Commission
President	Hirofumi Shibano		Director of Liquid Gas Co., Ltd. Director of Osaka Gas Chemicals Co., Ltd.
Executive Vice-President	Hidetoshi Nakatani	Head of Safety Responsible for: Pipeline Business Unit, Residential Energy Business Unit, Commercial & Industrial Energy Business Unit, Liquid Gas Co., Ltd., Nissho Petroleum Gas Corporation, Osaka Gas Chemicals Co., Ltd., Technology Division	President of Osaka Rinkai Energy Service Corporation* Director of Liquid Gas Co., Ltd. Director of Nissho Petroleum Gas Corporation Director of Osaka Gas Chemicals Co., Ltd.
Executive Vice-President	Seishiro Yoshioka	Head of Business Innovation by Utilizing IT Head of Energy Resources Business Unit Responsible for: LNG Terminal & Power Generation Business Unit, Osaka Gas Information System Research Institute Co., Ltd., Corporate Planning & Finance Division, Head Office Resident Representative	Representative Director of Universe Gas and Oil Company Inc.* Director of Osaka Gas Information System Research Institute Co., Ltd.
Senior Managing Director	Zenzo Ideta	Responsible for: Urbanex Co., Ltd., Administration & General Affairs and	Director of Urbanex Co., Ltd. Member of the Osaka Prefecture Labor

		HR Division, Compliance Dept., Auditing Dept., Head Office Resident Representative	Relations Commission
Senior Managing Director	Hiroshi Yokokawa	President of Network Division	
Managing Director	Takashi Nabari	Head of Commercial & Industrial Energy Business Unit	
Managing Director	Hideaki Nagata	Head of Technology President of Technology Division	
Managing Director	Katsumi Makino	Head of CSR President of Administration & General Affairs and HR Division	
Managing Director	Yoichi Higuchi	Head of Customer Services Head of Residential Energy Business Unit	
Managing Director	Hiroshi Ozaki	Head of LNG Terminal & Power Generation Business Unit	
Managing Director	Masashi Kuroda	President of Corporate Planning & Finance Division	Representative Director of OG-Kanden Joint Planning Company*
Corporate Auditor (full-time)	Tamotsu Okajima		
Corporate Auditor (full-time)	Akio Wada		
Corporate Auditor	Reisuke Shimada		Professor of Kansai University School of Law, Lawyer
Corporate Auditor	Toshihiko Hayashi		Professor of the University of the Air

(Notes)

- 1) The Chairman, President, Executive Vice-Presidents and Senior Managing Directors are each a Representative Director.
- 2) The asterisk (*) in the “Representation of Other Entities or Important Concurrent Post” column indicates “a representative of other entities or other person similar thereto”.
- 3) “Responsible for” in the “Business in Charge” column means to take partial charge of any organization, core company, division or persons with certain duty positions who do not belong to any organization (including Head Office Resident Representative) as a representative director.
- 4) Corporate Auditors, Reisuke Shimada and Toshihiko Hayashi, are both external auditors specified in Article 2, item 16 of the Company Law.
- 5) The following person was transferred to a new position pursuant to the resolution adopted at the Meeting of the Board of Directors held on 29 June 2006 (previous position in bracket):

Masashi Kuroda (Director)

- 6) The responsibilities of the following persons were changed pursuant to the resolution adopted at the Meeting of the Board of Directors held on 29 June 2006 (previous responsibilities in brackets):

Hidetoshi Nakatani	(Head of Safety Responsible for: Pipeline Business Unit, Residential Energy Business Unit, Commercial & Industrial Energy Business Unit, Osaka Gas Chemicals Co., Ltd., Technology Division)
Seishiro Yoshioka	(Head of Business Innovation by Utilizing IT President of Strategy & Finance Division Head of Energy Resources Business Unit Responsible for: LNG Terminal & Power Generation Business Unit, Osaka Gas Information System Research Institute Co., Ltd.)
Zenzo Ideta	(President of Communication & HR Division Responsible for: Urbanex Co., Ltd., Administration & General Affairs Division)
Hiroshi Yokokawa	(President of Tokyo Division Responsible for: Senior Regional Liaison Officer)
Katsumi Makino	(President of Administration & General Affairs Division)
Yoichi Higuchi	(Head of Pipeline Business Unit)
Masashi Kuroda	(Senior Liaison Officer-Kyoto/Shiga Senior Regional Liaison Officer-Kyoto)

- 7) Corporate Auditor, Reisuke Shimada, retired as Professor of Kansai University School of Law as of 31 March 2007.

2. Remuneration paid to Directors and Corporate Auditors

12 Directors	¥587 million
4 Corporate Auditors	¥86 million (including ¥18 million for 2 external corporate auditors)

3. External Directors and External Corporate Auditors

Corporate Auditor, Reisuke Shimada

Principal Activities

- (1) Attendance and Comments at the Meetings of the Board of Directors
Reisuke Shimada attended 10 out of 11 meetings of the Board of Directors. No comments on the exercise of rights as a Corporate Auditor were made.
- (2) Attendance and Comments at the Meetings of the Board of Corporate Auditors
Reisuke Shimada attended all eight meetings of the Board of Corporate Auditors. Comments on the method and results of the audit and other matters concerning performances of duties of the Corporate Auditors were made.

Corporate Auditor, Toshihiko Hayashi

Principal Activities

(1) Attendance and Comments at the Meetings of the Board of Directors

Toshihiko Hayashi attended eight out of nine meetings of the Board of Directors. No comments on the exercise of rights as a Corporate Auditor were made.

(2) Attendance and Comments at the Meetings of the Board of Corporate Auditors

Toshihiko Hayashi attended five out of six meetings of the Board of Corporate Auditors. Comments on the method and results of the audit and other matters concerning performances of duties of the Corporate Auditors were made.

III. Shares and Shareholders (as of 31 March 2007)

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)	177,042

(Note) The “Number of Shares Issued and Outstanding” includes 10,581,106 own shares.

2. Principal Shareholders

Shareholders	Number of shares held (1,000s)	Shareholding ratio (%)
Nippon Life Insurance Company	120,103	5.40
Japan Trustee Services Bank, Ltd. (trust account)	71,019	3.20
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	69,929	3.14
The Master Trust Bank of Japan, Ltd. (trust account)	59,239	2.66
Resona Bank, Limited	52,777	2.37
State Street Bank and Trust Company 505103	41,964	1.89
Meiji Yasuda Life Insurance Company	36,289	1.63
State Street Bank and Trust Company	32,208	1.45
Nissay Dowa General Insurance	30,961	1.39
Toyu-kai (Employees' Stockholding)	26,271	1.18

(Note) The number of own shares is excluded from the “Number of Shares Issued and Outstanding” in calculating the shareholding ratios.

IV. Independent Outside Auditor

1. Name of Independent Outside Auditor

AZSA & Co.

2. Fees and Other Charges Paid to Independent Outside Auditor for the Year Ended 31 March 2007

(1) Amount of fees and other charges paid to the independent outside auditor by the Company for the year ended 31 March 2007

(i) Fees for audit services in Article 2, paragraph 1 of the Certified Public Accountants Law

¥53 million

(Note) As the audit fees under the Company Law and those under the Securities and Exchange Law are not separated for the purpose of the audit contract executed between the Company and the independent outside auditor and are impractical to separate, the amount specified above is indicated as the total amount of audit fees payable under both Laws.

(ii) Amount of fees and other charges for services other than audit services in Article 2, paragraph 1 of the Certified Public Accountants Law

¥18 million

(2) Total amount of cash and other financial benefits payable by the Company and its subsidiaries

¥145 million

3. Non-Audit Services

The Company delegates the provision of specialized advice on the assessment of internal control over financial reporting to the independent outside auditor and pays consideration therefor.

4. Policy on Decision of Dismissal or Non-Reappointment of Independent Outside Auditor

In addition to the dismissal by the Board of Corporate Auditors of the independent outside auditor under Article 340 of the Company Law, in the event that the proper performance by the independent outside auditor of its duties is found to be difficult, the Company may propose agendas concerning dismissal or non-reappointment of the independent outside auditor at shareholders' meetings with the consent of the Board of Corporate Auditors under Article 344, paragraphs 1 and 3 of the Company Law or by request from the Board of Corporate Auditors under Article 344, paragraphs 2 and 3 of the Company Law.

V. Systems to Ensure that the Directors Perform Their Duties in Compliance with Applicable Laws and Regulations and the Articles of Incorporation and Other Systems to Ensure the Propriety of Operations

The Company establishes systems to ensure that the directors of the Company perform their duties in compliance with applicable laws and regulations and the Articles of Incorporation and other systems necessary to ensure the propriety of the Group's operations at meetings of the Board of Directors. The outline of such systems is as follows.

1. Systems to ensure that the performance of duties complies with applicable laws and regulations and the Articles of Incorporation

(1) Executive directors establish the "Osaka Gas Group Code of Business Conduct" based on "Osaka Gas Group CSR Charter." By familiarizing directors and employees with the Code, executive directors ensure the performance of duties in compliance with applicable laws and regulations and the Articles of Incorporation within the Group and promote business activities in a fair and appropriate manner.

(2) Executive directors make efforts to understand the status concerning compliance within the Group and promote compliance practices by establishing a consulting and reporting system as an internal reporting system and a CSR committee.

(3) If any problems are discovered regarding compliance within the Group, directors and employees of the Group are required to consult with or report to an executive director or other superior, or report the matter via the consulting and reporting system depending on the level of seriousness or urgency. The executive director or the head of compliance or other superior investigates details of such matter and takes necessary remedial measures.

2. Systems for storage and management of information on directors' performance of their duties

(1) Executive directors and employees of the Group prepare minutes of meetings of the Board of Directors, approval documents or other similar documents specifying matters including matters affecting decisions and the process by which a decision was reached, in accordance with regulations on responsibilities and authorities.

(2) Executive directors and employees of the Group properly store and manage the minutes of meetings of the Board of Directors, approval documents or other information on performances of duties according to the nature thereof.

3. Regulations and other systems to manage the risk of losses

(1) Executive directors take all possible steps to ensure the safety and stability of gas supplies in gas businesses by establishing safety regulations on matters concerning the construction, maintenance and operation of production and supply facilities, and by promoting the improvement of the production and supply systems.

(2) Executive directors of the Group and organizational heads of the Company (managers of basic organizations of the Company) take measures to prevent the occurrence of risks and minimize losses in the case of occurrence, and manage the risk of losses for each category of risk (risks due to external factors, internal factors, transactions with outside parties or other factors).

(3) The risk of losses is managed at the level of each basic organization and each affiliated company.

4. Systems to ensure directors' efficient performance of their duties

(1) Executive directors of the Group and organizational heads of the Company determine matters concerning the division of duties and decision-making within the Company and the Group in accordance with regulations on responsibilities and authorities. They also provide regulations regarding details of organizations and general matters to be observed during the performance of duties. By familiarizing employees with such regulations, they ensure the smooth management of organizations and improvement of quality and efficiency of operations.

(2) With the aim of maximizing corporate value, executive directors of the Group and organizational heads of the Company establish medium-term business plans and annual plans for the Company and the Group, monitor attainment by means of performance indicators and focus on achieving these plans.

5. Systems to ensure the propriety of business operations of the Group

In addition to the above, executive directors take the following measures and make efforts to ensure proper operations based on a premise of the fulfillment of their duties of care.

(1) Companies to play a central role in each business area of the Group (core companies) or basic organizations to supervise affiliated companies (management support organizations) are designated to be responsible for day-to-day management of affiliated companies.

(2) Compliance with applicable laws and regulations and the Articles of Incorporation, the efficiency and other similar matters of the Group as a whole are audited internally by the head of the Auditing Department of the Company. If necessary in light of the results of such audit, remedial measures are taken promptly.

6. Matters concerning employees assisting corporate auditors in the performance of their duties in the case where the appointments of such employees are requested

(1) Executive directors, if requested by the corporate auditors, appoint employees to assist the corporate auditors in the performance of their duties and establish a corporate auditors' office staffed by these corporate auditors' assistants.

(2) Corporate auditors' assistants are engaged solely in assisting the corporate auditors in the performance of their duties.

7. Matters concerning independence of corporate auditors' assistants from directors

(1) Executive directors cannot direct or give orders to corporate auditors' assistants except where such directions or orders apply equally to all employees.

(2) The opinions of the corporate auditors are sought in advance regarding the evaluation, transfer, and disciplining of corporate auditors' assistants.

8. Systems for reporting to the corporate auditors by directors and employees and other matters concerning reporting to the corporate auditors

(1) Directors report immediately to the corporate auditors if a matter having a significant detriment on the Company is discovered.

(2) Directors and employees report without delay matters having a material impact on the business of the Group, the results of internal audits, the situation regarding the main reports under the consulting and reporting system and other material matters.

(3) Directors of the Group and employees of the Company report without delay when requested by the corporate auditors to report on matters concerning the performance of duties.

9. Other systems to ensure effective auditing by the corporate auditors

(1) The corporate auditors may exchange opinions periodically with the representative directors and the independent outside auditor.

(2) The corporate auditors may attend meetings of the Executive Board and all company committee meetings. They may investigate as appropriate material information concerning the performance of duties, such as approval documents.

Balance Sheets

(As of 31 March 2007)

(Yen in millions)

Assets		Liabilities	
Non-current Assets	874,122	Non-current Liabilities	298,079
Property, Plant and Equipment	579,039	Corporate bonds maturing after one year	175,620
Production facilities	101,959	Long-term borrowings due after one year	102,051
Distribution facilities	351,307	Deferred tax liabilities	7,115
Service and maintenance facilities	63,157	Reserve for retirement allowance	3,216
Incidental business facilities	5,142	Reserve for repairs of gas holders	1,662
Idle facilities	1,532	Reserve for safety measures	3,708
Construction in progress	55,939	Other non-current liabilities	4,705
		Current Liabilities	230,144
Intangible Fixed Assets	4,967	Long-term debt due within one year	33,226
Patents	3	Trade accounts payable	14,822
Leaseholds	2,950	Other payables	22,677
Other	2,012	Accrued expenses	47,030
		Accrued income and enterprise taxes	16,883
Investments and Other Assets	290,115	Advance received	5,596
Investments securities	83,780	Deposits received	1,059
Investment in associated companies	103,309	Short-term borrowings from associated companies	23,975
Long-term loans to associated companies	62,670	Short-term credits from associated companies	13,849
Financing receivables	11	Commercial paper	50,000
Long-term prepaid expenses	8,290	Other current liabilities	1,023
Prepaid pension expenses	27,341	Total Liabilities	528,224
Other investments and other assets	5,368	Net Assets	
Allowance for doubtful receivables	(-657)	Shareholders' Equity	502,831
		Common Stock	132,166
Current Assets	202,823	Capital Surplus	19,534
Cash & time deposits	7,694	Capital reserve	19,482
Notes and bills receivable	1,148	Other capital surplus	51
Trade accounts receivable	72,209	Retained Earnings	354,801
Trade accounts receivable from associated companies	6,102	Retained earnings reserve	33,041
Other receivables	15,178	Other retained earnings	
Finished products	132	Reserve for deferred gain from replacement of designated properties, etc.	215
Raw materials	22,648	Reserve for depreciation of designated gas pipeline construction	564
Supplies	8,431	Reserve against losses on overseas investments, etc.	5,314
Short-term loans to associated companies	27,135	Raw material cost fluctuation adjustment reserve	89,000
Short-term credits against associated companies	3,614	Special reserves	62,000
Deferred tax assets	4,168	Retained earnings carried forward	164,664
Derivatives	18,850	Treasury Stock	(-3,670)
Other current assets	16,061	Treasury stock	(-3,670)
Allowance for doubtful receivables	(-551)		

		Net Gains on Valuation and Foreign Currency Translation, etc.	45,890
		Net Unrealized Holding Gains on Other Securities	36,081
		Net unrealized holding gains on other securities	36,081
		Deferred Income from Hedge Transactions	9,808
		Deferred income from hedge transactions	9,808
		Total Net Assets	548,721
Total Assets	1,076,946	Total Liabilities & Net Assets	1,076,946

Income Statements
(1 April 2006 through 31 March 2007)

(Yen in millions)

Costs and Expenses		Operating Revenues	
Cost of products sold	349,914	Sales of products manufactured	680,181
Inventory at the beginning of the period	106	Sales of gases	680,181
Cost of products manufactured	354,366		
Amount of products purchased	0		
Own use of products manufactured	4,426		
Inventory at the end of the period	132		
(Gross profit)	(330,266)		
Expenses for distribution and sales	215,740		
General administrative expenses	54,865		
(Income from operation)	(59,660)		
Miscellaneous operating expenses	133,098	Miscellaneous operating revenues	135,924
Installation expenses	29,830	Revenues from housepipe installations	30,629
Appliance sales expenses	103,268	Appliances sales revenues	102,328
		Other miscellaneous operating revenues	2,966
Expenses from incidental businesses	33,752	Revenues from incidental businesses	35,193
Expenses from the automatic alert service business	4,624	Revenues from the automatic alert service business	5,546
Expenses from the electric power supply business	8,801	Revenues from the electric power supply business	8,714
Expenses from the LNG sales business	15,691	Revenues from the LNG sales business	15,342
Expenses from other incidental businesses	4,635	Revenues from other incidental businesses	5,589
(Operating income)	(63,927)		
Non-operating expenses	11,877	Non-operating income	16,250
Interest payments	1,885	Interest income	998
Interest payments on corporate bonds	4,072	Dividends income	880
Amortization of bond-issue expenses	131	Dividends income from associated companies	6,364
Loss on redemption of bonds	3,122	Gain on sale of investment securities	2,908
Other miscellaneous expenses	2,665	Other income	5,099
(Ordinary profit)	(68,299)		
Extraordinary losses	2,098	Extraordinary profit	658
Loss on sale of fixed assets	430	Gain on sale of fixed assets	658
Loss from impairment	1,667		
(Income before income taxes)	(66,860)		
Income taxes - current	19,800		
Income taxes - deferred	2,825		
Net income	44,235		
Total	868,208	Total	868,208

Statements of Changes in Shareholders' Equity and Other Matters
(1 April 2006 through 31 March 2007)

(Yen in millions)

	Shareholders' Equity														Net Gains on Valuation and Foreign Currency Translation, etc.			Total Net Assets
	Common stock	Capital Surplus			Retained earnings reserve	Retained Earnings							Treasury stock	Total shareholders' equity	Net unrealized holding gains on other securities	Deferred income from hedge transactions	Total net gains on valuation and foreign currency translation, etc.	
		Capital reserve	Other capital surplus	Total capital surplus		Other Retained Earnings												
						Reserve for deferred gain from replacement of designated properties, etc.	Reserve for depreciation of designated gas pipeline construction	Reserve against losses on overseas investments, etc.	Raw material cost fluctuation adjustment reserve	Special reserves	Retained earnings carried forward	Total retained earnings						
Balance at the preceding financial year end	132,166	19,482	38	19,521	33,041	216	1,306	6,203	89,000	62,000	134,448	326,216	(-2,556)	475,348	42,823	-	42,823	518,171
Changes during the financial year																		
Reversal of reserve for deferred gain from replacement of designated properties, etc.						(-1)					1							
Reversal of reserve for depreciation of designated gas pipeline construction							(-741)				741							
Accumulated reserve against losses on overseas investments, etc.								352			(-352)							
Reversal of reserve against losses on overseas investments, etc.								(-1,241)			1,241							
Distribution of retained earnings											(-15,590)	(-15,590)		(-15,590)				(-15,590)
Directors' bonuses											(-60)	(-60)		(-60)				(-60)
Net income											44,235	44,235		44,235				44,235
Acquisition of treasury stock													(-1,161)	(-1,161)				(-1,161)

Disposition of treasury stock			13	13									46	60				60
Changes in items other than shareholders' equity during the financial year (net)															(-6,741)	9,808	3,066	3,066
Total changes during the financial year			13	13		(-1)	(-741)	(-888)			30,216	28,584	(-1,114)	27,483	(-6,741)	9,808	3,066	30,549
Balance at the financial year end	132,166	19,482	51	19,534	33,041	215	564	5,314	89,000	62,000	164,664	354,801	(-3,670)	502,831	36,081	9,808	45,890	548,721

Notes for Individual Financial Statements

1. Notes for Matters in respect of Significant Accounting Policies

(1) Basis and methodology for the valuation of assets

(i) 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 net assets; 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

(ii) 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.

(iii) Derivatives are stated at fair value.

(2) Methodology for the Depreciation of property, plant and equipment

(i) Property, plant and equipment are 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.

(ii) Intangible fixed assets are depreciated using the declining-balance method. However, the straight-line method has been used for internal-use software, calculated based on the term available for use within the Company.

(3) Basis for recording reserves

(i) As for the allowance for doubtful receivables, to provide for the bad debts loss of accounts receivable, loans receivable, etc., an estimated uncollectible amount is provided which is based on an amount computed based on the default ratio in the past for general receivables and the individual collectability for certain receivables including receivables with default possibility (*Kashidaore Kenen Saiken*).

- (ii) As for the 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.
 - (iii) As for the reserve for repairs of gas holders, to provide for the necessary expenditure for periodical repairs of spherical gas holders, an estimated 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.
 - (iv) As for the reserve for safety measures, to provide for the necessary expenditure to ensure the safety of gas consumers, an estimated amount of the expenditure necessary to promote replacements with safety-enhanced models, to strengthen inspections and to ensure wide awareness is provided.
- (4) Other significant matters forming the basis of preparation of the balance sheets, etc.

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

- (5) Principles of accounting and changes in procedures
- (i) Accounting Standard for Presentation of Net Assets in the Balance Sheet
The “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Statement No. 5 of 9 December 2005) and the “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Guidance No. 8 of 9 December 2005) apply from this financial year. The equivalent amount of the total shareholders’ equity under the previous accounting standard is ¥538,913 million.
 - (ii) Treatment in respect of Accounting for Deferred Assets
The “Tentative Treatment on Accounting for Deferred Assets” (Practical Solution No. 19 of 11 August 2006) applies from this financial year. The discount on issued bonds (¥79 million) which had been included in the deferred assets in the preceding financial year has been deducted from the bonds from this financial year. Furthermore, amortization of the discount on issued bonds (¥4 million) which had been separately provided for in the preceding financial year has been included in the interest payments on corporate bonds from this financial year.
 - (iii) Accounting Standards for Financial Instruments
The revised “Accounting Standards for Financial Instruments” (Accounting Standards Board of Japan Statement No. 10; final revision on 11 August 2006) applies from this financial year.

2. Notes for Balance Sheets

- (1) Accumulated depreciation of property, plant and equipment and accumulated depreciation of intangible fixed assets

Accumulated depreciation of property, plant and equipment: ¥1,673,791 million

Accumulated depreciation of intangible fixed assets: ¥1,440 million

- (2) Guarantee liabilities, etc.
Guarantee liabilities: ¥32,497 million
Contingent liabilities in respect of debt assumption agreements with respect to bonds and long-term loans: ¥46,962 million

3. Notes for Income Statements

Amount of business from operational transactions with associated companies:

Sales to associated companies: ¥42,488 million

Amount of purchases from associated companies: ¥82,481 million

Amount of business from non-operational transactions with associated companies: ¥17,629 million

4. Notes for Statements of Changes in Shareholders' Equity and Other Matters

Number of treasury stock at the end of the financial year: 10,581,106 common shares

5. Notes for Tax Effect Accounting

- (1) The main factors for the deferred tax assets are excess depreciation of deferred assets, loss on cancellation of the construction plan of Tsuruga terminal, excess depreciation of depreciable assets, loss from impairment of fixed assets and accrued enterprise taxes and other taxes.

- (2) The main factors for the deferred tax liabilities are net unrealized holding gains on other securities, prepaid severance and retirement benefit expenses, deferred income and expenses from hedge transactions, reserve required under the Special Taxation Measures Law and reserve for deferred gains on fixed assets.

6. Notes for Transactions with Related Parties

Company name	Ratio of holding of voting rights	Relation	Description of transaction	Transaction amount (Yen in millions)	Item	Balance at the financial year end (Yen in millions)
Osaka Gas Energy America Corporation	Ratio of holding: 100% (indirect)	Subsidiary	Guarantee of indebtedness (Note 1)	14,992	-	-

Terms and conditions and decision-making policy

(Note 1) This is to secure Osaka Gas Energy America Corporation's long-term borrowing from The Bank of Tokyo-Mitsubishi UFJ, Ltd. and other banks.

7. Notes for Per Share Information

- (1) Net asset amount per share: ¥246.61
- (2) Net income per share: ¥19.87

Consolidated Balance Sheets

(As of 31 March 2007)

(Yen in millions)

Assets		Liabilities	
Non-current Assets	1,124,100	Non-current Liabilities	417,663
Property, Plant and Equipment	805,534	Corporate bonds	186,957
Production facilities	103,463	Long-term borrowings due after one year	176,514
Distribution facilities	352,264	Deferred tax liabilities	21,895
Service and maintenance facilities	63,965	Deferred tax liabilities resulting from revaluation of assets	57
Other facilities	223,334	Reserve for retirement allowance	8,909
Idle facilities	1,532	Reserve for repairs of gas holders	1,705
Construction in progress	60,973	Reserve for safety measures	3,708
		Other	17,915
Intangible Fixed Assets	28,562	Current Liabilities	301,354
Goodwill	6,453	Long-term debt due within one year	50,498
Other	22,108	Notes, bills and trade accounts payable	45,443
Investments and Other Assets	290,003	Short-term borrowings	27,491
Investments securities	182,069	Accrued income and enterprise taxes	23,891
Other	108,849	Other	154,029
Allowance for doubtful receivables	(-915)	Total Liabilities	719,017
Current Assets	281,581	Net Assets	
Cash & time deposits	27,070	Shareholders' Equity	595,939
Notes, bills and trade accounts receivable	135,468	Common stock	132,166
Inventories	53,366	Capital surplus	19,534
Other	66,438	Retained earnings	447,909
Allowance for doubtful receivables	(-761)	Treasury stock	(-3,670)
		Net Gains on Valuation and Foreign Currency Translation, etc.	72,947
		Net unrealized holding gains on other securities	55,508
		Deferred income from hedge transactions	9,180
		Net unrealized holding gains on land	83
		Foreign currency translation adjustments	8,175
		Minority Interests	17,777
		Total Net Assets	686,664
Total Assets	1,405,682	Total Liabilities & Net Assets	1,405,682

Consolidated Income Statements
(1 April 2006 through 31 March 2007)

(Yen in millions)

Items	
Operating revenues	1,174,456
Cost of products sold	755,693
(Gross profit)	418,762
Expenses for distribution and sales and general administrative expenses	325,033
(Operating income)	93,729
Non-operating income	13,775
Interest income	1,312
Dividends income	1,414
Gain on sale of investment securities	3,274
Equity in gains of associated companies	3,328
Other non-operating income	4,445
Non-operating expenses	17,954
Interest payments	9,584
Loss on redemption of bonds	3,122
Other non-operating expenses	5,247
(Ordinary profit)	89,550
Extraordinary profit	1,233
Gain on sale of fixed assets	1,233
Extraordinary losses	2,704
Loss on sale of fixed assets	832
Loss from impairment	1,871
(Income before income taxes)	88,078
Income taxes - current	31,316
Income taxes - deferred	2,634
Minority interests	1,197
Net income	52,929

Consolidated Statements of Changes in Shareholders' Equity and Other Matters
(1 April 2006 through 31 March 2007)

(Yen in millions)

	Shareholders' Equity					Net Gains on Valuation and Foreign Currency Translation, etc.					Minority Interests	Total Net Assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on other securities	Deferred income from hedge transactions	Net unrealized holding gains on land	Foreign currency translation adjustments	Total net gains on valuation and foreign currency translation, etc.		
Balance at 31 March 2006	132,166	19,521	410,682	(-2,556)	559,814	63,648	-	62	4,986	68,696	18,675	647,186
Changes during the consolidated financial year												
Distribution of retained earnings			(-15,590)		(-15,590)							(-15,590)
Directors' bonuses			(-90)		(-90)							(-90)
Net income			52,929		52,929							52,929
Acquisition of treasury stock				(-1,161)	(-1,161)							(-1,161)
Disposition of treasury stock		13		46	60							60
Reversal of net unrealized holding gains on land			(-21)		(-21)							(-21)
Changes in items other than shareholders' equity during the consolidated financial year (net)						(-8,139)	9,180	21	3,189	4,251	(-898)	3,353
Total changes during the consolidated financial year		13	37,226	(-1,114)	36,125	(-8,139)	9,180	21	3,189	4,251	(-898)	39,478
Balance at 31 March 2007	132,166	19,534	447,909	(-3,670)	595,939	55,508	9,180	83	8,175	72,947	17,777	686,664

Notes for Consolidated Financial Statements (1 April 2006 through 31 March 2007)

1. Notes for Significant Matters Forming the Basis of Preparation of These Consolidated Financial Statements

(1) Scope of consolidation

Number of consolidated subsidiaries: 132

(Names 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

(Name of unconsolidated subsidiary)

Marianas Energy Company L.L.C

Although Marianas Energy Company L.L.C (accounting date: 31 December) has become a subsidiary following the acquisition of its shares in March 2007, it is not included as a consolidated subsidiary because its accounting date falls on 31 December and the size of its sales, total assets, net income or losses and retained earnings is small and does not have a material impact on the consolidated financial statements.

(2) Application of the equity method

Number of equity method affiliates: 4

(Names of principal equity method affiliates)

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

(Names of principal unconsolidated subsidiaries or affiliates not subject to the equity method)

Unconsolidated subsidiaries or affiliates not subject to the equity method includes primarily ENNET Corporation.

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

(3) Accounting standards

(i) Basis and methodology for the valuation of significant assets

(a) Marketable securities:

Other marketable securities:

Securities practicable to stated at fair value
determine fair value: (Unrealized holding gains and losses
are accounted for as a component of

- net assets; cost of sales is determined primarily using the moving-average method.)
- Securities not practicable to determine fair value: primarily stated at cost based on the moving-average method
- (b) Inventories: primarily stated at cost based on the moving-average method
- (c) Derivatives: stated at fair value

(ii) Methodology for the depreciation of significant depreciable assets

Property, plant and equipment are 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) Basis for recording significant reserves

(a) Allowance for doubtful receivables

To provide for the bad debts loss of accounts receivable, loans receivable, etc., an estimated uncollectible amount is provided which is based on an amount computed based on the default ratio in the past for general receivables and the individual collectability for certain receivables including receivables with default possibility (*Kashidaore Kenen Saiken*).

(b) 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.

(c) Reserve for repairs of gas holders

To provide for the necessary expenditure for periodical repairs of spherical gas holders, an 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.

(d) Reserve for safety measures

To provide for the necessary expenditure to ensure the safety of gas consumers, an estimated amount of the expenditure necessary to promote replacements with safety-enhanced models, to strengthen inspections and to ensure wide awareness is provided.

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

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

(4) Valuation of assets and liabilities of consolidated subsidiaries

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

2. Notes for Changes in Significant Matters Forming the Basis of Preparation of These Consolidated Financial Statements

(1) Accounting Standard for Presentation of Net Assets in the Balance Sheet

The “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Statement No. 5 of 9 December 2005) and the “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Guidance No. 8 of 9 December 2005) apply from this consolidated financial year. The equivalent amount of the total shareholders’ equity under the previous accounting standard is ¥659,707 million.

(2) Treatment in respect of Accounting for Deferred Assets

The “Tentative Treatment on Accounting for Deferred Assets” (Practical Solution No. 19 of 11 August 2006) applies from this consolidated financial year. The discount on issued bonds (¥79 million) which had been included in the deferred assets in the preceding consolidated financial year has been deducted from the bonds from this consolidated financial year.

(3) Accounting Standards for Financial Instruments

The revised “Accounting Standards for Financial Instruments” (Accounting Standards Board of Japan Statement No. 10; final revision on 11 August 2006) applies from this consolidated financial year.

3. Notes for Consolidated Balance Sheets

(1) Assets pledged as collateral and secured liabilities

(i) Assets pledged as collateral

Property, plant and equipment	¥ 43,960 million
Investments and other assets	¥ 33,580 million
Others	¥ 5,896 million

Total ¥ 83,437 million

(ii) Secured Liabilities ¥ 37,450 million

- (2) Accumulated depreciation of property, plant and equipment: ¥1,861,357 million
- (3) Guarantee liabilities, etc.
 Guarantee liabilities: ¥3,319 million
 Contingent liabilities in respect of debt assumption agreements with respect to bonds and long-term loans: ¥46,962 million

4. Notes for Net Unrealized Holding Gains on Land

Commercial land of certain consolidated subsidiaries has been revalued in accordance with the Law Concerning Revaluation of Land (Law No. 34 of 31 March 1998). Any difference resulting from the revaluation is included in net assets as net unrealized holding gains on land.

Difference between the fair value of the land as of the end of this consolidated financial year and the carrying value of the land after revaluation
 A decrease of ¥526 million

5. Notes for Consolidated Statements of Changes in Shareholders' Equity and Other Matters

- (1) Number of shares issued and outstanding as of the consolidated financial year end

2,235,669,539 common shares

- (2) Dividends

(i) Amount of payment of dividends

a. At the annual meeting of shareholders held on 29 June 2006, the following were resolved with 31 March 2006 as a record date. The effective date for dividends was 29 June 2006.

Matters concerning dividends of common shares

- | | | |
|-----|---------------------------|----------------|
| (a) | Total amount of dividends | ¥7,796 million |
| (b) | Dividend per share | ¥3.50 |

b. At the meeting of the Board of Directors held on 30 October 2006, the following were resolved with 30 September 2006 as a record date.

Matters concerning dividends of common shares

- | | | |
|-----|---------------------------|----------------|
| (a) | Total amount of dividends | ¥7,794 million |
|-----|---------------------------|----------------|

(b)	Dividend per share	¥3.50
(c)	Effective date for dividends	30 November 2006

(ii) From the dividends for which the record date falls within this consolidated financial year, the following are dividends the effective date of which falls within the next consolidated financial year.

At the annual meeting of shareholders to be held on 28 June 2007, the following is proposed with 31 March 2007 as a record date. Dividends are to be appropriated from retained earnings.

Matters concerning dividends of common shares		
(a)	Total amount of dividends	¥7,787 million
(b)	Dividend per share	¥3.50
(c)	Effective date for dividends	29 June 2007

6. Notes for Per Share Information

Net asset amount per share: ¥300.61

Net income per share: ¥23.77

Certified Copy of Auditors' Report Prepared by Independent Outside Auditor

Report of Independent Outside Auditor

14 May 2007

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

AZSA & Co.			
Designated Partner	Certified Public Accountant	Hiroshi Sonoki	[seal]
Engagement Partner			
Designated Partner	Certified Public Accountant	Hiromi Ohashi	[seal]
Engagement Partner			
Designated Partner	Certified Public Accountant	Satoshi Kitamoto	[seal]
Engagement Partner			

We have examined the financial statements, i.e., balance sheets, income statements, statements of changes in shareholders' equity and other matters, notes for individual financial statements and the supporting schedules of Osaka Gas Co., Ltd. for the 189th financial year which was from 1 April 2006 to 31 March 2007, in accordance with Article 436, paragraph 2, item 1 of the Company Law. 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.

We have concluded that the financial statements and the supporting schedules give a true and proper account of assets and earnings of the Company for the financial year ended 31 March 2007 in all material aspects in accordance with generally accepted accounting standards in Japan.

Neither AZSA & Co. nor any of its engagement partners have any 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 Independent Outside Auditor
on Consolidated Financial Statements**

Report of Independent Outside Auditor

14 May 2007

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

AZSA & Co.		
Designated Partner	Certified Public Accountant	Hiroshi Sonoki [seal]
Engagement Partner		
Designated Partner	Certified Public Accountant	Hiroshi Ohashi [seal]
Engagement Partner		
Designated Partner	Certified Public Accountant	Satoshi Kitamoto [seal]
Engagement Partner		

We have examined the consolidated financial statements, i.e., consolidated balance sheets, consolidated income statements, consolidated statements of changes in shareholders' equity and other matters and notes for consolidated financial statements of Osaka Gas Co., Ltd. for the consolidated financial year which was from 1 April 2006 to 31 March 2007, in accordance with Article 444, paragraph 4 of the Company Law. 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.

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 for the consolidated financial year ended 31 March 2007 in all material aspects in accordance with generally accepted accounting standards in Japan.

Neither AZSA & Co. nor any of its engagement partners have any 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 189th term which was from 1 April 2006 to 31 March 2007. The Board of Corporate Auditors prepared this Corporate Auditors' Report upon deliberation based on reports by each Corporate Auditor regarding the performance by the Directors of their duties. We report as follows:

1. Method and details of audit by the Corporate Auditors and the Board of Corporate Auditors

- (1) The Board of Corporate Auditors has established an audit policy, an audit plan and other matters and has received reports from each Corporate Auditor on the status of implementation and the results of the audit. In addition, the Board of Corporate Auditors has received reports from the Directors and the Independent Outside Auditor on the performance of their duties and requested explanations as necessary.
- (2) Each Corporate Auditor has communicated with the Directors, the internal auditing division and other employees in conformity with the auditing standards established by the Board of Corporate Auditors and pursuant to the audit policy, the audit plan and other matters. The audit has been implemented based on the following method.
 - (i) We have attended meetings of the Board of Directors and other important meetings and have been informed as needed by the Directors, employees 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 and inspected the operations and the assets of the Company at its head office and principal business offices. With regard to subsidiaries, we have also communicated with directors, corporate auditors and others of the subsidiaries, and visited them as necessary in order to inspect their operations and assets.
 - (ii) We have inspected the content of a resolution of the Board of Directors concerning the establishment of systems to ensure that the Directors perform their duties in compliance with applicable laws and regulations and the Articles of Incorporation and other systems necessary to ensure the propriety of operations of *Kabushiki Kaisha* as provided for in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Company Law and the status of the system (internal control system) established based on such resolution.
 - (iii) We have received reports from the Independent Outside Auditor on the performance of its duties and requested explanations as necessary. Furthermore, we have received a notice from the Independent Outside Auditor that the "system to ensure that duties are properly performed" (matters stipulated in each item of Article 159 of the Corporate Accounting Ordinance) is established in accordance with the "Quality Management Standards concerning the Audit" (Financial Services Agency, Business Accounting Council) and other standards and requested explanations as necessary.

Based on the above method, we have examined the operating report, the financial statements (balance sheets, income statements, statements of changes in shareholders' equity and other matters and notes for individual financial statements) and their supporting schedules and the consolidated financial statements (consolidated balance sheets, consolidated income statements, consolidated statements of changes in shareholders' equity and other matters and notes for consolidated financial statements) for the financial year ended 31 March 2007.

2. Results of audit

(1) Results of audit of the operating report, etc.

- (i) The operating report and its supporting schedules give a fair and proper account of the Company's business in accordance with applicable laws and the Articles of Incorporation.
- (ii) 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.

(iii) The content of the resolution of the Board of Directors concerning the internal control system is fair and proper. There is no matter of concern regarding the performance by the Directors of their duties in respect of the internal control system.

(2) Results of audit of financial statements and their supporting schedules

Methods used by AZSA & Co. as the Independent Outside Auditor for this audit, and the results thereof, are fair and proper.

(3) Results of audit of consolidated financial statements

Methods used by AZSA & Co. as the Independent Outside Auditor for this audit, and the results thereof, are fair and proper.

18 May 2007

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 (External Corporate Auditor) [seal]

Toshihiko Hayashi Corporate Auditor (External Corporate Auditor) [seal]