Financial Report for FY2005

(April 2004-March 2005)

April 2005

Osaka Gas Co.,Ltd

Management information is available on Osaka Gas websites.

Financial reports, annual reports and road show materials can be accessed and downloaded at the following URL.
http://www.osakagas.co.jp/ir/index_e.html

Disclaimer

Certain statements contained herein are forward looking statements, strategy and plans, which reflect our judgment based on the information so far available. Actual results may differ materially from those discussed in such statements. Among the factors that could cause actual results to differ materially are: economic trend in Japan, sharp fluctuations in exchange rate and oil prices and extraordinary weather conditions.

Notes regarding projected figures

The projected figures herein are as per the announcement of October 2004, except for the gas sales figures, which are as per the announcement of March 2004. We reviewed only the breakdown of the expense items in October, and no other amendment was made to the annual business forecast (sales/profits) for the term ending March 2005 since the announcement of April 2004. Since the announcement in March, the projection of the gas sales volume was amended twice in October and January, respectively.

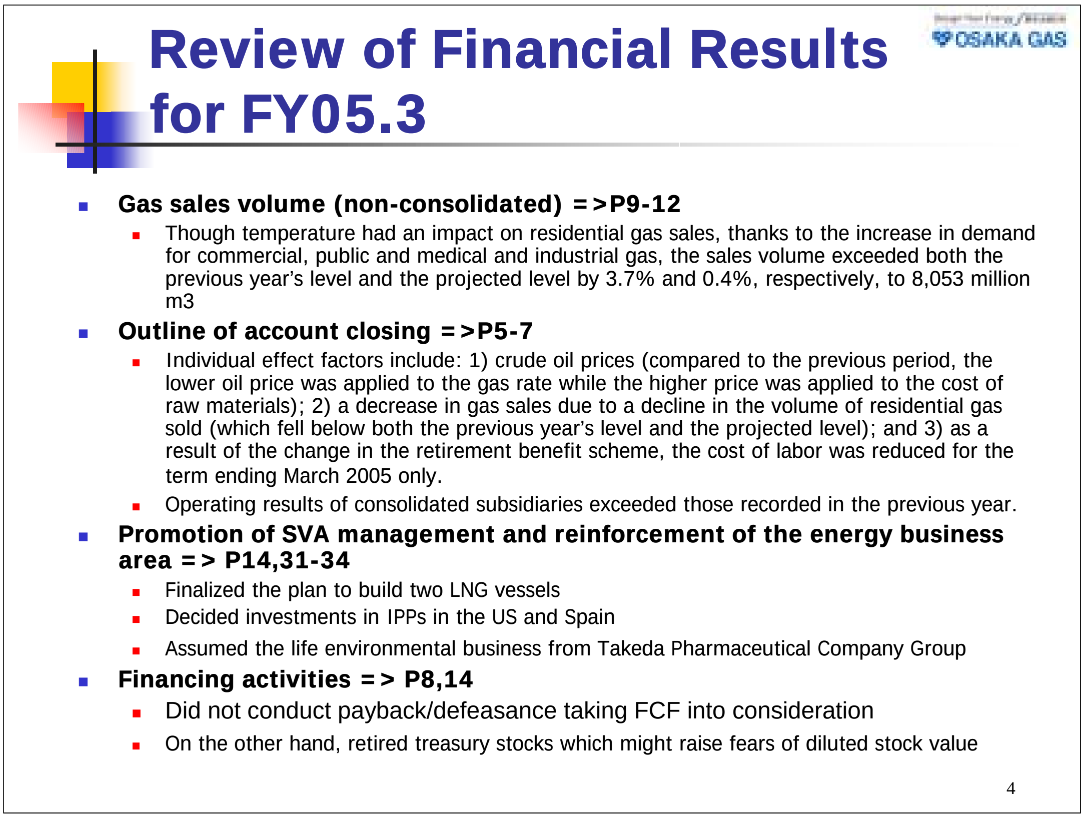
Note regarding consolidated gas sales volume

The fiscal year of Nabari Kintetsu Gas and Sasayama City Gas ends on December 31, and the fiscal year of Toyooka Energy Co., Ltd. ends on March 31 each year. Unless otherwise specified, the gas sales volume generated in the Toyooka area until June 2004 was included in sales by Osaka Gas Co., Ltd. The gas sales volume generated in that area in and after July 2004 was included in sales by Toyooka Energy Co., Ltd.

Note regarding gas sales volume

All gas sales volumes are indicated based on the standard heating value at 45 MJ/m3.

Financial Results for FY05.3 and Forecast for FY06.3



Review of Financial Results for FY05.3

- **Gas sales volume (non-consolidated) =>P9-12**
  - Though temperature had an impact on residential gas sales, thanks to the increase in demand for commercial, public and medical and industrial gas, the sales volume exceeded both the previous year's level and the projected level by 3.7% and 0.4%, respectively, to 8,053 million m3
- **Outline of account closing =>P5-7**
  - Individual effect factors include: 1) crude oil prices (compared to the previous period, the lower oil price was applied to the gas rate while the higher price was applied to the cost of raw materials); 2) a decrease in gas sales due to a decline in the volume of residential gas sold (which fell below both the previous year's level and the projected level); and 3) as a result of the change in the retirement benefit scheme, the cost of labor was reduced for the term ending March 2005 only.
  - Operating results of consolidated subsidiaries exceeded those recorded in the previous year.
- **Promotion of SVA management and reinforcement of the energy business area => P14,31-34**
  - Finalized the plan to build two LNG vessels
  - Decided investments in IPPs in the US and Spain
  - Assumed the life environmental business from Takeda Pharmaceutical Company Group
- **Financing activities => P8,14**
  - Did not conduct payback/defeasance taking FCF into consideration
  - On the other hand, retired treasury stocks which might raise fears of diluted stock value

First, I would like to discuss the highlights of the financial results for the fiscal year ending March 2005.

About gas sales volume, we could secure new orders steadily. The weather, which was warmer throughout the year compared to the previous year as well as to the projection, exerted an influence on the results. Due to the warmer weather, residential gas sales fell below both the previous year's results and the projection. Commercial, public and medical gas sales increased because of increased demand for air-conditioning in summer due to the warmer weather. In addition, as we could also develop new demands steadily, it exceeded both the previous year's results and the projection. In the industrial area, sales exceeded both the previous year's results and the projection, thanks to increased utilization of existing customers as well as development of new demands.

As for the financial results, an increase of crude oil and LNG prices and a decrease in residential gas sales volume had an impact on operating revenues. Regarding crude oil and LNG prices, since the LNG price of the fiscal year ending March 2004 -- when the price was relatively low -- was applied to the first half of the fiscal year ending March 2005 in particular, this caused a decrease in revenue from the previous year. Also, decreased residential gas sales volume had a negative impact on operating revenues.

On the other hand, in the area of expenses, as our retirement benefit scheme was changed during the period, a temporary reduction in expenses occurred and this caused a decrease in the cost of labor by approximately 9,700 million yen during the fiscal year ending March 2005.

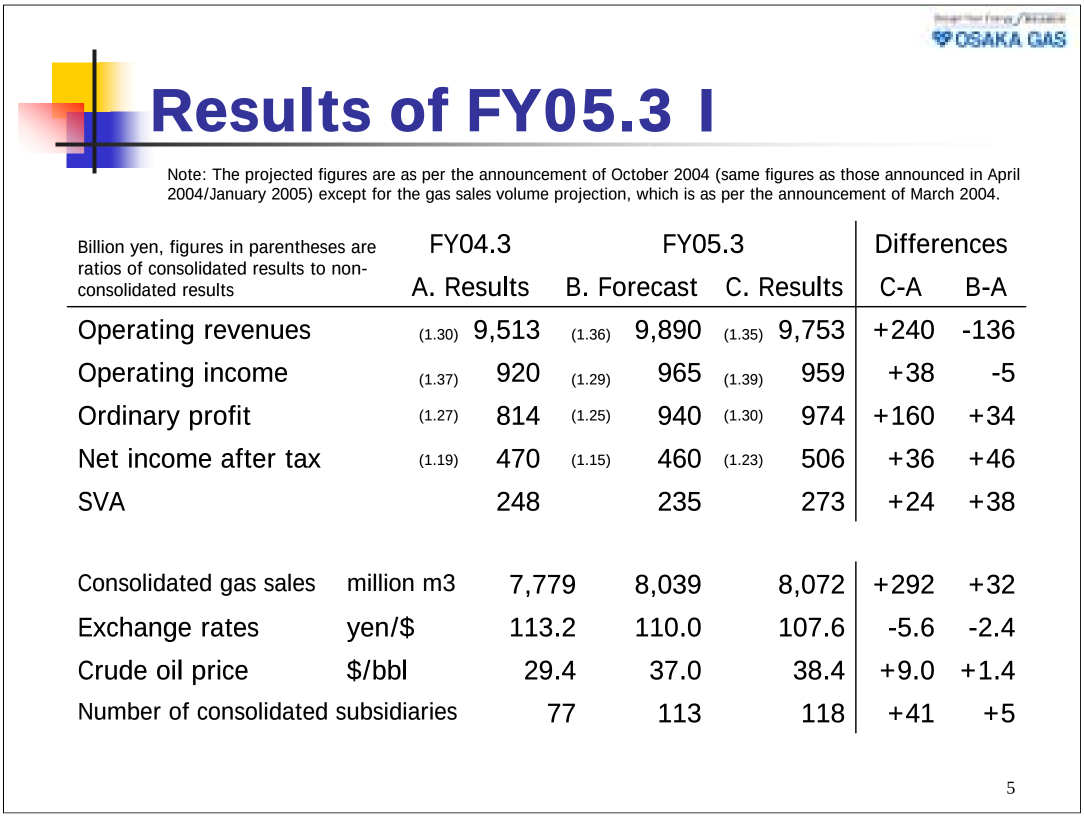
Operating revenues of the consolidated subsidiaries showed an increase from the previous year as the sales of the existing subsidiaries increased, and as some subsidiaries are newly added to consolidation. Profit also increased from the previous year and had a positive impact on consolidated profit.

I would like to introduce the key new businesses implemented or decided during the fiscal year ending March 2005.

The company decided to invest in building two LNG tankers, Tankers No. 5 and No. 6. To advance into the field of overseas electricity business, we decided to make investments in the IPP business in the US and Spain. We took over the carbon material business from the Takeda Pharmaceutical Group. This was mainly in order to strengthen our carbon material business through business consolidation with Osaka Gas Chemicals.

In terms of our financial and capital policies, we did not have much leeway in the cash flow, mainly for two reasons: Firstly, free cash flow fell below the projection during the fiscal year ending March 2005; secondly, we had some investment transactions to be made in free cash flow, including the installment payment in April for Japan Environ Chemicals. We placed priority on such investments and neither repurchased the Company's own stocks nor implemented any defeasance or other measures to improve the composition of assets and liabilities during the fiscal year ending March 2005.

However, we retired the treasury stock acquired in the past to clarify the Company's capital policy' stance, as it could have diluted the stock value if we kept holding it.



OSAKA GAS

Results of FY05.3 I

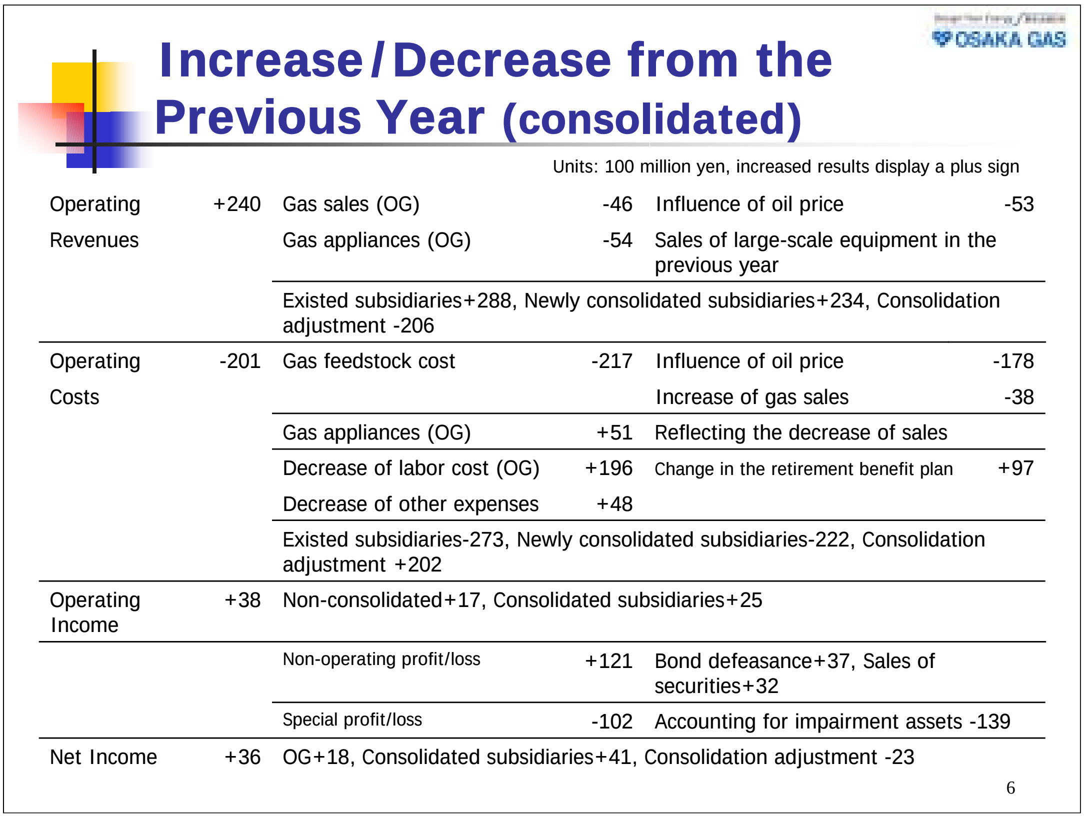
Note: The projected figures are as per the announcement of October 2004 (same figures as those announced in April 2004/January 2005) except for the gas sales volume projection, which is as per the announcement of March 2004.

Billion yen, figures in parentheses are ratios of consolidated results to non-consolidated results	FY04.3		FY05.3				Differences	
		A. Results		B. Forecast		C. Results	C-A	B-A
Operating revenues	(1.30)	9,513	(1.36)	9,890	(1.35)	9,753	+240	-136
Operating income	(1.37)	920	(1.29)	965	(1.39)	959	+38	-5
Ordinary profit	(1.27)	814	(1.25)	940	(1.30)	974	+160	+34
Net income after tax	(1.19)	470	(1.15)	460	(1.23)	506	+36	+46
SVA		248		235		273	+24	+38

Consolidated gas sales	million m3	7,779	8,039	8,072	+292	+32
Exchange rates	yen/$	113.2	110.0	107.6	-5.6	-2.4
Crude oil price	$/bbl	29.4	37.0	38.4	+9.0	+1.4
Number of consolidated subsidiaries		77	113	118	+41	+5

These are the consolidated items relating to revenues and profits.

Please pay particular attention to the consolidation to non-consolidation ratio. As a result of penetration of SVA management among consolidated subsidiaries, the consolidation to non-consolidation ratio improved both from the previous year and the projection.



Increase/Decrease from the Previous Year (consolidated)

Units: 100 million yen, increased results display a plus sign

Operating Revenues	+240	Gas sales (OG)	-46	Influence of oil price	-53
		Gas appliances (OG)	-54	Sales of large-scale equipment in the previous year	
		Existed subsidiaries+288, Newly consolidated subsidiaries+234, Consolidation adjustment -206			
Operating Costs	-201	Gas feedstock cost	-217	Influence of oil price	-178
				Increase of gas sales	-38
		Gas appliances (OG)	+51	Reflecting the decrease of sales	
		Decrease of labor cost (OG)	+196	Change in the retirement benefit plan	+97
		Decrease of other expenses	+48		
		Existed subsidiaries-273, Newly consolidated subsidiaries-222, Consolidation adjustment +202			
Operating Income	+38	Non-consolidated+17, Consolidated subsidiaries+25			
		Non-operating profit/loss	+121	Bond defeasance+37, Sales of securities+32	
		Special profit/loss	-102	Accounting for impairment assets -139	
Net Income	+36	OG+18, Consolidated subsidiaries+41, Consolidation adjustment -23			

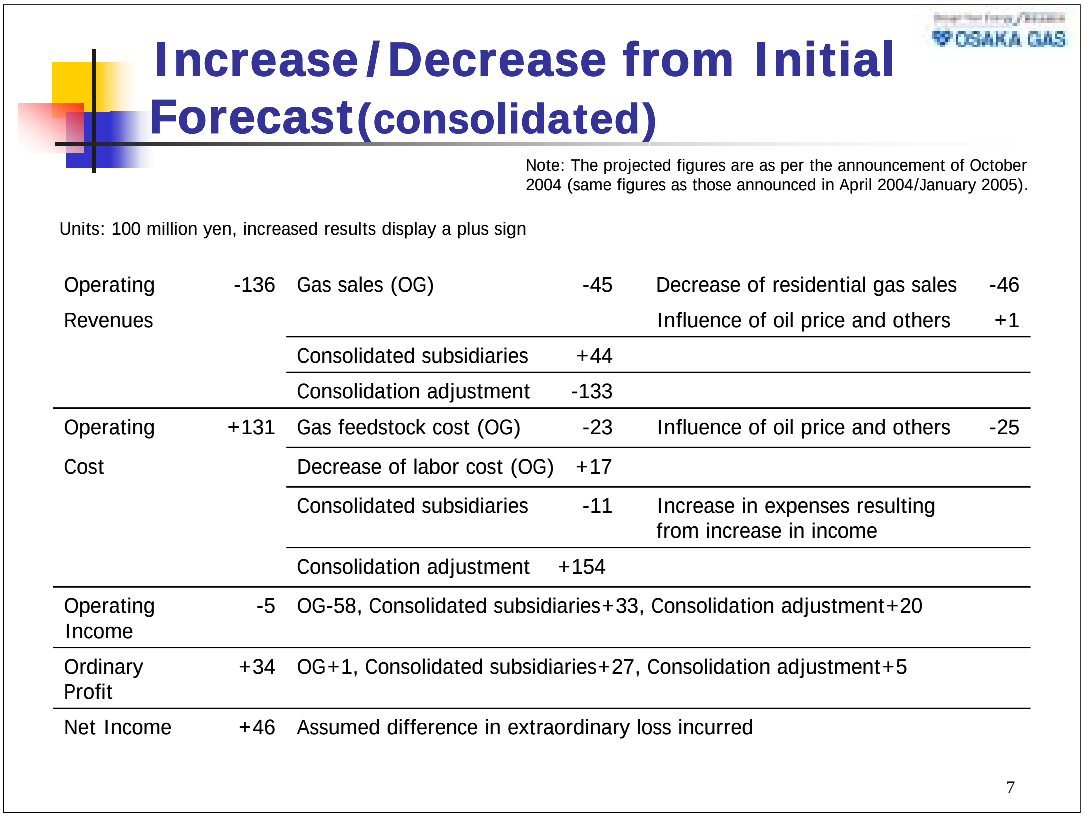
I am going to discuss the consolidated financial results in comparison with the previous year.

Though revenue decreased due to decreases in gas sales and gas appliances on non-consolidated basis, sales increased from the previous year , thanks to increases in revenues of consolidated subsidiaries. Sales of consolidated subsidiaries increased as the companies newly added to consolidation and contributed to the results. Sales of existing consolidated subsidiaries also increased. In particular, increases in cogeneration sales, LP gas sales and sales of the chemical product and carbon material businesses contributed.

As for operating expenses, though the cost of feedstock increased due to the rise of crude oil prices, labor cost decreased on non-consolidated basis as a result of changes in the retirement benefit scheme and personnel reduction. In addition, we continued efforts to reduce rents and other expenses, which contributed to cost saving.

Non-operating profit increased by sales of securities, of financial sector stocks in particular, and reduction of costs resulting from defeasance conducted during the previous year.

As we started to apply the asset impairment accounting from the fiscal year ending March 2005, we posted extraordinary loss. However, net income for the current year showed an increase from the previous year.



Increase/Decrease from Initial Forecast(consolidated)

Note: The projected figures are as per the announcement of October 2004 (same figures as those announced in April 2004/January 2005).

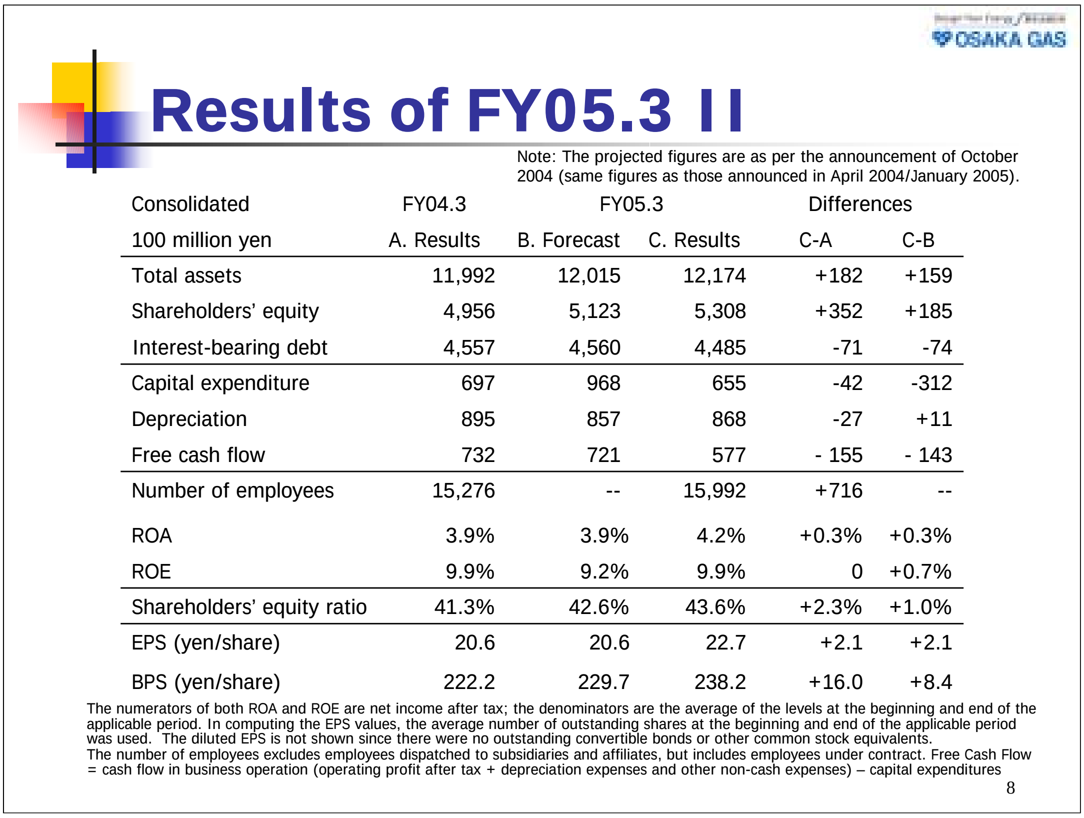
Units: 100 million yen, increased results display a plus sign

Operating Revenues	-136	Gas sales (OG)	-45	Decrease of residential gas sales	-46
				Influence of oil price and others	+1
		Consolidated subsidiaries	+44		
		Consolidation adjustment	-133		
Operating Cost	+131	Gas feedstock cost (OG)	-23	Influence of oil price and others	-25
		Decrease of labor cost (OG)	+17		
		Consolidated subsidiaries	-11	Increase in expenses resulting from increase in income	
		Consolidation adjustment	+154		
Operating Income	-5	OG-58, Consolidated subsidiaries+33, Consolidation adjustment+20			
Ordinary Profit	+34	OG+1, Consolidated subsidiaries+27, Consolidation adjustment+5			
Net Income	+46	Assumed difference in extraordinary loss incurred			

Compared to the projection made at the announcement of the interim results, though the decreased residential gas sales did have a negative impact on gas sales revenues, the impact was not serious.

As the intragroup transactions were underestimated, we saw a divergence in the projection and the actual results in elimination of internal transactions, both in terms of revenues and operating costs. However, as sales are set off with the costs, they do not have much impact on gains. At the operating income level, the result was almost in line with the projection.

Ordinary profit increased as a result that we expected defeasance, which was unexecuted, and net income for the current year also increased as we had overestimated impairment losses at the time of projection.



Results of FY05.3 II

Note: The projected figures are as per the announcement of October 2004 (same figures as those announced in April 2004/January 2005).

Consolidated	FY04.3	FY05.3		Differences	
100 million yen	A. Results	B. Forecast	C. Results	C-A	C-B
Total assets	11,992	12,015	12,174	+182	+159
Shareholders' equity	4,956	5,123	5,308	+352	+185
Interest-bearing debt	4,557	4,560	4,485	-71	-74
Capital expenditure	697	968	655	-42	-312
Depreciation	895	857	868	-27	+11
Free cash flow	732	721	577	- 155	- 143
Number of employees	15,276	--	15,992	+716	--
ROA	3.9%	3.9%	4.2%	+0.3%	+0.3%
ROE	9.9%	9.2%	9.9%	0	+0.7%
Shareholders' equity ratio	41.3%	42.6%	43.6%	+2.3%	+1.0%
EPS (yen/share)	20.6	20.6	22.7	+2.1	+2.1
BPS (yen/share)	222.2	229.7	238.2	+16.0	+8.4

The numerators of both ROA and ROE are net income after tax; the denominators are the average of the levels at the beginning and end of the applicable period. In computing the EPS values, the average number of outstanding shares at the beginning and end of the applicable period was used. The diluted EPS is not shown since there were no outstanding convertible bonds or other common stock equivalents.
The number of employees excludes employees dispatched to subsidiaries and affiliates, but includes employees under contract. Free Cash Flow = cash flow in business operation (operating profit after tax + depreciation expenses and other non-cash expenses) – capital expenditures

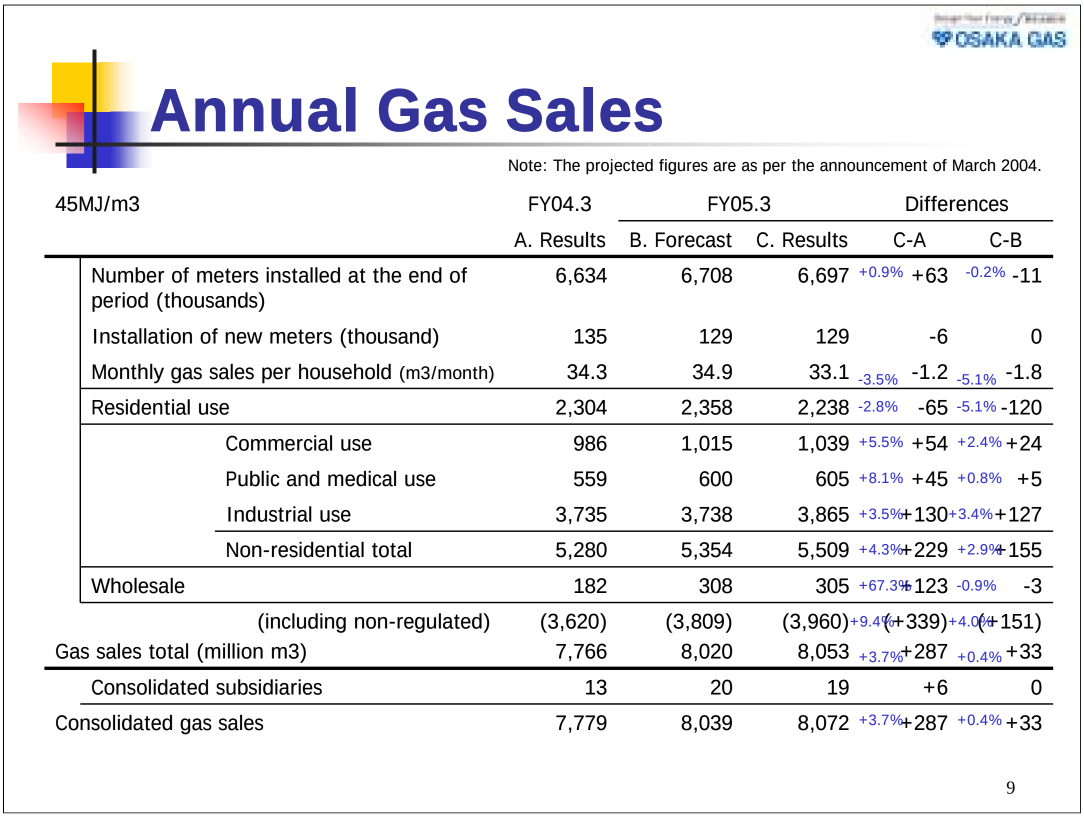
8

Next, I would like to discuss assets, liabilities and shareholders' equity, as well as other related items.

Capital expenditure significantly fell below the projection. This is partly because the payment relating to capital expenditure of the Senboku power plant, which was due during the fiscal year ending March 2005, was carried over to the fiscal year ending March 2006.

Free cash flow fell below both the previous year's result and the projection because of the pension-related cash contribution incurred.

Furthermore, the number of employees increased significantly from the previous year. In addition to the new addition of Nagano Propane Gas and Daiya Nensho to consolidation, personnel increase for expanded security business also had an effect.



Annual Gas Sales

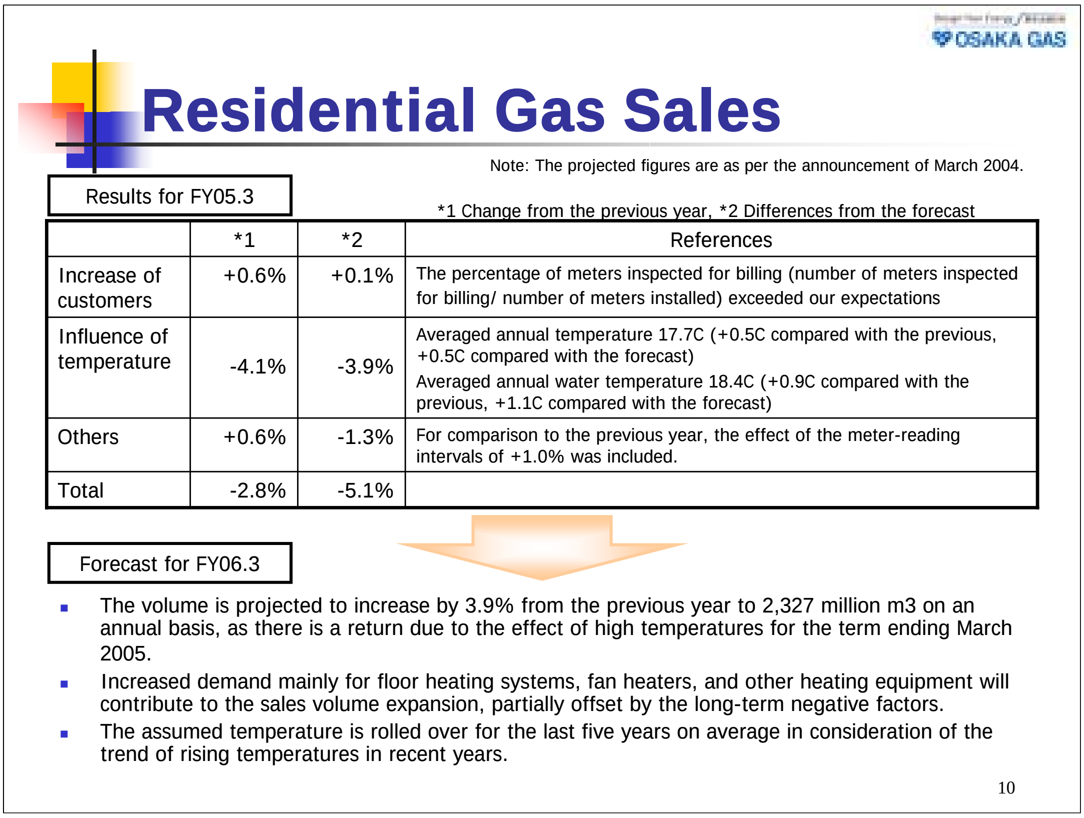
Note: The projected figures are as per the announcement of March 2004.

45MJ/m3	FY04.3	FY05.3		Differences			
	A. Results	B. Forecast	C. Results		C-A		C-B
Number of meters installed at the end of period (thousands)	6,634	6,708	6,697	+0.9%	+63	-0.2%	-11
Installation of new meters (thousand)	135	129	129		-6		0
Monthly gas sales per household (m3/month)	34.3	34.9	33.1	-3.5%	-1.2	-5.1%	-1.8
Residential use	2,304	2,358	2,238	-2.8%	-65	-5.1%	-120
Commercial use	986	1,015	1,039	+5.5%	+54	+2.4%	+24
Public and medical use	559	600	605	+8.1%	+45	+0.8%	+5
Industrial use	3,735	3,738	3,865	+3.5%	+130	+3.4%	+127
Non-residential total	5,280	5,354	5,509	+4.3%	+229	+2.9%	+155
Wholesale	182	308	305	+67.3%	+123	-0.9%	-3
(including non-regulated)	(3,620)	(3,809)	(3,960)	+9.4%	(+339)	+4.0%	(+151)
Gas sales total (million m3)	7,766	8,020	8,053	+3.7%	+287	+0.4%	+33
Consolidated subsidiaries	13	20	19		+6		0
Consolidated gas sales	7,779	8,039	8,072	+3.7%	+287	+0.4%	+33

With that, I come to the end of the discussion of summary financial results of the fiscal year ending March 2005. Now, I would like to start briefing you on gas sales.

Residential gas sales volume fell below both the previous year and the projection. However, gas sales volume as a whole exceeded both the previous year and the projection.

From the next page, I will go into the details by intended end-usage.



Residential Gas Sales

Note: The projected figures are as per the announcement of March 2004.

Results for FY05.3

*1 Change from the previous year, *2 Differences from the forecast

	*1	*2	References
Increase of customers	+0.6%	+0.1%	The percentage of meters inspected for billing (number of meters inspected for billing/ number of meters installed) exceeded our expectations
Influence of temperature	-4.1%	-3.9%	Averaged annual temperature 17.7C (+0.5C compared with the previous, +0.5C compared with the forecast) Averaged annual water temperature 18.4C (+0.9C compared with the previous, +1.1C compared with the forecast)
Others	+0.6%	-1.3%	For comparison to the previous year, the effect of the meter-reading intervals of +1.0% was included.
Total	-2.8%	-5.1%	

Forecast for FY06.3

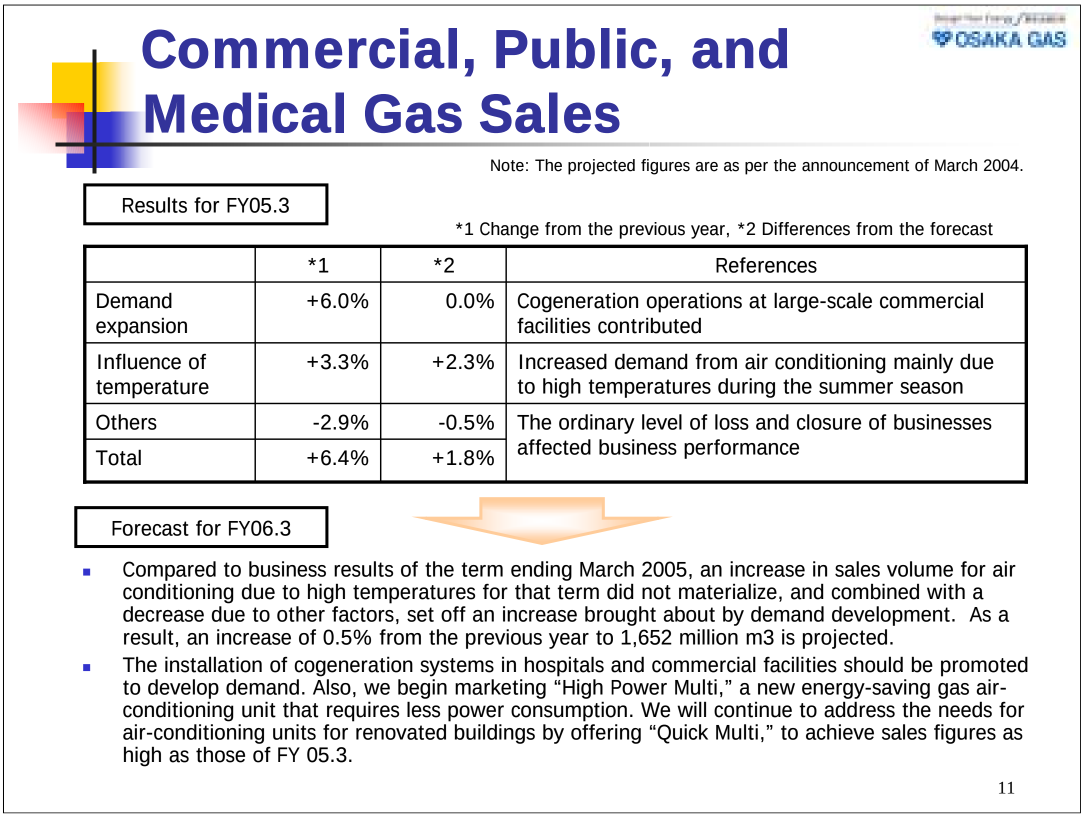
- The volume is projected to increase by 3.9% from the previous year to 2,327 million m3 on an annual basis, as there is a return due to the effect of high temperatures for the term ending March 2005.
- Increased demand mainly for floor heating systems, fan heaters, and other heating equipment will contribute to the sales volume expansion, partially offset by the long-term negative factors.
- The assumed temperature is rolled over for the last five years on average in consideration of the trend of rising temperatures in recent years.

During the fiscal year ending March 2005, the warm weather exerted a significant effect on residential gas sales volume.

Concerning the impact of electrification, “the number of actual users” represented by the number of meters inspected exceeded the projection. Therefore, we believe that the impact of electrification is almost at the level assumed by the Company.

As actual sales volume decreased during the fiscal year ending March 2005 due to the warm weather, the fiscal year ending March 2006 showed a higher growth than the fiscal year ending March 2005.

For the assumption method of residential gas sales volume per household, please see the reference material P36 attached.



Commercial, Public, and Medical Gas Sales

Note: The projected figures are as per the announcement of March 2004.

Results for FY05.3

*1 Change from the previous year, *2 Differences from the forecast

	*1	*2	References
Demand expansion	+6.0%	0.0%	Cogeneration operations at large-scale commercial facilities contributed
Influence of temperature	+3.3%	+2.3%	Increased demand from air conditioning mainly due to high temperatures during the summer season
Others	-2.9%	-0.5%	The ordinary level of loss and closure of businesses affected business performance
Total	+6.4%	+1.8%	

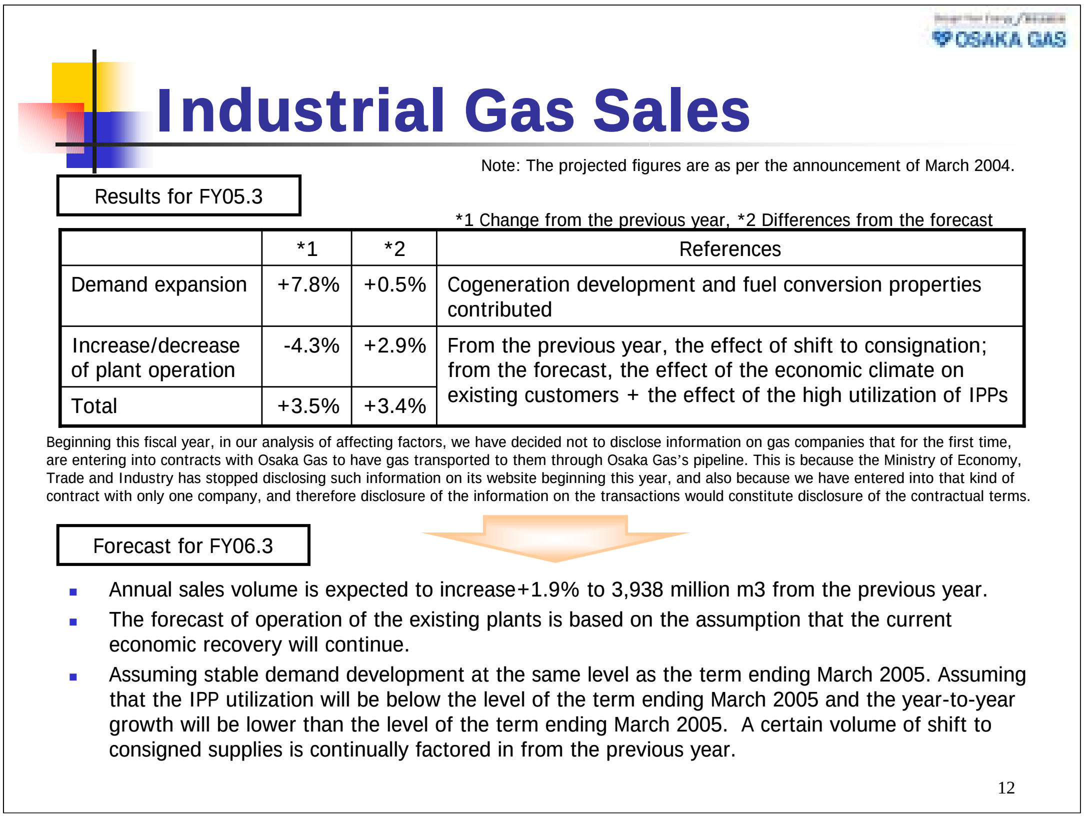
Forecast for FY06.3

- Compared to business results of the term ending March 2005, an increase in sales volume for air conditioning due to high temperatures for that term did not materialize, and combined with a decrease due to other factors, set off an increase brought about by demand development. As a result, an increase of 0.5% from the previous year to 1,652 million m3 is projected.
- The installation of cogeneration systems in hospitals and commercial facilities should be promoted to develop demand. Also, we begin marketing “High Power Multi,” a new energy-saving gas air-conditioning unit that requires less power consumption. We will continue to address the needs for air-conditioning units for renovated buildings by offering “Quick Multi,” to achieve sales figures as high as those of FY 05.3.

Gas sales for Commercial, Public and Medical use exceeded both the previous year and the projection as demand development proceeded as expected, and as gas for air-conditioning showed favorable sales due to the warm weather in summer.

The impact of extinguishment or closure of existing customers was almost as expected and at the same level as the fiscal year ending in March 2004.

For the fiscal year ending March 2006, as the temperature was assumed to be at the level of the average year, the volume of gas sales for air-conditioning is expected to be lower than that of the fiscal year ending March 2005. As this will be offset by new demands secured, the growth from the previous year is projected to be lower than that of the fiscal year ending March 2005.



Industrial Gas Sales

Note: The projected figures are as per the announcement of March 2004.

Results for FY05.3

*1 Change from the previous year, *2 Differences from the forecast

	*1	*2	References
Demand expansion	+7.8%	+0.5%	Cogeneration development and fuel conversion properties contributed
Increase/decrease of plant operation	-4.3%	+2.9%	From the previous year, the effect of shift to consignation; from the forecast, the effect of the economic climate on existing customers + the effect of the high utilization of IPPs
Total	+3.5%	+3.4%	

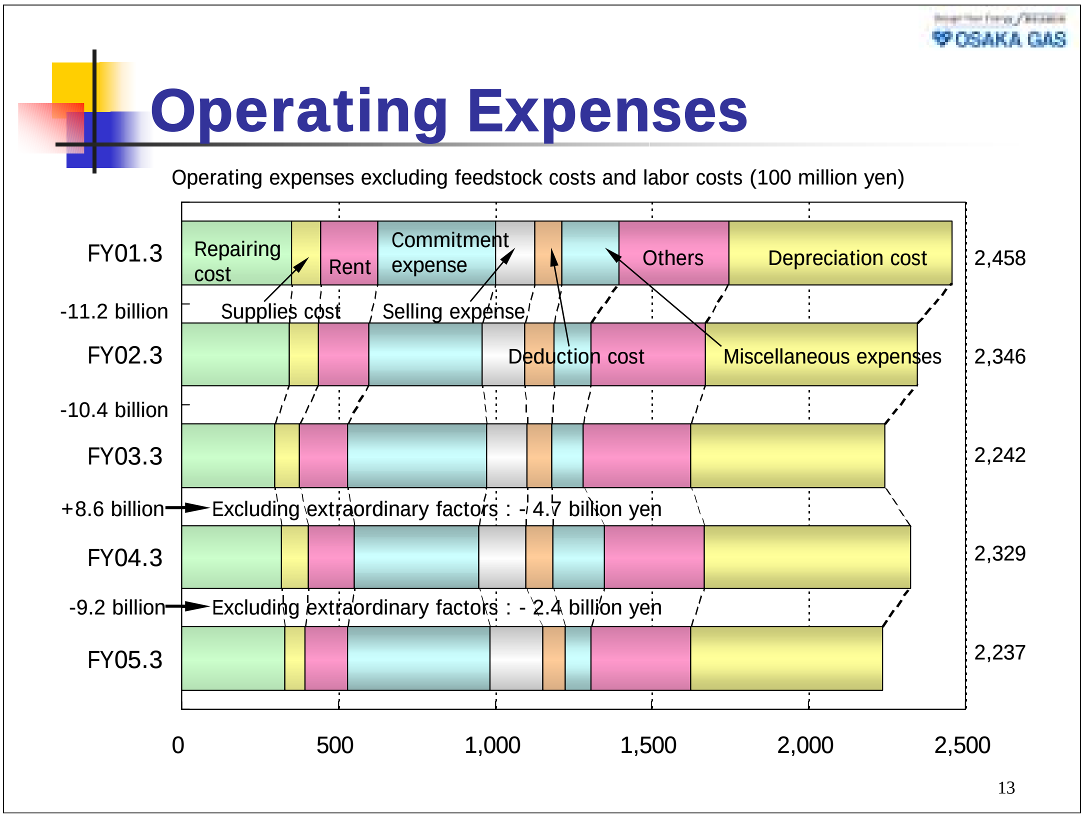
Beginning this fiscal year, in our analysis of affecting factors, we have decided not to disclose information on gas companies that for the first time, are entering into contracts with Osaka Gas to have gas transported to them through Osaka Gas's pipeline. This is because the Ministry of Economy, Trade and Industry has stopped disclosing such information on its website beginning this year, and also because we have entered into that kind of contract with only one company, and therefore disclosure of the information on the transactions would constitute disclosure of the contractual terms.

Forecast for FY06.3

- Annual sales volume is expected to increase+1.9% to 3,938 million m3 from the previous year.
- The forecast of operation of the existing plants is based on the assumption that the current economic recovery will continue.
- Assuming stable demand development at the same level as the term ending March 2005. Assuming that the IPP utilization will be below the level of the term ending March 2005 and the year-to-year growth will be lower than the level of the term ending March 2005. A certain volume of shift to consigned supplies is continually factored in from the previous year.

Industrial gas sales in the fiscal year ending March 2005 showed greater growth than the fiscal year ending March 2004, thanks to favorable development of new demands. It also exceeded the projection due to the impact of high utilization of IPPs.

For the fiscal year ending March 2006, we factored in the effect of demand development, shift to other gas suppliers, and changes in the utilization caused by the economy -- all at almost the same level as the fiscal year ending March 2005. However, as we assumed IPP to be lower than the fiscal year ending March 2005 when utilization was high, the growth from the previous year is expected to be lower than that of the fiscal year ending March 2005.



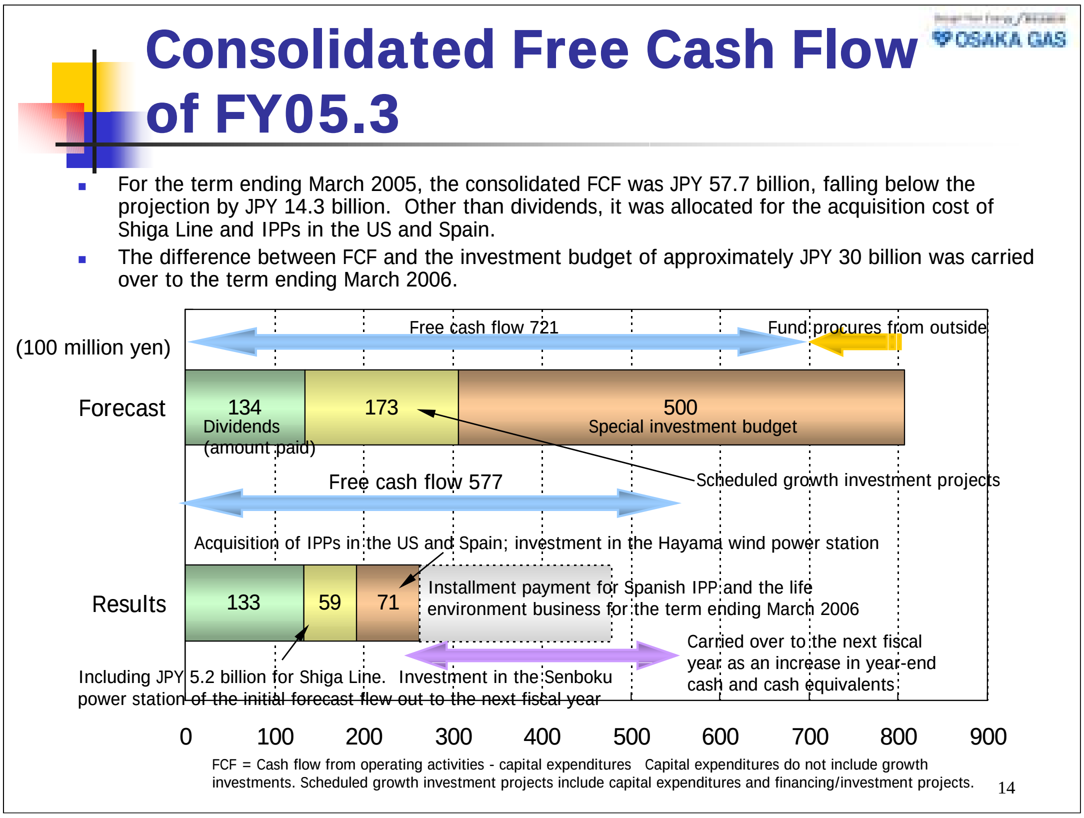
Operating Expenses

Operating expenses excluding feedstock costs and labor costs (100 million yen)

I would like to explain the status of cost reduction.

The Group has promoted cost reduction efforts on an ongoing basis. Though the reduction was not as significant as those made in the fiscal years ending in March 2001 and March 2002, in the fiscal year ending March 2005, we tried to absorb to the extent possible the increase in feedstock costs resulting from the rise in the crude oil prices. As there are extraordinary items posted one time only in both of the fiscal years ending March 2004 and March 2005, by comparison after excluding these items, we achieved cost reduction of approximately 4,700 million yen.

Here we excluded the labor cost. We reduced the labor cost by approximately 3,000 million yen from the previous year through personnel reduction, apart from special factors.



Consolidated Free Cash Flow of FY05.3

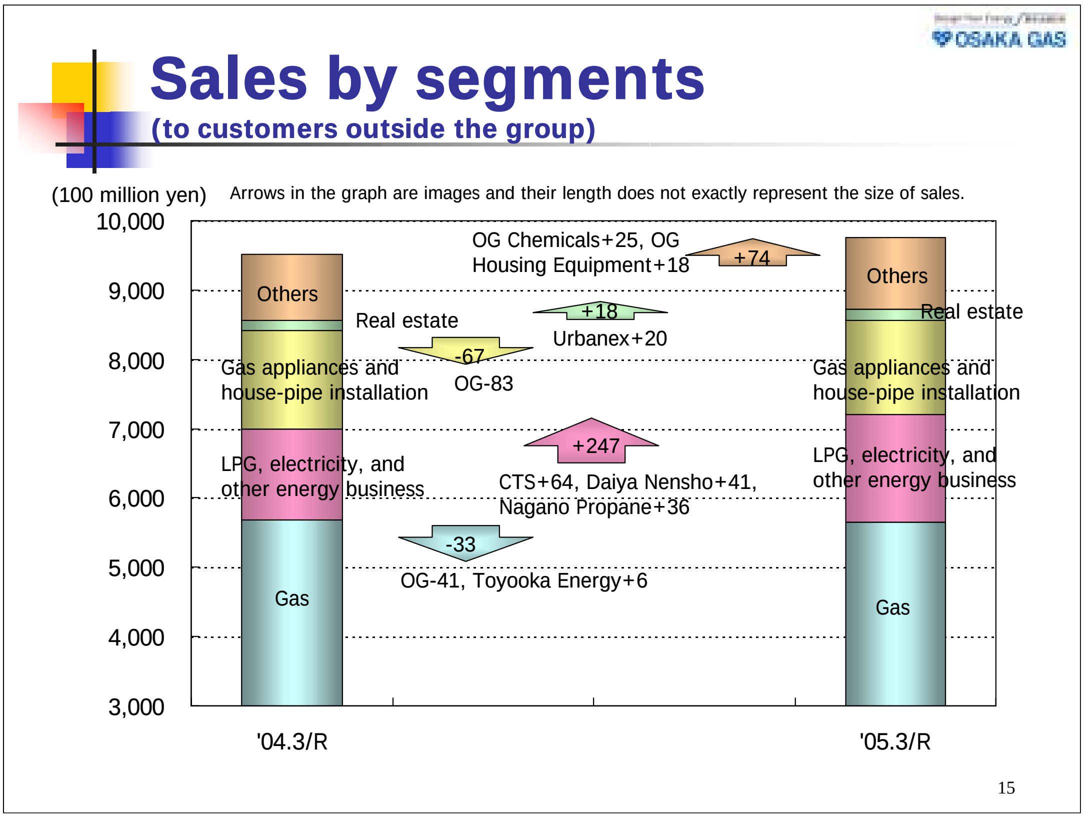
- For the term ending March 2005, the consolidated FCF was JPY 57.7 billion, falling below the projection by JPY 14.3 billion. Other than dividends, it was allocated for the acquisition cost of Shiga Line and IPPs in the US and Spain.
- The difference between FCF and the investment budget of approximately JPY 30 billion was carried over to the term ending March 2006.

FCF = Cash flow from operating activities - capital expenditures Capital expenditures do not include growth investments. Scheduled growth investment projects include capital expenditures and financing/investment projects.

For the fiscal year ending March 2005, free cash flow fell below the projection, mainly due to external contribution of pension funds and increased raw material inventory prices resulting from arise in the raw material prices.

However, net cash used fell below the projection as the payment related to the Senboku power plant budgeted for the planned growth investment projects was delayed to the following fiscal year ending March 2006. Approximately 7 billion yen was spent from the separate investment facilities of 50 billion yen for projects not determined at the beginning of the year, including investment in overseas IPPs. As the majority of the investment facilities was left unused, the excess cash flow is to be carried over to the following fiscal year ending March 2006.

However, as the payment for the life environment business of Takeda Pharmaceutical Group and Spanish IPP must be covered from the amount carried over, the actual result of investment made during the fiscal year ending March 2005 is actually approximately 30 billion yen, rather than approximately 7 billion yen.



Sales by segments

(to customers outside the group)

Arrows in the graph are images and their length does not exactly represent the size of sales.

Next, I would like to explain the status of the Group’s business by segment.

As I explained earlier, revenue of the gas segment decreased due to the low LNG price applied.

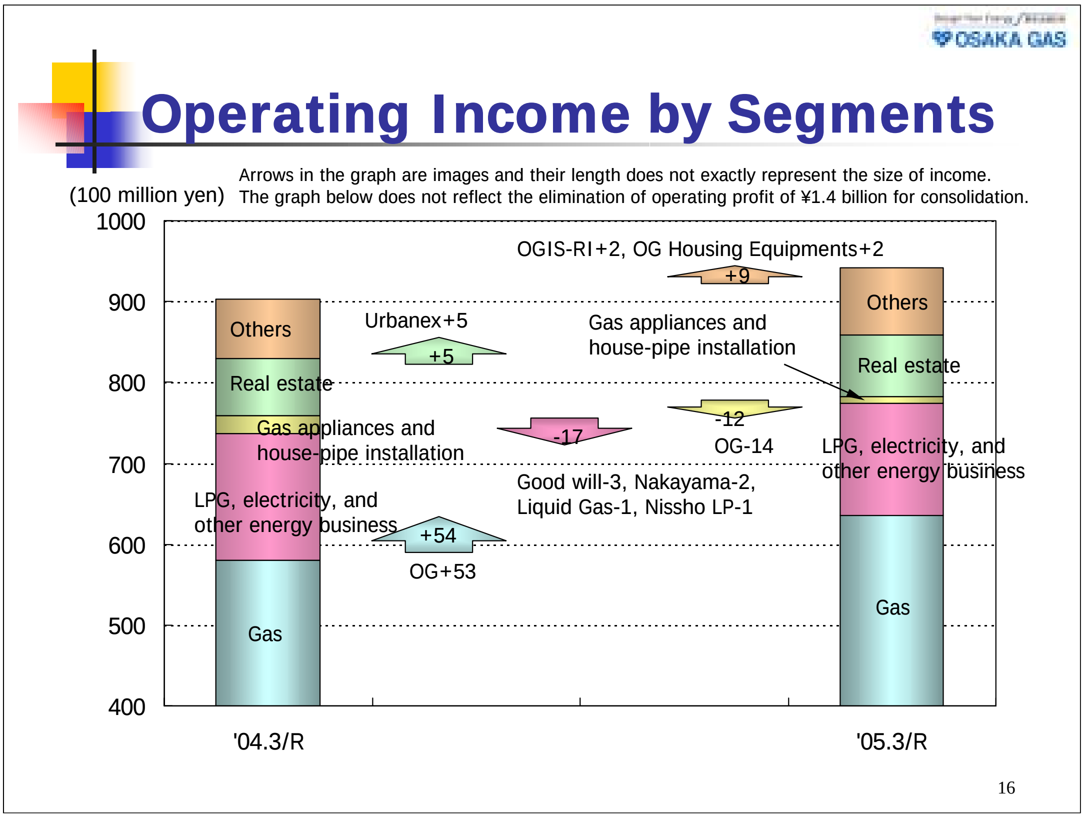
In the LPG, electricity and other energies segment, the Cogen Techno Service expanded its business compared to the previous year. Also, the new addition of Daiya Nensho and Nagano Propane Gas to consolidation contributed.

In the gas appliances and house-pipe installation segment, sales decreased as a reaction to the sales increase of gas appliances of Osaka Gas during the previous term ending March 2004, when a rush of orders for large-sized cogeneration equipment was received.

The real estate segment mainly engaged in management of properties within the Group. However, as demonstrated in our management principle published last winter, we will promote growth of the business from now on, pursuing synergies with the gas business.

We plan to expand the business in line with this policy, and in the fiscal year ending March 2005, we produced a visible result and sold properties to outside customers.

In the “others” segment, Osaka Gas Chemicals’ fine materials increased sales as its new plant started operation.

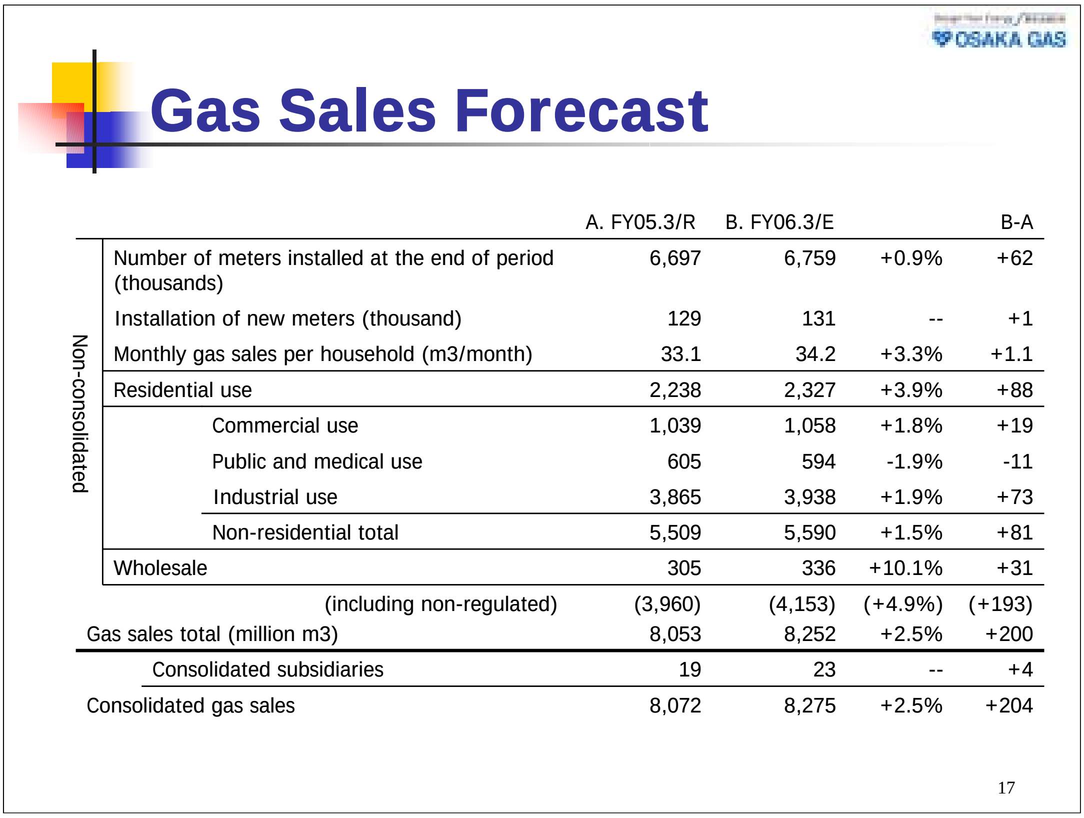


Operating Income by Segments

Arrows in the graph are images and their length does not exactly represent the size of income.
The graph below does not reflect the elimination of operating profit of ¥1.4 billion for consolidation.

In the gas segment, though the cost of feedstock increased, operating income showed an increase from the previous year as a result of reduction of labor cost and other expenses.

In the “others” segment, OGIS Research Institute Co., Ltd., which improved cost competitiveness, and Osaka Gas Housing Equipment Co., Ltd., which showed large sale of kitchen equipment, increased profit.

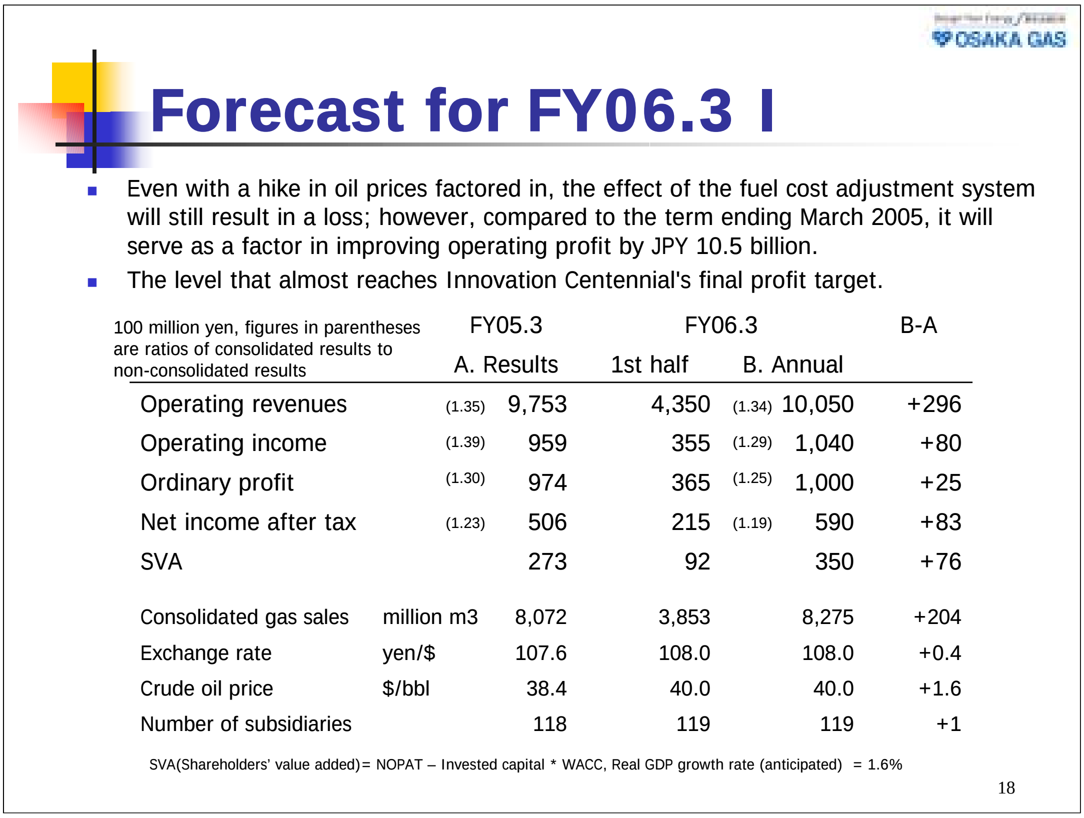


Gas Sales Forecast

		A. FY05.3/R	B. FY06.3/E		B-A
Non-consolidated	Number of meters installed at the end of period (thousands)	6,697	6,759	+0.9%	+62
	Installation of new meters (thousand)	129	131	--	+1
	Monthly gas sales per household (m3/month)	33.1	34.2	+3.3%	+1.1
	Residential use	2,238	2,327	+3.9%	+88
	Commercial use	1,039	1,058	+1.8%	+19
	Public and medical use	605	594	-1.9%	-11
	Industrial use	3,865	3,938	+1.9%	+73
	Non-residential total	5,509	5,590	+1.5%	+81
	Wholesale	305	336	+10.1%	+31
	(including non-regulated)	(3,960)	(4,153)	(+4.9%)	(+193)
Gas sales total (million m3)		8,053	8,252	+2.5%	+200
	Consolidated subsidiaries	19	23	--	+4
Consolidated gas sales		8,072	8,275	+2.5%	+204

Next, I would like to explain the projection for the next fiscal year ending March 2006.

Gas sales volume is, as I explained earlier, by intended end usage. As a whole, we expect a growth of 2.5% from the fiscal year ending March 2005.



Forecast for FY06.3 I

- Even with a hike in oil prices factored in, the effect of the fuel cost adjustment system will still result in a loss; however, compared to the term ending March 2005, it will serve as a factor in improving operating profit by JPY 10.5 billion.
- The level that almost reaches Innovation Centennial's final profit target.

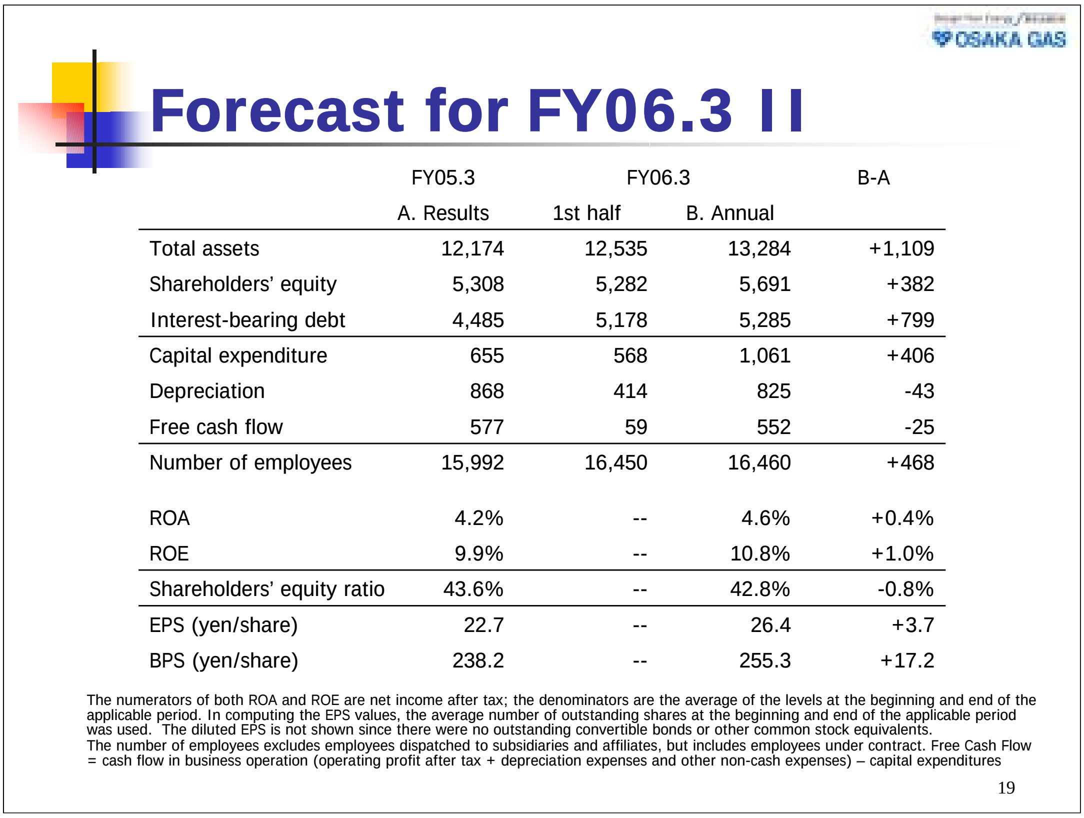
100 million yen, figures in parentheses are ratios of consolidated results to non-consolidated results		FY05.3		FY06.3			B-A
			A. Results	1st half		B. Annual	
Operating revenues		(1.35)	9,753	4,350	(1.34)	10,050	+296
Operating income		(1.39)	959	355	(1.29)	1,040	+80
Ordinary profit		(1.30)	974	365	(1.25)	1,000	+25
Net income after tax		(1.23)	506	215	(1.19)	590	+83
SVA			273	92		350	+76
Consolidated gas sales	million m3		8,072	3,853		8,275	+204
Exchange rate	yen/$		107.6	108.0		108.0	+0.4
Crude oil price	$/bbl		38.4	40.0		40.0	+1.6
Number of subsidiaries			118	119		119	+1

SVA(Shareholders' value added)= NOPAT – Invested capital * WACC, Real GDP growth rate (anticipated) = 1.6%

These are the forecasts for the revenues and profit items.

For the fiscal year ending March 2006, we assumed a crude oil price of 40 US dollars and an exchange rate of 108 yen per one dollar. We factored in the expected increase in gas sales volume for revenues. For operating income, we expect mitigation of loss from the fuel cost adjustment system from the previous fiscal year ending March 2005 -- approximately a 10-billion yen loss from the reference price; therefore, the amount of loss should decrease by approximately 10 billion yen from the fiscal year ending March 2005.

While we sold securities, non-operating profit improved significantly as we did not conduct defeasance during the previous fiscal year ending March 2005, and ordinary profit is expected to increase to a lesser degree in the fiscal year ending March 2006. However, net income for the year is expected to increase significantly, as we are to recover the impairment loss recorded for the fiscal year ending March 2005.



Forecast for FY06.3 II

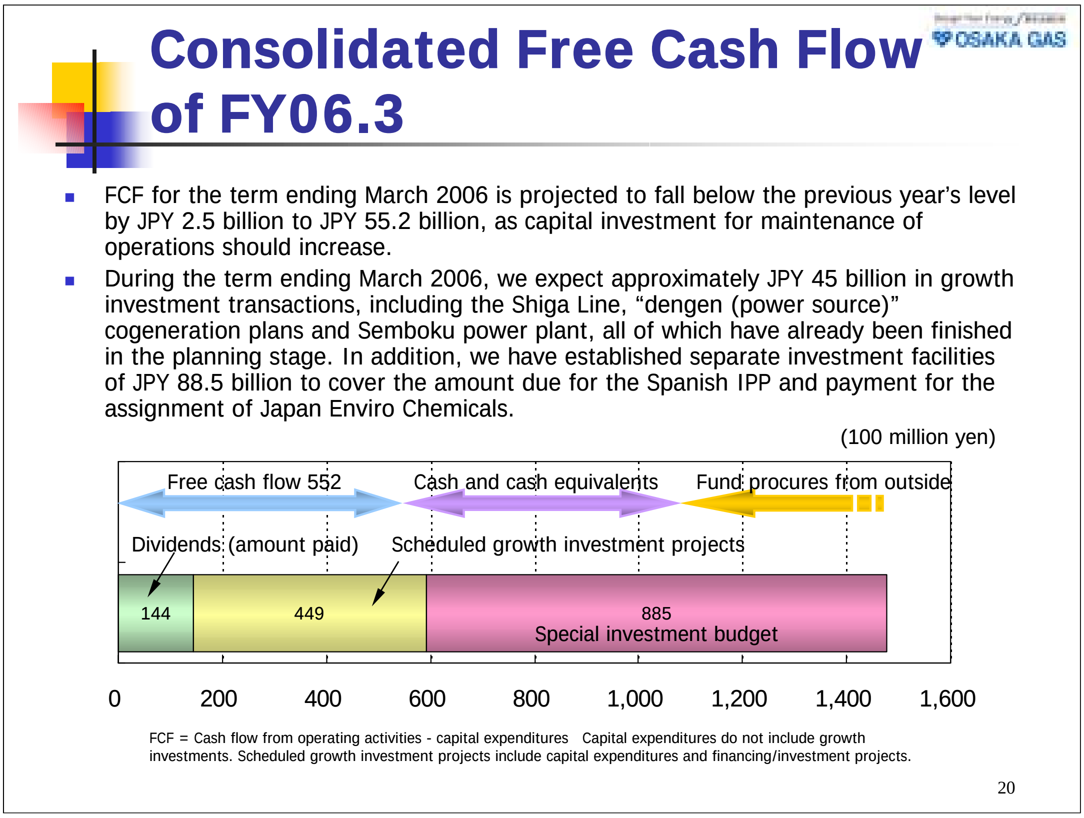
	FY05.3	FY06.3		B-A
	A. Results	1st half	B. Annual	
Total assets	12,174	12,535	13,284	+1,109
Shareholders' equity	5,308	5,282	5,691	+382
Interest-bearing debt	4,485	5,178	5,285	+799
Capital expenditure	655	568	1,061	+406
Depreciation	868	414	825	-43
Free cash flow	577	59	552	-25
Number of employees	15,992	16,450	16,460	+468
ROA	4.2%	--	4.6%	+0.4%
ROE	9.9%	--	10.8%	+1.0%
Shareholders' equity ratio	43.6%	--	42.8%	-0.8%
EPS (yen/share)	22.7	--	26.4	+3.7
BPS (yen/share)	238.2	--	255.3	+17.2

The numerators of both ROA and ROE are net income after tax; the denominators are the average of the levels at the beginning and end of the applicable period. In computing the EPS values, the average number of outstanding shares at the beginning and end of the applicable period was used. The diluted EPS is not shown since there were no outstanding convertible bonds or other common stock equivalents.
The number of employees excludes employees dispatched to subsidiaries and affiliates, but includes employees under contract. Free Cash Flow = cash flow in business operation (operating profit after tax + depreciation expenses and other non-cash expenses) – capital expenditures

These are the forecasts for the items related to assets, liabilities and shareholders' equity.

We expect an increase of more than 100 billion yen in assets, assuming that we use up the investment facilities to be explained in the next page for total assets, as well as interest-bearing liabilities.

We plan to increase employees in line with the business expansion of Kinrei and Osaka Gas Chemicals.



Consolidated Free Cash Flow of FY06.3

- FCF for the term ending March 2006 is projected to fall below the previous year’s level by JPY 2.5 billion to JPY 55.2 billion, as capital investment for maintenance of operations should increase.
- During the term ending March 2006, we expect approximately JPY 45 billion in growth investment transactions, including the Shiga Line, “dengen (power source)” cogeneration plans and Semboku power plant, all of which have already been finished in the planning stage. In addition, we have established separate investment facilities of JPY 88.5 billion to cover the amount due for the Spanish IPP and payment for the assignment of Japan Enviro Chemicals.

(100 million yen)

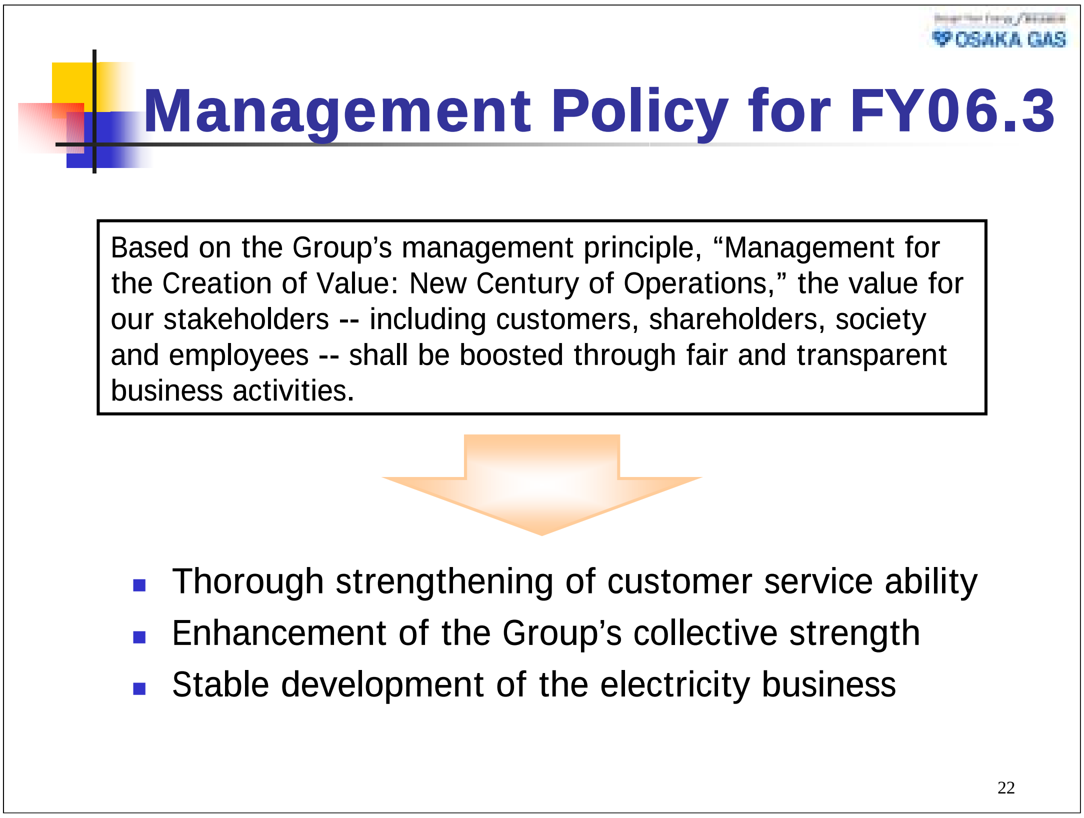
FCF = Cash flow from operating activities - capital expenditures Capital expenditures do not include growth investments. Scheduled growth investment projects include capital expenditures and financing/investment projects.

Now I will explain the intended end usage of free cash flow for the fiscal year ending March 2006.

For the fiscal year ending March 2006, in addition to free cash flow for the period, we provide large-sized investment facilities assuming funding, taking into consideration the year-end balance of cash and deposits as well as new borrowings and other funds from outside sources.

As the payment is included for some projects -- such as the Senboku power plant, Takeda Pharmaceutical’s subsidiaries and the Spanish IPP, which were, in fact, delayed from the fiscal year ending March 2005, the assumed amount of investment is quite large.

Major Challenges for FY06.3



Management Policy for FY06.3

Based on the Group’s management principle, “Management for the Creation of Value: New Century of Operations,” the value for our stakeholders -- including customers, shareholders, society and employees -- shall be boosted through fair and transparent business activities.

- Thorough strengthening of customer service ability
- Enhancement of the Group’s collective strength
- Stable development of the electricity business

I conclude my briefing on financial results and now would like to explain our management policy and challenges for the fiscal year ending March 2006.

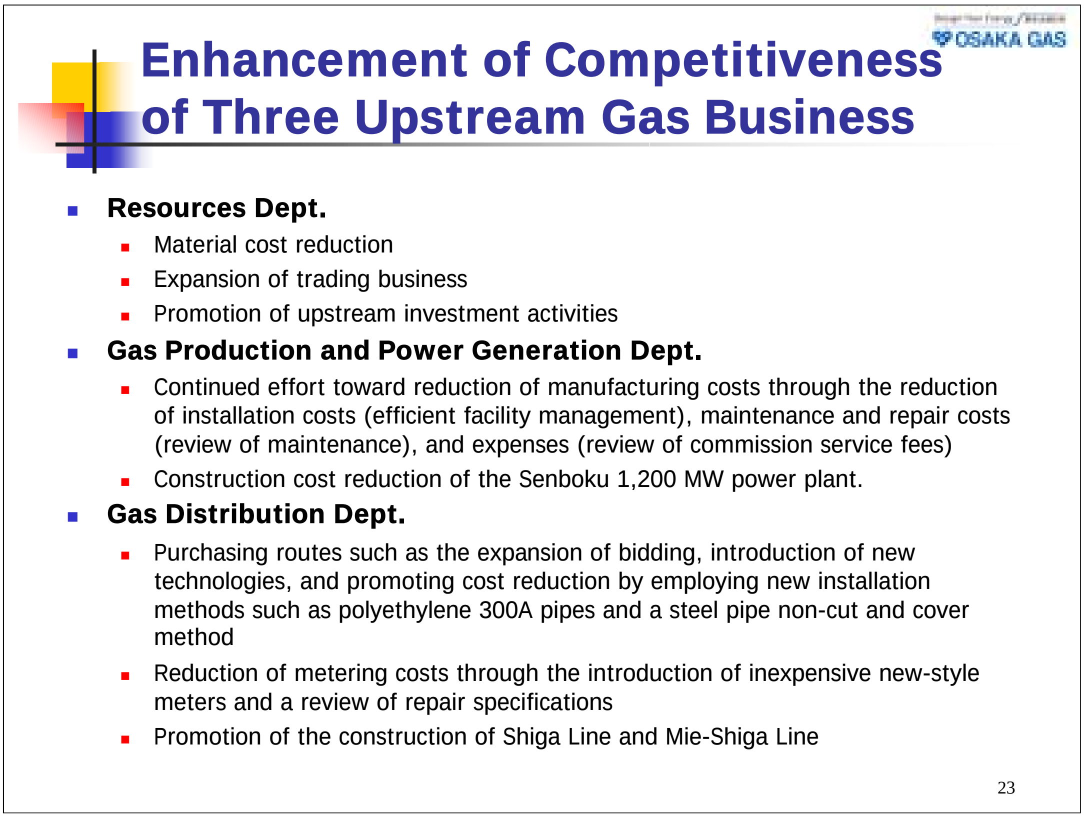
There are three key points in our management policy for the fiscal year ending March 2006, as follows:

(1) Thorough strengthening of customer service ability;

(2) Enhancement of the Group’s collective strength; and

(3) Stable development of the electricity business

I will explain these challenges in more concrete terms from the next page.

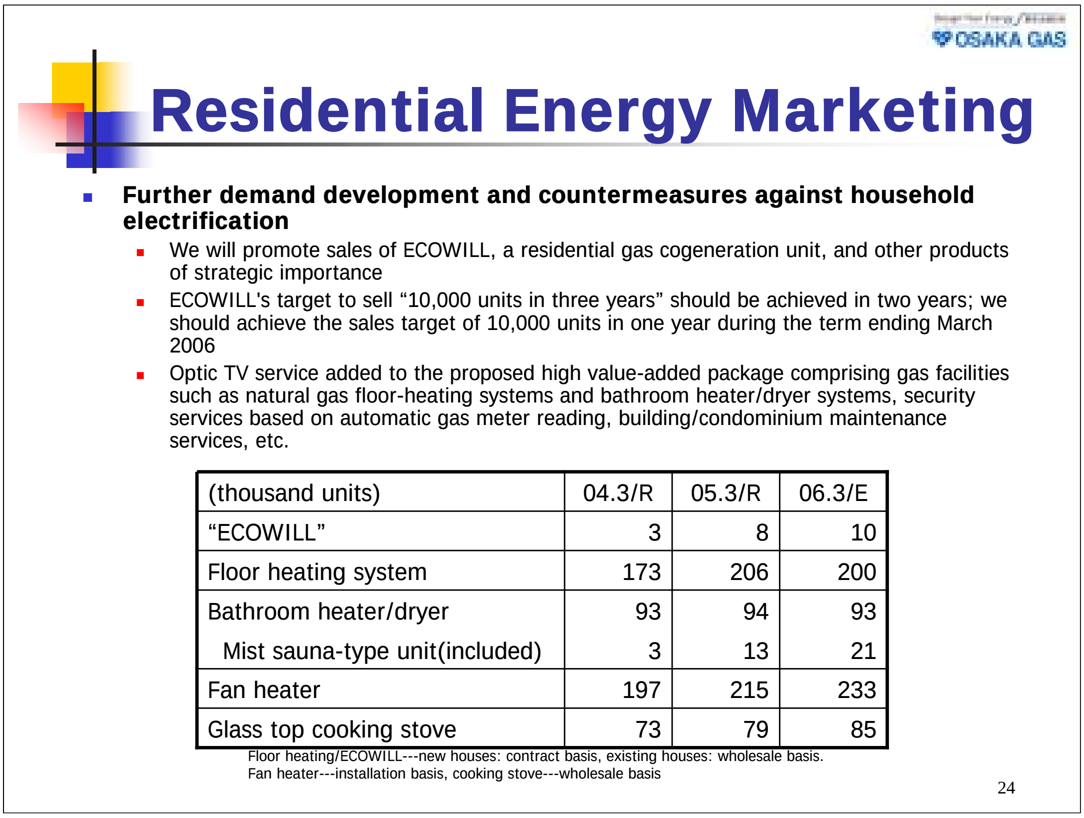


Enhancement of Competitiveness of Three Upstream Gas Business

- **Resources Dept.**
  - Material cost reduction
  - Expansion of trading business
  - Promotion of upstream investment activities
- **Gas Production and Power Generation Dept.**
  - Continued effort toward reduction of manufacturing costs through the reduction of installation costs (efficient facility management), maintenance and repair costs (review of maintenance), and expenses (review of commission service fees)
  - Construction cost reduction of the Senboku 1,200 MW power plant.
- **Gas Distribution Dept.**
  - Purchasing routes such as the expansion of bidding, introduction of new technologies, and promoting cost reduction by employing new installation methods such as polyethylene 300A pipes and a steel pipe non-cut and cover method
  - Reduction of metering costs through the introduction of inexpensive new-style meters and a review of repair specifications
  - Promotion of the construction of Shiga Line and Mie-Shiga Line

In the upstream gas business of the material procurement, production and supply departments, we will continue cost reduction efforts to enhance our competitiveness.

In particular, the Resources Department will expand its trading business and promote gas field and other investment activities to improve profitability in the upstream area beyond the bounds of traditional material procurement.



Residential Energy Marketing

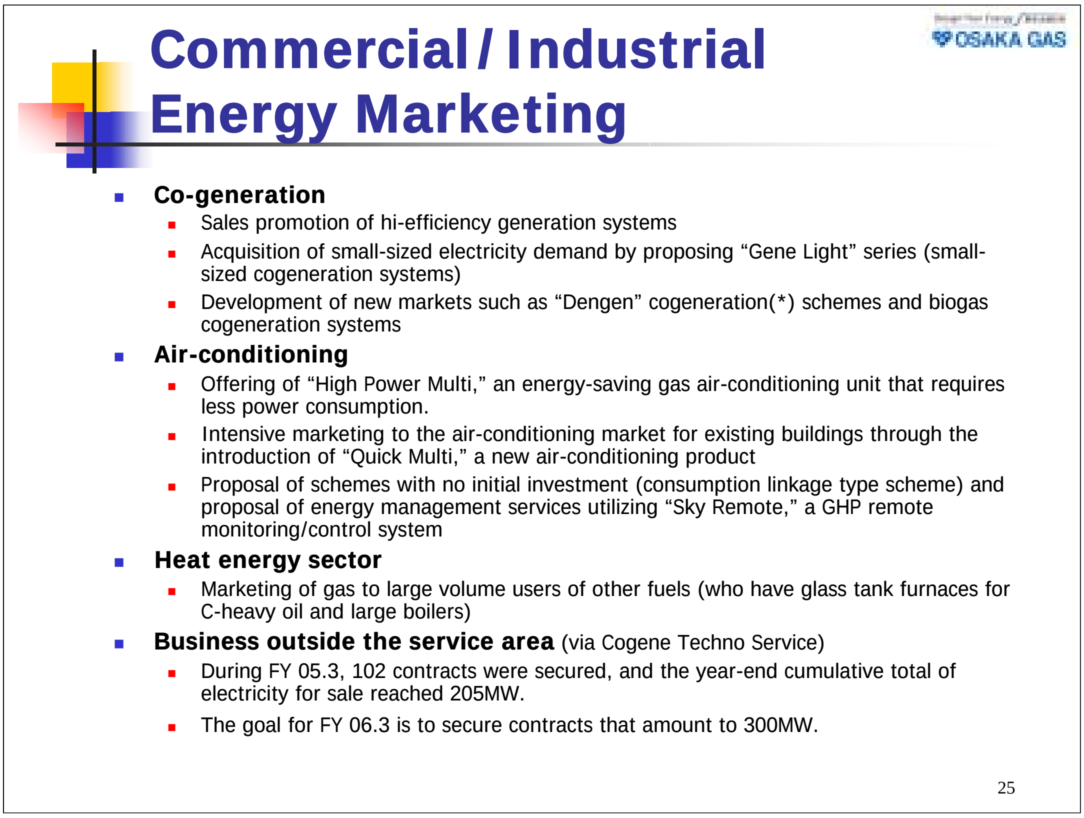
- **Further demand development and countermeasures against household electrification**
  - We will promote sales of ECOWILL, a residential gas cogeneration unit, and other products of strategic importance
  - ECOWILL's target to sell “10,000 units in three years” should be achieved in two years; we should achieve the sales target of 10,000 units in one year during the term ending March 2006
  - Optic TV service added to the proposed high value-added package comprising gas facilities such as natural gas floor-heating systems and bathroom heater/dryer systems, security services based on automatic gas meter reading, building/condominium maintenance services, etc.

(thousand units)	04.3/R	05.3/R	06.3/E
“ECOWILL”	3	8	10
Floor heating system	173	206	200
Bathroom heater/dryer	93	94	93
Mist sauna-type unit(included)	3	13	21
Fan heater	197	215	233
Glass top cooking stove	73	79	85

Floor heating/ECOWILL---new houses: contract basis, existing houses: wholesale basis.
Fan heater---installation basis, cooking stove---wholesale basis

In the residential gas sector, competition with electrification is the most pressing issue. In the Company’s territory, the percentage of full electrification of newly built houses currently is approximately 15 to 20%. We are going to prevent a further increase in the percentage of electrification through improved marketing ability, introduction of new products and collaboration with the home security business.

The residential gas engine cogeneration system, ECOWILL, is showing favorable sales. In the fiscal year ending March 2006, we aim to achieve the target sales of 10,000 units in a single year.



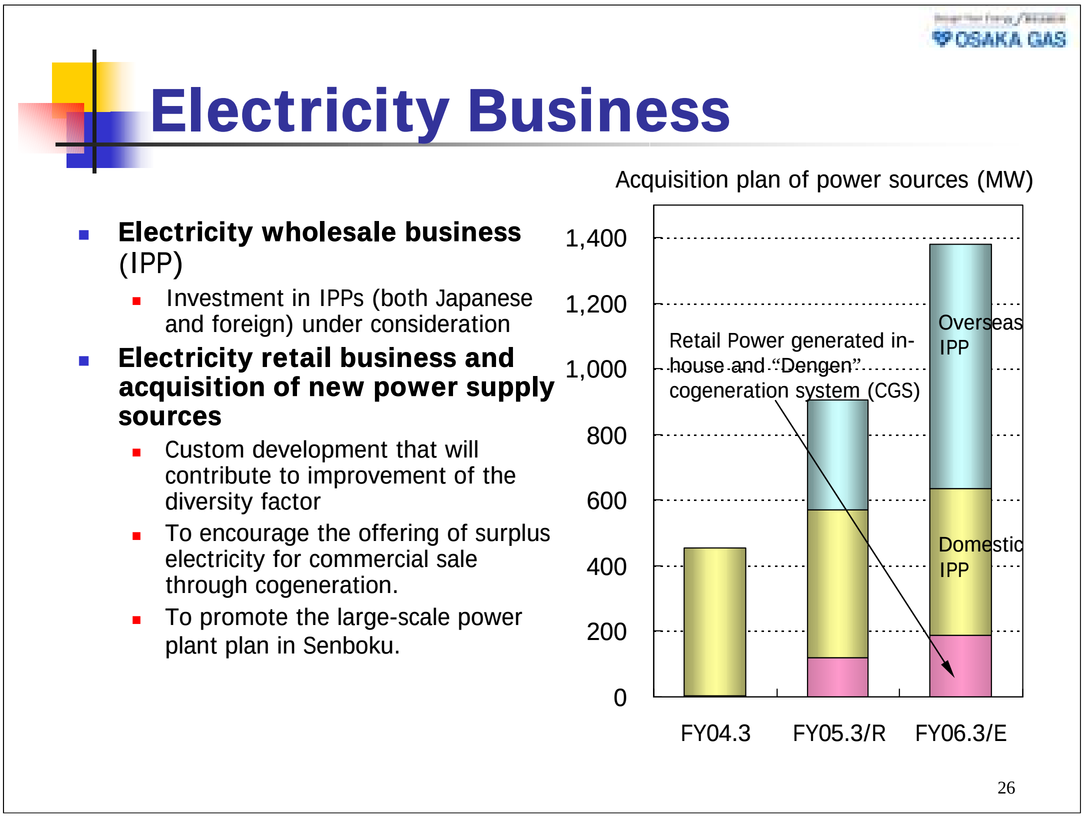
Commercial / Industrial Energy Marketing

- **Co-generation**
  - Sales promotion of hi-efficiency generation systems
  - Acquisition of small-sized electricity demand by proposing “Gene Light” series (small-sized cogeneration systems)
  - Development of new markets such as “Dengen” cogeneration(*) schemes and biogas cogeneration systems
- **Air-conditioning**
  - Offering of “High Power Multi,” an energy-saving gas air-conditioning unit that requires less power consumption.
  - Intensive marketing to the air-conditioning market for existing buildings through the introduction of “Quick Multi,” a new air-conditioning product
  - Proposal of schemes with no initial investment (consumption linkage type scheme) and proposal of energy management services utilizing “Sky Remote,” a GHP remote monitoring/control system
- **Heat energy sector**
  - Marketing of gas to large volume users of other fuels (who have glass tank furnaces for C-heavy oil and large boilers)
- **Business outside the service area** (via Cogene Techno Service)
  - During FY 05.3, 102 contracts were secured, and the year-end cumulative total of electricity for sale reached 205MW.
  - The goal for FY 06.3 is to secure contracts that amount to 300MW.

In the commercial/industrial energy sector, we will acquire small-sized electricity demand by proposing small-sized cogeneration systems, while developing new markets such as “Dengen” cogeneration schemes,cogeneration system that is designed to generate surplus electricity for commercial sales, and bio-gas-cogeneration systems.

We are currently pursuing research for agricultural “Tri-generation” using CO_2 emissions of gas engines to grow plants.

In the air-conditioning sector, we introduced a new type of air conditioner, the “High Power Multi,” -- which uses the remaining energy of gas engines to generate electricity -- to the market to promote our standardization proposal.



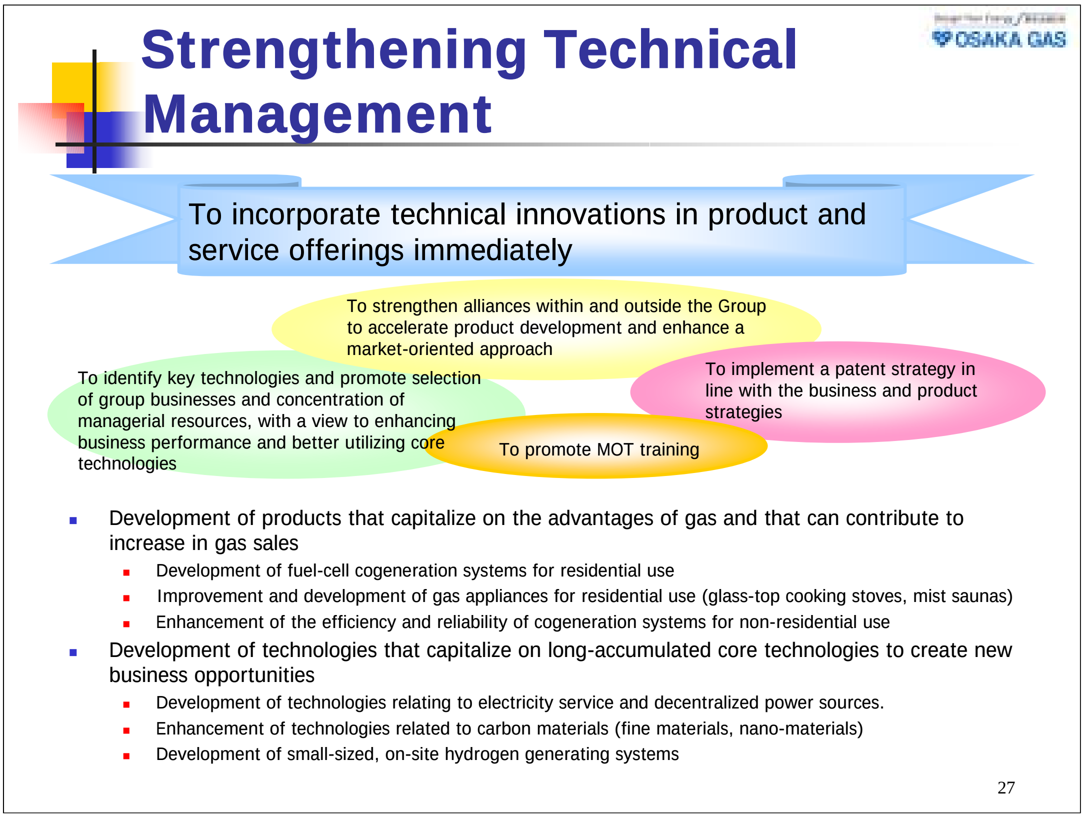
Electricity Business

- **Electricity wholesale business** (IPP)
  - Investment in IPPs (both Japanese and foreign) under consideration
- **Electricity retail business and acquisition of new power supply sources**
  - Custom development that will contribute to improvement of the diversity factor
  - To encourage the offering of surplus electricity for commercial sale through cogeneration.
  - To promote the large-scale power plant plan in Senboku.

Acquisition plan of power sources (MW)

In the electricity business, first, we will continue consideration of investments in domestic and international projects for the electricity wholesale business, IPP, from which stable returns are expected.

In the retail business, in order to effectively use the limited electric power supply, we will develop customers who can use electricity during the non-demand season, such as nighttime hours and in winter, to improve the diversity factor. In addition, we will continue development of the "Dengen" cogeneration market.



Strengthening Technical Management

To incorporate technical innovations in product and service offerings immediately

To strengthen alliances within and outside the Group to accelerate product development and enhance a market-oriented approach

To identify key technologies and promote selection of group businesses and concentration of managerial resources, with a view to enhancing business performance and better utilizing core technologies

To implement a patent strategy in line with the business and product strategies

To promote MOT training

- Development of products that capitalize on the advantages of gas and that can contribute to increase in gas sales
  - Development of fuel-cell cogeneration systems for residential use
  - Improvement and development of gas appliances for residential use (glass-top cooking stoves, mist saunas)
  - Enhancement of the efficiency and reliability of cogeneration systems for non-residential use
- Development of technologies that capitalize on long-accumulated core technologies to create new business opportunities
  - Development of technologies relating to electricity service and decentralized power sources.
  - Enhancement of technologies related to carbon materials (fine materials, nano-materials)
  - Development of small-sized, on-site hydrogen generating systems

27

We will promote technology management focusing on (1) development of new products which will contribute to expanded gas sales, and (2) development in the carbon catalysts and other areas, where the Company has the strength to translate the technological results into business at an early stage.

Nanotechnology, in which the Company is strong, is utilized in the MOT education conducted by our affiliate, “i-SUPPORT.”

I now close my presentation. Thank you for your attention.

Facts and Figures

Change of Operating Profit by Fuel Cost Adjustment System

100 million yen	1st half	3rd Q	4th Q	Annual
FY04.3 Results	Results -15	Results +38		+22
FY05.3/E Announced at April	Estimation -9	Estimation +12		+3
FY05.3/E Announced at October	Results -118	Estimation -66		-185
FY05.3 Results	Results -118	Results -55	Results -36	-209
FY06.3/E	Estimation -53	Estimation -51		-104

Table shows changes in operating net profits produced by increase/decrease of gas sales due to gas rate adjustment and variances in cost of raw materials (calculated on the basis of the LNG standard price of 26,780 yen/t, which was adopted at the time of rate revision in February 2003).

Difference from the target of Innovation Centennial

FY06.3 Consolidated, 100 billion yen

	This forecast	INV100	Differ-ence	References
Operating revenues	10,050	10,900	-850	OG Electricity business-208, CTS-134, GPI-123, Kinrei-80
Operating income	1,040	1,130	-90	Gas gross margin-51, GPI-13, CTS-6
Ordinary profit	1,000	1,000	±0	Decrease of interest-bearing debt of OG+13, Sales of securities+30
Net Income	590	575	+15	

- OG non-consolidated
  - The gross margin of gas sales decreased due to an increased cost in raw materials, resulting from inflating oil prices and a decline in the volume of gas sales.
  - Sales of the supplementary electricity business decreased as the number of foreign IPPs to which the equity method is applied (not included in the sales) exceeded the plan. Contributed to profit increase at the profit level
- GPI: Due to delayed progress of power CGS, etc.
- CTS: Due to delayed progress caused by reduction of electric power rates, inflating oil prices and fiercer competition
- Kinrei: Due to a delay in the attempt to expand the chain into the Kanto and other areas

Progress of Investments in Growing Businesses I

- **Agreement was concluded with Chubu Electric Power regarding construction of a Mie-Shiga pipeline.**
- **Investments in two overseas IPPs were decided.**
  - Investment Decision Making: After evaluating the profitability considering country risks, foreign exchange risks, etc. IRR should be grater than the hurdle rate set for each type of business.
  - Operating results of the Tenaska IPP will be reflected into the consolidated results of the Company by including (Profit reported by the IPP x OG's share) in the profit/loss of OGEA (a consolidated company of the Company).

Project	Tenaska Gateway	Bizkaia Energia
Location	Texas, USA	Basque, Spain
Generation Capacity	840MW	755MW
OG's Share	40%	50%
Completion of Acquisition	June 2004	Summer 2005
Contract of Power Sale	Low risk contract with long-term tolling arrangement	

Progress of Investments in Growing Businesses II

- **Senboku Natural Gas Power Plant (provisional name) Business Plan Announced** (Dec. 2, 2004)

Energy Output Capacity	1,200 MW (300MW*4 units)
Installation Sites	Senboku I terminal: 2 units Senboku II Terminal: 2 units
Operation Start-up	April 2009 (provisional)

- **Shipbuilding Contracts for 2 LNG Carriers Signed** (announced Dec. 13, 2004)

	First Carrier	Second Carrier
Owners/Percentage Owned	OGIT: 85%, NYK Line: 10%, "K" Line: 5% (Equity participation by Oman Shipping Company is expected.)	OGIT: 60.1%, NYK Line: 39.9%
Shipyard	Kawasaki Shipbuilding Corporation	
Operating Company	NYK Line	
Start of service	December 2008	July 2009
Purpose	Transport of Qalhat LNG (Oman)	Transport of LNG for new contracts

Progress of Investments in Growing Businesses III

- **Assumed the stocks of Takeda Pharmaceutical’s life business subsidiaries (announced on March 30, 2005)**

Osaka Gas Chemicals Co., Ltd.

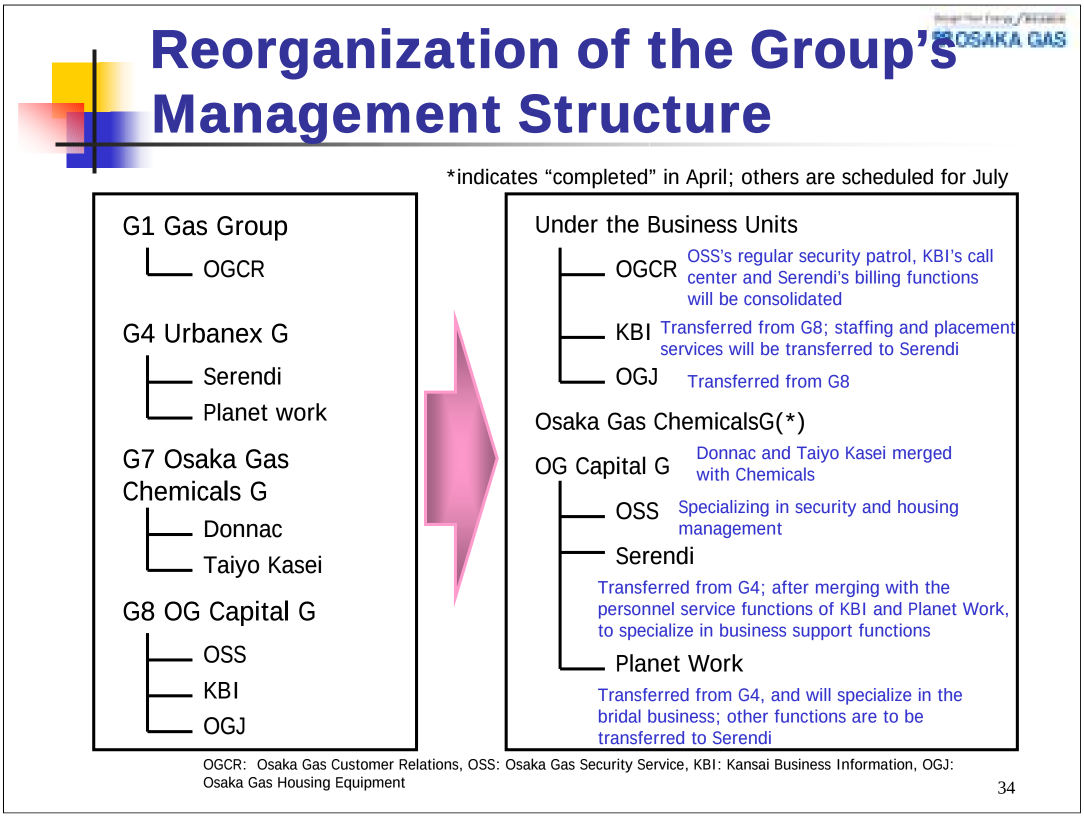
- Manufacturer of fibrous activated carbons
- Strength in household use products, including water purifiers

Japan EnviroChemicals (JEC)

- Manufacturer of granulated and powdery active carbons and preservatives for house building timbers
- Strength in industrial use products

Effect of Acquisition

- Ensuring stable profits: profitability exceeding the Company’s level of investment
- Active carbon business: distribution of powdery active carbons for household water purifiers to supplement/expand the sales channels. Expansion of the product line
- Contributed to consolidated sales by approximately JPY 15 billion



Reorganization of the Group's Management Structure

*indicates "completed" in April; others are scheduled for July

G1 Gas Group
- OGCR

G4 Urbanex G
- Serendi
- Planet work

G7 Osaka Gas Chemicals G
- Donnac
- Taiyo Kasei

G8 OG Capital G
- OSS
- KBI
- OGJ

Under the Business Units
- OGCR OSS's regular security patrol, KBI's call center and Serendi's billing functions will be consolidated
- KBI Transferred from G8; staffing and placement services will be transferred to Serendi
- OGJ Transferred from G8

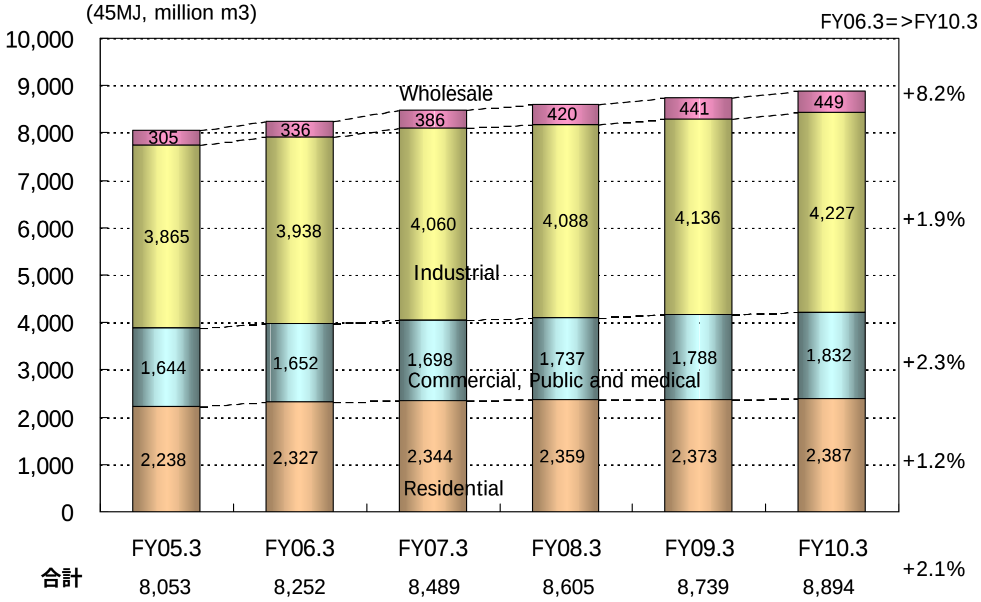
Osaka Gas ChemicalsG(*)

Donnac and Taiyo Kasei merged with Chemicals

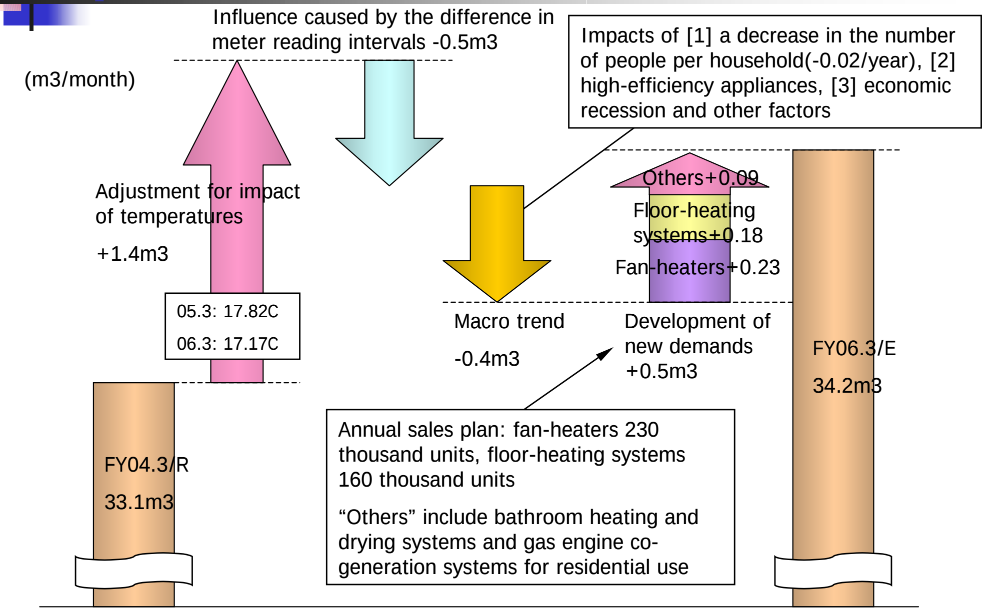
OG Capital G
- OSS Specializing in security and housing management
- Serendi
  Transferred from G4; after merging with the personnel service functions of KBI and Planet Work, to specialize in business support functions
- Planet Work
  Transferred from G4, and will specialize in the bridal business; other functions are to be transferred to Serendi

OGCR: Osaka Gas Customer Relations, OSS: Osaka Gas Security Service, KBI: Kansai Business Information, OGJ: Osaka Gas Housing Equipment

Gas Sales Plan(non-consolidated)



Sales Volume Assumption per Household



(m3/month)

Influence caused by the difference in meter reading intervals -0.5m3

Impacts of [1] a decrease in the number of people per household(-0.02/year), [2] high-efficiency appliances, [3] economic recession and other factors

Adjustment for impact of temperatures

+1.4m3

05.3: 17.82C

06.3: 17.17C

FY04.3/R

33.1m3

Macro trend

-0.4m3

Others+0.09

Floor-heating systems+0.18

Fan-heaters+0.23

Development of new demands +0.5m3

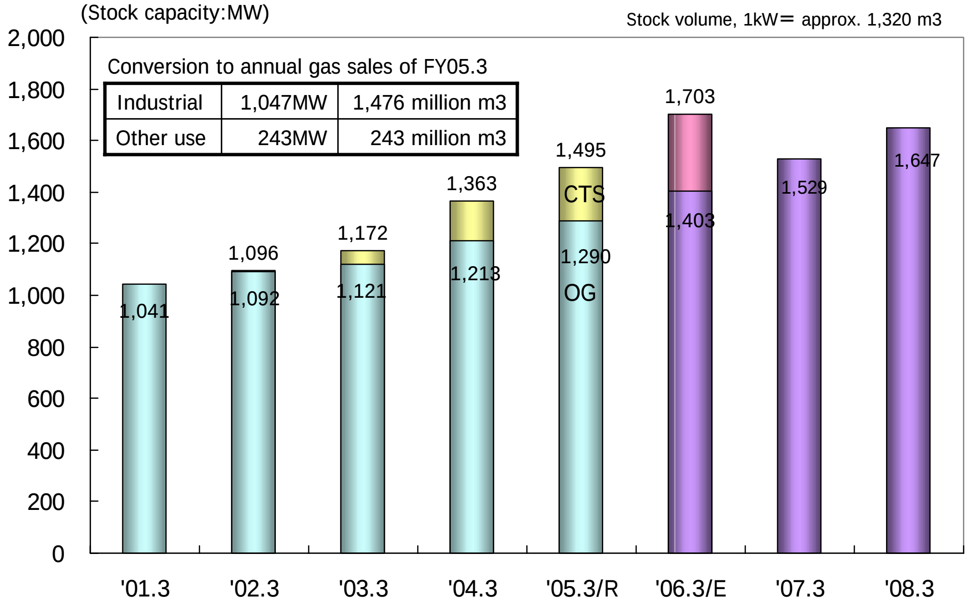
FY06.3/E

34.2m3

Annual sales plan: fan-heaters 230 thousand units, floor-heating systems 160 thousand units

“Others” include bathroom heating and drying systems and gas engine co-generation systems for residential use

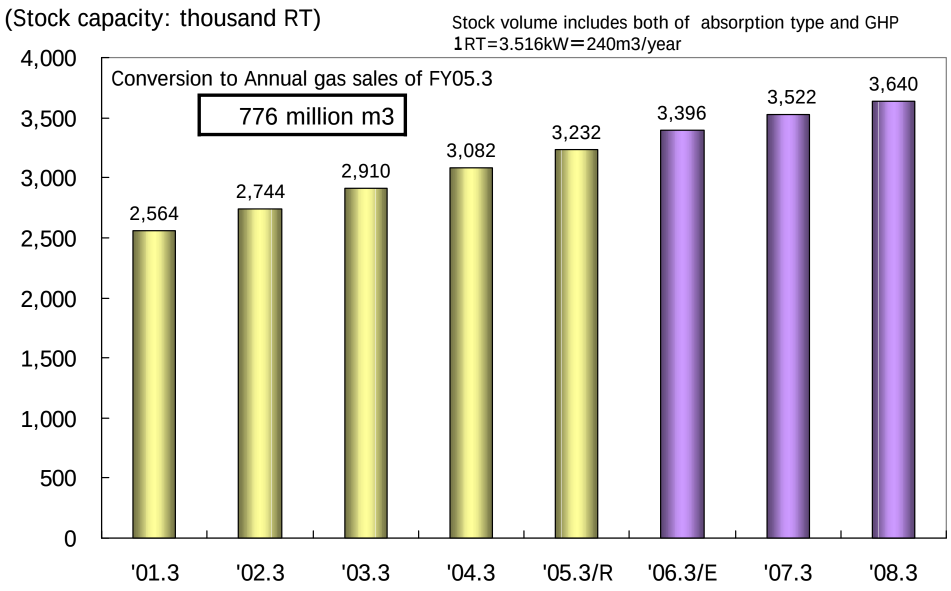
Development of Demand for Co-Generation Systems



Conversion to annual gas sales of FY05.3

Industrial	1,047MW	1,476 million m3
Other use	243MW	243 million m3

Sales Plan of Gas Air-Conditioning Systems



Stock volume includes both of absorption type and GHP
1RT=3.516kW＝240m3/year

Conversion to Annual gas sales of FY05.3

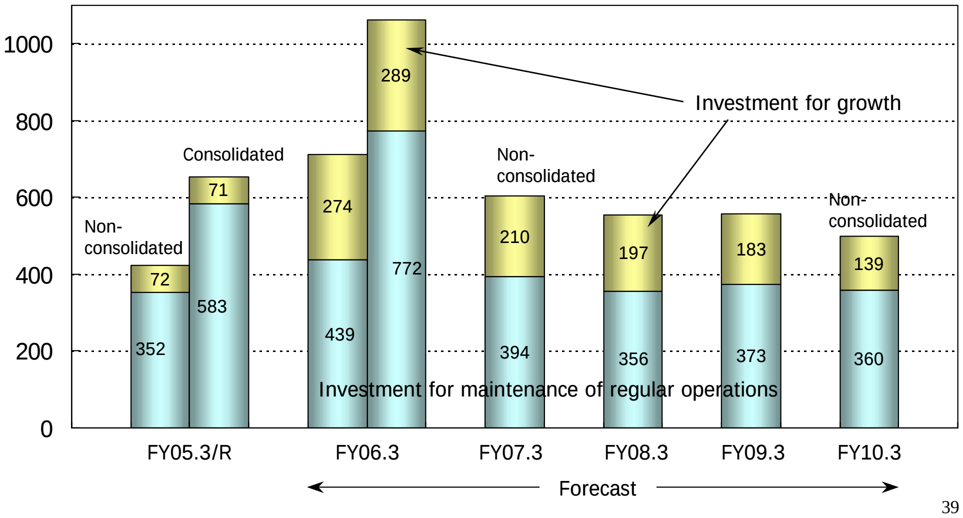
776 million m3

Capital Expenditure Plan

- In Osaka Gas alone, investment in the maintenance of regular operations has remained at the level of 44 billion yen since FY 06.3. However, investment in the power business and other growing sectors will be increased.

(100 million yen)

A consolidated capital expenditure plan has not been announced for the years following the year FY07.3.



Risk Factors Affecting Forecasts of Annual Results

- **Atmospheric and water temperatures**
  - A 1 degree Celsius change in atmospheric and water temperatures will impact the residential gas sales volume: approx. a 5% increase/decrease in spring and autumn, approx. a 6% in summer, and approx. a 4% in winter.
- **Crude oil price**
  - LNG price is linked to crude oil price. A $1/bbl change in crude oil price will have an effect of approx. 3.2 billion yen on annual feedstock costs.
- **Foreign exchange rate**
  - LNG price is affected by the fluctuation of the US dollar/Japanese yen exchange rate. A 1 yen fluctuation in the US dollar/Japanese yen exchange rate will have an effect of approx. 1.7 billion yen on annual feedstock costs.
- **Fuel cost adjustment system**
  - Under this system, fluctuation of feedstock costs is reflected into gas charge rates on a mid- and long-term basis. However, on a fiscal year basis, an undercharge or overcharge may occur.
- **Interest rate**
  - A 1% change in the interest rate will have an effect of approx. 1 billion yen on annual consolidated non-operating expenses.

Overview of Energy Business Segments

100 million yen

Total values of consolidated subsidiaries without adjustments. Figures in the upper left of columns are changes from the same period of the previous year.

		Operating Revenues			Net income			References
		04.3	05.3	06.3	04.3	05.3	06.3	
	GPI Group	253	+42 295	+28 324	24	+10 34	-10 23	March 05: Profits increased as Uji EC started operations. March 06: Revenue will increase but profit will decrease due to a depreciation in the cost of the center incurred for the year and an increase in interest costs of other investments.
	Others	648	+91 855	+63 918	-0	+17 17	-0 16	March 05: OGJ recorded favorable home equipment sales, and CTS customers increased, resulting in increases in both revenue and profit.
Under Business Units		902	+248 1,150	+92 1,243	23	+27 51	-11 39	
Liquid gas Group		209	+24 233	+7 241	11	-1 10	+0 10	March 05: Revenue increased through increased LNG sales, but profits decreased due to an inflating cost of raw materials.
NIPG Group		672	+152 825	+11 837	4	+0 4	+3 8	March 05: Profits increased as unit sales price rose and new consolidations increased.

Energy 3 segments means Gas segment, LPG, electricity and other energies, Gas appliances and house-pipe installation.
GPI group: GPI(Gas and Power Investment), Gas and power, Nakayama, Nakayama Nagoya, Tenaska 3 companies, OGEE. NIPG:Nissho Petroleum Gas, CTS:Cogen Techno Service, OGEE:Osaka Gas Energy Europe, OGJ:Osaka Gas Housing Equipment.

Overview of Non-Energy Business Segments

Total values of consolidated subsidiaries without adjustments. Figures in the upper left of columns are changes from the same period of the previous year.

100 bullion yen	Operating Revenues			Net Income			References
	04.3	05.3	06.3	04.3	05.3	06.3	
Urbanex Group	233	+28 262	-9 253	22	+6 28	-1 27	FY05: Recorded an increase in revenue as condominium sales increased
Kinrei	174	+8 182	+20 202	9	-3 5	+0 6	Restaurant business revenue increased due to new operations launched. Profits decreased as a gain in sales of securities was posted in FY04.
OGIS-RI Group	338	-17 320	+35 355	5	+7 13	+0 14	FY05: Marked increase in revenue but a fall in profit due to a stringent selection of highly profitable transactions.
Osaka Gas Chemicals Group	153	+28 182	+82 271	5	-1 3	+2 6	FY05: Profit increased as the unit-sales price of chemical products rose and the fine materials plant started operations. Profits decreased due to a gain in sales of securities in FY04. March 06: revenue increases resulting from new consolidations
OG Capital Group	728	+45 773	+40 814	30	+6 36	-1 35	FY05: OG Auto increased the number of leased cars and increased revenue as well. The Group's revenue increased as a result of new consolidations, including OUD.
All Total	3,412	+518 3,931	+287 4,219	112	+41 154	-6 147	

Non-energy business segments means Real estate, and Others.