



Fiscal year ending March 2006  
**Third Quarter Financial Results (Cumulative)**



January 2006  
Osaka Gas Co., Ltd

# I. Consolidated results for third quarter

**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](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.

## **Note regarding forecasts of operating results**

"Forecasts" of operating results were those announced by the Company in April 2004. In September 2004, the Company announced modification of forecasts of operating results for the first six months ended September 31, 2004.

## **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/m<sup>3</sup>.

# Summary of Consolidated Results

## ■ Overview: year on year comparison

- The increase in gas raw materials costs due to soaring crude oil prices was absorbed by a reduction in labor and other costs, and non-consolidated profits remained at the same level as the same period last year.
- Consolidated results were affected by the decrease in profits of the NIPG Group and OGIS Research Institute on a year-to-year comparison.

## ■ Impact of Crude Oil Costs and Exchange Rates

- A time lag in reflecting the changes into gas rates caused the period-over-period increase in “slide loss” of about ¥16.7 billion over nine months.

## ■ Gas Sales

- 4.2% period-over-period increase (non-consolidated) due to cold temperatures and the development of new demands

## ■ Implementation of Energy Growth Investment and Restructuring of Business Operations

- Construction of pipelines for Okayama under consideration

First, I will explain the accounting results as of December 2005 and will then talk about our full-year forecast.

First, I will summarize the account settlement as of December.

In our gas business, prices of LNG, or gas raw materials, are affected by changes in crude oil prices and exchange rates. Changes in raw materials prices are reflected in gas prices in the long run, but during this period, the reflection in gas prices fell behind the changes. As a result, the so-called “slide loss” (time lag in the appearance of loss) increased on a year-to-year comparison.

On the other hand, gas sales did well due to a higher demand for residential gas during the rather cold winter and the satisfactory expansion of new demands for non-residential gas.

We made efforts to increase gas sales and reduce labor and other costs in order to absorb the increase in raw materials costs. As a result, our operating income returned to almost the same level as the same period last year.

Consolidated subsidiaries remain at the expected level of achievement, except for the LPG sector and information sector. The LPG sector was affected by crude oil prices much in the same way as the gas business. As for the IT sector, we had expected that profits for this period would decrease from the previous period, but we experienced even worse results than expected due to the decrease in large-scale business items.

# Results for Apr.-Dec. 2005 I

100 million yen, Figures in parentheses are ratios of consolidated results to non-consolidated results.

	A. 04.4-12	B. 05.4-12	B-A	Reference
Operating revenue	(1.36) 6,575	(1.37) 7,079	+503	OG+324, JEC+96, NIPG group+95
Operating profit	(1.52) 540	(1.46) 508	-31	OGIS-RI-6, Kinrei-6, NIPG group-5
Ordinary profit	(1.40) 582	(1.38) 553	-28	Sales of securities-17, Idemitsu +19
Net income	(1.33) 262	(1.24) 362	+100	OG+94 (Impairment cost in previous year, Sales of Kinrei securities in this year)

JEC: Japan Enviro Chemicals, NIPG: Nissho LP Gas

		A. 04.4-12	B. 05.4-12	B-A
Consolidated gas sales	million m3	5,626	5,866	+240
Exchange rate	yen/\$	108.5	112.1	+3.6
Crude oil price	\$/bbl	37.8	54.5	+16.7
Number of subsidiaries		114	121	+7

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Let me provide further details of the items in the profit and loss statement.

Operating revenues at Osaka Gas (non-consolidated) and NIPG Group increased due to the rise in gas rates following the higher gas raw materials cost and due to the increase in gas sales volume. The new affiliation of Japan Enviro Chemicals in the Group during this period also increased operating revenues.

Non-consolidated operating income remained at the same level as the same period last year, owing to cost reduction efforts. However, it was affected by the slump in the LPG and information sectors and the sale of Kinrei.

Starting in this period, non-operating profit and loss include the income from Idemitsu Snorre Oil Development working for the North Sea gas field we acquired this year.

The number of consolidated subsidiaries increased mainly because we purchased the companies involved in the construction and holding of LNG tankers and Japan Enviro Chemicals Group.

# Results for Apr.-Dec. 2005 II

100 million yen, Consolidated

	A. Mar.05	B. Dec.05	B-A	Reference
Total assets	12,174	12,994	+820	Investment in securities+753
Shareholders' equity	5,308	5,787	+479	Securities revaluation+251
Interest-bearing debt	4,485	5,011	+526	
Shareholders' equity ratio	43.6%	44.5%	+0.9%	

	A. Apr.-Dec.04	B. Apr.-Dec.05	B-A	Reference
Capital expenditure	431	538	+107	Shiga line, Small CGS for lease
Depreciation	639	621	-17	
Free cash flow	-150	-203	-53	

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In our balance sheets ending December 2005, total assets and interest-bearing debt increased from the end of March 2005 because we acquired the North Sea gas field (Idemitsu Snorre) and IPP in Spain.

Moreover, the recent upgrades in stock prices raised the assessed values of banks' securities we own, and consequently raised our total assets and shareholders' equity. However, we plan to sell the securities we own one after another.

Free cash flow was negative as of December. This is characteristic of the gas business, where sales volume and revenues are reported in larger amounts during winter.

# Gas sales results

		A. Apr.-Dec.04	B. Apr.-Dec.05	B-A
Non-consolidated	Number of meters installed at the end of period(thousands)	6,669	6,733	+64
	Installation of new meters(thousands)	79	79	0
	Monthly gas sales per household(m3/month)	26.0	26.8	+0.8
	Residential use	1,317	1,368	+51
	Commercial use	791	805	+13
	Public and medical use	429	447	+18
	Industrial use	2,870	2,977	+107
	Non-residential total	4,091	4,229	+138
	Whole sale	206	253	+47
	(Including non-regulated)	(2,929)	(3,180)	(+252)
Gas sales total(million m3)		5,613	5,849	+236
Consolidated Gas sales total (million m3)		5,626	5,866	+240

Now, let me explain the gas sales results.

As for sales situations by use, I will provide details on the next page. Individual gas sales by use increased on a year-to-year comparison, and gas sales results are making good progress on the whole.

Gas sales to other gas business operators increased because the gas companies to which we sell gas wholesale have been successful in expanding large-lot gas demand.

The range of non-regulated gas business was expanded as of April 2004 by lowering the applicable criteria of annual usage from 1 million m3 to 500 thousand m3. Accordingly, more customers using gas between 500 thousand m3 and 1 million m3 per year are switching from regulated supply contracts to non-regulated supply contracts. This contract transfer largely increased the sales in non-regulated supply. Half of the increase in non-regulated gas supply is attributed to those transfer customers.

The year-on-year increase in large-lot gas sales is reported to exceed the increase in the total gas sales. Actually, large-lot gas sales account for about half of the total gas sales.

# Analysis of Y-on-Y Variance in Gas Sales

	Residential	Commercial, public, medical	Industrial
Increase of customers	+0.7%	--	--
Demand expansion	--	+4.5%	+6.6%
Influence of temperature	+4.7%	-0.7%	--
Timing differences in meter-reading	-1.5%	--	--
Increase/decrease of plant operation and others	-0.2%	-1.3%	-2.9%

## Commercial, public, medical

- Exploring a new market of environment-related facilities such as sewage-treatment plants and waste disposal facilities
- Acquiring air-conditioning demand at large-scale commercial facilities in urban and suburban areas

## Industrial

- Environmental measures serve as a spur to switch from oil to gas.
- New market exploration by means of the improved burner technology -> Glass tank regenerator

Gas sales for residential use show the substantial impact of higher demand during the rather cold winter. The number of meters installed, or the number of gas contracts, also increased at the same rate as the previous year. In developing gas demand for residential use, we have been focusing on the air-heating sector including fan heaters and floor heating systems. So, the item "increase or decrease of plant operation and others" became a negative value as of December on a year-to-year comparison.

In the commercial, public, and medical sectors, we experienced increased demand especially from water purification plants and other environment-related facilities, as well as new demand for air-conditioning as part of the redevelopment of downtown Osaka.

In the industrial sector, we are encouraging the glass-making and ceramic industries to use gas burners, as one of our strategic objectives formulated at the planning stage at the beginning of the fiscal year. This measure is successfully promoting the exploration of new gas customers. We also started selling gas for co-generation systems in the second half of the previous year, and the sales are satisfactory.

# Progress in Gas Demand Expansion

## Sales activities of main residential appliances

(thousand units)

	Apr.-Dec.04	Apr.-Dec.05	FY06.3 Forecast
Ecowill	6	8	10
Floor Heating System	170	156	200
Bath Heater & Drier	77	76	93
Including Mist Sauna type	11	27	28
Fan Heater	167	193	233
Glass Top Cooking Stove	63	75	85

Floor heating and ECOWILL are reported on a contract basis for new houses and on a wholesale basis for existing houses (sub-user refurbishments are regarded as new houses); FHs are reported on an installation basis; and cooking stoves are reported on a wholesale basis.

## Contract expansion of co-generation systems and air-conditioning systems

	Apr.-Dec. 04	Apr.-Dec.05	FY06.3 Forecast
Co-generation (MW)	73	127	126
Air-conditioner (Thousand RT)	152	160	166

CGS: Stock volume, 1kW = approx. 1320 m3, 1m3=45MJ=12.5kWh

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



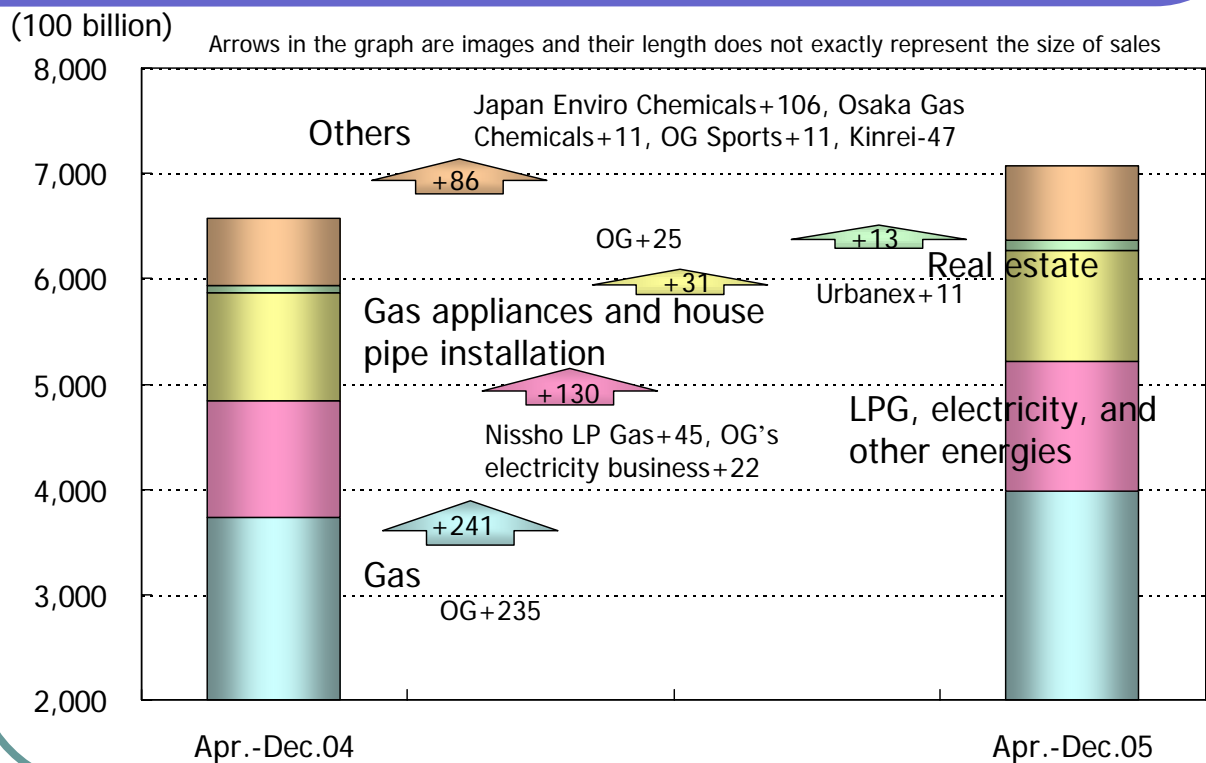
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This shows sales activities of main gas appliances.

Sales of gas appliances for residential use have been making progress at a sufficient rate to achieve the full-year forecast. Sales of mist-sauna-type bathroom heaters and driers have already achieved the full-year forecast as of the third quarter, and we can expect sales to further increase by the end of the year.

The co-generation system business has successfully expanded demand from glass tank regenerators and environment-related facilities, and it has already exceeded the full-year forecast.

# Sales by Segments (to customers outside the group)



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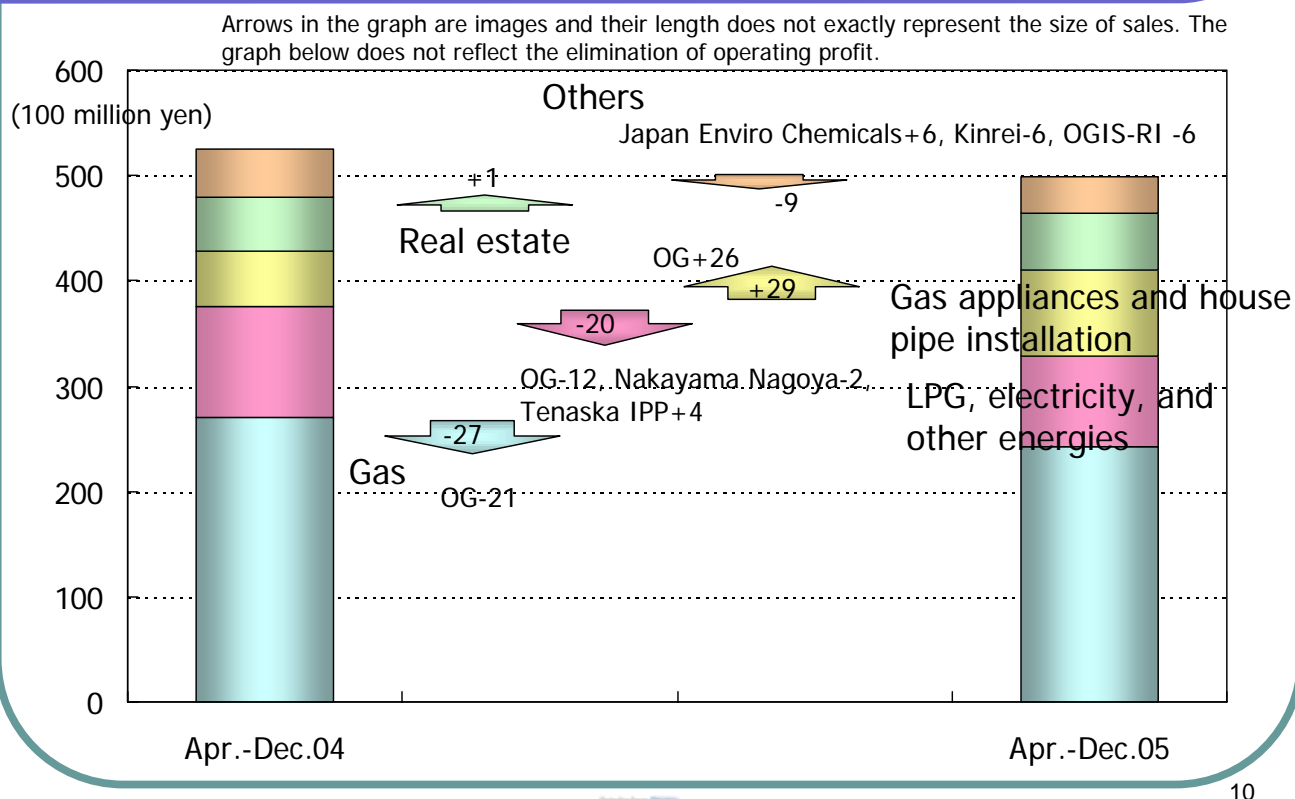
This slide shows financial results by segment.

The electricity business segment of Osaka Gas started operation of its own power sources at Himeji and Uji in the previous term last year. In the current term, they have been contributing to operating revenues since the beginning of the fiscal year.

The real estate segment partly undertakes development and sales of condominiums, in order to promote the use of gas at condominiums, and the sales are favorable.

As for others' segment, the sales of fine materials for electronic components by Osaka Gas Chemicals have been doing well. OG Sports runs fitness clubs, and it has opened up new branches and expanded operating revenues accordingly.

# Operating Profit by Segments



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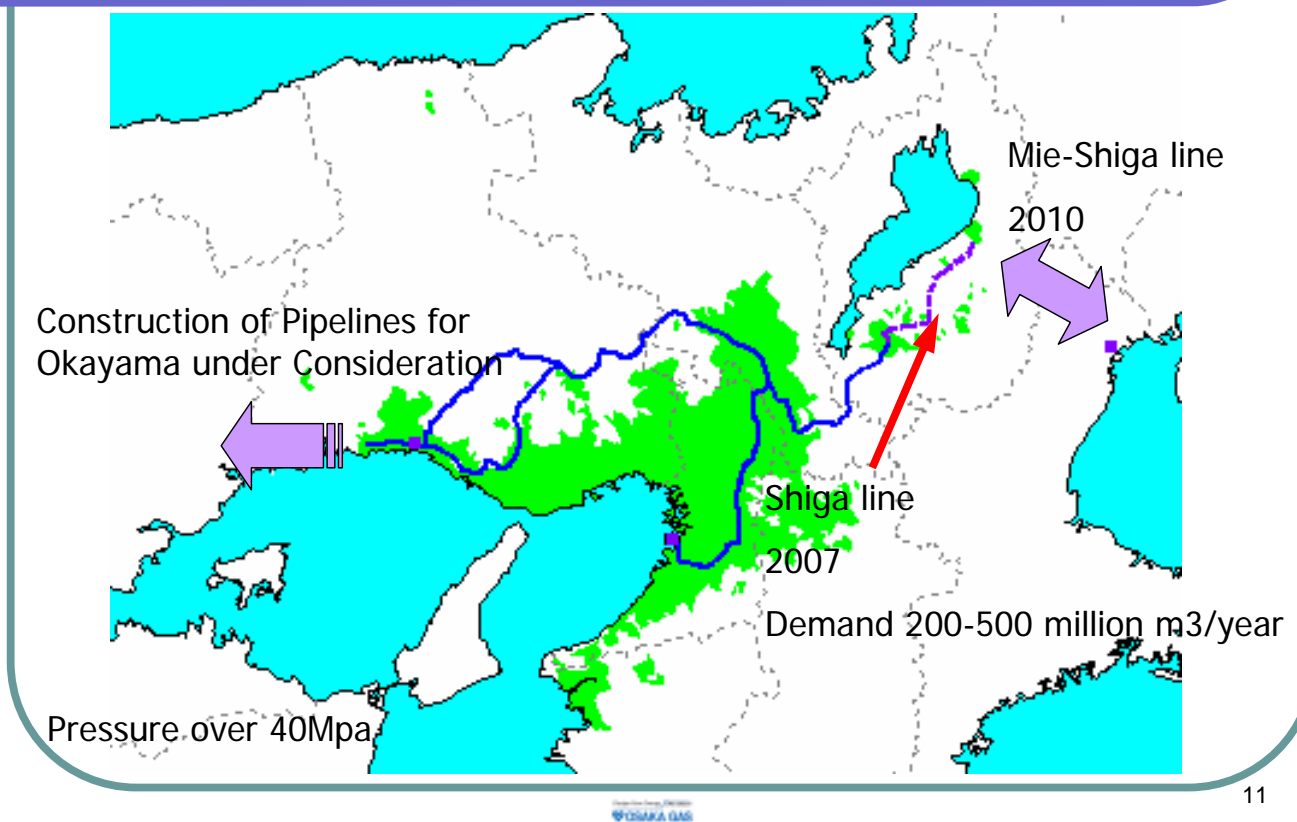
Regarding operating profit by segment, two segments produced a surplus and three went negative on a year-to-year comparison.

Osaka Gas's non-consolidated profit from the segment of LPG, electricity, and other energies decreased mainly because it reported the initial cost for expanding the business area of automated notification service.

Osaka Gas's electricity business segment has started to make a contribution to operating revenues. At present, however, the segment is still in the startup period and needs to carry the facility depreciation cost and the like. Therefore, we expect it will make a contribution to profits after next year.

As for the segment of gas appliances and house pipe installation, cost reduction related to gas appliances led to favorable results.

# Construction of Pipelines for Okayama under Consideration



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I will now talk about major topics released during the third quarter.

We announced that we will start studies toward the construction of gas pipelines for Okayama.

At this point in time, we have just started surveying the possibilities. From now on, we will discuss construction routes, construction costs, and cost reduction; study potential demand; and predict when demand will become evident.

## II. Full year forecast

# Gas Sales Forecast of FY06.3

45MJ/m3		A.	FY06.3 forecast at		Deference	
		FY05.3	B. Oct.	C. Jan.	C-A	B-C
Non-consolidated	Number of meters installed at the end of period(thousands)	6,697	6,759	6,759	+62	0
	Installation of new meters(thousands)	129	131	131	+1	0
	Monthly gas sales per household(m3/month)	33.1	33.8	34.1	+1.0	+0.3
	Residential use	2,238	2,304	2,327	+88	+23
	Commercial use	1,039	1,067	1,083	+43	+16
	Public and medical use	605	590	598	-7	+7
	Industrial use	3,865	3,970	3,991	+126	+21
	Non-residential total	5,509	5,627	5,671	+162	+44
	Whole sale	305	346	350	+45	+3
	(Including non-regulated)	(3,960)	(4,202)	(4,238)	(+278)	(+36)
Gas sales total (million m3)		8,053	8,277	8,348	+295	+71
Consolidated Gas sales total (million m3)		8,072	8,301	8,369	+297	+68

Now, I will talk about the full-year forecast.

Let me begin with the gas sales forecast for the year.

As a result of rather low temperatures during the winter and the successful expansion of demand, we have revised the annual sales forecast upward.

# Full year forecast for FY06.3 I

Consolidated 100 million yen	A. FY05.3	FY06.3 Apr.-Dec./R	B. Full year	B-A
Operating revenues	9,753	7,079	10,050	+296
Operating profit	959	508	1,040	+80
Ordinary profit	974	553	1,000	+25
Net income after tax	506	362	590	+83
SVA	273	175	350	+76
Consolidated gas sales (million m3)	8,072	5,866	8,369	+297
Exchange rate (yen/\$)	107.6	112.1	112.8	+5.2
Crude oil price ( \$/bbl)	38.4	54.5	54.6	+16.2
Number of subsidiaries	118	121	121	+3

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



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In line with the upward revision of the full-year gas sales forecast I mentioned previously, we expect that non-consolidated operating revenues from gas sales will increase by about ¥3 billion compared with the forecast released together with the midterm account settlement.

Non-consolidated sales of gas appliances showed a year-to-year increase at the time of the third quarterly settlement. Considering that this increase includes the surplus caused by the time lag, we have lowered the estimated operating revenues for the fourth quarter.

In consequence, the forecasts for non-consolidated and consolidated operating revenues remain the same.

We estimate that "slide loss" at the end the fourth quarter will be greater than predicted at the time of the midterm account settlement. We plan to make up for the profit decline by taking additional measures to reduce costs. Therefore, the forecasts for profit items remain unchanged.

# Full year forecast for FY06.3 II

100 million	A. FY05.3/R	FY06.3 Apr.-Dec./R	B. Full year	B-A
Total asset	12,174	12,994	13,284	+1,109
Shareholders' equity	5,308	5,787	5,691	+382
Interest-bearing debt	4,485	5,011	5,285	+799
Capital expenditure	655	538	1,061	+406
Depreciation	868	621	825	-43
Free cash flow	577	-203	552	-25
ROA	4.2%	--	4.6%	+0.4%
ROE	9.9%	--	10.8%	+1.0%
Shareholders' equity ratio	43.6%	44.5%	42.8%	-0.8%
EPS (yen/share)	22.7	--	26.4	+3.8
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

Regarding BS items, the full-year forecasts remain unchanged even though the shareholders' equity increased due to high stock prices.

## Measures to Cope with the Changes Recognized After the Midterm Account Settlement

These are the differences between the present full-year forecasts and those released in October. Items contributing to increased profits from the October forecasts are expressed as positives.

Changes in Situations	(billion yen)
Increase in gas sales volume, etc.	+3.5
Increase in "slide loss" due to the influence of crude oil prices and exchange rates	-6.0
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Countermeasures for Risk (already implemented in the 3rd quarter or to be implemented in the 4th quarter)	
Reduction in non-consolidated labor costs	+0.5
Retrenchment of non-consolidated expenses	+1.0
Improvement in non-consolidated miscellaneous operating gain and incidental gain	+1.0

I will talk about the risk factors that we have taken into consideration for the present forecasts and the countermeasures.

One of the factors that made a difference after the midterm account settlement is the increase in gross profit owing to the increased gas sales volume. Also, we estimate that the "slide loss" will be even greater than estimated at the time of midterm account settlement.

The balance results in a profit decline, but we consider it possible to make up for this by taking additional measures to reduce labor costs and other expenses.

In spite of severe circumstances, we are keeping the annual profit forecasts unchanged and will continue to endeavor through the fourth quarter in order to achieve our profit target originally established.

# Risk Factors Affecting Forecasts

- **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 4% 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 (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. 1.1 billion yen on annual consolidated non-operating expenses.