


Fiscal year ending March 2007 Third Quarter Financial Results (cumulative)



January 2007
Osaka Gas Co., Ltd

I. Consolidated results for third quarter and full year forecast

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.

Note regarding gas sales volume

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

Gas sales results for Apr.-Dec. 2006

45MJ/m ³	A. 05.4-12 Results	B. 06.4-12 Results	B-A	B/A (%)
Number of meters installed at the end of period (thousands)	6,733	6,794	+60	+0.9%
Installation of new meters (thousand)	79	78	-1	--
Monthly gas sales per household (m ³ /month)	26.8	27.4	+0.6	+2.4%
Residential use	1,368	1,411	+44	+3.2%
Commercial use	805	802	-2	-0.3%
Public and medical use	447	455	+8	+1.8%
Industrial use	2,977	3,222	+245	+8.2%
Non-residential total	4,229	4,480	+251	+5.9%
Whole sale	253	290	+37	+14.7%
(Including non-regulated)	(3,180)	(3,438)	(+257)	(+8.1%)
Gas sales total (million m ³)	5,849	6,181	+332	+5.7%
Consolidated gas sales total	5,866	6,202	+335	+5.7%

As in the half year ending September 30, 2006, the volume of gas sales rose overall from a year earlier.

In the residential segment, higher sales due to low temperatures up to the end of the first half of the year continued to contribute to growth, despite higher air and water temperatures than in the previous year in the third quarter, and sales were higher year on year as of the end of December too.

In the commercial segment, air temperatures caused sales to remain approximately on a par with a year earlier due to heavy use of air conditioning. Sales to public and medical institutions, however, grew thanks mainly to new demand from hospitals.

Sales to industrial users and other gas suppliers grew strongly due to the relative superiority of natural gas prices compared with petroleum-derived fuels and increased demand for natural gas owing to its environmental friendliness.

Results for Apr.-Dec. 2006 I

Consolidated 100 million yen	A. 05.4-12 Results	B. 06.4-12 Results	B-A	B/A (%)
Revenue	7,079	8,159	+1,080	+15.3
Operating profit	508	572	+64	+12.6
Ordinary profit	553	593	+39	+7.2
Net income	362	359	-3	-0.9
Consolidated gas sales (million m3)	5,866	6,202	+335	
Exchange rate (yen/\$)	112.1	116.2	+4.1	
Crude oil price (\$/bbl)	54.5	65.5	+11.0	
Number of subsidiaries	121	132	+11	

Consolidated revenue increased compared with a year earlier.

With the exception of net income, profits also increased.

The decline in net income was due to restructuring at Kinrei, a group affiliate in the food and restaurant business, in the previous term, when the Group's shares in the company were sold off and the profit on sale entered as income. In the present quarter, however, there were no similar contributions to income.

Other key points concerning the financial results are explained on the following page.

Summary of consolidated results

- Year-on-year comparison
 - Operating revenue rose due to growth of gas sales and increase in gas tariff resulting from higher LNG prices
 - 1st half unexpected expenses for gas appliances recall offset by revenue from overseas IPP, resulting rise in operating and ordinary profits. Apr.-Sep. 05 net profit included cash proceeds from sale of Kinrei stocks.
 - Loss from LNG price fluctuation improved by ¥4.5 billion, thanks to stabilized oil prices

- After September 2006
 - Higher temperatures Oct. – Dec. 2006
 - Oct-Dec LNG price indexed to higher oil prices during summer, well within the projection made in October

Compared with a year earlier, sales increased due mainly to growth in the volume of gas sales and a rise in the unit gas selling price in parallel with sharply rising feedstock prices.

The Osaka Gas Group prioritizes allocation of cash flows to investment in growth to assist corporate growth, and we place a particular emphasis on investment in the domestic and foreign energy businesses and power generation businesses, which are closely related to our domestic gas business.

Against this background, IPPs (electricity wholesale) in the U.S. and North Sea oil interests, which have both been targets of investment since last year, contributed to profits as expected. The implementation of investments in growth led to growth in operating profit and ordinary profit.

Crude oil prices are settling down after reaching a high in the summer. Compared with the previous fiscal year, when the underlying trend through the year was upward, the gain on adjustment of the unit price of gas corresponding to fluctuations in the price of feedstock improved approximately 4.5 billion yen compared with the previous fiscal year.

As regards the situation since the announcement of our interim financial results, one point worth mentioning is that air temperatures have trended on the high side. The three-month average for the third quarter was over one degree higher than a year earlier, the effect of which was to reduce the volume of gas sales.

Regarding feedstock costs, the decline in crude oil prices was not reflected immediately as the purchasing price of LNG purchased in the third quarter was based on the high price of oil until then. However, this situation was envisaged in the projected results for the year when the interim results were announced, and is not unexpected.

Full year forecast of gas sales

- Residential sales downgraded by 67 million m3 based on result of 3Q and temperature trends

45MJ/m3	A.	FY07.3/E		C-A	C/A (%)
	06.3/R	B	C		
Number of meters (thousand)	6,758	6,814	6,814	+56	+0.8
Newly built houses (thousand)	128	130	130	+2	--
Sales per household (m3/M)	34.2	35.1	34.1	-0.1	--
Residential use	2,329	2,407 → 2,340		+11	+0.5
Commercial use	1,071	1,080	1,052	-19	-1.8
Public and medial use	641	610	638	-3	-0.5
Industrial use	4,049	4,336	4,336	+287	+7.1
Non-residential total	5,761	6,026	6,026	+265	+4.6
Whole sale	359	391	391	+32	+8.9
(including non-regulated)	(4,312)	(4,594)	(4,594)	(+282)	(+6.5)
Total of gas sales (million m3)	8,448	8,824	8,757	+309	+3.7
Consolidated gas sales	8,469	8,851	8,785	+316	+3.7

Concerning the projected performance for the year, the volume of gas sales in the residential segment has been revised downward by 67 million m3 compared with the projection at the time of our interim results to 2,340 million m3.

While allowance has been made for some slight change in commercial and public and medical institution sales, projected non-residential sales are unchanged overall.

FY 07.3: parameters for projection

- Parameters for 4Q
 - Oil price lowered from \$65 to \$60/bbl
 - Exchange rate estimated in October changed from ¥115 to ¥120 to the dollar. 4Q projection incorporates ¥123
- Non-consolidated
 - Two factors to be taken into account; downgraded residential gas sales offset higher profits resulting from lower LNG price projection in 4Q
- Consolidated
 - Incorporating deferred expenses to 4Q

Additional factors, i.e. temperature trends in peak season (Jan.-Mar.) and LNG price fluctuation risks, make us project the full-year results same as those of October.

Projected performance for the year has not been revised on this occasion.

Regarding the projection parameters for the January-March quarter, a change was made to anticipate a decline in crude oil prices and a weakening of the yen on account of the present level of crude oil prices and the exchange rate. These will have contrary effects on the Company's performance, with declining crude oil prices having a positive effect and the weakening of the yen having a negative effect.

Regarding the volume of gas sales, the downward revision of residential sales will act to reduce revenues and profits compared with the previously announced projections. On the other hand, as explained above, the impact of the change in crude oil prices and the exchange rate will be a net increase in profit.

Regarding consolidated subsidiaries, performance will grow strongly on the whole. Given the trend among some toward deferment of expenses to the end of the term, however, the previous projections are held unchanged.

In addition to the above, the January-March quarter's being the peak period of demand for gas means that the effect of fluctuations in air temperatures and feedstock prices will be pronounced. Considering the risk of fluctuations, expected performance has been held unchanged overall.

II. References

Analysis of Y-on-Y variance in gas sales

	Residential	Commercial, public, medical	Industrial
Increase of customers	+0.8%	--	--
Demand expansion	--(*)	+2.0%	+9.2%
Influence of temperature	+2.8%	-0.5%	--
Timing differences in meter-reading	+0.4%	--	--
Increase/ decrease of plant operation and others	-0.8%	-1.0%	-1.0%

* No detailed analysis made for new demand acquired during the term.

- Commercial/medical uses
 - Solid acquisition of demand for large hospitals, large commercial complexes waste-related facilities
 - Reduced heating load in Nov. and Dec. due to higher temperatures
- Industrial
 - New demand acquired from fuel switching from oil and new cogeneration installations

Progress in gas demand expansion

Sales activities of main residential appliances

(thousand units)	05.4-12 Results	06.4-12 Results	FY07.3/E Full year
"Ecowill"	8	10	12
Floor heating system	156	146	205
Bath heater & drier (mist sauna type)	26	44	50
Glass top cooking stove	75	82	102
Bath heater & drier (all)	77	73	95

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

	05.4-12	06.4-12	FY07.3/E
Co-generation (MW)	127	91	112
Air-conditioner (thousand RT)	160	72	185

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

Results for Apr.-Dec. 2006 II

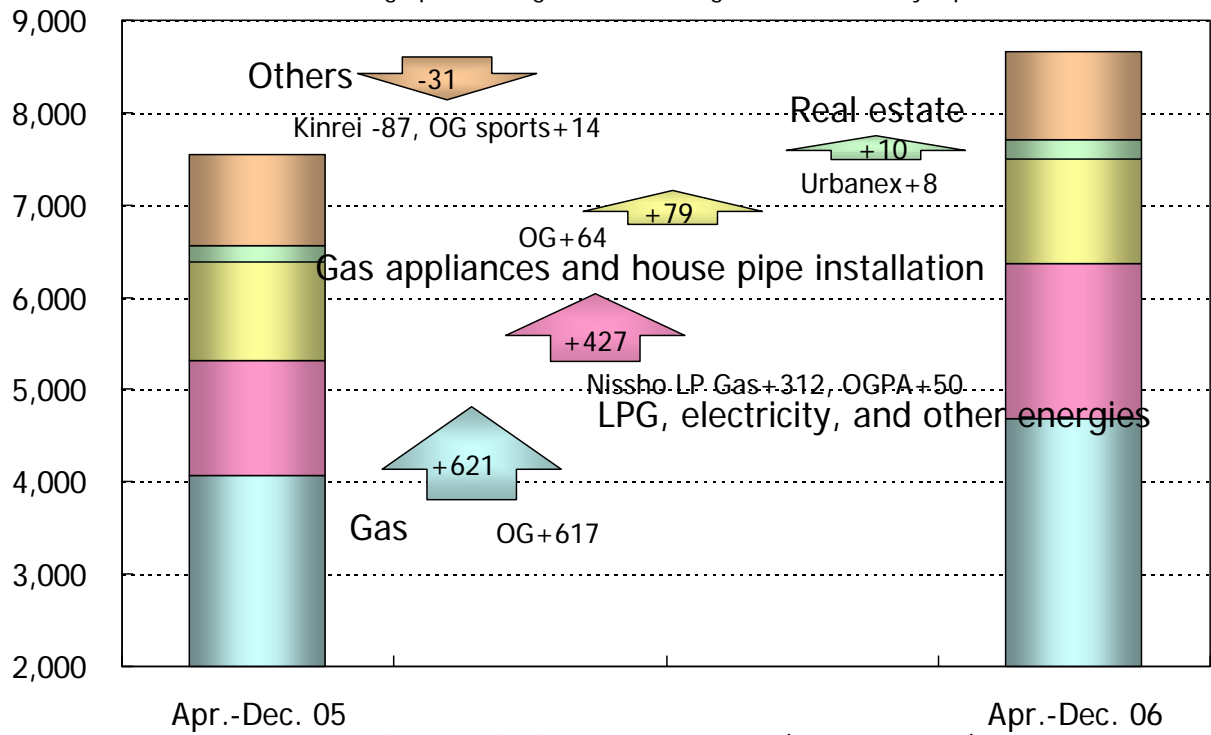
Consolidated, 100 million yen	A. Mar.06	B. Dec.06	B-A
Total asset	13,986	14,143	+156
Shareholders' equity	6,285	6,477	+192
Interest-bearing debt	4,875	5,499	+624
	05.4-12	06.4-12	B-A
Capital expenditure	538	685	+146
Depreciation	621	609	-12
Free cash flow	-203	-456	-252

Free Cash Flow = cash flow in business operation (operating profit after tax + depreciation expenses and other non-cash expenses) – capital expenditures

Sales by segments

(100 million yen)

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



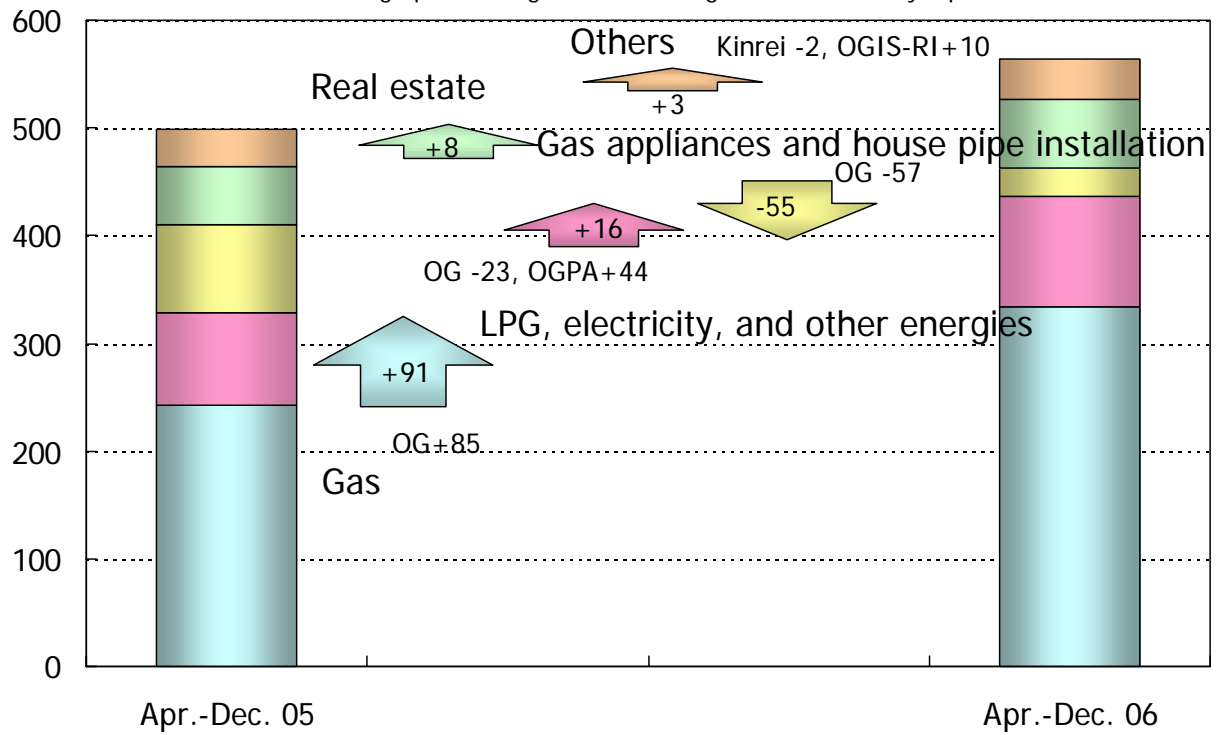
OGPA: Osaka Gas Power America (operating IPPs)

Design Your Energy OSAKA GAS

Operating profit by segments

(100 million yen)

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



OGPA: Osaka Gas Power America (operating IPPs)



Full year forecast for FY07.3 I

- No changes from October, excepting gas sales volume

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

	A. FY06.3/R	B. FY07.3/E	B-A	B/A
Revenue	(1.36) 10,659	(1.41) 11,935	+1,275	+12.0%
Operating profit	(1.31) 1,006	(1.50) 805	-201	-20.0%
Ordinary income	(1.26) 1,033	(1.29) 810	-223	-21.6%
Net income	(1.14) 807	(1.08) 460	-347	-43.0%
SVA	553	197	-356	-64.4%
Consolidated gas sales	8,469	8,785	+316	
Exchange rate (¥/\$)	113.3	118.0	+4.7	4Q: 123
Crude oil price (\$/bbl)	55.8	64.0	+8.2	4Q: 60
Number of subsidiaries	136	132	-4	

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

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Full year forecast for FY07.3 II

100 million yen	A. FY06.3/R	B. FY07.3/E	B-A
Total asset	13,986	14,432	+445
Shareholders' equity	6,285	6,530	+244
Interest-bearing debt	4,875	5,260	+384
Capital expenditure	1,174	1,014	-160
Depreciation	842	830	-12
Free cash flow	842	261	-581
Number of employees	16,077	16,425	+348
ROA	6.2%	3.2%	-2.9%
ROE	13.9%	7.2%	-6.7%
Shareholders' equity ratio	44.9%	45.2%	+0.3%
EPS (yen/stock)	36.2	20.7	-15.5
BPS (yen/stock)	282.1	293.2	+11.1

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

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. 3.4 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. 1.9 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. 0.9 billion yen on annual consolidated non-operating expenses.