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Interim Financial Report for FY2003

(April 2002-March2003)

November 2002

Osaka Gas Co.,Ltd.

I. Overview of Financial Statements for FY03.3

Results of 1st half and forecast for FY03 I

100 million yen; figures in parentheses are ratios of consolidated results to non-consolidated results

		Results for FY02.3		1st half of FY03.3				Forecast for FY 03.3(Full year)
		A.1st half	Full year	B.Forecast	C.Results	C-A	C-B	
Sales	Consolidated	4,385(1.31)	9,735(1.30)	4,150(1.31)	4,093(1.31)	-292	-56	9,600(1.33)
	Non-consolidated	3,351	7,510	3,169	3,116	-234	-52	7,238
Operating profit	Consolidated	275(1.24)	966(1.18)	195(1.56)	271(1.44)	-3	+76	745(1.33)
	Non-consolidated	221	817	125	189	-32	+64	561
Ordinary Profit	Consolidated	187(1.08)	759(1.08)	150(1.30)	190(1.36)	+2	+40	650(1.20)
	Non-consolidated	173	703	115	139	-34	+24	540
Net Income After tax	Consolidated	109(1.01)	394(1.05)	70(1.00)	87(1.02)	-21	+17	380(1.15)
	Non-consolidated	108	376	70	85	-23	+15	330
SVA	Consolidated	---	131	---	---	---	---	114
	Non-consolidated	---	157	---	---	---	---	118

Gas sales volume	Million m3	3,444	7,309	3,497	3,417	-27	-80	7,390
Exchange rates	Yen/\$	122.2	125.0	135.0	123.1	+0.9	-11.9	123.1
Crude oil prices	\$/bbl	26.5	23.8	20.0	25.6	-0.9	+5.6	26.8
No. of consolidated companies		44	43	54	54	---	---	54

Results of 1st half and forecast for FY03 II

In the table below, changes (C-A) are compared with the end of March 2002 for balance sheet items and number of employees, and with the first half term of the previous year for capital expenditure, depreciation and FCF.

100 million yen, consolidated basis	Results for FY02.3		1st half of FY03.3				Forecast for FY 03.3(Full year)
	A.1st half	Full year	B.Forecast	C.Results	C-A	C-B	
Total assets	12,645	12,435	13,180	11,746	-689	-1,434	12,486
Shareholders' equity	4,757	4,687	4,699	4,703	+16	+4	4,924
Interest-bearing debts	5,241	4,650	5,004	4,600	-50	-404	4,845
Capital expenditure	462	899	365	285	-177	-80	845
Depreciation	450	887	433	423	-27	-10	832
Free cash flow	---	706	---	---	---	---	260
Number of employees	14,742	13,878	14,668	14,700	+822	-32	14,486
ROA	---	3.1%	---	---	---	---	3.1%
ROE	---	8.4%	---	---	---	---	7.9%
Shareholders' equity ratio	37.6%	37.7%	35.7%	40.0%	-2.3%	+4.3%	39.4%
EPS	---	16.3	---	---	---	---	16.0

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 includes employees dispatched to subsidiaries and affiliates, but excludes employees under contract. (Accordingly, the number differs from that reported in the financial reports for the Securities Committee.)

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

Review of financial results for FY03.3

- Consolidated and non-consolidated revenues and net income decreased from the previous year. Net income is higher than forecast, while revenues are lower than forecast.
 - Revenue decrease is mainly due to the lowering of gas charges and gas sales decline on a non-consolidated basis. Net income higher than forecast is due to the impact of fuel cost adjusting system and reduction measures.
 - Cost reduction measures were steadily implemented. (Saving of about ¥5 billion compared with the previous year on a non-consolidated basis)
 - Labor costs 1.7 billion yen (Decrease of 334 employees compared with the previous year on a non-consolidated basis)
 - Operating costs (Excluding Feedstock cost) 3.300 billion yen (non-consolidated basis)
 - Revenues status of consolidated subsidiaries has improved in terms of the ratio of non-consolidated to consolidated revenues.

	02.3 1 st half	02.3 Full year	03.3 1st half forecast	03.3 1st half results
Sales	1.31	1.30	1.31	1.31
Ordinary income	1.08	1.08	1.30	1.36

- Promotion of SVA management => Continued business restructuring
 - Investment in Nabari Kintetsu Gas
 - Sale of the real estate in Kobe Harbor Land owned by Urbanex.
 - Proposed consolidation of the district heating and cooling system business of Rinku Energy Center/ Cosmo Square Heat Supply into Konohana Rinkai heat energy supply business.
- Gas sales volume => Gas sales volume for the first half of FY03.3 decreased 0.8% from the previous year, and is lower than the forecast by 2.3%
 - The decrease was mainly due to the unfavorable weather conditions and the weak economy. Demand expansion has progressed almost as planned.

Gas sales

Percentage figures in the upper left of the “C.Results” column are changes from the previous year.

	Results for FY02.3		1st half of FY03.3				Full year forecast	
	A.1st half	Full year	B.Forecast	C.Results	C-A	C-B	In May	In Nov.
Number of meters installed at the end of period(thousands)	6,440	6,484	6,528	6,509	+69	-19	6,576	6,557
Installation of new meters(thousands)	64	141	60	56	-8	-4	138	134
Monthly gas sales per household(m3/month)	25.3	33.3	26.0	-3.3% 24.4	-0.9	-1.6	+2.1% 34.0	-0.3% 33.2
Residential use	833	2,194	865	813	-20	-52	2,268	2,216
Commercial, public, and medical	756	1,435	788	767	+11	-21	1,511	1,490
Industrial use	1,803	3547	1,767	1,765	-38	-2	3,527	3,525
Non-residential total	2,559	4,982	2,555	2,533	-26	-22	5,038	5,016
Whole sale	53	132	77	71	+18	-6	164	158
Gas sales total(million m3)	3,444	7,309	3,497	-0.8% 3,417	-27	-80	+2.2% 7,470	+1.1% 7,390
Including large supply	1,733	3,389	1,723	1,726	-7	+3	3,410	3,413

Residential gas sales

Results for 1st half

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

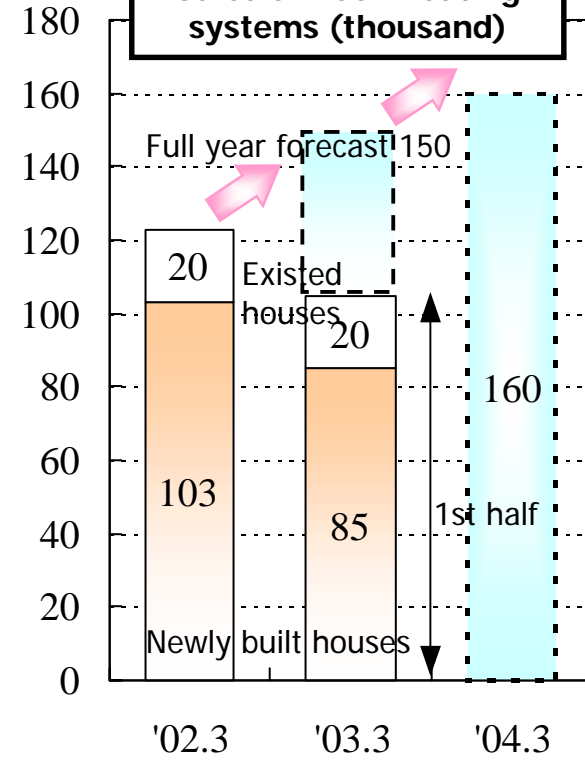
	*1	*2	References
Increase of customers	+1.1%	-0.1%	The negative difference from the forecast was influenced by the 4,000 fewer new installations.
Influence of temperature	-3.4%	-5.3%	Unfavorable weather conditions with the average temperature of 22.1C during the first half term. (higher than the previous year and the forecast by 0.4C and 0.5C, respectively), especially affected by the warmer weather during March and April than the previous year.
Others	0	-0.6%	Long-term unfavorable trends such as fewer family members per household, increase in high-insulated housing, electrification of housing.
Total	-2.3%	-6.0%	



Forecast for 2nd half

- Gas sales for the full year are expected to be 2,216 million m3, a 1.0% increase from the previous year.
- Demand expansion will progress strongly. Increase in demand for gas heating systems such as floor-heating and fan heaters will offset the influence of the long-term unfavorable trends in the second half of the year.
- Presuming that the temperature movement during the second half term will follow the standard pattern for usual years as forecast, sales for the second half term are expected to be as initially forecast.

Sales of floor-heating systems (thousand)



Commercial, public, and medical gas sales

Results for 1st half

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

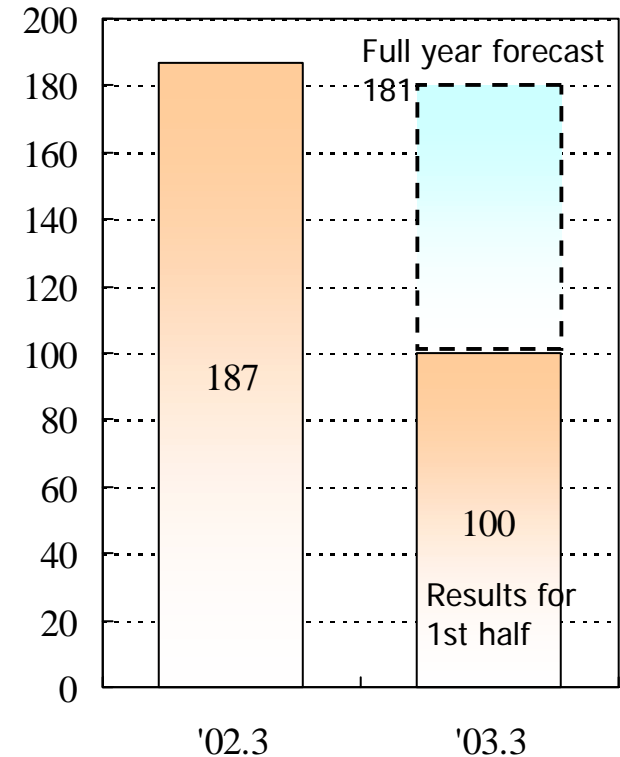
	*1	*2	References
Demand expansion	+5.9%	0	
Temperature influence	-1.9%	-1.8%	Warmer weather during the heater-using period in March and April, and cooler weather during the air-conditioner-using period in June and July.
Others	-2.3%	-0.9%	Decrease in transactions with existing customers.
Total	+1.6%	-2.7%	



Forecast for 2nd half

- Sales for the second half of the year are expected to be as initially forecast. The full-year sales will be 1,490 million m³, a 3.8% increase from the previous year.
- It is presumed that the temperature movement during the second half term will follow the standard pattern for usual years as forecast.
- It is presumed the demand expansion will progress as initially planned, considering the results of the first half term.

Sales of air-conditioning capacity (thousand refrigerating ton)



Industrial gas sales

Results for 1st half

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

	*1	*2	References
Demand expansion	+4.1%	-0.1%	
Shift to other gas suppliers	-4.5%	0	7 shifts during the first half of the year, as planned.
Decrease of plant operation	-1.7%	0	Decrease in the transactions with existing customers, impact of the closing of some plants, etc., as planned.
Total	-2.1%	-0.1%	



Forecast for 2nd half

- Sales for the second half of the year are expected to be as initially forecast. The full-year sales will be 3,525 million m³, a 0.6% decrease from the previous year.
- It is presumed that the operating rate of existing facilities will be almost the same as the contract gas volume.
- It is presumed that demand expansion and shift to other gas suppliers will be as initially planned.

II. Electricity business, On-site generating business

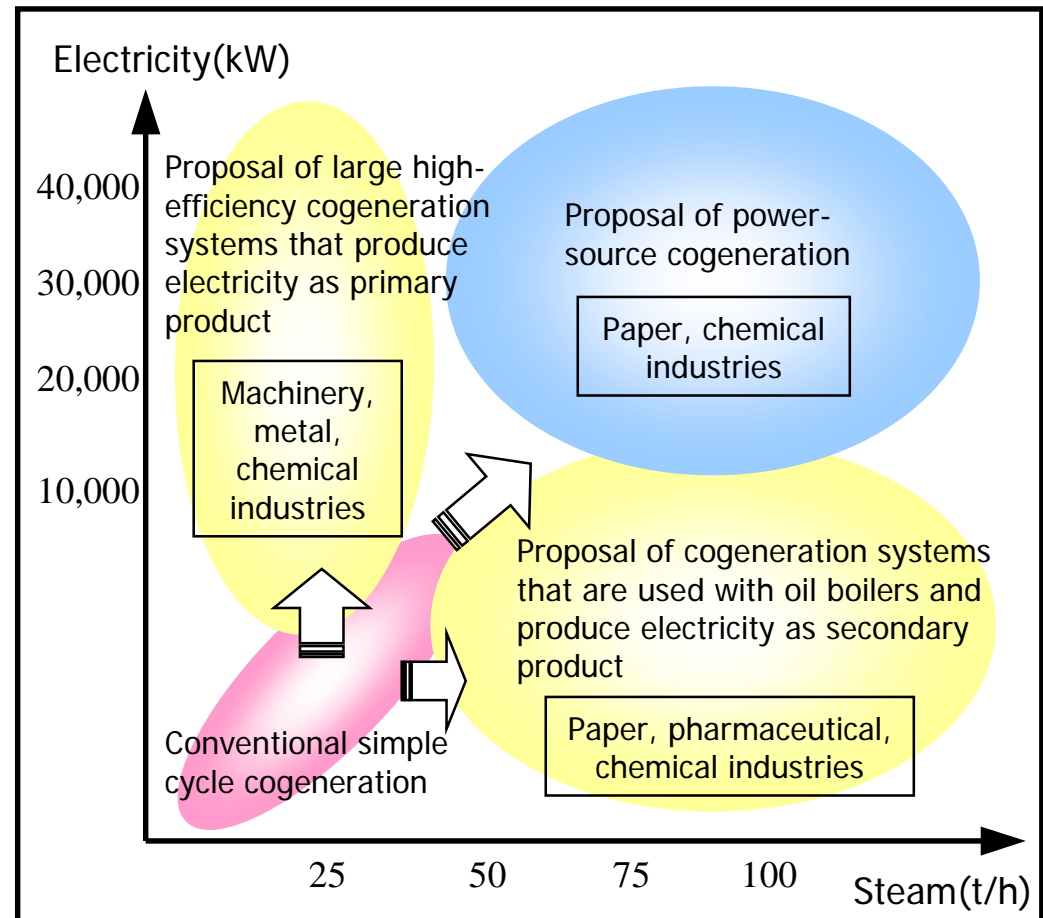
Development of electricity business

- **Power retailing business by Ennet** (PPS:Power Producer and Supplier)
 - Power plant for retailing will be estimated about 70MW at the end of March 2003(Kansai area).
 - Ennet supplies to 12 clients in Kansai includes Osaka Pref. and Hyogo Pref. governments. Also starts to supply to Kobe city government from October 2003.
 - Ennet business will be expanded from the current 140MW to 500MW by 2005.
- **Wholesaling business by GPI** (IPP:Independent Power Producer)
 - Torishima energy center(150MW) started operation in April 2002.
- **Provision of independent power sources**
 - Senboku Power Plant: Started operation in June with capacity of 17MW, 3MW of which was sold to Ennet.
 - Himeji Power Plant: Construction in progress. Capacity of 50MW.
 - Proposed construction of a large-scale power plant (in Senboku LNG Terminal): Capacity of 1,000MW. Operation to commence in FY09.3.
 - => Challenges to be overcome before start of operation
 - Reduction of the construction preparatory period
 - Procurement of new power sources(procurement from existing power sources, acquisition of power-generating facilities)
- **On-site power generation**(management service for on-site power generation + ESCO services)
 - Service for PL-Gakuen will start in April 2003.

On-site generating business

Growing market of cogeneration business

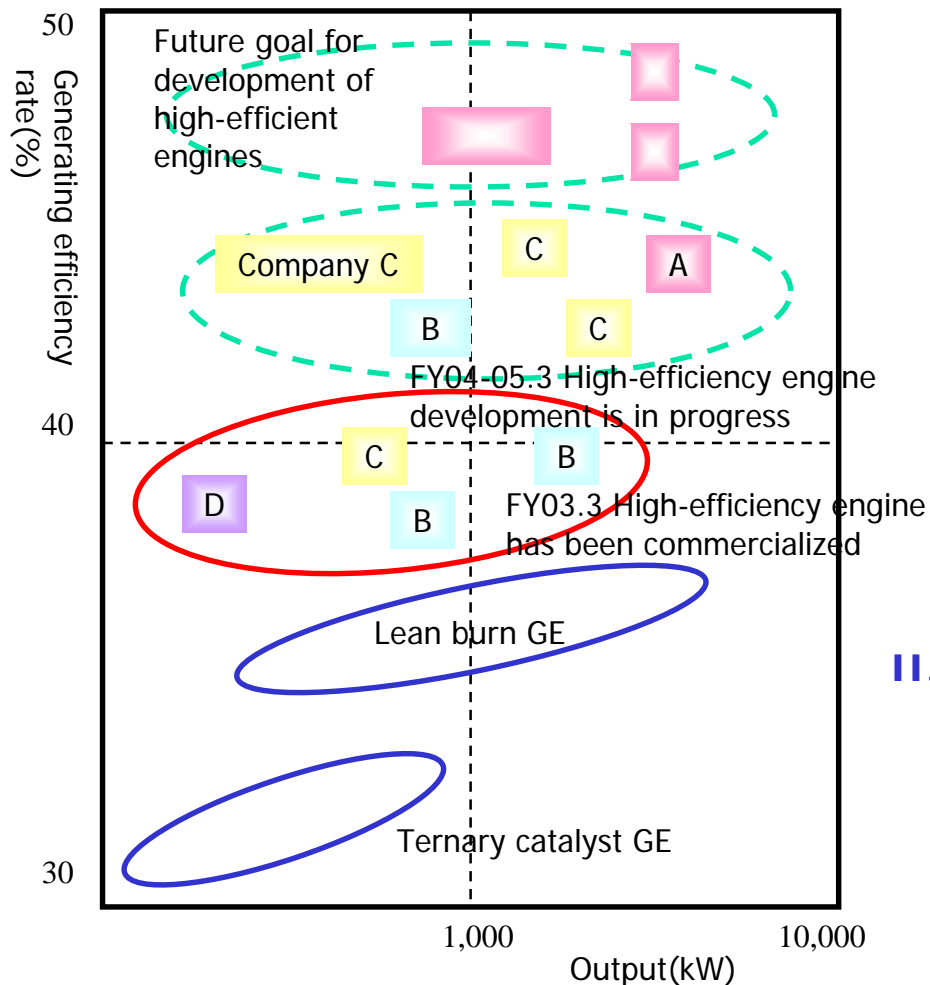
- Residential use
 - 1kW-type gas engine system (Starts on sales from Mar.2003)
 - Cogeneration system for apartment complexes (now on sales)
 - Fuel cell type cogeneration system(Starts on sales FY2006.3)
- Industrial and commercial use
 - Expansion of the market for cogeneration systems that generate "electricity as primary, and heat as secondary product" (by using high-efficiency engines etc.)
 - Expansion of the market for cogeneration systems that generate "heat as primary, and electricity as secondary product" (by using exhaust gas re-burning/re-heating techniques etc.)
 - Development of power-source cogeneration systems (introduction of large-scale cogeneration systems and purchase of excess electricity)
 - Exploration of new markets (biogas cogeneration, agricultural cogeneration (tri-generation))
- Geographical market expansion by Cogene Techno Service



On-site generating business

Development of high-efficiency gas engines

Strategy for development of high-efficiency engines



I. Strategic collaboration with big4 of high-efficiency gas engines

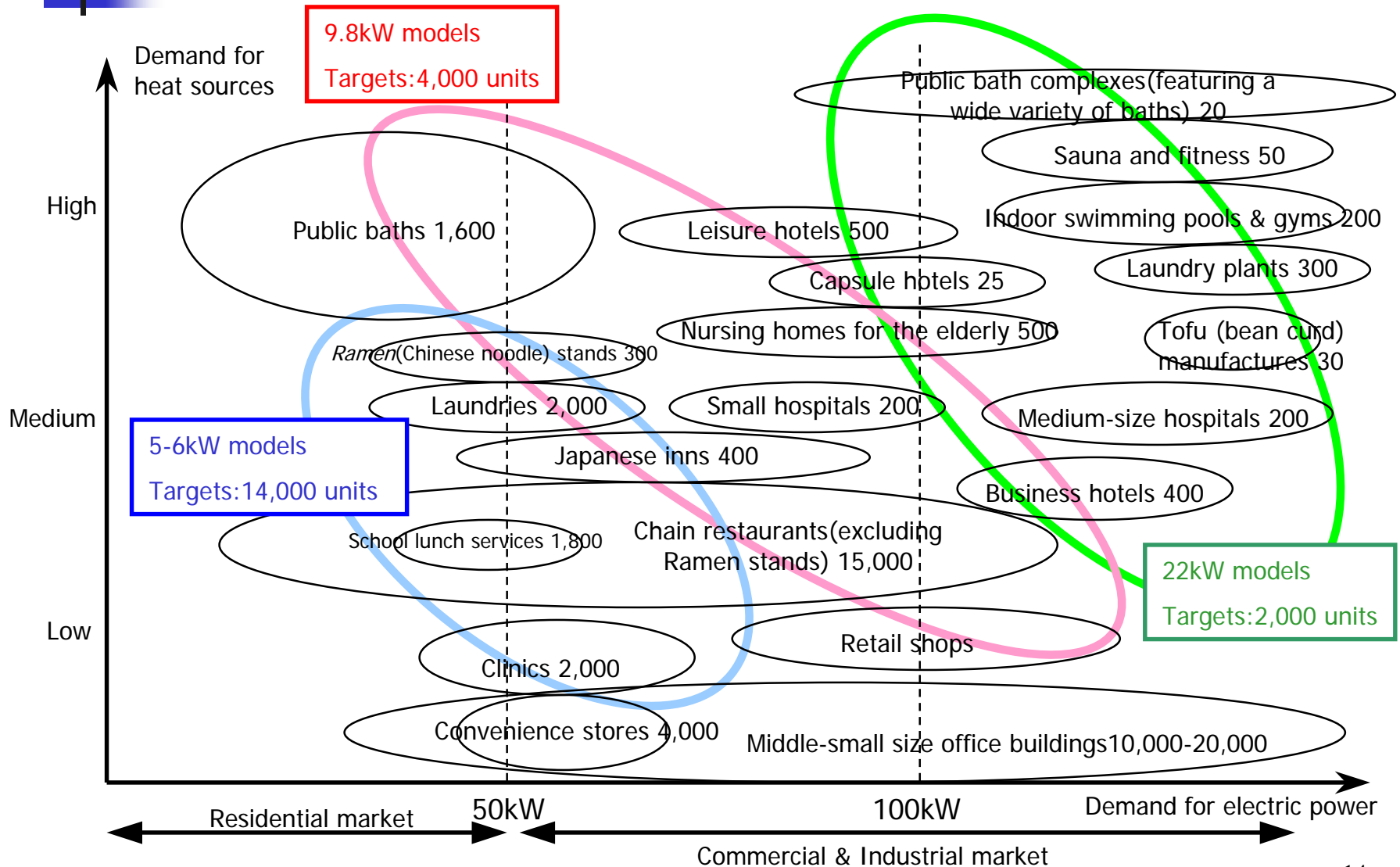
1. Direct purchase from world leading manufacturers
 - Company A: Technical provision and collaboration in the catalyst technology area
 - Company B: Cooperation in gas engine development, Cooperation in maintenance technology
2. Joint development with domestic leading manufacturers
 - Partnership with Company C: Continued joint development for more than five years, Technical exchange on a company-wide scale
 - Company D: Joint development of micro cogeneration systems, GHP, and small gas engines

II. Independent technical development

- Independent development of catalysts, anti-vibration and noise-proofing measures
- Development of techniques for gas engine reliability assessment
- Independent development of long life plugs and oil





New market created by micro cogeneration systems

Market expansion



New market created by micro cogeneration systems

Developing new appliances of micro cogeneration

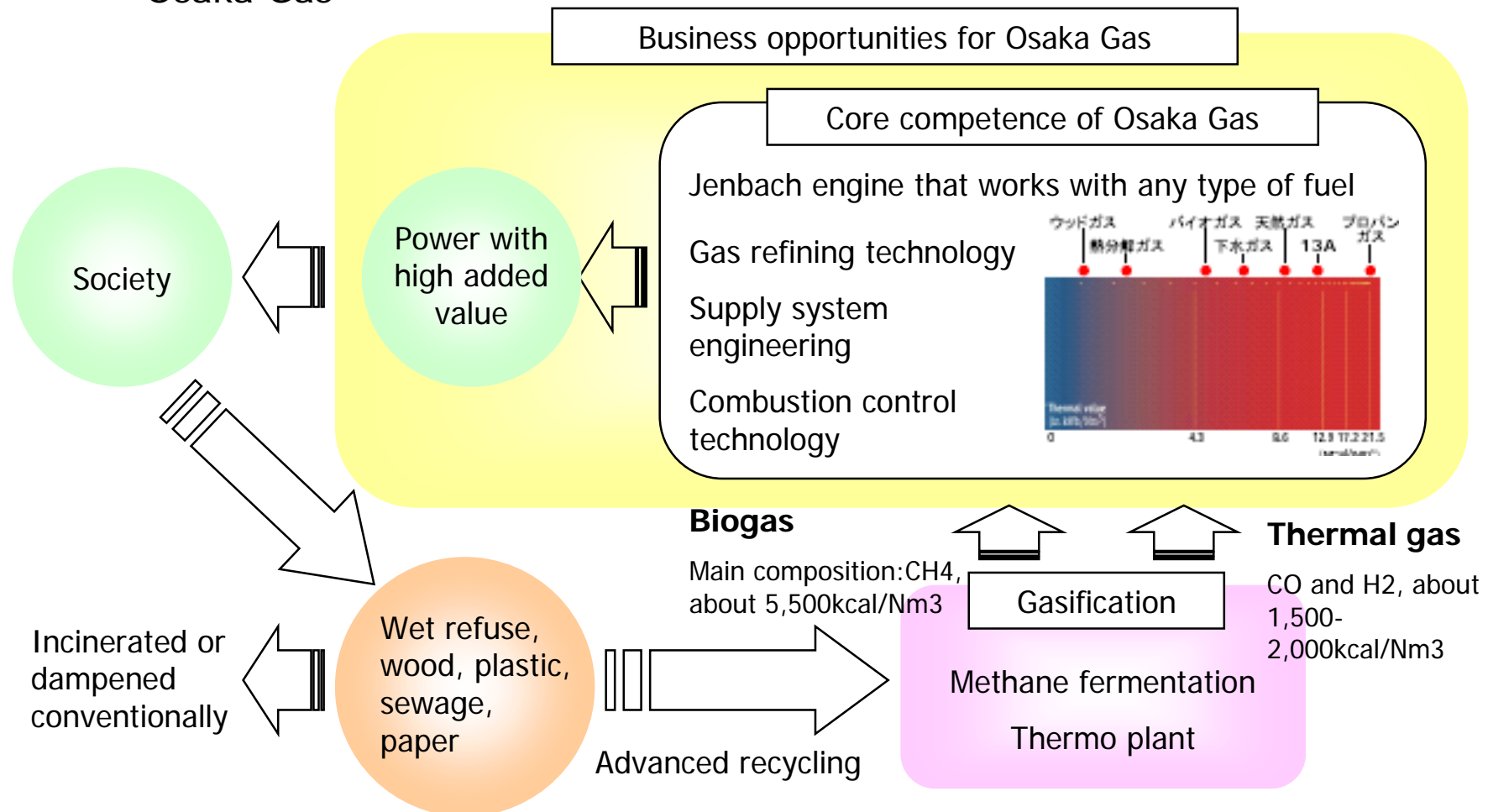
Output		9.8KW	22kW	6.0kW	5.0kW	8.0kW
Maker		Yanmar	Yanmar	Aisin	Yanmar	Sanyo
Appearance						
Starts on sales		Dec.2000	Apr.2002	Jun.2002	Dec.2002	2003 Spring (Estimation)
efficiency	Generating	24.5%	28.0%	26.5%	27.0%	24.3%
	Heat absorption	57.0%	57.0%	59.5%	60.0%	60.8%
	Total	81.5%	85.0%	86.0%	87.0%	85.1%

Efficiency rates of the 22kW machine are those in the inverter-linked operation

Figures for the 8.0kW machine are targeted specifications

Business opportunities in the recycling society

- Biogas/thermal gas power generation business using technologies of Osaka Gas

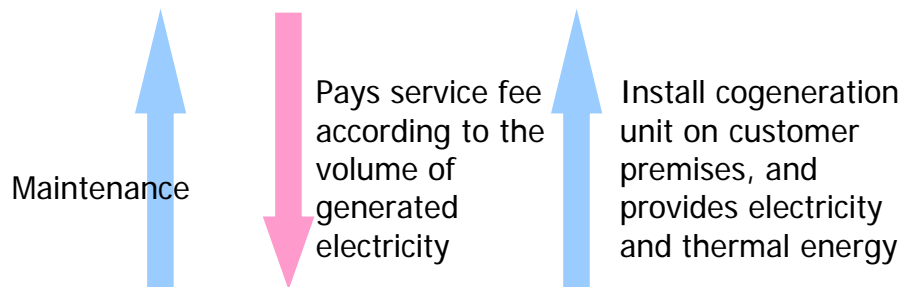


Energy service coupled with generation

System of energy service coupled with generation

Customer

- Provided with cogeneration unit without large initial capital investment
- Conducts daily maintenance and operation

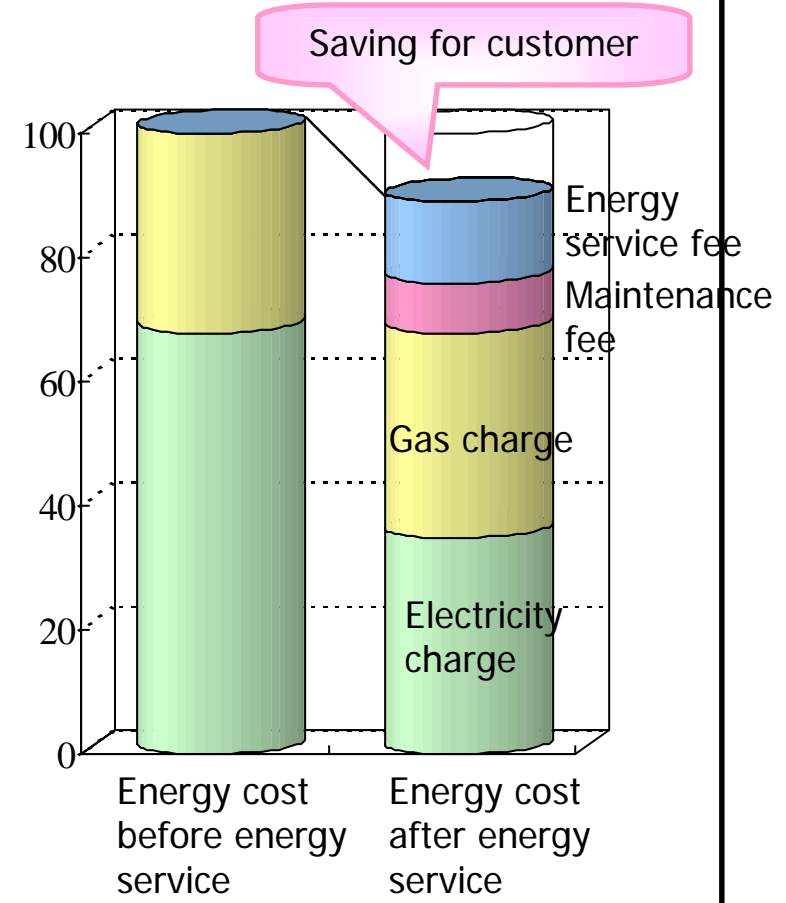


Osaka Gas group

Osaka Gas/ Cogene Techno Service

- Installs a cogeneration unit on customer premises, retaining ownership of the unit
- Collects energy service fee from the customer depending on the volume of electricity generated by the cogeneration unit

Structure of service fee

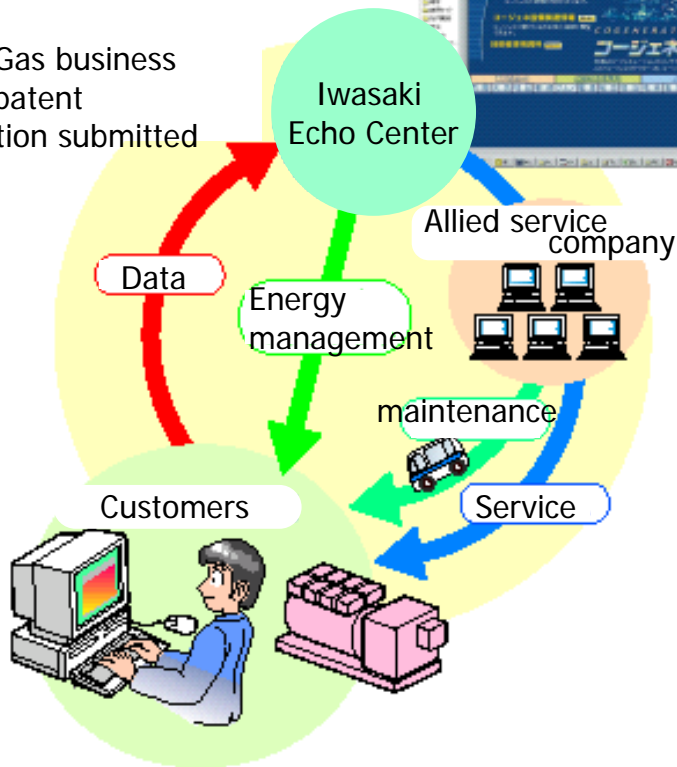
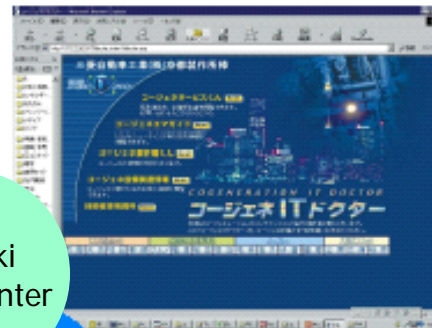


Cogeneration maintenance system using IT

To enhance customer satisfaction and increase service revenues as Energy Service Provider

Web Echo Line

Osaka Gas business model patent application submitted



Ensures 24-hour 365-day contact with customers



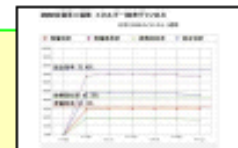
Provides guidance for emergency procedures



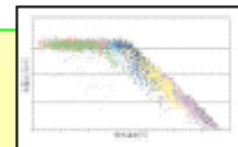
Periodic checkup and fault diagnosis



Informs of cost merits for users



Prevents serious accidents in a cogeneration system

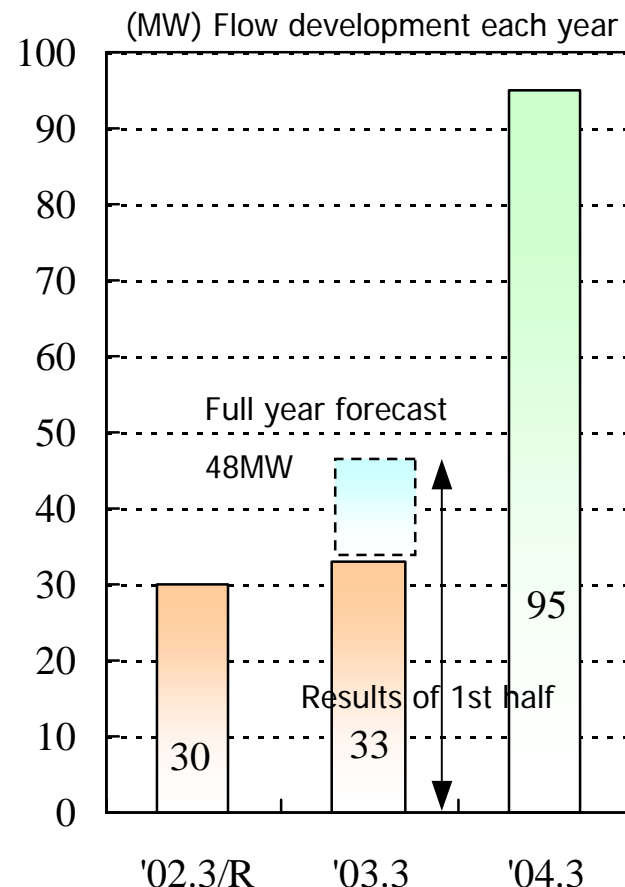


IT remote operation control for corresponding to electricity generation business

Activities of Cogene Techno Service

- National business expansion through CTS Consortium
 - Tokyo office opened in March 2002
 - Northern Cogene Power established in May 2002 in Aomori as the business base for Tohoku Region
- Product development efforts
 - Introduction of high-efficiency, low-cost diesel/LPG cogeneration systems using the technologies of Osaka Gas
- Proposal marketing with offer of unique finance schemes
 - Energy service coupled with electricity generation (Business model patent application submitted)
 - Fixed heavy oil price service
- Service organization
 - Networking of local collaborative companies
 - Remote monitoring system "Echo Line" (Business model patent application submitted)

Results and forecast of development



III. Outline of organizational restructuring

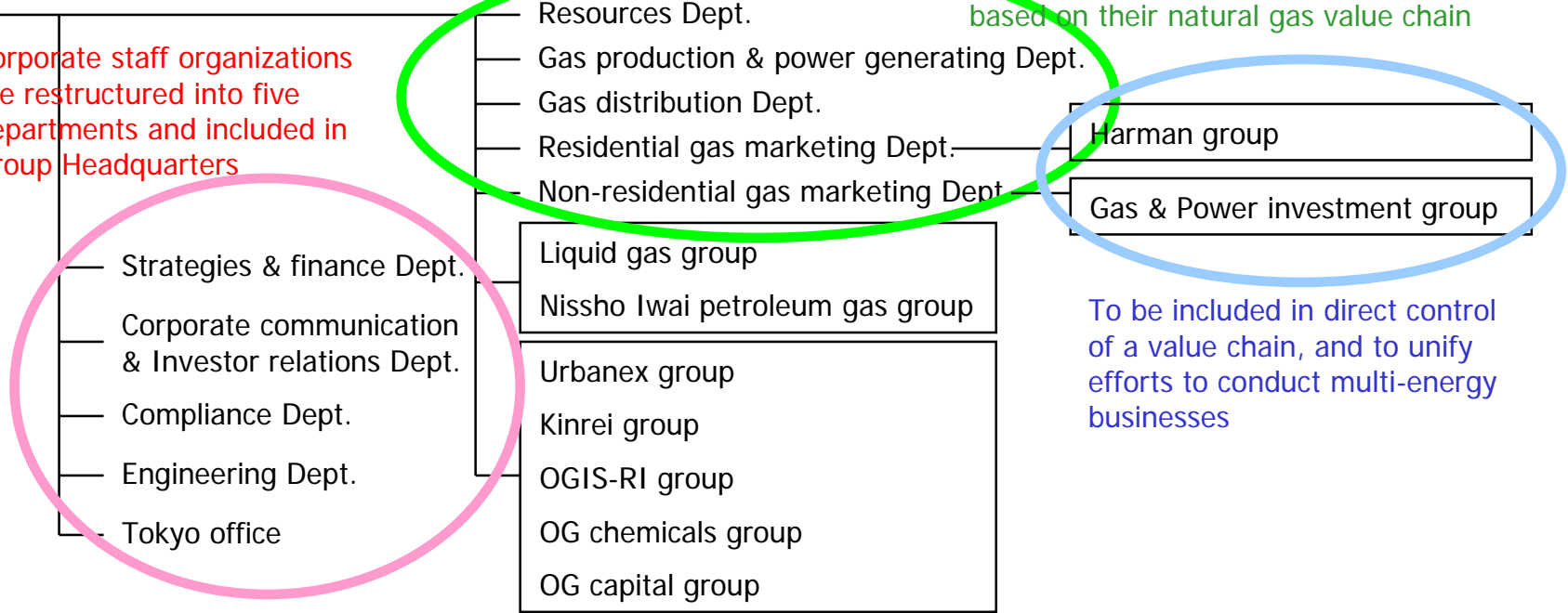
Outline of organizational restructuring (Scheduled for April 2003)

Objectives of organizational restructuring

- To divide natural gas-related businesses into units according to their value-chain, to clarify the independence and responsibility of each unit, leading to improvement of competitiveness and profitability
- To unify the head office function and the production site of each unit into one place, to enhance management flexibility and responsiveness
- To engage in diverse energy businesses, with the main focus on gas and electricity, and to accelerate business expansion into wide areas

Resources Dept., Trunk line Dept., Regional business headquarters and Supply & sales staff organization are restructures into business units based on their natural gas value chain

Corporate staff organizations are restructured into five departments and included in Group Headquarters



To be included in direct control of a value chain, and to unify efforts to conduct multi-energy businesses

IV. Facts & Figures

Overview of energy business

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

	Sales		Net income		References for full year forecast
	1st half results	Full year forecast	1st half results	Full year forecast	
G1 Gas business	+1 116	+30 299	+3 5	+1 5	Due to new inclusion in consolidation of Ashiyahama Energy Service and Nabari Kintetsu Gas, revenues and net income increased as a whole.
G2 Liquid Gas	+7 95	+15 200	+2 6	+3 9	Mainly due to sales increase in the LPG department of Liquid Gas, revenues and net income increased.
G3 NIPG	-10 264	-27 582	+1 6	+2 5	Three subsidiaries in NIPG Group are included in consolidation. Although sales decreased due to the lowering of CP, revenues increased due to the effects of the significantly improved cost rate.
G4 GPI	+41 81	+61 148	+1 6	+0 5	Because electricity wholesaling started in G&P and the thermal energy supply business of GPI operated for a full year for the first time, revenues and net income increased as a whole
G5 Harman	-17 129	-13 292	+21 5	+31 4	While revenues decreased due to declining equipment sales, net income increased from the previous year because expenses related to business collaboration with Noritz were charged in the previous year.
Total of energy business	+22 688	+65 1,523	+30 25	+39 30	

NIPG:Nissho Iwai Sekiyu Gas, G&P:Gas & Power, GPI:Gas & Power Investment, CP:Saudi Arabia Contract Price. G1 excluded Osaka Gas

Overview of non-energy business

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

	Sales		Net income		References for full year forecast
	1st half results	Full year forecast	1st half results	Full year forecast	
G6 Urbanex	+36 161	+72 322	-20 -12	-6 6	Although revenues increased due to strong sales in the three facility management companies newly consolidated, net income decreased due to loss resulting from the sale of UX real estate in Harbor Land, Kobe.
G7 Kinrei	-79 86	-154 192	+6 10	+6 15	Kinrei recorded increased revenues and net income due to the effect of opening of new stores of Kagonoya, and strong sales in existing stores. Revenues of the entire G7 group decreased because OG Royal was excluded from the consolidation.
G8 OGIS-RI	+15 125	+37 344	+0 -2	-3 5	Ube Information System was newly consolidated. Revenues decreased due to delay in the OGIS Research Institute's development and operation of systems for customers outside Osaka Gas.
G9 Osaka Gas Chemicals	+2 67	+19 139	-0 1	-0 1	Taiyo Kasei and Shanghai Dongdao Carbon Chemical Industry were newly consolidated. Although Osaka Gas Chemical worked to expand its material business, because market conditions were very tough increased revenues and decreased net income were recorded.
G10 OG Capital	-45 315	-41 744	-1 4	+13 22	OGE recorded increase both in revenues and net income, due to acquisition of some large accounts. Osaka Gas Housing Equipment recorded increased sales due to strong wholesales to new housing. OG Sports recorded increased revenues and net income due to the merger with How Sports and the opening of new gyms. Revenues and net income increased in Active Life due to the improved occupation rate in the nursing facilities. Techno Green was newly consolidated. Although total revenues decreased, net income increased due to the sale of Kiccory.
Total of non-energy business	-68 756	-66 1,744	-15 1	+8 51	
Grand total	-45 1,444	0 3,268	+14 26	+48 82	

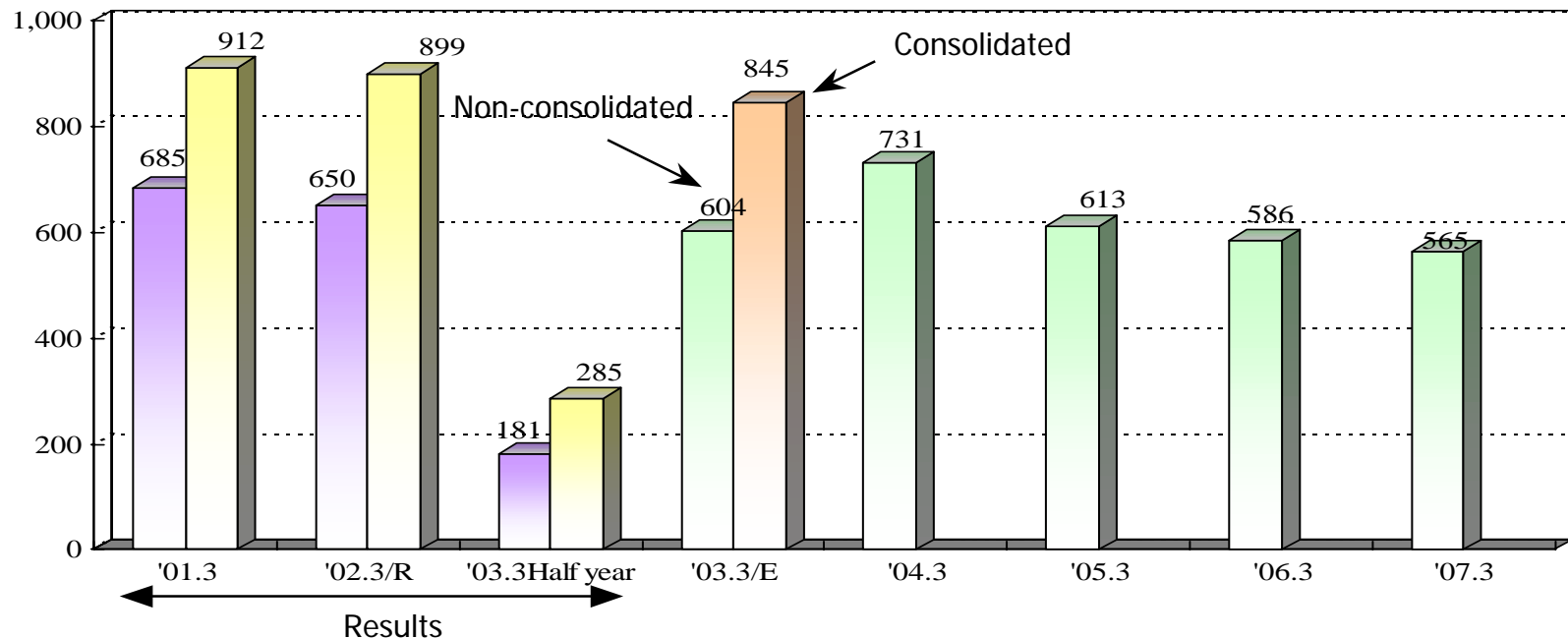
OGE:Osaka Gas engineering

Results and forecast of capital expenditure

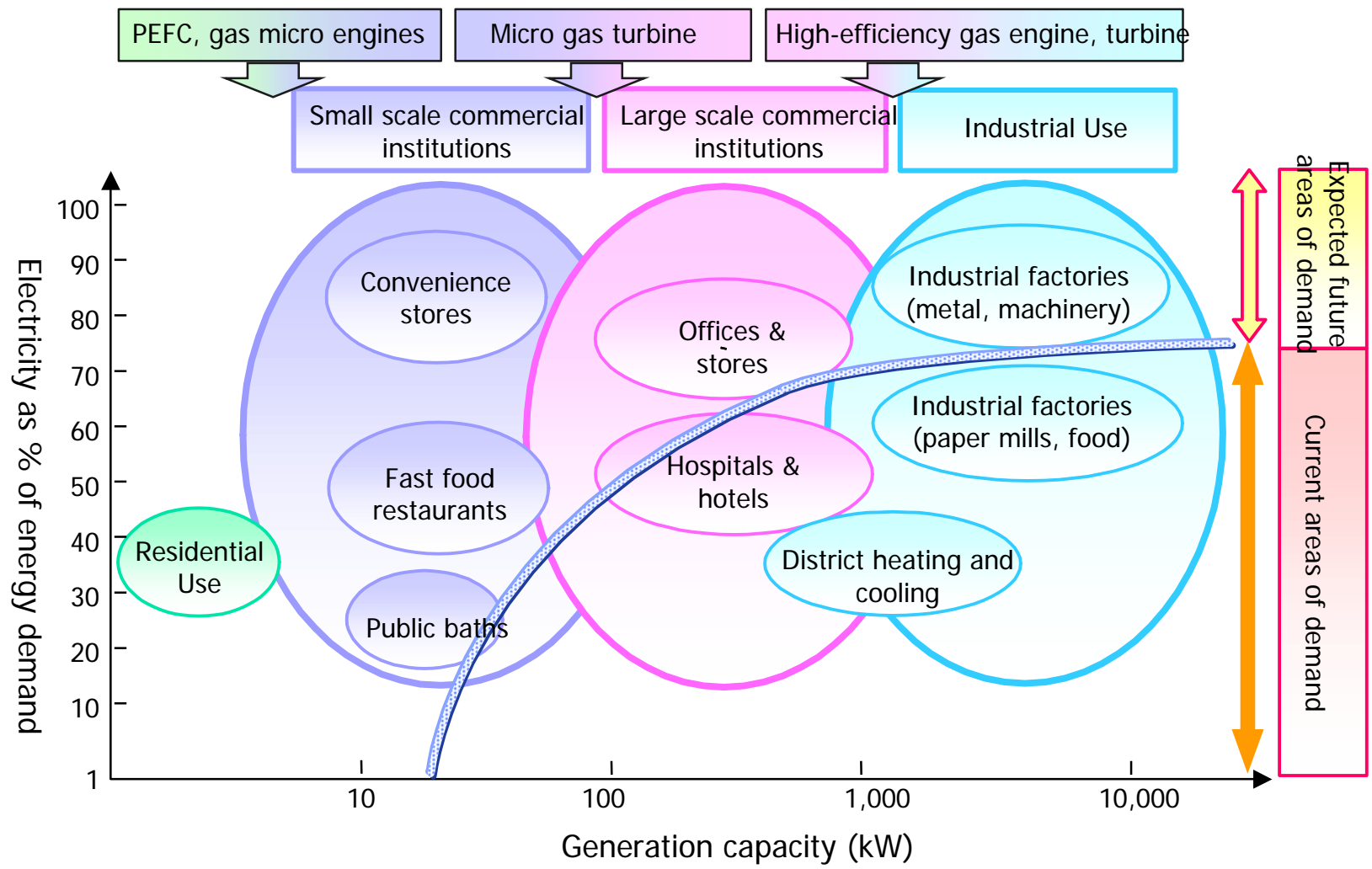
- For the first half of FY03.3, capital expenditures were lower than the initial forecast by ¥4.7 billion and ¥8 billion on non-consolidated and consolidated bases, respectively, because non-consolidated piping business investments and consolidated electricity-business-related investments were postponed to the second half of the year.
- It is expected that full-year expenditures will be as initially scheduled, both on non-consolidated and consolidated bases, as works initially scheduled for the first half will be conducted in the second half term of the year.

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(100 million yen)



Areas of Demand for Gas Co-generation and New Technology

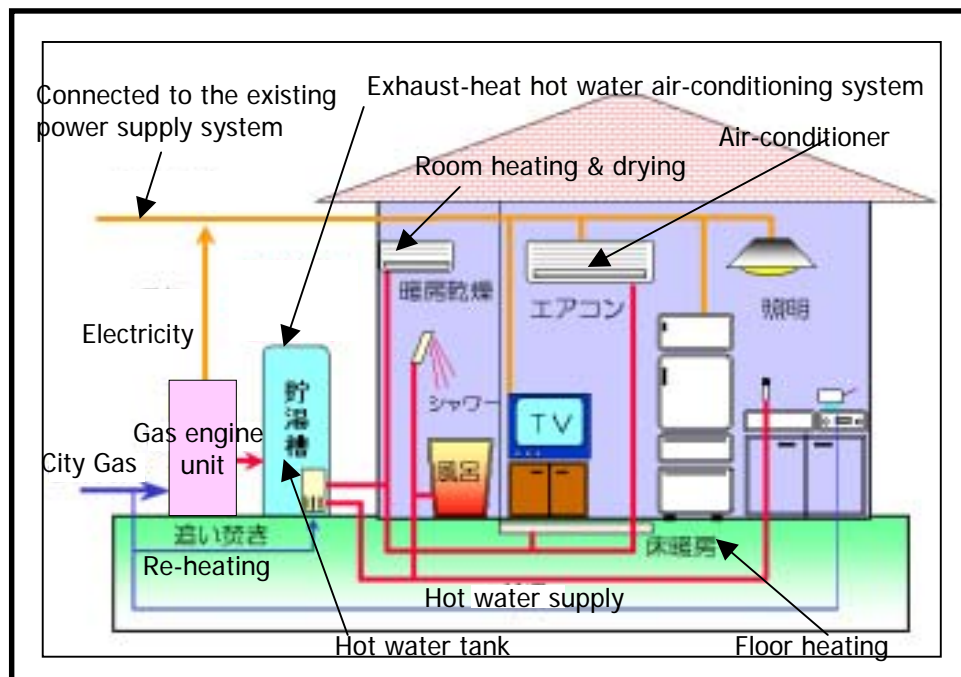


Residential 1-kW-output Gas Engine Co-generation System Development Updates

- Field tests for commercialization of residential co-generation systems using a 1-kW-output gas engine started in October 2001.
- This system combines a gas engine developed by Honda Motor Co., Ltd. and an engine-exhaust-heat utilization system developed jointly by Toho Gas, Seibu Gas, Noritz, Chofu Seisakusho and Osaka Gas.
- The system will be tested in about 90 households in the first half of the year ending in March 2003, and is planned to be put on sale in the same fiscal year. The target market will be detached houses.
- The system will account for 40% of the current residential electric-power demand (200 m³/system). Osaka Gas plans to sell about 10,000 units over the first three years (from the year ending in March 2004 to the year ending in March 2006).

Key Specifications (Initial Product)

Generation output	1kW
Generation efficiency	20%(LHV)
Exhaust heat recovery efficiency	65%(LHV)
Gas consumption	0.43m ³ /h
Noise	44dBA
Nox	60ppm
Durability	20,000 hours or 10 years
Maintenance intervals	6,000 hours or once every 3 years



Residential Fuel-cell System Development Updates

- Experimental operation has been in progress in selected residential buildings and other sites since April 2002.
- Development goals

	500W	1kW
Generation efficiency ratio	Over 35%	Over 35%
Heating efficiency ratio	Over 30%	Over 35%
Longevity	10 years	10 years
Target price	¥550,000	¥600,000

- Osaka Gas's technological strength: high-performance desulfurization catalyst (global standard)
- Expected date of commercialization: FY2006.3
- Impact on our gas sales per installation
 - In the case of 1kW PEFCs (polymer electrolyte fuel cells) for homes with a floor area of over 150m², an increase from around 800m³ per year to 1,600-1,800m³ per year

