Financial Report for FY2002

(April 2001 – March 2002)

Osaka Gas Co., Ltd.

I. Overview of Financial Statements for FY2002.3

Results for FY02.3, and Projection for FY03.3 I

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

		Results for FY01.3	FY02.3		Projection for FY03.3	
			Projection *1	Results	1st Half	Full Year
Sales	Consolidated	9,519 (1.26)	9,850 (1.29)	9,735 (1.30)	4,150 (1.31)	9,600 (1.33)
	Non-consolidated	7,541	7,615	7,510	3,169	7,238
Operating Profit	Consolidated	740 (1.25)	820 (1.20)	966 (1.18)	195 (1.56)	745 (1.33)
	Non-consolidated	593	683	817	125	561
Ordinary Profit	Consolidated	638 (1.18)	720 (1.12)	759 (1.08)	150 (1.30)	650 (1.20)
	Non-consolidated	539	640	703	115	540
Net Income after Tax	Consolidated	360 (1.09)	430 (1.07)	394 (1.05)	70 (1.00)	380 (1.15)*2
	Non-consolidated	329	400	376	70	330
SVA	Consolidated	111	---	131	–38	114
	Non-consolidated	123	---	157	–74	118

Gas Sales Volume	Million m^3	7,407	7,458	7,309	3,497	7,470
Exchange Rates	Yen/$	110.5	120.0	125.0	135.0	135.0
Crude Oil Prices	$/bbl	28.4	27.3	23.8	20.0	20.0
Number of Consolidated Companies		35	44	43	54	54

*1: Projection announced in Interim Financial Statements in November 2001
*2: 40 billion yen in Project Plan announced on March 28, 2002

Results for FY02.3 and Projection for FY03.3 II

On a consolidated basis; figures in parentheses are non-consolidated.

100 Million yen	Results for FY01.3	Results for FY02.3	Projection for FY03.3	
			1st Half	Full Year
Total Assets	13,109 (10,671)	12,435 (10,043)	13,180 (10,914)	13,440 (11,174)
Shareholders' Equity	4,750 (4,180)	4,687 (4,059)	4,699 (4,107)	4,938 (4,295)
Interest-bearing Liabilities	5,101 (4,013)	4,650 (3,613)	5,004 (4,005)	5,031 (4,032)
Capital Expenditure	912 (685)	899 (650)	365 (228)	845 (604)
Depreciation Expenses	924 (714)	887 (675)	433 (331)	852 (649)
Free Cash Flow	405 (372)	706 (673)	130 (125)	260 (215)
Number of Employees	14,256 (9,241)	13,878 (8,919)	14,668 (8,812)	14,486 (8,630)

ROA	2.9% (3.2)	3.1% (3.6)	---	2.9% (3.0)
ROE	8.0% (8.2)	8.4% (9.2)	---	7.9% (7.8)
Shareholders' Equity Ratio	36.2% (39.2)	37.7% (40.4)	---	36.7% (38.4)
EPS(yen/share)	14.72 (13.45)	16.33 (15.62)	---	16.04 (13.93)
BPS(yen/share)	195.5 (172.1)	197.9 (171.3)	---	208.4 (181.3)

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.
In computing the BPS values, the average values at end of the applicable periods were used for both numerators and denominators.
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
The projection for FY03 was calculated using the new operating profit and capital expenditure determining method to be introduced at the end of FY2003.

Gas Sales

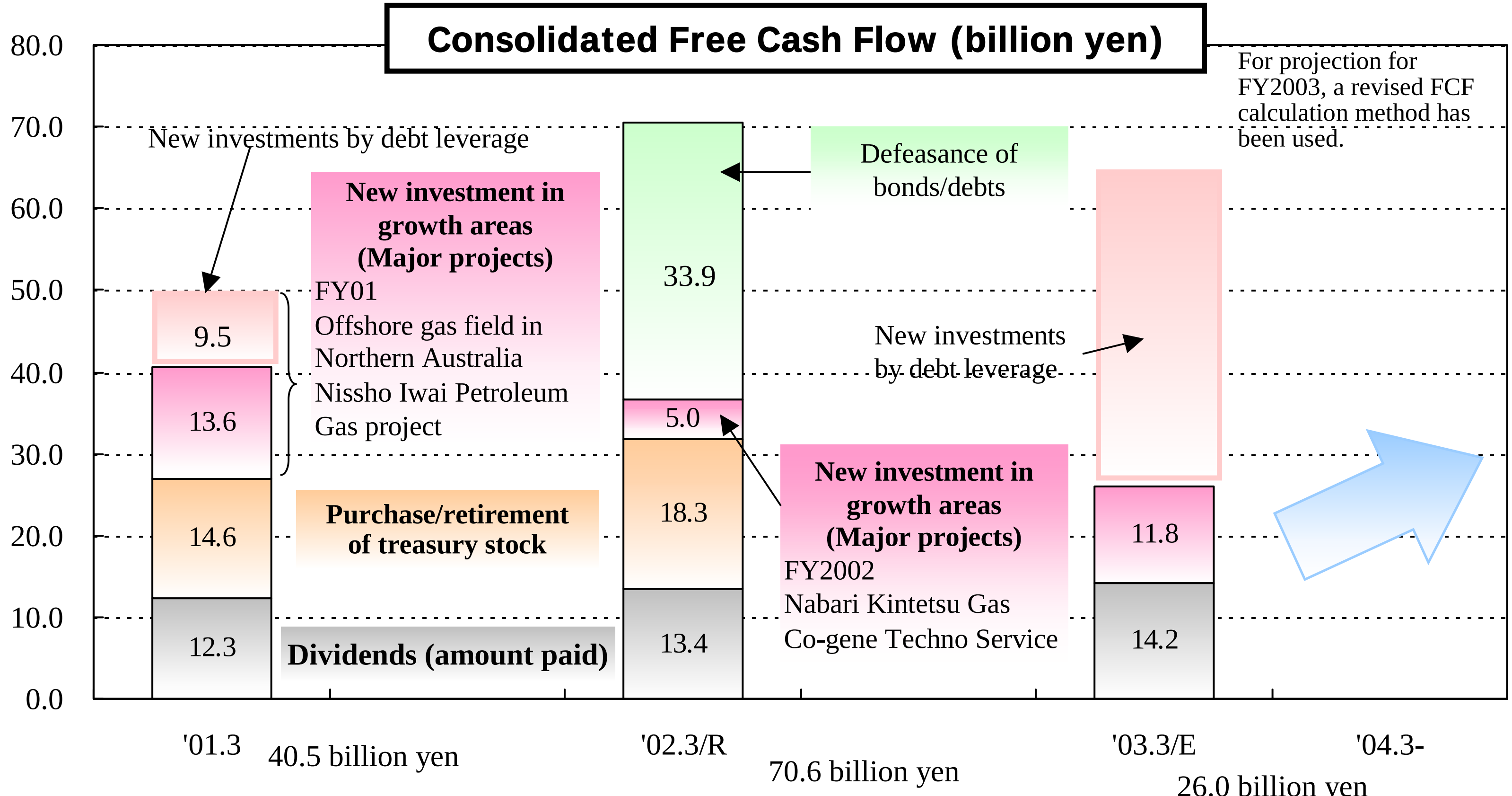
	Results for FY01.3	Results for FY02.3	Growth/ Decline	Projection for FY03.3		FY01 – FY02
				1st Half	Full Year	
Number of meters installed at the end of the period (in thousands)	6,401	6,484	+83	6,528	6,576	[Residential use] Impact of temperatures: –1.8% Number of days when gas equipment was used: –0.7% Others: –1.1% [Commercial, public, and medical use] Development of new customers: +6.8% Impact of temperatures: –1.4% Others: –1.7% [Industrial use] Development of new customers: +6.0% Plant operation: –9.0%
Installation of new meters (in thousands)	143	141	–2	60	138	
Monthly gas sales per household (m^3/month)	34.5	–3.5% 33.3	–1.2	26.0	+2.1% 34.0	
Residential use	2,244	–2.2% 2,194	–50	865	+3.4% 2,268	
Commercial, public, and medical use	1,384	1,435	+51	788	1,511	
Industrial use	3,656	3,547	–109	1,767	3,527	
Total	5,040	–1.2% 4,982	–58	2,555	+1.1% 5,038	
Wholesale	124	132	+8	77	164	
Gas sales total (in million m^3)	7,407	–1.3% 7,309	–98	3,497	+2.2% 7,470	
Including large supply	3,394	3,389	–5	1,723	3,410	

Review of Financial Results for FY02.3

- **On a consolidated basis, sales increased and net income grew significantly, whereas on a non-consolidated basis, sales decreased but net income grew sharply.**
  - The growth of net income is attributable to cost reduction and increased profit margin resulting from the fuel cost adjusting system.
- **Goals set for FY2003 in the mid-term plan have been achieved one year earlier.**
  - Dividend increase (1 yen/share), revision of gas charge rate (from March 2002), and retirement of treasury stocks
- **Selection of group projects and concentration of managerial resources into selected projects**
  - Business restructuring by SVA → Suspension of Tsuruga Terminal plan, closure of Hokko Plant, transfer of Harman manufacturing sector, transfer of Kiccory and OG Royal stocks, and transfer of Urbanex's real estate in Kobe Harborland
- **Initiatives to strengthen management structures**
  - Compression of assets and reduction of capital costs → Significant reduction of interest-bearing liabilities, retirement of treasury stocks
  - Continuous commitment to cost reduction
  - Measures to reduce burden in later years
- Gas sales: Gas sales declined 1.3% from the previous year, due mainly to unfavorable temperatures and economic recession.
- **Consolidated subsidiaries**
  - Consolidated subsidiaries under the Group stood firm in general, except the issue of recall for Harman, recording of restructuring cost, and the loss incurred by the transfer of Kiccory.
- **Significant growth of free cash flow**
  - Free cash flow increased sharply, due mainly to a drastic increase in the Osaka Gas operating profit and decline in capital expenditures.
  - The surplus resulting from decreased new investments was allocated to the retirement of treasury stocks and payment of interest-bearing liabilities.

Consolidated Free Cash Flow

- In principle, Osaka Gas allocates free cash to dividends, investment in growth areas, and reduction of gas charge rate. If the Company has few options for investments, it considers purchase and retirement of treasury stocks.
- Because of the increased operating profit and decreased capital expenditure, free cash flow in FY2002 was higher than the level estimated in the interim accounting period. Free cash flow in FY2003, however, is predicted to decrease by approximately 45.0 billion yen from FY2002, due to the reduction of the gas charge rate.



Business Plan for FY2003.3

Management tasks in FY2003

- Business restructuring by SVA
  - Converting SVA business into the black and accelerating business reorganization
- Maximizing effect of gas charge rate reduction
  - Promoting anti-electric campaign and sales of cogeneration systems
- Developing new applications of gas service
  - Commercializing 1 kW gas-engine cogeneration systems for households, promoting natural gas vehicles and cogeneration systems for apartment complexes
- Seeking further cost reduction and compression of assets
- Increasing investment in growth areas
- Preparing new business models to be ready for deregulation
  - Reorganizing “value chains”
  - Constructing “Group Management Accounting System”(GMAC)

Osaka Gas will be committed to the management tasks during FY2003; during FY2002 the Company will prepare a mid-term plan for FY2004-2006, which will include new cost reduction plans and innovative business strategies.

Potential risks

- Deregulation
  - Different accessibility into electric power and gas markets; imbalanced progress of deregulation
  - Uncertainty of deregulation details (institution plans)
- Competition with electric power companies
  - Construction of new LNG terminals; entry into large gas projects
  - Intensifying gas - electricity competition due to reduction of electricity charge

    (Tokyo Electric Power announced a 20% reduction in electricity charges in the next five years; Kansai Electric Power has also announced its intention to lower electricity charges this fall.)

II. Development of Energy Business Strategies

Outline of Institutional Reforms

- Gas Business Institutional Reforms
  - Jan. 2001 - Apr. 2002: Outline of the report compiled by the Study Group on Gas Market Reform
    - Expanding usage of gas pipelines (scope of TPA business; wholesale and delivery)
    - Promoting use of gas terminals through negotiation
    - Gradual liberalization of gas retail business

Committee meetings on urban thermal energy

- Electric Power Business Institutional Reforms
  - Nov. 2001 - : Outline of discussions at the Electric Power Business Subcommittee of the General Energy Survey Committee
    - Securing independence, equity, and transparency concerning the use of power networks
    - Expanding electric power wholesale market
    - Liberalizing electric power retail business
    - Establishing professional monitoring organization

Third phase deregulation will begin during FY2003.

Osaka Gas's Proposals

- New institutional frameworks should be designed on the basis of thorough study of present Japanese gas businesses and energy security.
- The new framework should ensure fair competition among not only gas businesses but also businesses in different energy sectors.
- The new framework should ensure further development of the gas market, by enabling gas companies to develop natural gas application technologies.

Gas Sales Promotion Strategies

Residential Market

- Developing demand in air-conditioning business
  - Floor heating and residential air-conditioning systems: Development and sales expansion of systems for installing in existing housing, and initial cost reduction
- Development of demand for electric power - Development and introduction of cogeneration systems for households
  - 2002: Commercialization of gas engine cogeneration systems
  - 2005: Commercialization of fuel-cell cogeneration systems
- Sales promotion of cogeneration systems for apartment complexes
- Pricing Strategies - Preparation of competitive gas charge plans
  - Jan. 2001 : Introduction of the "*Hotto Ryokin*" gas charge discount plan
  - Mar. 2002: Gas charge reduction and provision of a variety of gas charge plans

Commercial and Industrial Markets

- Pursuit of advantages of gas air-conditioning systems (absorption cooling/GHP) and cogeneration systems for commercial and industrial users
- Development of products using cogeneration technology, to develop new markets and to strengthen the competitiveness of gas against electricity
  - Development of smaller products: Micro gas engines (9.8 kW)
  - Development of more efficient products: Adoption of mirror-cycle engines (Oct. 2001)
- Preparation of gas charge plans advantageous to customers
  - TES (cogeneration) Plan (July 1999) and the High Operation Rate TES (cogeneration) Plan (April 2001)
  - Reduction of gas charge and preparation of new gas charge plans, including seasonal contracts for commercial users (February 2002)
  - Promotion of long-term contracts (maximum: 12 years) that offer favorable prices and comprehensive services to customers
  - Stabilization of the gas charge by utilizing financial techniques
- Development of new applications of gas technologies in environmental and other business segments, and proposal for PFIs and onsite power generation systems (equipment lease)
- Differentiation of Osaka Gas products/services from rival companies
  - Strengthening ability to propose finance schemes, in addition to marketing, engineering, and maintenance abilities

Development of Electricity Business

- **Survey for construction of large-scale power plant for retail**
  - Survey for a 1-million-kW-class LNG thermal power plant project
  - Plant location: on Senboku LNG Terminal premises
- **PPS** (Power Producer & Supplier: electricity supplier through extra-high-voltage transmission line)
  - Wholesale of electricity to Ennet (Kansai region)

    Hitachi Zosen Maizuru (35,000 kW) : started operation in April 2002
    Senboku LNG Terminal (18,000 kW): will start operation in June 2002
    Himeji Terminal (50,000 kW) : will start operation in 2004
  - PPS Ennet business will be expanded from the current 61,000 kW to 500,000 kW by 2005 (only for extra-high-voltage electricity).
  - Osaka Gas is currently studying the possibility of purchase and sales of surplus electricity generated by cogeneration systems installed with large users.
- **IPP business**: Torishima IPP (150,000 kW) started operation in April 2002
- **Nationwide expansion of cogeneration system sales activities**: Establishing CTS (Co-gene Techno Service) in July 2001
  - Business alliances with trading companies, companies selling domestically produced natural gas, local gas companies and other partners
  - Utilizing Osaka Gas's co-generation engineering technology and its network of existing customers in the Kansai region
- **Onsite power generation** (management service for onsite power generation + ESCO services)
  - Management service for an onsite power generation unit in Mycal Ibaraki (started in January 2001)
  - ESCO service for Osaka Medical Center for Maternal and Child Health (started in April 2002)

Survey for Large-scale Power Plant Construction Project

- Practical surveying for a 1-million-kW-class LNG thermal power plant project
- Project Outline

Power generation method	Gas turbine combined generation
Class	1 million kW
Fuel	LNG
Candidate location	Premises of Senboku LNG Terminal
Commencement of Operation	FY2009.3

- Competitive Advantages
  - Employing the optimal class model in terms of efficiency
  - Exploiting human resources having expertise and experience in construction/operation of gas plants, cogeneration sites, and Torishima IPP
  - Utilizing existing infrastructure, including land and terminals
  - Expertise in LNG procurement
- Risks Taken into Account
  - Lowering of electricity charge
  - Rise of crude oil prices

Co-gene Techno Service (CTS)

Strengths of CTS

- Information Networks
- Ability to Offer Information
- Merchandise
- Differentiating Schemes
- Engineering Ability
- Maintenance Systems

Present Business

- 500 transactions (410,000 kW in total) are under negotiation.
- 15 transactions (30,000 kW in total) have already reached agreements.
- 36 additional transactions (50,000 kW in total) are likely.

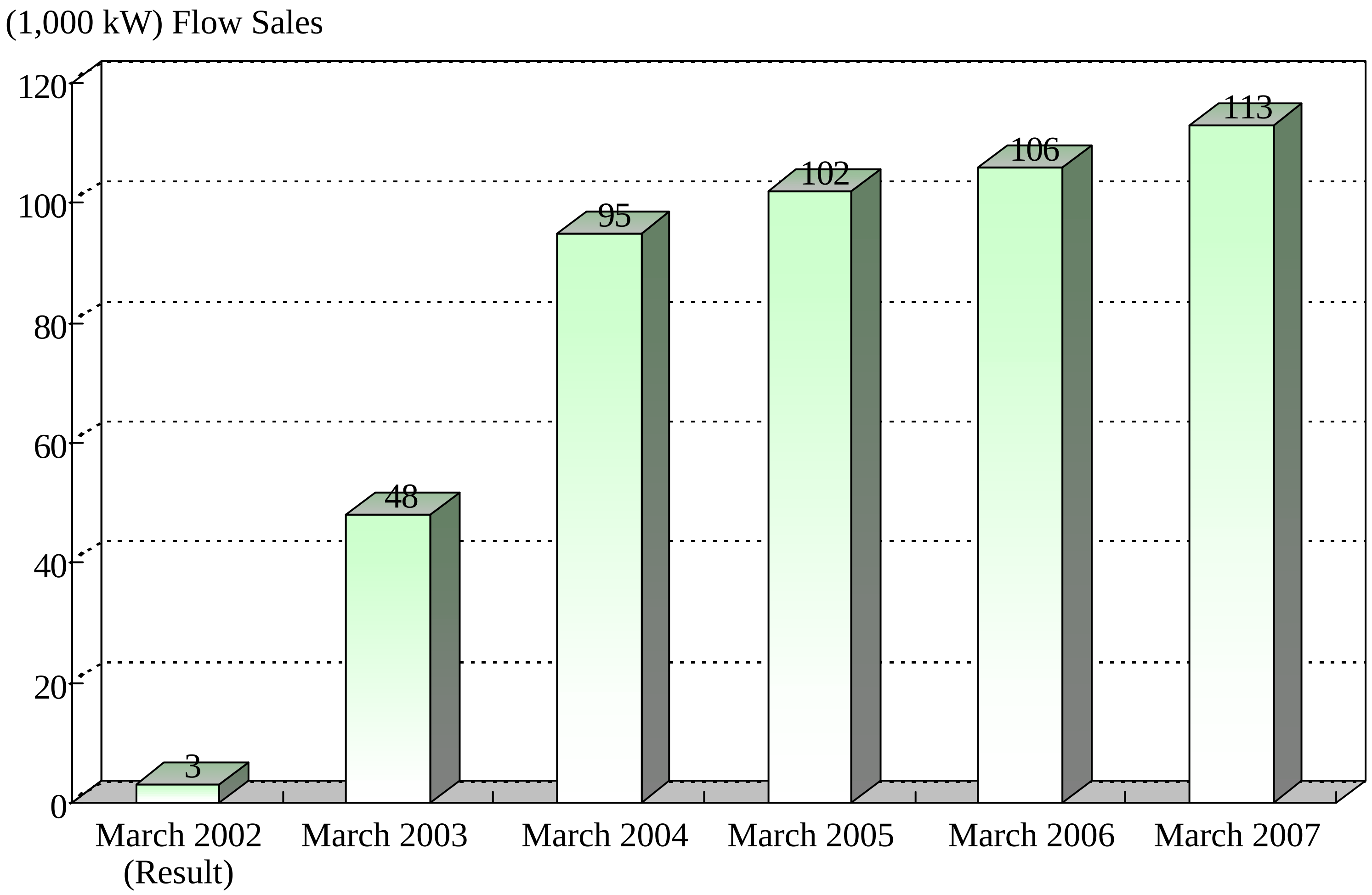
Major Markets

Industrial use	: machine, chemical and food industries
Commercial use	: hospitals, hotels, and super markets

Goals for FY07.3

- Sales:
  35.0 billion yen
- Sales Volume:
  110,000 kW
- Number of Employees:
  215

Co-gene Techno Service Sales Plan



Energy Business Development

Overseas Business and LNG Business

- **Investment in Universe Gas and Oil.**
  - Since 1990 Osaka Gas and Japan Petroleum Exploration Co., Ltd. have jointly developed a natural gas field in East Kalimantan, Indonesia.
- **Investment in Offshore Oil Field in Northern Australia (announcement in *July 2000*)**
  - Osaka Gas purchased a 10% mining royalty of the offshore site (minable reserve: equivalent to LNG of approx. 280 million tons). Although natural gas will be initially supplied to the Northern Australian market, import to Japan is planned in the future.
- **Operation of third LNG Tanker "*Jamal,*" owned by Osaka Gas (*September 2000*)**
  - Osaka Gas plans to purchase a fourth tanker to prepare for the commencement of a new LNG project in West Australia in 2004.
- **Investment in LNG Project in Northern Taiwan (*May 2001*)**
  - Osaka Gas invested approximately 3% in Tung Ting Gas Company's LNG project, to supply LNG to Ta-Tang Power Plant of Taiwan Electric Power Company.

Expansion of City Gas Projects in Japan

- **Purchase of business from Miki Municipal Gas (about 9,000 households; *October 2000*) and Tenri Municipal Gas (about 5,000 households; *April 2001*)**
- **Investment in Nabari Kintetsu Gas (announcement in *February 2002*)**
  - Osaka Gas purchased 80% of the stocks of Nabari Kintetsu Gas (about 26,000 households) in March 2002.

Nationwide Development of Energy Business

- **Investment in Nissho Iwai Petroleum Gas Group (*September 2000*)**
  - Purchase of 70% of the stocks of the NIPG Group (wholesale: about 500,000 tons; retail: about 50,000 tons for 70,000 households)
- **Establishment of Co-gene Techno Service (*June 2001*)**
  - A joint venture with trading companies (Sumitomo Corporation and Mitsui & Co., Ltd.), Tess Engineering Co., Ltd., Japan Petroleum Exploration Co., Ltd. and four local gas companies. Co-gene Techno Service is engaged in engineering and maintenance service for co-generation systems installed in the Osaka Gas Group service area, and sales of co-generation systems outside the Osaka Gas Group service area.

III. Facts and Figures

Overview of Energy Business

Total values of consolidated subsidiaries without adjustments, except for the adjustment of duplication concerning allowance for loss of Kiccory

100 million yen	Sales			Net Income			Remarks
	FY01	FY02	FY03	FY01	FY02	FY03	
G1 Gas Business (excluding Osaka Gas)	+46 269	–7 268	+38 307	+2 –0	+5 4	+2 6	[FY02] OGIT achieved a significant increase in both sales and net income, contributed to by the operation of a new LNG tanker "*Jamal*." Kinki Piping significantly increased its net income, as a result of increased orders for housing businesses and cost reduction. [FY03] Despite a decline in sales, Kinki Piping is expected to increase net income, led by a strengthened pipeline business and sales of air-conditioning systems.
G2 Liquid Gas	+33 194	–8 185	+16 201	–7 –2	+7 5	+3 8	[FY02] Slow sales of industrial gas, particularly in the semiconductor industry, were more than offset by growth in LPG sales. As a result the group achieved increased sales and profit. [FY03] Liquid Gas is expected to increase both sales and net income, fueled by sales expansion of the LPG sector and recovery in industrial gas sales.
G3 NIPG	--- 344	+266 610	–2 608	+0 0	+2 2	+2 5	[FY02] Despite an increase in LPG sales from 590,000 tons to 640,000 tons, the overall sales decreased due to the decline in CP. Net income, however, increased. NIPG and Liquid Gas are promoting partnerships in LPG supply, filling, delivery, and share of office space. [FY03] Nationwide sales campaigns and cost reduction are expected to result in increased net income.
G4 GPI	--- ---	+87 87	+57 144	--- ---	+5 5	–2 2	[FY02] An increase in sales and net income was achieved resulting from the purchase of community-based centralized heating and air-conditioning business, sales of electric power generated by pilot operation of Torishima IPP, and sales of ESCO. [FY03] Increased sales are expected, due to the commencement of wholesale of electric power by Gas and Power (April 2002).
G5 Harman	+20 362	–48 306	+19 326	–15 –16	–11 –26	+40 13	[FY02] Harman was divided into three companies: Harman Pro (manufacturing), Harman (sales), and Harman Planning (real estate). Following the division, Harman Pro was transferred to NORITZ Corporation. Harman recorded a deficit of 2.6 billion yen, due to decreased equipment sales, recall for Harman Planning, and restructuring costs. [FY03] Increased profit is expected, since restructuring completed in FY02.
Total of Energy Businesses	1,169	1,458	1,587	–18	–9	37	

NIPG: Nissho Iwai Petroleum Gas; GPI: Gas and Power Investment; CP: Saudi Arabia Contract Price

Overview of Non-Energy Business

Total values of consolidated subsidiaries without adjustments, except for the adjustment of duplication concerning allowance for loss of Kiccory

100 million yen	Sales			Net Income			Remarks
	FY01	FY02	FY03	FY01	FY02	FY03	
G6 Urbanex	+7 270	–19 250	+71 322	+5 12	+0 12	–18 –5	[FY02] Sales declined slightly due to a decrease in the number of tenants (KRP) and diminished office business (Serendi). Yet, net income increased slightly, resulting from cost reduction. [FY03] The group will consolidate facility maintenance firms (Urbanex Service, OSC Engineering) and operation firms (Planetwork) in FY03. The tenant business is expected to maintain high occupation rates.
G7 Kinrei	+3 344	+2 347	–143 204	+6 9	–0 8	+6 15	[FY02] Sales and profits of Kinrei increased significantly due to the sales of five new Kagonoya chain restaurants. (Existing restaurants also remained firm [97.7%], despite negative impacts of BSE.) BSE affected the sales of Royal Host (Jan. - Dec.), which declined to 92.5% of the previous year's sales. OG Royal also recorded decreased sales and net income. [FY03] An increase in net income is expected, since a series of newly opened Kagonoya chain restaurants is likely to contribute to a higher profit level, more than offsetting the impact of the transfer of OG Royal stocks. Sales, however, will decline, affected by business restructuring.
G8 OGIS-RI	–3 312	–5 307	+56 363	+9 19	–9 9	+2 11	[FY02] Both sales and net income declined, due to decreased margin of system development and computer operations under contract, as well as to the decreased orders from Osaka Gas. OGIS-RI, however, maintained ordinary profit/sales rate of 5.5%, and increased the rate of external sales, to over 50%. [FY03] The company will strengthen development and operation service of systems for customers outside the Group to seek increased sales and profit.
G9 Osaka Gas Chemicals	+13 143	–23 119	+27 146	–3 –2	+4 2	–0 1	[FY02] Sales declined due to decreased sales of electrode materials. Growth in net income is attributable to the extraordinary loss recorded in FY01, due to business restructuring of Donack. [FY03] Sales are expected to increase, but, due to severe market conditions, net income will decrease, despite the company's efforts to maintain/increase the sales of materials for water purifiers and other environmental materials, as well as electrode materials.
G10 OG Capital	+5 796	–10 785	–18 767	–1 8	+0 9	+18 27	[FY02] All group companies recorded profits, except for the deficit (approximately 1.7 billion yen, comprising mainly the loss of Kiccory). Business was favorable particularly in equipment supply to new houses by Osaka Gas Housing Equipment, security business by Osaka Gas Security Service, care service by Active Life, and fitness club operation by OG Sports. [FY03] Osaka Gas Housing Equipment, OG Sports, and Active Life are predicted to increase both sales and net income.
Total of Non-energy Businesses	1,865	1,809	1,804	48	42	51	[FY02] In total, consolidated subsidiaries increased sales and net income. [FY03] Consolidated subsidiaries are expected to increase sales and increase net income significantly.
Grand Total	3,035	3,268	3,391	31	33	89	

Gas Sales Plan

- Average annual growth rate between FY02 and FY07: 2.4%

Residential Market

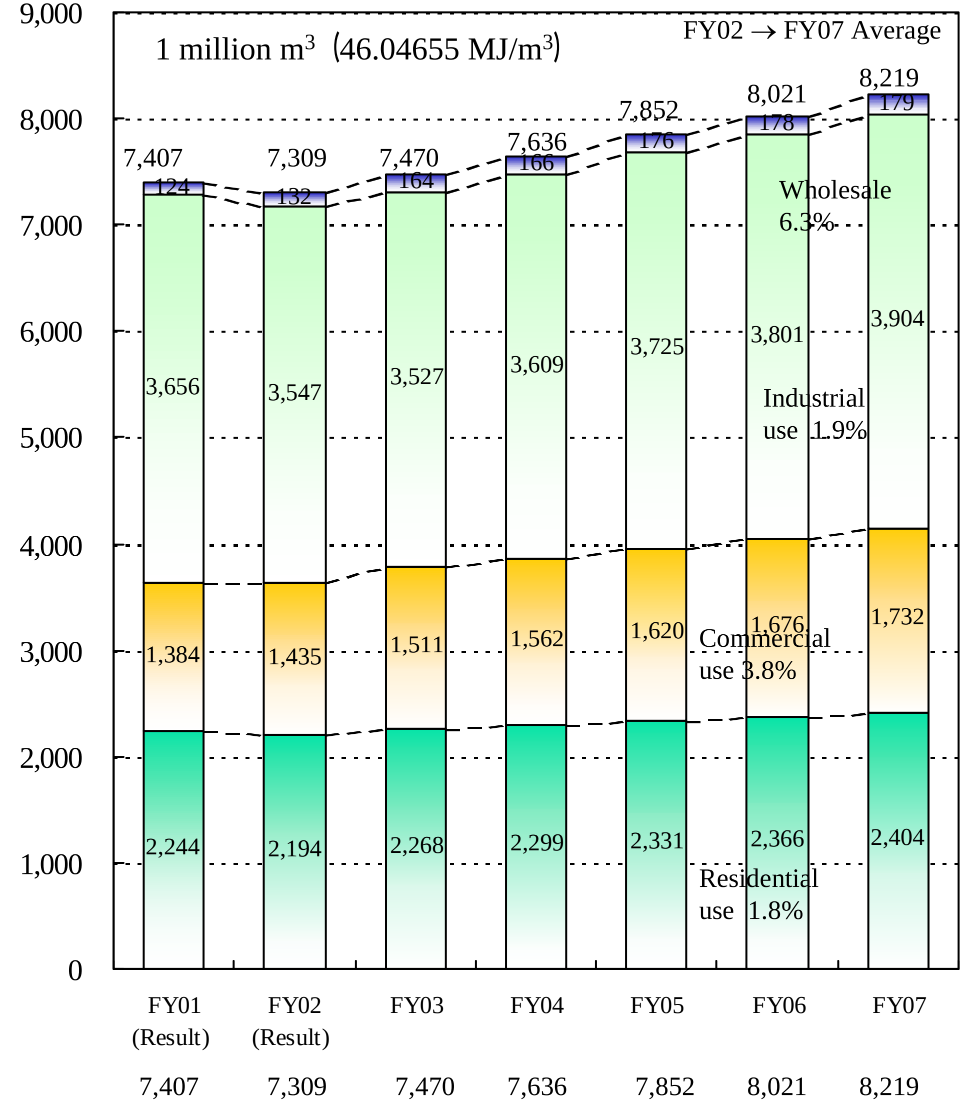
- Sales per household will decline; however, this will be more than offset by increased sales of gas floor-heating systems for existing housing. Temperatures have been estimated based on the average for the past five years.

Commercial Market

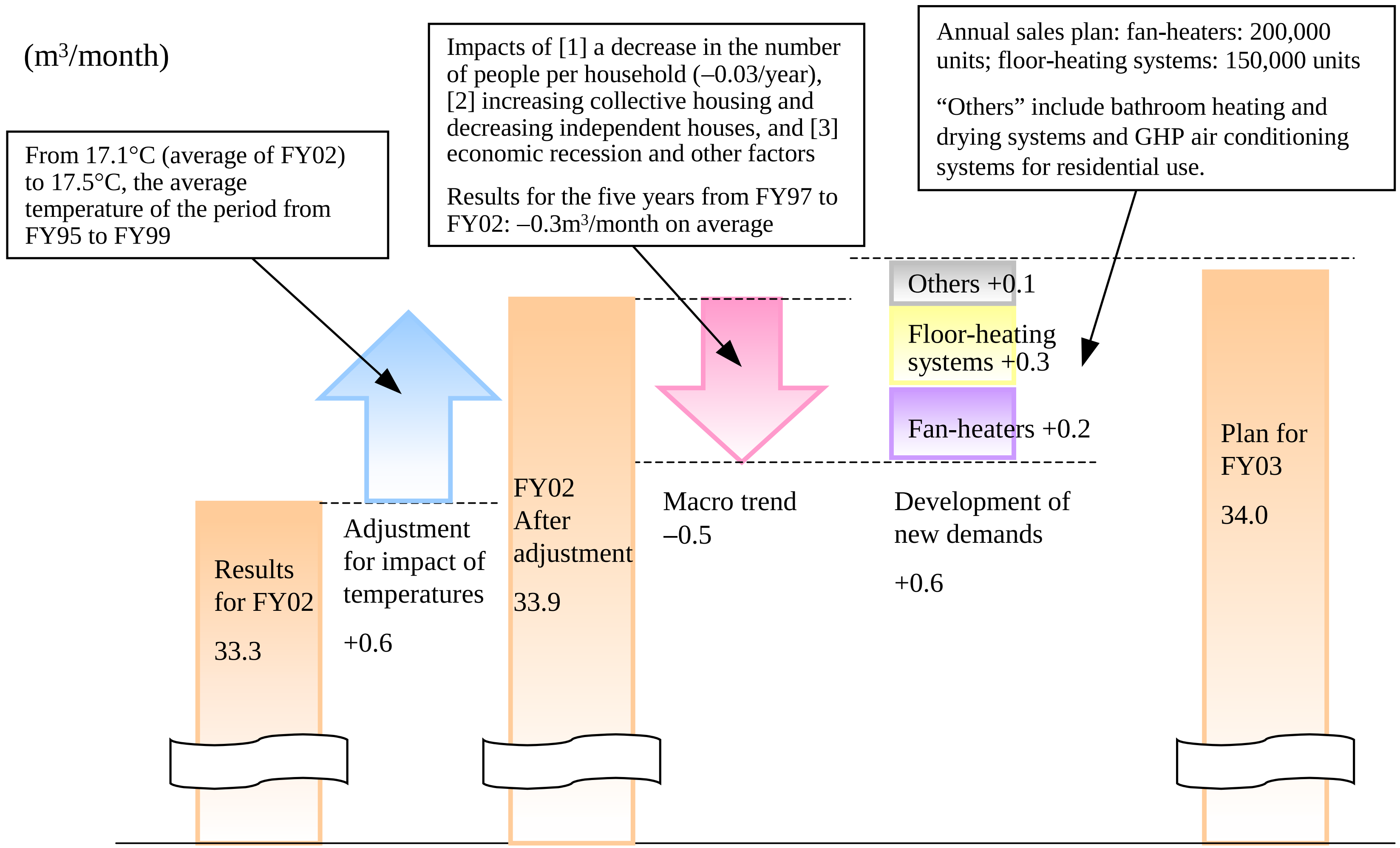
- Solid growth is predicted, led mainly by air conditioning systems. Temperatures have been estimated based on the average of the past five years.

Industrial Market

- Demand has been estimated based on the assumption that the current economic situation (FY02) will continue. Intensifying competition and its impact on demand has been taken into consideration.



Changes in Per Household Sales Volume



Development of Demands for Residential Use

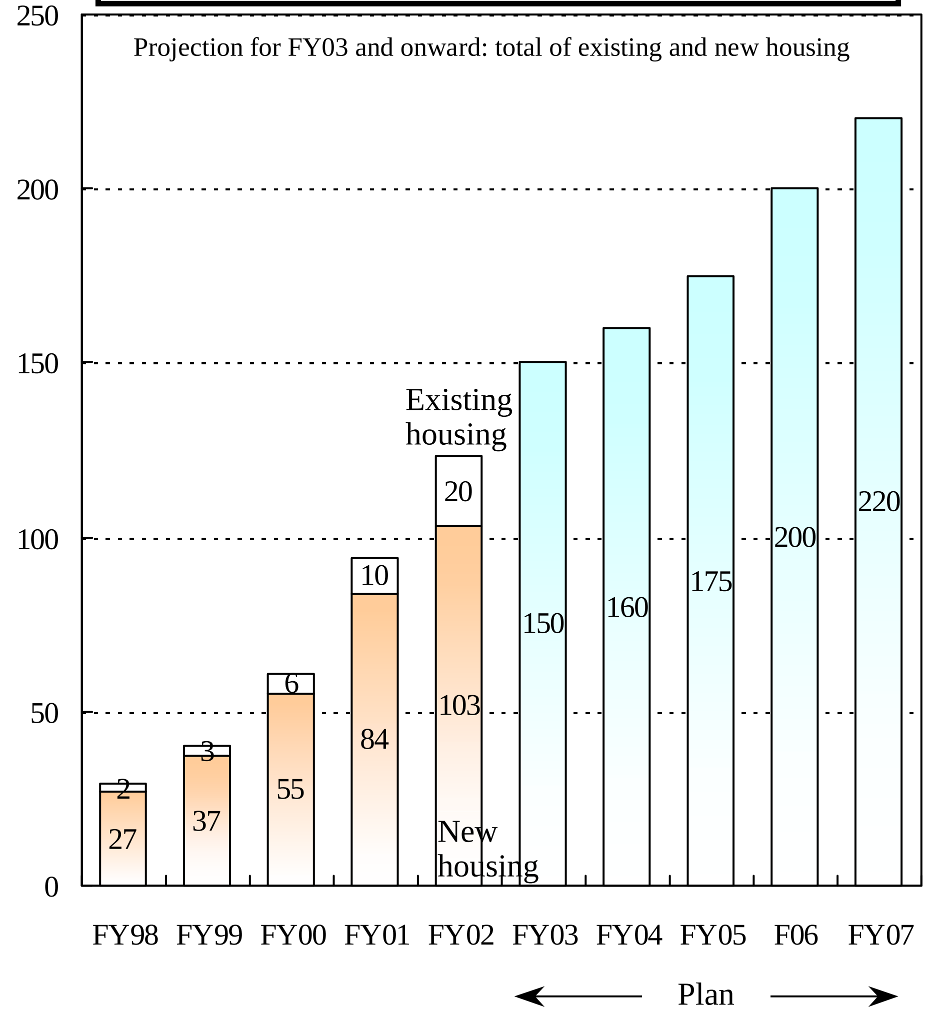
Floor-heating System

- Sales in FY02 reached 123,000 units, surpassing the initial plan (120,000 units).
- In the newly-built housing market, since the systems were installed in standard apartment complexes, 51% of new housing adopted the systems, this percentage surpassing the initial plan (44%). Osaka Gas plans to maintain this high percentage in new houses, while promoting sales to existing houses.

Gas Engine Systems for Residential Use

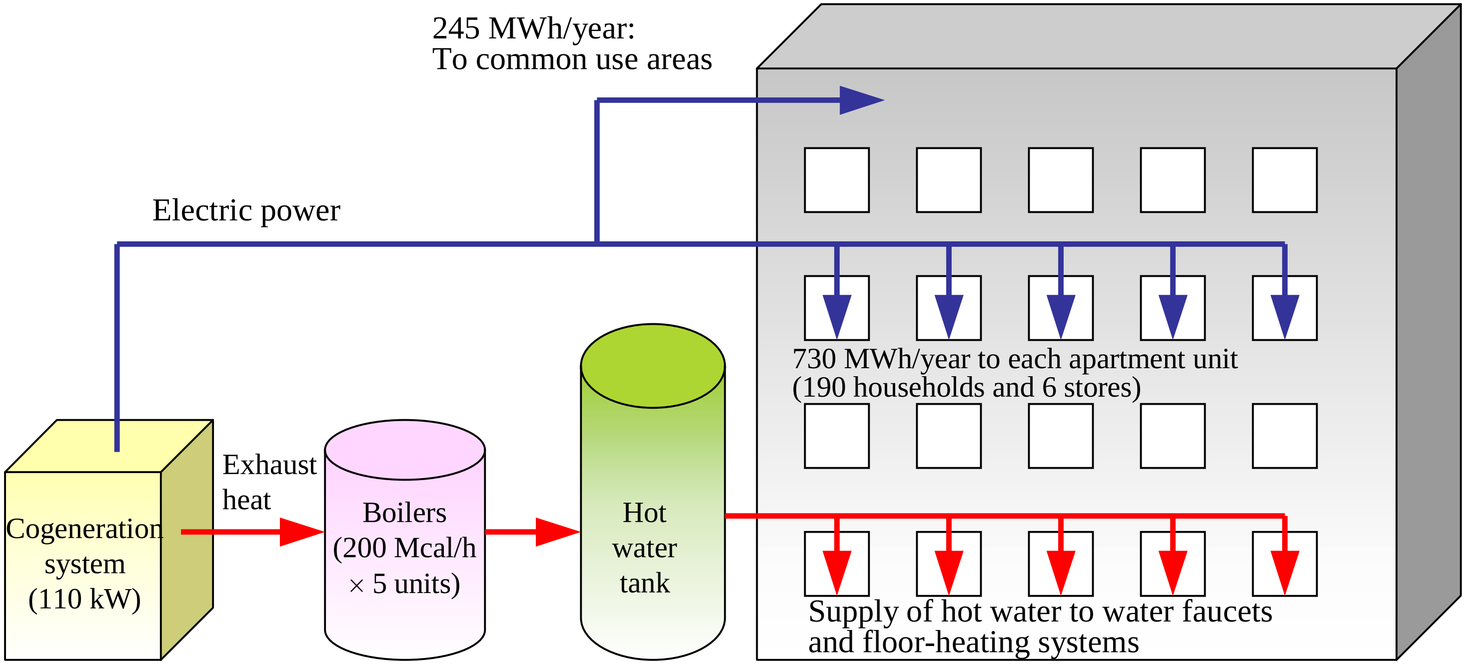
- In April 2002 Osaka Gas initiated the pilot project, and will start marketing the systems mainly for independent houses during FY02.
- The Company plans to sell approximately 10,000 units by FY06. (Gas sales volume is expected to increase by 200 m^3/year/unit.)

Floor-heating System Sales Plan (1,000 units)



Example of Marketing of Cogeneration Systems for Apartment Complexes

- Electricity generated by the cogeneration system is supplied to common use areas (such as lighting and elevators) and each apartment unit in the complex.
- Exhaust heat generated by the cogeneration system is stored in the form of hot water in a tank and supplied to boilers. Since the hot water is supplied to the boilers, the heating load of boilers will be reduced.
- The adoption of a cogeneration system will increase gas consumption (from approx. 600 to 1,300 m^3/year for a standard household); in addition, the workload for the system will be leveled. Merits for customers include a discount gas charge plan applicable to selective gas use contracts.

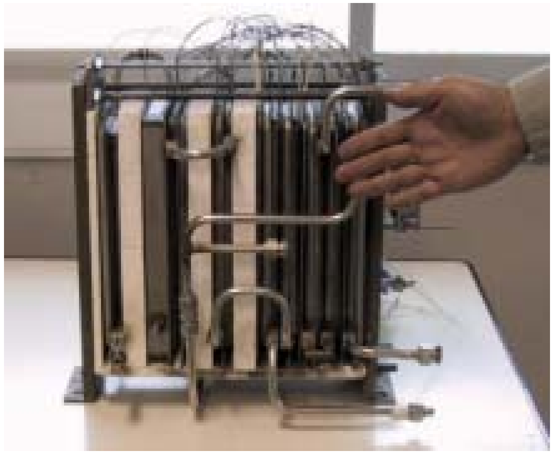


Development of Household Fuel Cell Systems

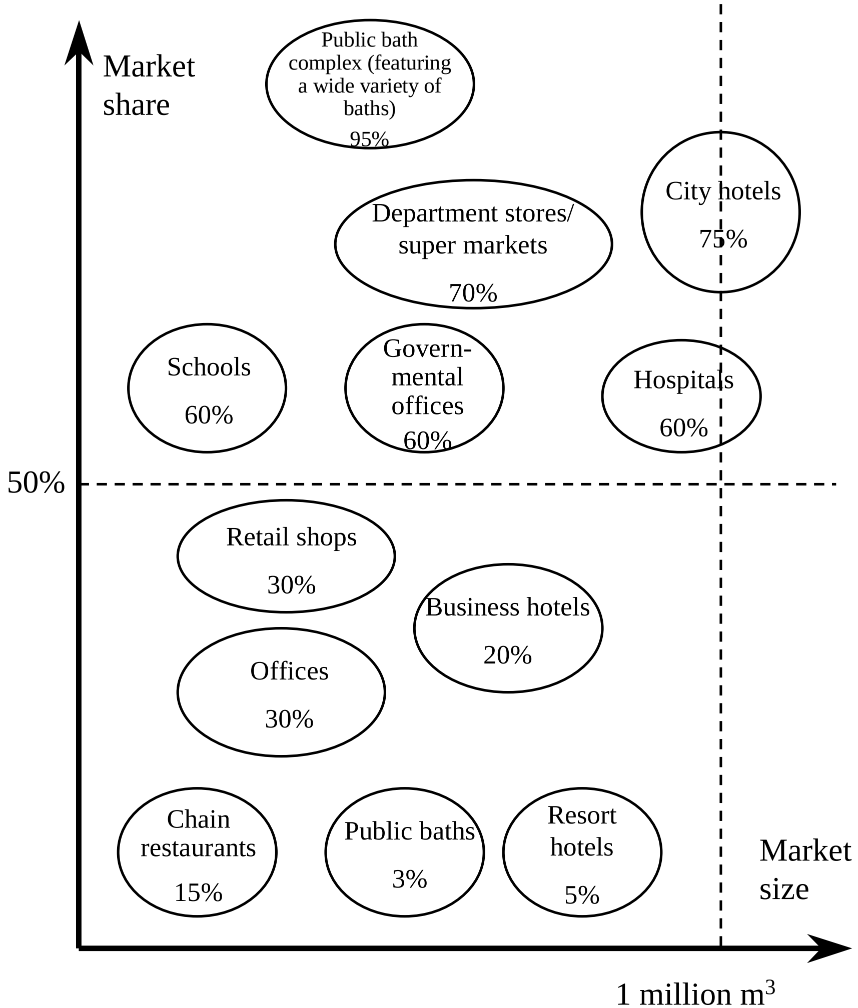
- **Goals for Development**

	500 W Fuel Cell	1 kW Fuel Cell
Thermal Efficiency	35% or higher	35% or higher
Exhaust Heat Recovery	30% or higher	35% or higher
Service Life	10 years	10 years
Target Price	550,000 yen	600,000 yen

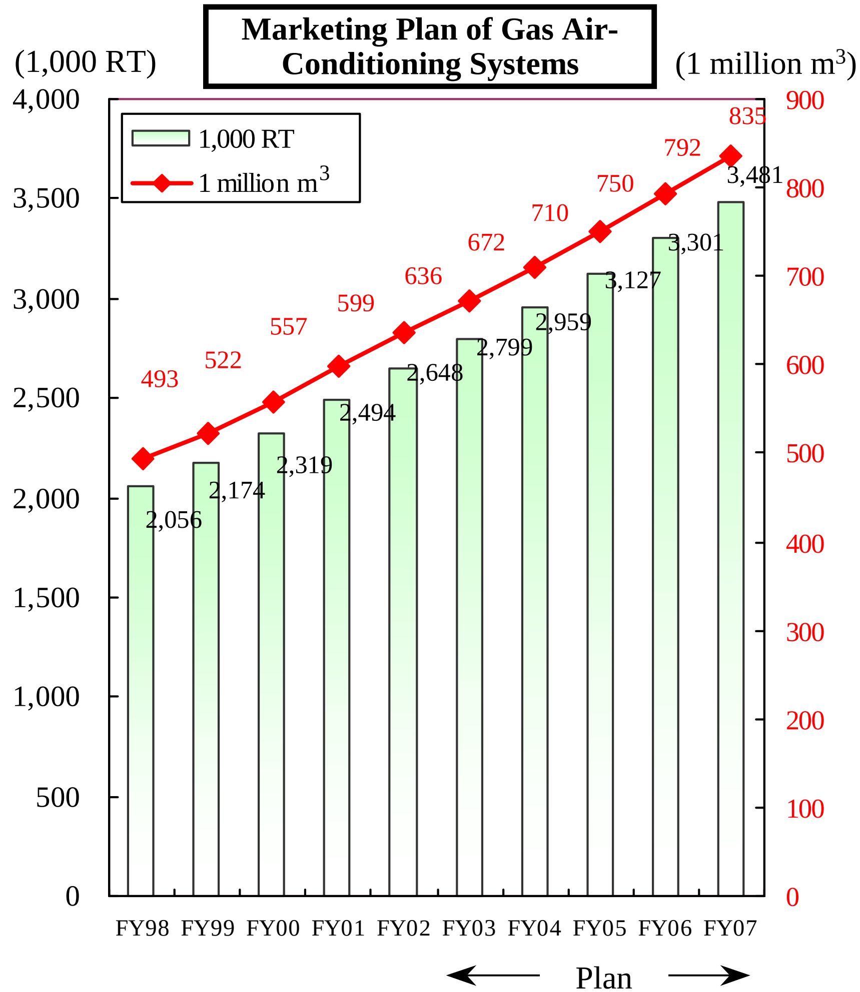
- **Advantages of Osaka Gas Technologies**
  - Use of catalysts for desulfurization and removal of carbon monoxides (global standard) for improving natural gas quality
- **Commercialization**: scheduled for 2005
- **Effect**
  - If one 1kW PEFC is installed in an independent house (floor area: over 150 m^2), demand for gas will increase from approximately 800 m^3/year to 1,600 - 1,800 m^3/year.



Market Share and Marketing Plan of Gas Air-Conditioning Systems

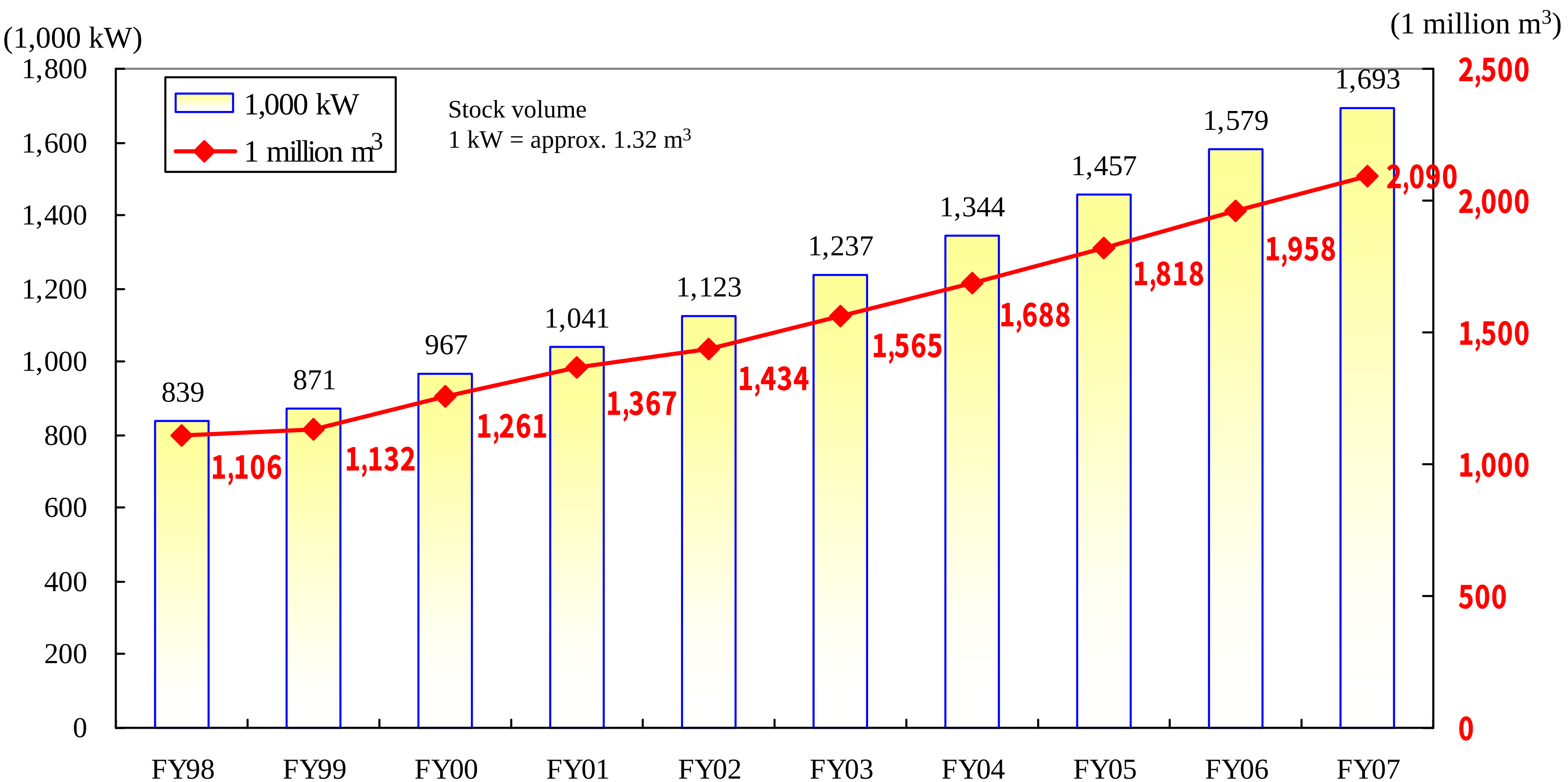


Stock volume
1 RT = 3.516 kW = 240 m^3/year

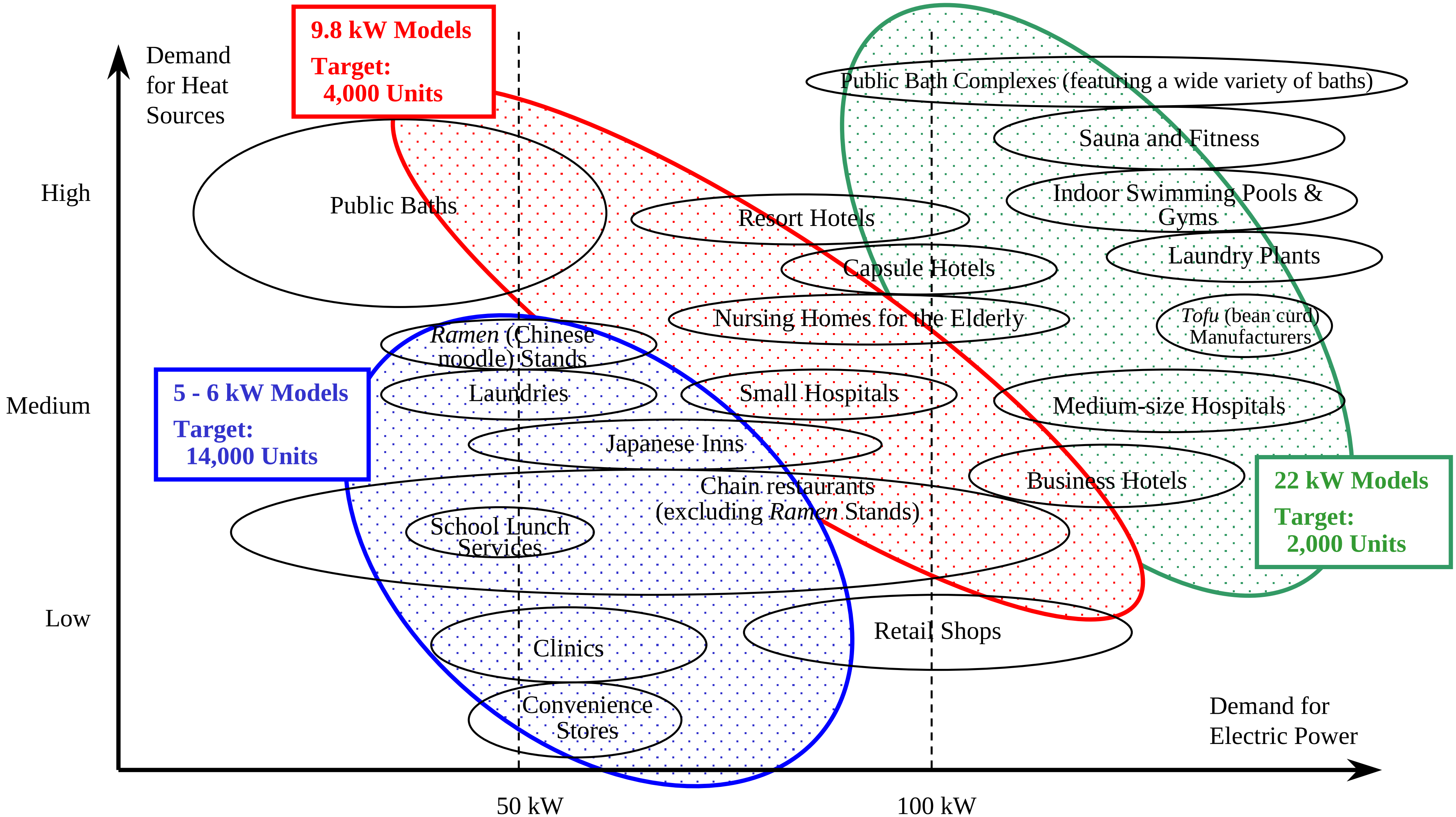


Development of Demand for Cogeneration Systems

- Osaka Gas will continue its commitment to cogeneration system sales expansion by concentrating efforts in new target areas, including small plants and businesses.
- The Company has introduced a variety of gas charge plans, including a long-term contract plan in the regulated area (introduced concurrently with the revision of gas charge), and a plan for large users based on the fixed fuel cost.



Target Markets of Micro Cogeneration Systems



Measures to Strengthen Management Structure in FY02

		Impacts on Profit & Loss Statement	Impacts on Balance Sheet
Review of Long-term Plans	Suspension of Tsuruga Terminal Construction Project	Special loss of 10.3 billion yen	Decrease of 10.3 billion yen in the holding account for construction costs
	Suspension of SNG facility project in Hokko Plant	Loss on disposal of fixed assets: 1.4 billion yen	Decrease in fixed assets
Compression of interest-bearing liabilities	Defeasance, retirement of stocks, and redemption at maturity	Loss incurred by retirement of bonds/debts: 4.7 billion yen	Decreased principal sum of liabilities: 56.0 billion yen
Continuous Cost Reduction Efforts	Reduction of number of employees	Labor expenses: –1.5 billion yen	
	Reduction of pipeline installation expenses by introducing new technology		Fixed assets: –4.0 billion yen
	Reduction of overhead expenses	Overhead expenses: –3.0 billion yen	
Improvement of Capital Efficiency	Purchase/retirement of treasury stocks (including purchase of stocks below the minimum trading unit [200 million yen])		Surplus: –18.5 billion yen

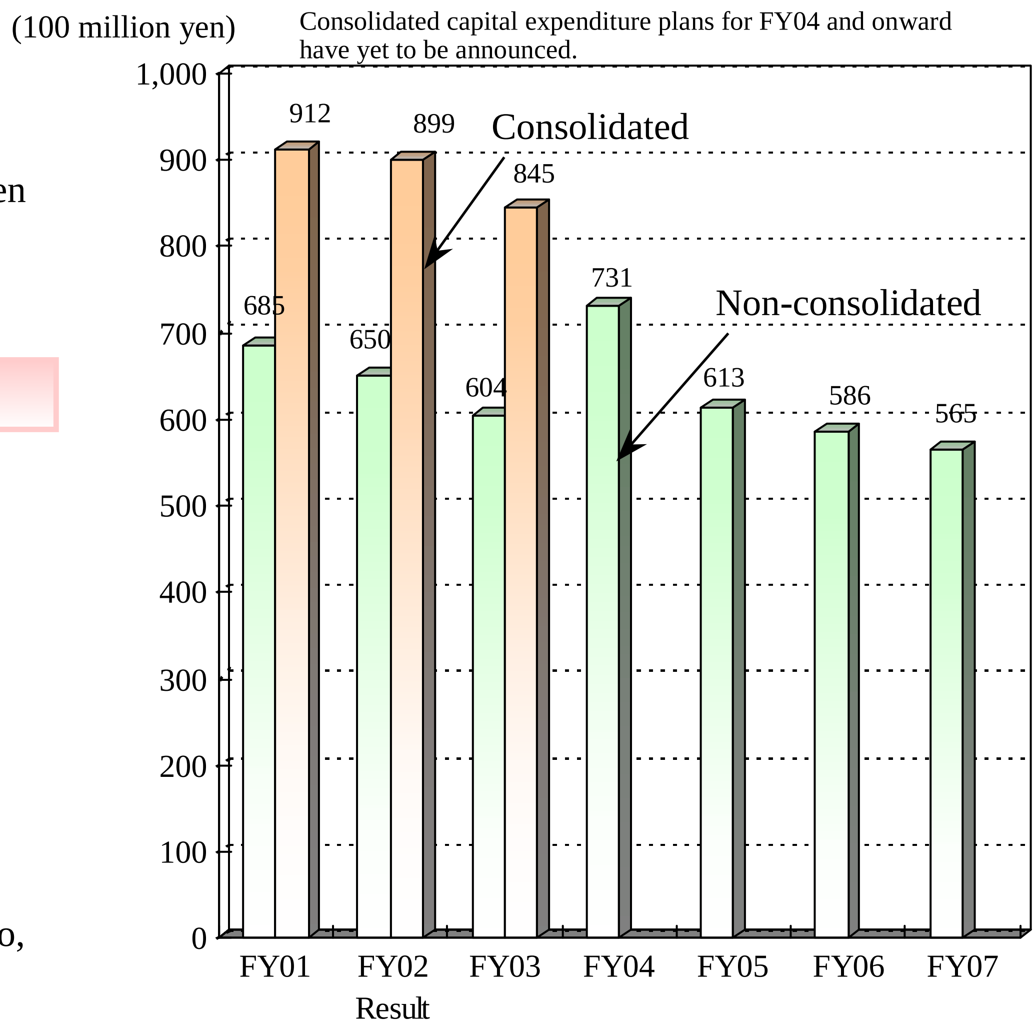
Capital Expenditure Plan

Non-consolidated

- In FY02 capital expenditure decreased by 3.5 billion yen from the previous year (–15.7 billion yen from projected level), due to reduced pipeline installation costs and review of construction plans.

Consolidated Affiliated Companies

- In FY02, Gas and Power invested approximately 1.4 billion yen in power generation facilities; OG Auto invested 1.8 billion yen in leased assets, and OGIC also invested 4.0 billion yen in leased assets.
- In FY03 investment of approximately 3.7 billion yen is planned in electricity business, in addition to steady capital expenditures in Urbanex, OG Auto, etc.



Reinforcement of Urban Business

- Housing Agent Business Using the Internet (portal site for comprehensive housing-related services)
  - In November 2001 Osaka Gas established a joint venture, Home Pro Co., Ltd., with NTT Group.
  - As of end of March 2002 the service areas of the joint venture covered the Kansai, Tokyo Metropolis, and Chubu regions, with a membership of 200 enterprises and 50,000 individuals.
  - The joint venture plans to expand its service areas to include Hiroshima, Fukuoka, and other major cities nationwide.
- Outsourcing Services of Personnel and General Affairs
  - In June 2001 the personnel and general affairs sectors of Osaka Gas became an independent company called “Ai Support,” to which Osaka Gas further transferred the recruitment and employee training functions in April 2002.
  - Ai Support plans to receive orders from companies outside Osaka Gas Group as well.
- Building Maintenance Services
  - In March 2001 Urbanex Group purchased the stocks (67.3%) of the OSC Engineering building maintenance company.
  - Urbanex Group plans to expand its maintenance business and improve efficiency by promoting collaboration of OSC Engineering and existing Group companies: Urbanex Service, Osaka Gas Security Service, and Unitika Life.
- Fitness Club Business
  - In November 2001 OG Sports purchased How Sports, which managed fitness clubs. In April 2002 How Sports was merged into OG Sports.
  - As of the end of FY02 OG Sports managed 20 fitness clubs; it plans to increase the number of clubs to 28 by the end of FY03.
- Public Bath Complex (featuring a wide variety of baths)
  - In April 2002 Osaka Gas established OUD Co., Ltd. to enter the public bath complex business, commonly known as “super public baths.”