



Financial Report for FY2003

(April 2002-March2003)

April 2003

Osaka Gas Co.,Ltd.



I. Overview of Financial Statements for FY03.3

Review of financial results for FY03.3

- Outline of Account Closing
 - Impact of the gas charge revisions in March 2002 and February 2003: Sales decreased by ¥22.5 billion from the previous year.
 - Impact of the fluctuation of the crude oil price and exchange rate: Operating profit declined by ¥11.7 billion from the previous year.
 - Cost reduction (compared with the previous year) (Non-consolidated basis): Labor costs(¥4.8 billion), expenses(¥4.7 billion), and depreciation(¥5.7 billion)
 - Losses from securities valuation were recorded to non-operating expenses (non-consolidated: ¥12.0 billion, consolidated ¥14.3 billion). Premium retirement bonuses paid in connection with the expanded early-retirement plan (non-consolidated: ¥12.9 billion), and the loss from the sale of real estate at Kobe Harborland (consolidated: ¥10.5 billion yen) were recorded to extraordinary losses.
- Promotion of SVA management and reinforcement of the energy business area
 - Investment in Nabari Kintetsu Gas (March 2003) and investment in Nakayama IPPs (second half-year)
 - Sales of stocks of Kiccory and OG Royal (first half-year) and additional sales of Harman stocks (April 2003)
 - Sale of real estate at Kobe Harborland by Urbanex (first half-year)
 - Consolidation of the district heating and cooling system business of the Rinku Energy Center/Cosmo-square into the Konohana Rinkai's heat energy supply business (April 2003)
- Gas sales volume
 - Due to new demand development and favorable temperature as well as the recovery of the operating rate of customers' facilities, the gas sales volume increased 2.8% from the previous year, and 1.7% from the interim projection.
- Financing activities
 - As part of improving the shareholders' value, Osaka Gas stocks equal to approx. ¥20 billion were repurchased. This was implemented by using funds procured from outside within a range deemed not to affect the credit rating of the Company. Averaged capital costs were reduced as a result.
 - As part of improving asset management, the funds in reserve for retirement benefits (consolidated and non-consolidated: ¥22.5 billion) that have been held within the organization were invested in outside sources.

Results of FY03.3 and forecast for FY04.3 I

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

		FY02.3	FY03.3		C-A	C-B	Forecast for FY04.3		D-C
		A.Results	B.Forecast*	C.Results			1st half	D.Full year	
Sales	Consolidated	(1.30) 9,735	(1.33) 9,600	(1.31) 9,479	-255	-120	4,280	(1.32) 9,660	+180
	Non-consolidated	7,510	7,238	7,222	-288	-15	3,240	7,300	+77
Operating Profit	Consolidated	(1.18) 966	(1.33) 745	(1.29) 859	-107	+114	275	(1.32) 845	-14
	Non-consolidated	817	561	664	-152	+103	205	640	-24
Ordinary Profit	Consolidated	(1.08) 759	(1.20) 650	(1.20) 650	-109	+0	235	(1.25) 775	+124
	Non-consolidated	703	540	541	-161	+0	200	620	+78
Net income	Consolidated	(1.05) 394	(1.15) 380	(1.17) 296	-97	-83	105	(1.16) 425	+128
	Non-consolidated	376	330	254	-122	-75	105	365	+110
SVA	Consolidated	131	114	31	-100	-83	---	220	+189
	Non-consolidated	157	118	36	-121	-82	---	185	+149

Gas sales volume	Million m3	7,479	7,561	7,687	+208	+126	3,624	7,748	+61
Exchange rates	Yen/\$	125.0	123.1	122.0	-3.0	-1.1	125.0	125.0	+3.0
Crude oil price	\$/bbl	23.8	26.8	26.9	+3.1	+0.1	25.0	25.0	-1.9
No. of consolidated companies		43	54	56	+13	+2	76	76	+20

* The projections were as of the date of the announcement of the interim financial report in November 2002.

Results of FY03.3 and forecast for FY04.3 II

Consolidated 100 million yen	FY02.3	FY03.3		C-A	C-B	FY04.3 Forecast		D-C
	A.Results	B.Forecast	C.Results			1st half	D.Full year	
Total assets	12,435	12,486	12,096	-338	-390	12,195	12,507	+410
Shareholders' equity	4,687	4,924	4,532	-154	-391	4,582	4,848	+315
Interest-bearing debts	4,650	4,845	4,945	+295	+99	5,229	5,122	+177
Capital expenditure	899	845	671	-228	-174	374	809	+137
Depreciation	888	832	828	-59	-4	442	884	+56
Free cash flow	706	260	237	-469	-23	142	565	+328
Number of employees	13,878	14,486	14,005	+127	-481	14,600	14,400	+395
ROA	3.1%	3.0%	2.4%	-0.7%	-0.6%	---	3.4%	+0.9%
ROE	8.4%	7.9%	6.4%	-1.9%	-1.5%	---	9.0%	+2.5%
Shareholders' equity ratio	37.7%	39.4%	37.5%	-0.2%	-0.2%	---	38.8%	+1.3%
EPS (Yen/share)	16.3	16.0	12.6	-3.7	-3.4	---	18.5	+5.9

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

Gas sales

The standard heat capacity was changed to 45 MJ/m³ from the conventional 46.04655 MJ/m³ during the current year.

	FY02.3	FY03.3		C-A	FY04.3 Forecast		D-C
	A.Results	B.Forecast	C.Results		1st half	D.Full year	
Number of meters installed at end of period(thousands)	6,484	6,576	6,562	+1.2% +77	---	6,635	+1.1% +73
Installation of new meters(thousands)	141	134	135	-6	57	133	-2
Monthly gas sales per household(m ³ /month)	34.0	34.0	34.5	+1.4% +0.5	26.4	34.6	+0.3% +0.1
Residential use	2,245	2,268	2,298	+2.3% +52	871	2,334	+1.6% +36
Commercial use	965	989	986	+2.2% +21	537	1,012	+2.6% +26
Public and medical	504	535	550	+9.3% +47	286	570	+3.6% +20
Industrial use	3,630	3,607	3,686	+1.5% +56	1,852	3,659	-0.7% -27
Non-residential total	5,098	5,132	5,222	+2.4% +124	2,676	5,241	+0.4% +19
Whole sale	135	162	168	+23.8% +32	77	173	+3.0% +5
Gas sales total (million m ³)	7,479	7,561	7,687	+2.8% +208	3,624	7,748	+0.8% +61
Including non-regulated area	3,468	3,492	3,562	+94	1,818	3,571	+9

The projections were as of the date of the announcement of the interim financial report in November 2002.

Residential gas sales

Results for FY03.3

*1 Change from the previous year

*2 Difference from the forecast

The projections were as of the date of the announcement of the interim financial report in November 2002.

	*1	*2	References
Increase of customers	+0.9%	0%	135,000 new contracts (Projection: 134,000)
Influence of temperature	+1.1%	+1.1%	16.8 °C (Last year: 17.5 °C, projection: 17.6 °C) The temperature during the year was almost the same as that of usual years. Last year was warmer. The negative effect (-1.5%) resulting from the substantial temperature influence taken into account because of special factors in the first half-year partially offset the positive effect of the full-year temperature pattern.
Others	+0.3%	+0.2%	Positive factors: Increased sales of floor heating systems, fan heaters and other heating equipment Negative factors: Decrease in the number of persons per household, improved efficiency of heating equipment, household electrification, and other long-term trends
Total	+2.3%	+1.3%	

Forecast for FY04.3

- Annual sales volume is expected to increase 1.6% to 2,334 million m³ from the previous year.
- Increased demand mainly for floor heating systems, fan heaters, and other heating equipment will contribute to the sales volume expansion, partially offset by the long-term negative factors.
- The temperature pattern is projected to be the same as that of the standard temperature (average of the temperature patterns over the past five years).

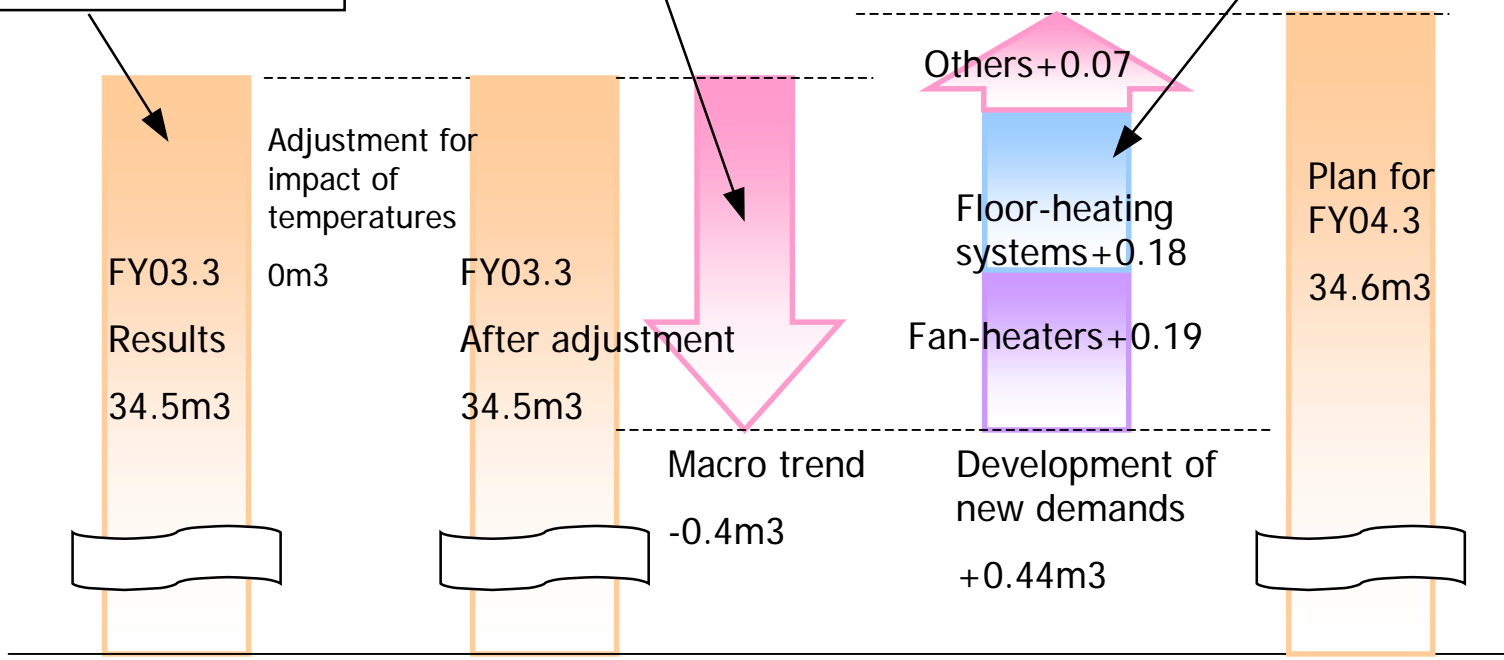
Sales volume assumption per household

(m3/month)

Although the average temperature was low at 16.8 °C, it does not have any effect on temperature adjustment since there are numerous other factors such as monthly fluctuation.

Impacts of [1] a decrease in the number of people per household(-0.03/year), [2] high-efficiency appliances, [3] economic recession and other factors

Annual sales plan: fan-heaters 210 thousand units, floor-heating systems 160 thousand units
 "Others" include bathroom heating and drying systems and gas engine co-generation systems for residential use



Commercial, public, and medical gas sales

Result for FY03.3

*1 Change from the previous year

*2 Difference from the forecast

The projections were as of the date of the announcement of the interim financial report in November 2002.

	*1	*2	References
Demand expansion	+6.5%	0	Strong growth mainly in the medical institute sector
Influence of temperature	+0.6%	+0.8%	Positive effect of low temperatures for heating demands during the winter season
Others	-2.5%	±0	Decreased gas usage by existing customers, which was already taken into account in the projection
Total	+4.6%	+0.8%	

Forecast for FY04.3

- Annual sales volume is expected to increase 2.9% to 1,582 million m³ from the previous year.
- New demand will be developed steadily mainly in the area of renewal of air-conditioning systems in existing houses, which is expected to be the same level as for the year ended March 31, 2003.
- The projection is based on the average of the temperature patterns over the past five years.

Industrial gas sales

Results for FY03.3

*1 Change from the previous year

*2 Difference from the forecast

The projections were as of the date of the announcement of the interim financial report in November 2002.

	*1	*2	References
Demand expansion	+6.0%	+1.1%	Excluding Torishima IPP, an affiliate, sales were 4.5% higher than the previous year.
Shift to other gas suppliers	-4.6%	0	14 contracts by year-end. Already taken into account in the projection.
Increase/decrease of plant operation	+0.1%	+1.1%	Impact of increase/decrease of gas usage by existing customers, closure of customers' plants, etc. Actual results were higher than projected because gas usage by certain customers increased and a cutback in the operation of existing facilities hit bottom.
Total	+1.5%	+2.2%	

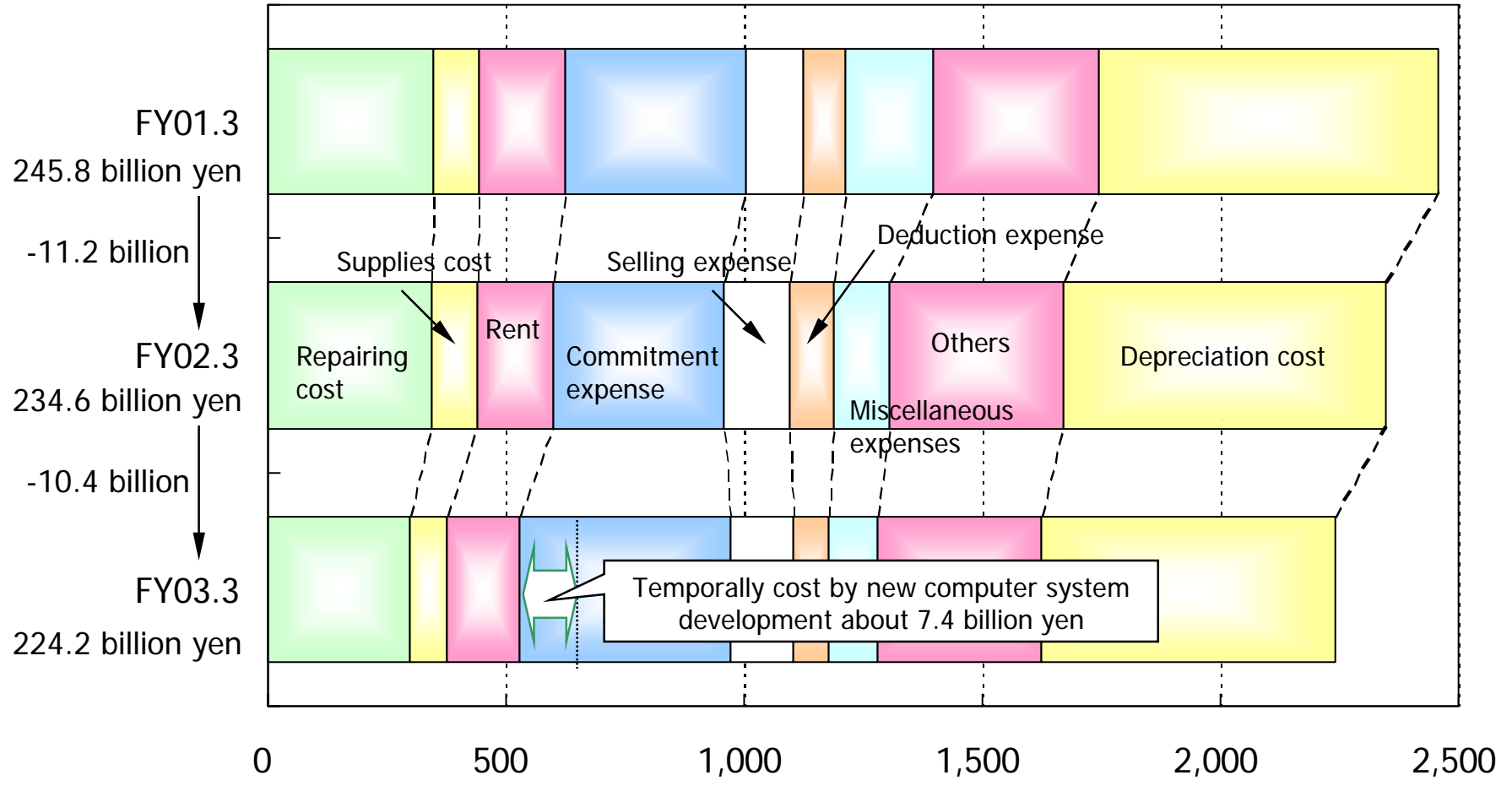


Forecast for FY04.3

- Annual sales volume is expected to decrease 0.7% to 3,659 million m³ from the previous year.
- Although there is a sign of recovery in the operating rate of existing facilities, this is not taken into account, and it is projected that their operating rate will remain low as in the previous year.
- It is projected that new demand will be created at the same level as the previous year. The shift to other gas suppliers will continue. A certain percentage of existing contracts are projected to shift to other gas suppliers' contracts.

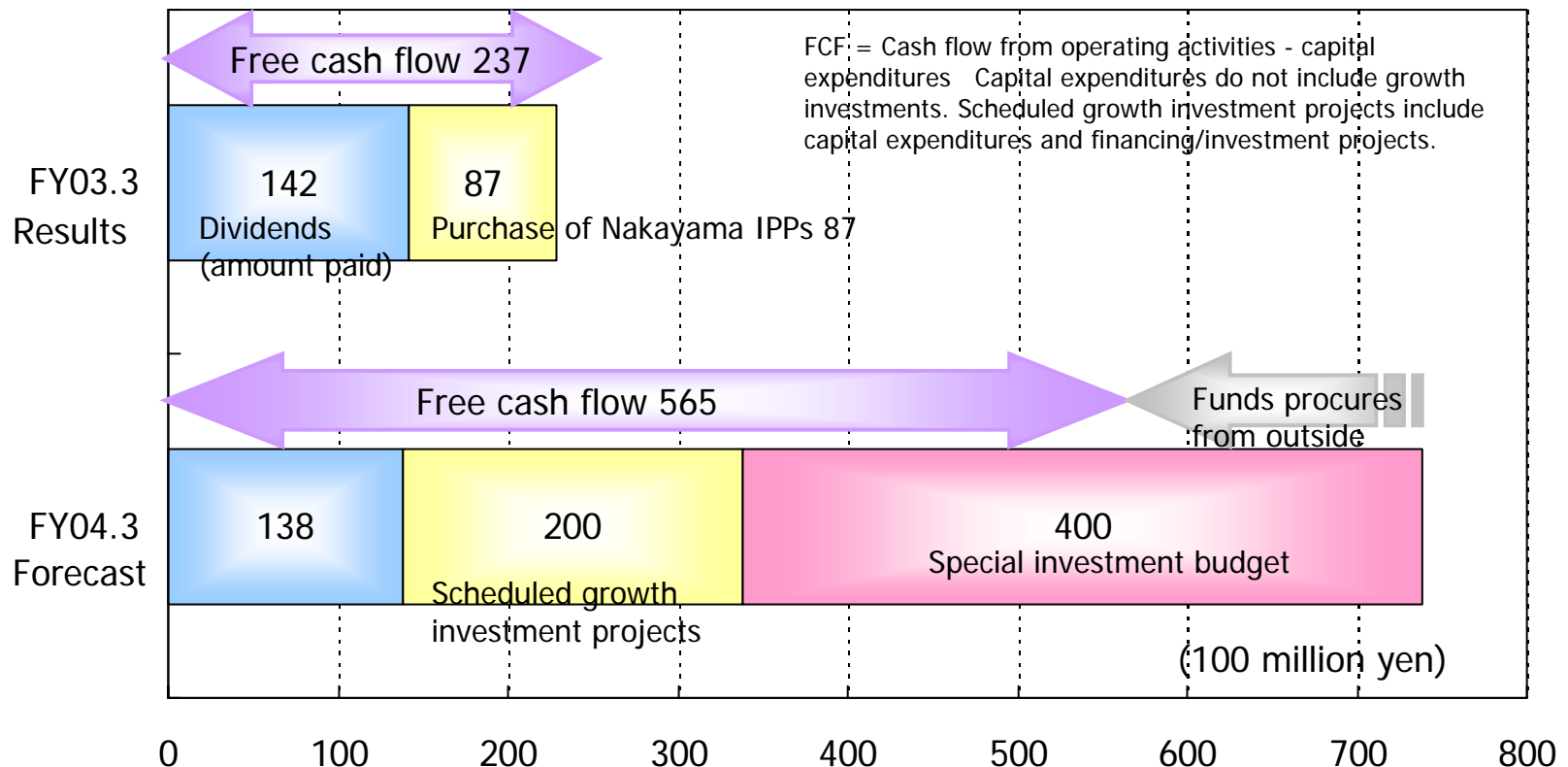
Cost reduction results

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



Consolidated free cash flow

- In FY03.3, consolidated FCF decreased by ¥46.9 billion from the previous year due to a decline in operating profits. Besides being used for the payment of dividends, it was also used to acquire the IPP business of Nakayama Steel Works.
- In FY04.3, it is planned to appropriate about ¥20 billion yen for investment in the Shiga Line, power-supply cogeneration schemes, the Himeji Power Plant, gas fields, and other scheduled growth investment projects. In addition to this amount, about ¥40 billion will be appropriated for other investments.



II. Major challenges for FY04.3

Enhancement of competitiveness of three upstream gas business

- Resources Department
 - Material cost reduction
 - Improvement in flexibility of LNG purchases

- Gas Production and Power Generation Dept.
 - Continued effort toward reduction of manufacturing costs through the reduction of installation costs (efficient facility management), maintenance and repair costs (review of maintenance), and expenses (review of commission service fees)
 - Promotion of the industrial complex business in the Senboku area
 - Construction of a 50MW power plant in Himeji and preparation for its start-up in FY05.3. Preparation for construction of a price-competitive, large-scale power plant in Senboku (environmental assessment, etc.).

- Gas Distribution Dept.
 - Purchasing routes such as the expansion of bidding, introduction of new technologies, and promoting cost reduction by employing new installation methods such as polyethylene 300A pipes and a steel pipe non-cut and cover method
 - Reduction of metering costs through the introduction of inexpensive new-style meters and a review of repair specifications

Residential energy marketing

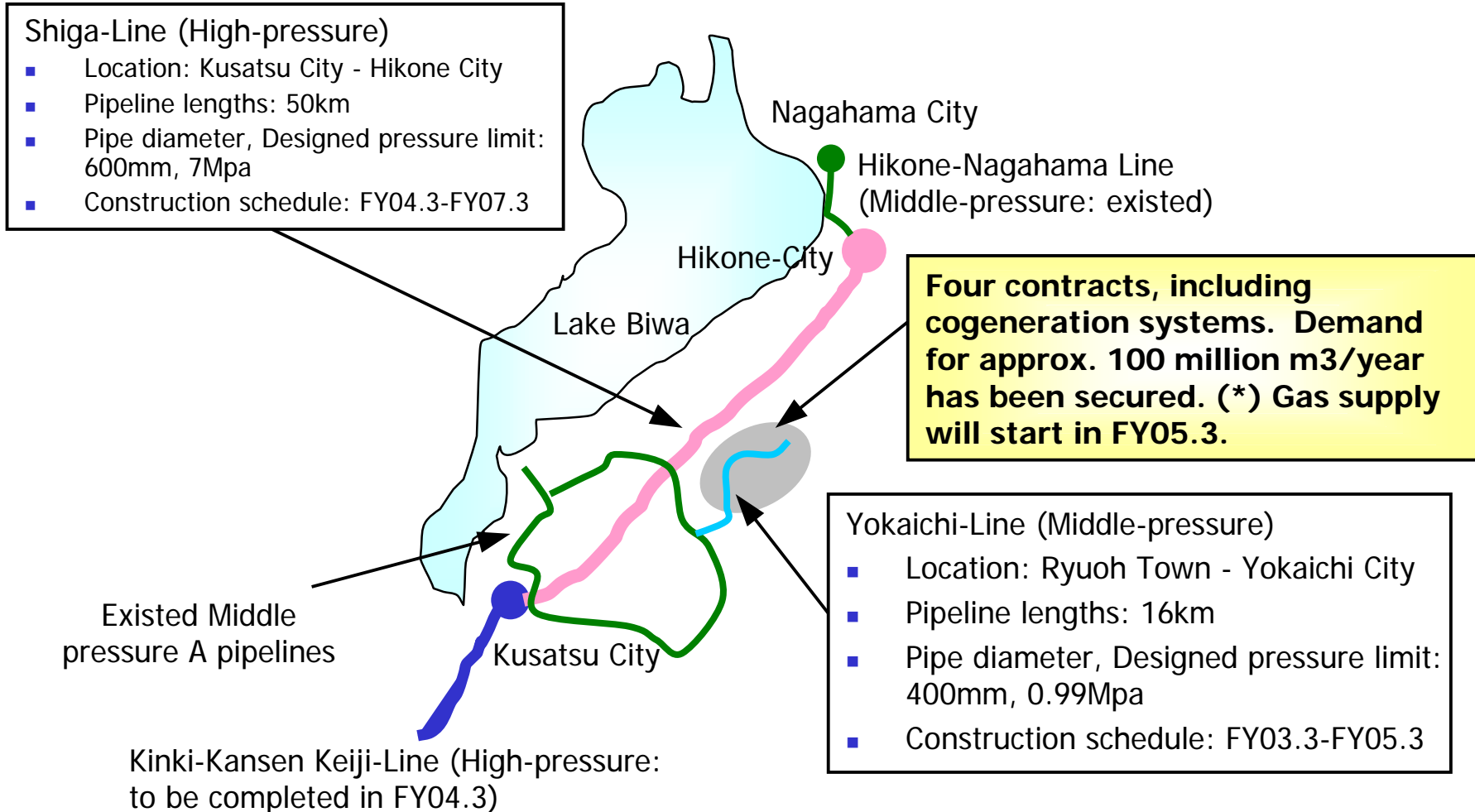
- Further demand development and countermeasures against household electrification
 - Sales promotion of strategic products, including floor heating systems and fan heaters, glass top cooking ovens, and ECOWILL (residential gas engine cogeneration systems)
 - Acquisition of new customers for city gas
 - Proposal of comprehensive high value-added service packages that include floor heating, bathroom heater/drier system and other gas systems + security service through automatic meter reading + facility management/maintenance services
- Further promotion of cost reduction
 - Improvement in the efficiency of the meter reading/gas charge collection operation
 - Consignment of regular security services to a subsidiary

1,000 Units	FY02.3/R	FY03.3/R	FY04.3/E
New houses/buildings	102	120	112
Existing houses/buildings	22	45	50
Floor heating system	124	166	162
Fan heater	172	188	210
Grass top cooking stove	9	38	61
"ECOWILL"	0	0	2

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

New demand acquisition along Yokaichi-Line (Shiga area)

* Based on the number of subscriptions for city gas supply received by April 2003



Commercial/industrial energy marketing

* "Dengen" cogeneration means a type of cogeneration system that is designed to generate surplus electricity for commercial sales

■ Cogeneration

- Expansion of cogeneration product lines such as high efficiency, large-sized systems, and "Gene Light" series (small-sized cogeneration systems)
- Strategic utilization of energy finance arrangements to meet no initial/ off-balance sheet needs
- Development of new markets such as "Dengen" cogeneration(*) schemes and biogas cogeneration systems

■ Air-conditioning

- Intensive marketing to the air-conditioning market for existing buildings through the introduction of "Quick Multi," a new air-conditioning product
- Proposal of schemes with no initial investment (consumption linkage type scheme) and proposal of energy management services utilizing "Sky Remote," a GHP remote monitoring/control system

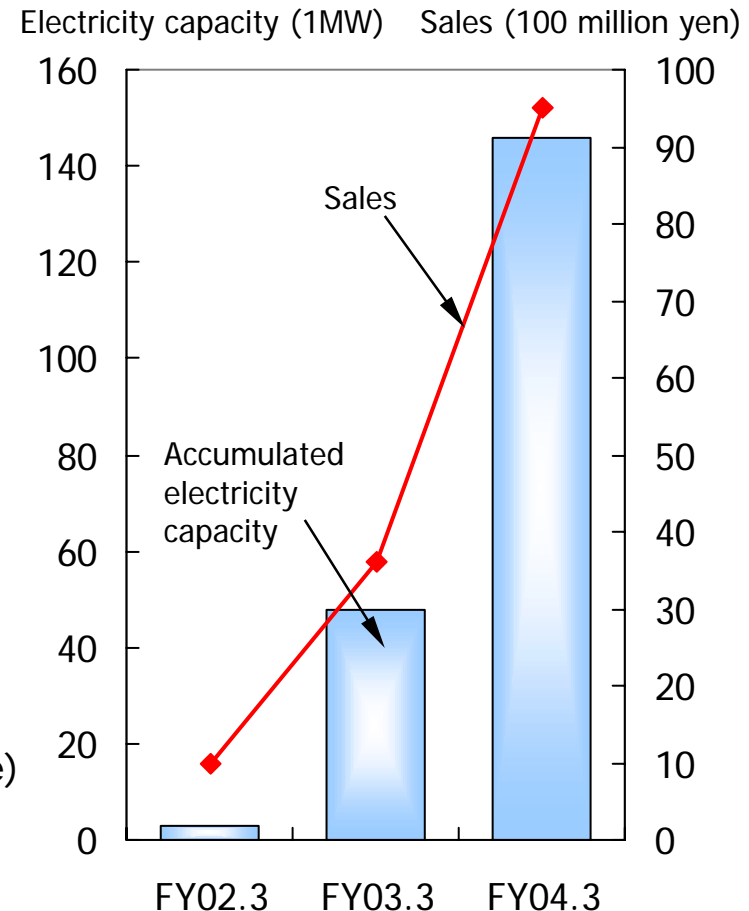
■ Heat energy sector

- Conversion of industrial furnaces with efficient burners into other fuel-based furnaces, and development of boilers using low NOx products
- Development of gas-based kitchens through the introduction of a "New Super Kitchen" system

■ Business outside the service area (via Cogene Techno Service)

- Differentiated comprehensive energy service proposal including industrial furnace/air-conditioning engineering
- Proposal of unique and differentiated products such as biogas cogeneration systems

CTS Sales projection



Electricity business

- Expansion of the electricity wholesale business (IPP: Independent Power Producer)
 - FY03.3: Through investment in Nakayama Joint Power Generation Co., Ltd., 450MW (Group total) was produced by the end of the year. Torishima Energy Center (capacity: 150MW) is operating successfully after its start-up in April 2002.
 - FY04.3: Examination of the possibility of investment in existing IPPs will be continued.

- Electricity retail business (PPS: Power Producer & Supplier): ENNET
 - FY03.3: 25 contracts supplying 80MW, including Osaka and Hyogo Prefectural Offices and other business operators
 - FY04.3: Acquisition of customers prior to the start-up of the Himeji Plant

- Acquisition of new power supply sources
 - FY03.4: 18MW was produced at the Senboku No.1 Terminal, which began operation in July 2002. Environmental assessment begun for a 1,600MW plant project in Senboku. Informal agreement with Unitika Uji Office was concluded for a power-supply cogeneration scheme with 60MW capacity. Construction of a 50MW plant begun in Himeji.
 - FY04.3: Promotion of construction of the Senboku and Himeji Plants. Customers for new power supply cogeneration systems should be acquired.

Research and development policy

- To enhance the competitiveness of the gas business, diversification and geographic expansion of the energy business, and improvement of the profitability of urban businesses, priority subjects in technical development have been set.

[Priority subjects in each business sector]

- Residential energy sector: commercialization of residential fuel cells, and development of cooking devices that can compete with IH cookers
 - Commercial/industrial energy sector: Improvement of performance of commercial/industrial cogeneration systems, improvement of efficiency of GHP/absorption water coolers/heaters, and development of small-sized industrial hydrogen generators
 - Electricity business: Development of an integrated power supply command system that controls decentralized power sources, including power plants of the Osaka Gas Group and power supply cogeneration units of customers.
-
- Development of fine materials, nano-materials and other new materials
 - Funds should be procured from outside through the fund method, JVs, or other arrangements to accelerate development for commercialization.
 - Strict project management utilizing NPV evaluation, aiming at commercialization of the project

III. Facts and figures

Overview of energy business

Total value of consolidated subsidiaries without adjustments.

100 million yen		Sales			Net income			Remarks
		02.3	03.3	04.3	02.3	03.3	04.3	
G1	Harman	313	-20 292	-265 26	-26	+32 5	-11 -6	03.3: Increased sales because restructuring charges were recorded in the previous year 04.3: Assignment of Harman
	GPI	87	+61 148	+114 263	5	-5 -0	+18 18	03.3: Starting operation of Torishima EC 04.3: Addition of two Nakayama IPPs
	Others	261	+34 296	+192 489	3	+0 4	+2 6	03.3: Increased sales and profit due to the addition of Nabari Kintetsu Gas during the year 04.3: Increased sales and profit due to the addition of CTS and directly owned SS to the consolidation
G2	Liquid Gas	185	+19 204	+0 204	5	+0 6	+2 8	03.3: Increased sales and profit due to the addition of Sanshin Gas and Kinki Ekitan to the consolidation 04.3: Aiming at increased sales and profit while the competition intensifies
G3	NIPG	610	+83 693	-50 643	2	+2 5	+0 5	03.3: Increased sales due to a hike in the LP gas material cost 04.3: Decreased sales due to expected slow-down of the material cost hike, and continued profit increase through customer expansion

EC: Energy Center (IPP: Independent Power Producer), NIPG: Nissho Iwai Petroleum Gas, GPI: Gas and Power Investments, CTS: Co-gene Techno Service, SS: Service Shops

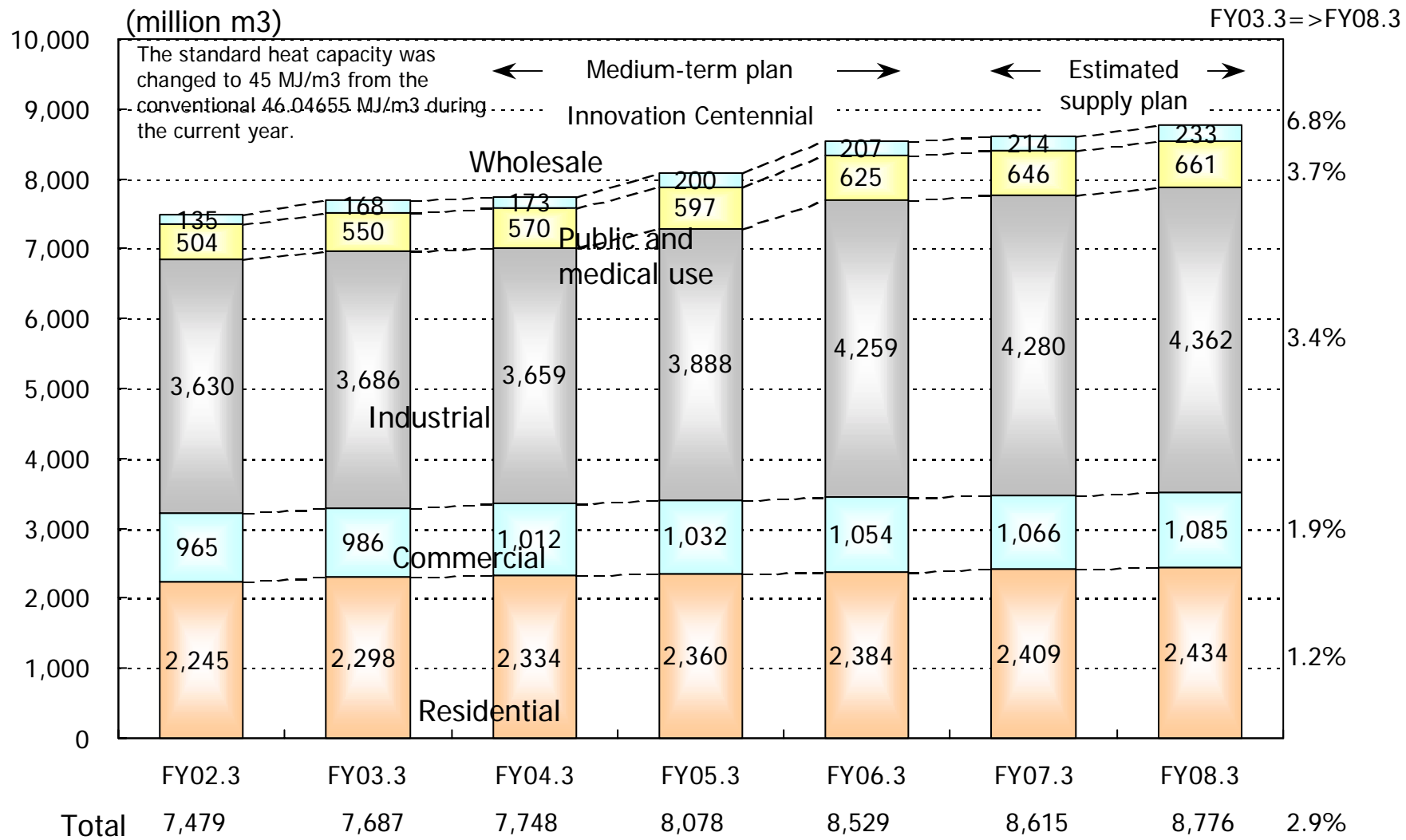
Overview of non-energy business

Total value of consolidated subsidiaries without adjustments.

100 million yen	Sales			Net Income			Remarks
	02.3	03.3	04.3	02.3	03.3	04.3	
G4: Urbanex		+79	-13		-5	+11	03.3: Increased sales due to the addition of UXS, OSC Engineering, and PW to the consolidation, and decreased profit due to the recording of extraordinary loss in connection with Kobe Harborland real estate 04.3: Decreased sales by decreasing rents and other factors
	250	329	315	12	7	18	
G5: Kinrei		-163	+20		+6	-1	03.3: Decreased sales and increased profit due to the sale of OG Royal. In Kinrei, sales and profit were almost at the same level as the previous year. 04.3: Increased sales by the opening of new restaurants
	347	183	204	8	15	13	
G6: OGIS- Research Institute		+40	+3		-3	+3	03.3: Increased sales due to the addition of Ube Information System to the consolidation, and decreased profit due to weak performance in OGIS 04.3: Sales will remain at the same level as the previous year while profit will recover through examination of costs.
	307	347	350	9	6	9	
G7: Osaka Gas Chemicals		+16	+12		-0	+1	03.3: Increased sales due to recovery of the electrode market, and decreased profit due to recording of loss on valuation
	119	135	148	2	1	3	
G8: OG Capital		-46	+55		+23	+3	03.3: Decreased sales due to the exclusion of Kiccory from the consolidation, and increased profit because loss on arrangement was recorded in the previous year 04.3: Increased sales and profit by the addition of OG Maintenance Service to the consolidation. Strong operational results are expected in OSS, Unitika Life, and OG Sports.
	785	739	794	-0	23	26	
G1~G8 Total	3,268	+103 3,371	+69 3,441		+51 75	+30 105	

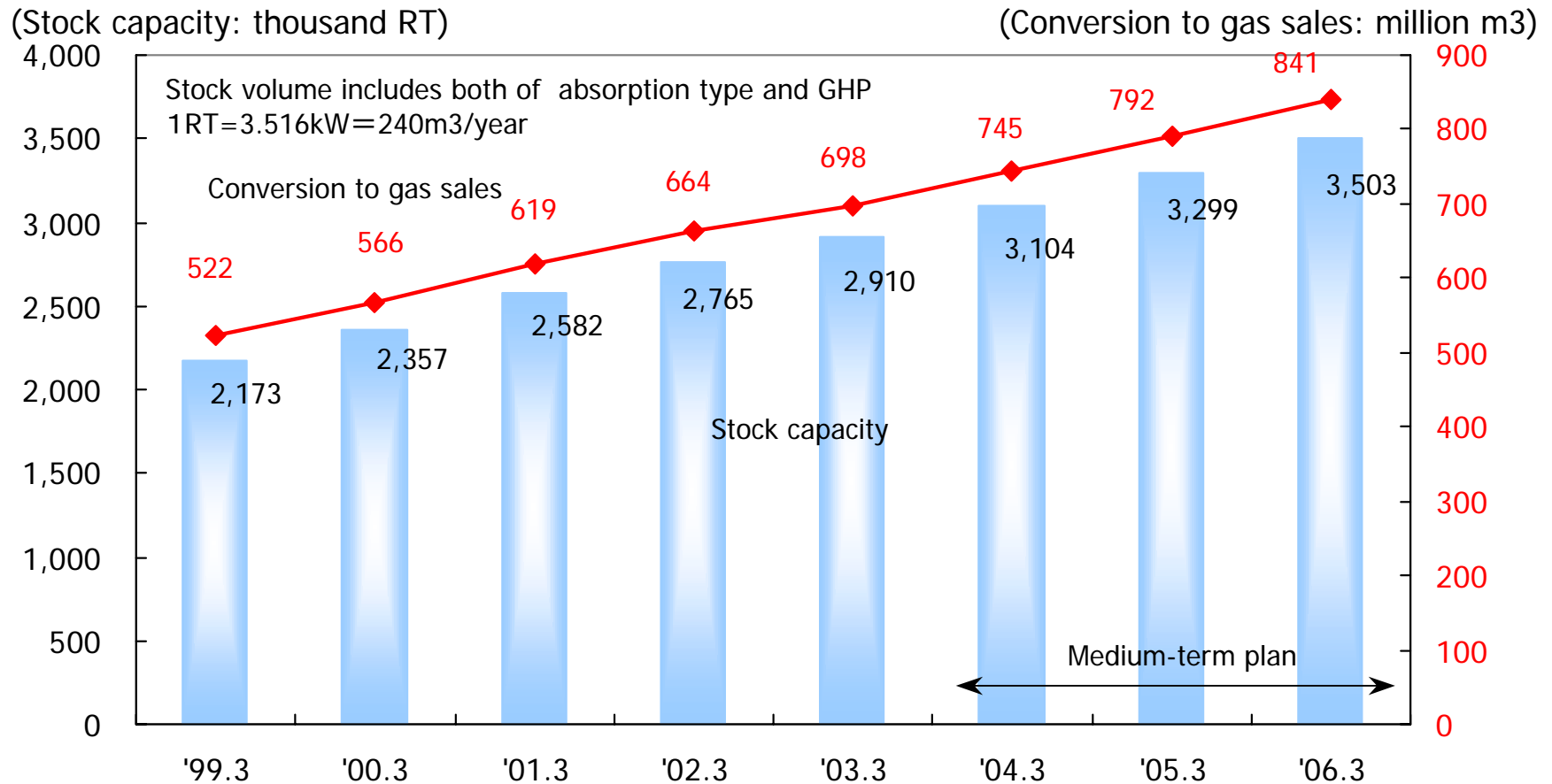
UXS: Urbanex Service, OSC: OSC Engineering, PW: Planet Work, OSS: Osaka Gas Security Service

Gas sales plan



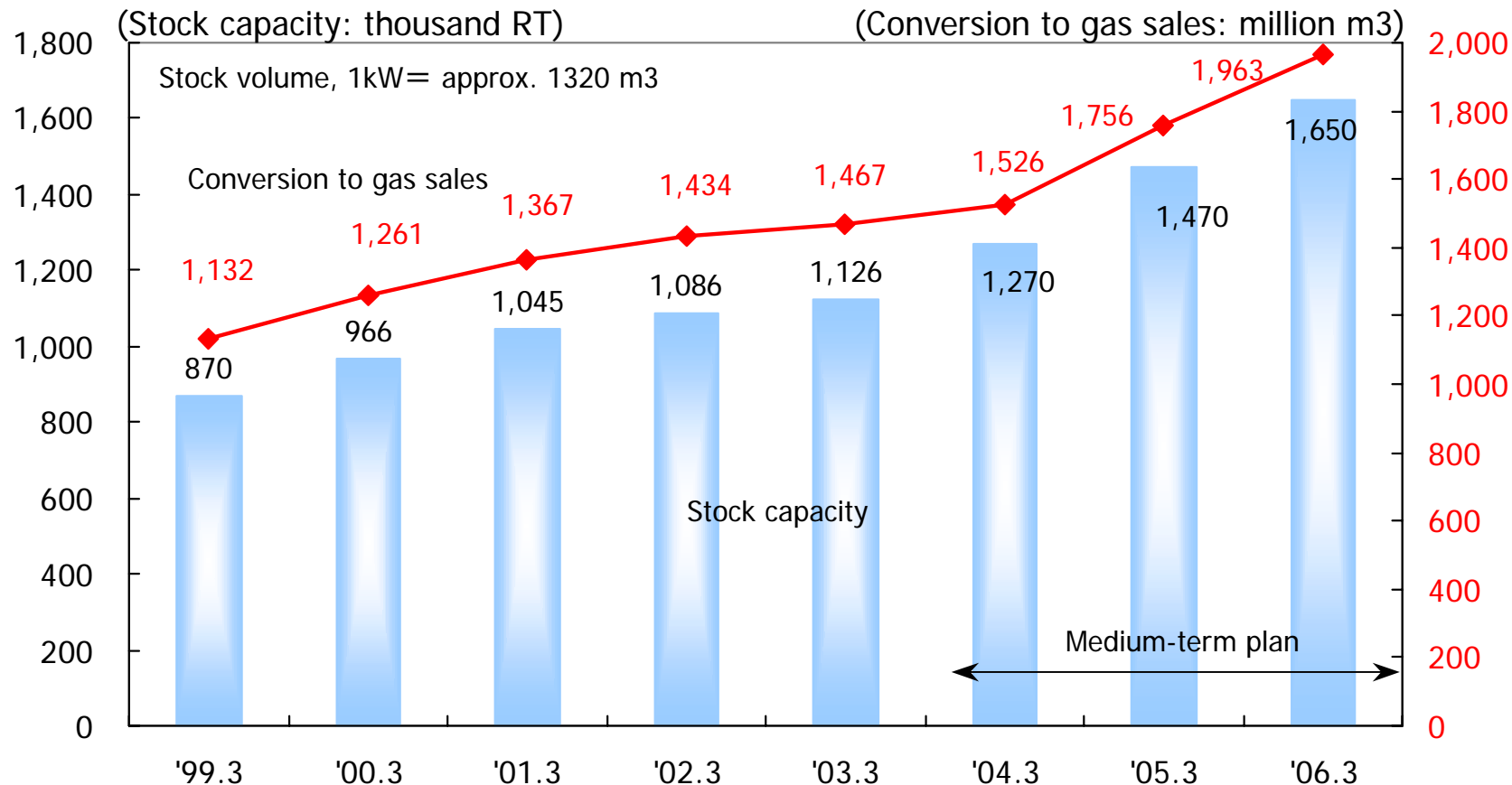
Sales plan of gas air-conditioning systems

- In addition to traditional sales of air-conditioning systems for newly constructed houses/buildings, renewal demand will be explored by offering "Quick Multi," a new product that can be installed by reusing the existing refrigerant piping in existing buildings.



Development of demand for co-generation systems

- While it is expected that some customers will leave amidst the intensified competition with other energy business operators, sales expansion should be continued through development of new applications of cogeneration systems such as an electricity-main-heat-sub type and power-supply cogeneration schemes, in addition to the traditional use of cogeneration systems.



Capital expenditure plan

- Non-consolidated investment for the maintenance of existing businesses will be reduced gradually from ¥47 billion in FY03.3 to approx. ¥40 billion in FY08.3. Growth investments will be increased in the electricity business sector.

