Osaka Gas adopted the Vision 2010 in October 1999. In February 2000 it introduced the GATE Plan, a medium-term business plan covering the period from fiscal year 2001 to fiscal year 2003. The aim of these plans is to maximize corporate value by adopting the concept of "value-creation management" as the basic management philosophy of the Osaka Gas Group.

Under the medium-term GATE Plan, Osaka Gas will work to realize the aims of value-creation management. It has set and published goals for the enhancement of the Group's value for customers, shareholders and society. Customer value goals relate to rate levels, the diversification of rate options, and standards of service and safety. Shareholder value goals are based on performance indicators, including income before income taxes, net income, ROE, ROA and free cash flows. Social value goals focus on environmental behavior, social contribution, information disclosure and compliance.

Shareholder Value Enhancement Targets under the Medium-Term Plan

1. **Income before income taxes**
   Non-consolidated: at least ¥65 billion in fiscal year 2003
   Consolidated (25-company basis): at least ¥75 billion in fiscal year 2003
2. **Net income**
   Non-consolidated: at least ¥35 billion in fiscal year 2003
   Consolidated: at least ¥40 billion in fiscal year 2003
3. **ROE**
   At least 9.0% at both the consolidated and non-consolidated levels in fiscal year 2003
4. **ROA**
   At least 3.5% at both the consolidated and non-consolidated levels in fiscal year 2003
5. **Free cash flows**
   Positive at both the consolidated and non-consolidated levels in fiscal year 2001, and increasing thereafter

Q First, could you comment about management planning in general, starting with progress under the management plan.

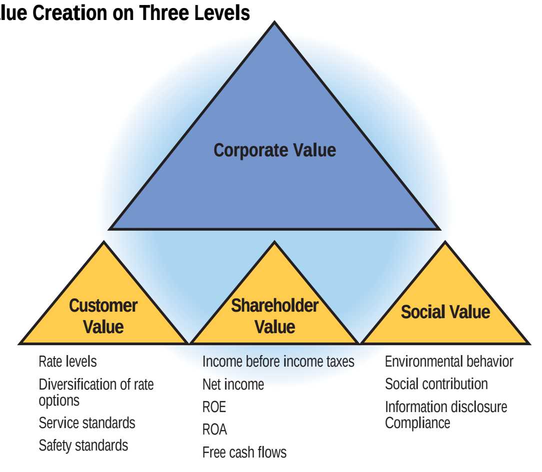
Our medium-term management plan will give concrete form to our shareholder-focused management stance. We regard the three-year period covered by the plan as a crucial first step toward the realization of our Vision 2010 for the future of the Osaka Gas Group. In fiscal year 2001, which was the first year of that plan, our primary objective was to achieve steady improvement in our performance toward the realization of our goals.

Our target for consolidated net sales in fiscal year 2001 was ¥915.0 billion. In fact we exceeded that target with a result of ¥951.9 billion. This was attributable not only to volume growth in gas sales, but also to the sales contribution from 10 new consolidated companies that were added to the Group following our acquisition of Nissho Iwai Petroleum Gas Corporation in September 2000.

The non-consolidated net sales of Osaka Gas Co., Ltd. amounted to ¥754.1 billion, which is above the original target of ¥731.0 billion.

As stated in the attached chart, we achieved all of our numerical goals for the improvement of shareholder value. These results represent an important first step toward the realization of the goals set down in our medium-term management plan.

Osaka Gas Vision 2010
Value Creation on Three Levels



Q What are the key aspects of the management plan for fiscal year 2002?

Our business environment is changing. In our management plan for fiscal year 2002, we have brought forward the deadline for the achievement of the medium numerical targets for fiscal year 2003 by almost one year.

The priorities identified in our management policy for the current fiscal year are the expansion of our energy-business areas and the reinforcement of group management, so that we can achieve a significant improvement in competitiveness through the application of our total group resources and capabilities in an increasingly competitive energy sector. We will also work to maximize group synergies by reforming our personnel systems and making optimal use of IT. In addition, we will strengthen our risk management systems as part of our efforts to ensure the sound development of the Osaka Gas Group.

Results for Fiscal Year 2001 and Target for Fiscal Year 2002

(Billions of Yen)	Target for fiscal year 2001		Result for fiscal year 2001		Target for fiscal year 2002	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Income before income taxes	57.0	47.0	63.8	53.9	72.0	61.0
Net income	30.0	26.0	36.0	32.9	43.0	38.5
ROE	7.7%	6.7%	8.0%	8.2%	8.7%	9.0%
ROA	2.4%	2.4%	2.9%	3.2%	3.2%	3.5%
Free cash flows	4.1	3.1	40.5	37.2	45.0	33.5

1. Free cash flows: Operating income after tax + depreciation (including incidentals) and other internal reserves – capital investment (cash basis)
2. The target for the number of consolidated subsidiaries in fiscal year 2001 was 32, and the actual number was 35. The target for fiscal year 2002 is 42.

Q What initiatives have you introduced to achieve the targets set down in the medium-term plan? First of all, what is your strategy for the natural gas business?

In the residential sector we will develop increased demand for gas and enhance our ability to compete with electric power by establishing de facto standards for central heating systems, including floor heaters and bathroom heater-dryers, and by promoting the use of gas-powered home air conditioners. We will also strengthen our marketing capabilities by forming alliances with leading manufacturers, by developing new distribution channels, and by reforming our distribution and maintenance organizations.

In the commercial and industrial areas, we will step up our efforts to promote cogeneration systems. Since 1982 numerous customers have benefited from the efficiency and energy-saving potential of these systems, and from the superior technology and proposal-marketing capabilities of Osaka Gas. In fiscal year 2001, cumulative installed capacity exceeded 1 GW. Rising concern about environmental problems has been paralleled by increasing recognition of the efficiency of cogeneration technology and its contribution to the reduction of energy consumption. This is reflected in a global increase in the use of cogeneration systems in recent years. We are determined to take full advantage of this trend to promote further growth in the use of cogeneration technology.

We are also working to develop residential cogeneration systems, which we see as the key to a dramatic improvement in gas sales. Osaka Gas plans to launch a micro-gas engine in fiscal year 2003 and a residential fuel cell system in fiscal 2006. The fuel cell system will revolutionize the supply of energy. We are fully committed to the development of the fuel cell system under an alliance with fuel cell manufacturers. Our assets include advanced catalyst technology, which is crucial to the reforming of natural gas for use in fuel cell systems.

Q How are you working to improve management efficiency?

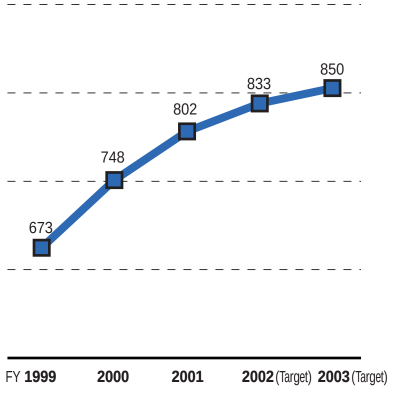
We are determined to strengthen our business foundation and improve our competitiveness. To achieve these goals, we need to enhance both the efficiency and speed of management. Our efforts to improve efficiency are focusing pri-

Employee Numbers
(Including Employees on Transfer, Excluding Part-Time Workers)

	98	99	00	01	02	03	98→03
Target		9,850	9,660	9,410	9,180	8,990	–1,004
Actual	9,994	9,816	9,569	9,241	8,965(planned)	—	

Note: The scale of operations has increased over the years due to growth in customer numbers and gas sales volumes. However, it is planned to reduce the number of employees at the end of fiscal year 2003 by approximately 1,000 compared with the level at the end of fiscal year 1998, through operational and organizational changes, and through the use of information technology. The work force was down to 9,241 by the end of fiscal year 2001, indicating that the reduction process is ahead of schedule. Efforts to improve work force efficiency will continue after the completion of the present plan. The target is to reduce the total work force to 8,000 by the end of fiscal year 2007.

Gas Sales Volume per Employee



marily on continuing cost reductions, and on the use of IT to rationalize our operations.

One aspect of our cost reduction strategy is the minimization of personnel costs through reduction of our work force. We are also working to reduce capital investment costs by improving our purchasing methods, by introducing new technologies, and by reviewing replacement cycles for major facilities.

We are also targeting the improvement of asset efficiency. Measures in this area include the sale or disposal of idle real estate and low-return assets.

We are actively using information technology to improve the efficiency of our billing operations. We are also employing information technology to improve the efficiency of our Customer Service Center, which handles 2.2 million inquiries a year.

Q You have targeted the maximization of shareholder value, customer value and social value. What is your thinking on shareholder value?

Deregulation and the introduction of competition have advanced to the stage where electricity and gas utilities are now able to move into each other's markets. In this environment, customers are becoming more selective about suppliers, and capital markets are becoming increasingly stringent in their selection of companies for investment. Investors want to know how much value a corporate group has provided and will provide to its shareholders. The most important area of concern for us is the corporate market value. To enhance shareholder value, we believe that we need to improve efficiency and strengthen our ability to succeed in a competitive environment. We are also determined to achieve profit and cash flow levels that make Osaka Gas an attractive investment for shareholders.

We also plan to introduce SVA (shareholders' value added) as one of the performance indicators for our internal organizations and all group companies. We will use the SVA indicator to ensure that our management plans and performance assessments reflect the expectations of shareholders with regard to earnings.

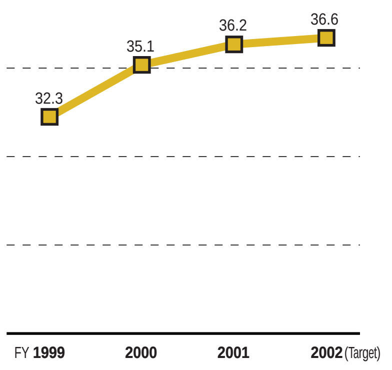
SVA

This indicator was introduced on a trial basis in fiscal year 2002. Performance evaluations for organizations and Groups of Osaka Gas were stated using SVA instead of operating income. SVA is calculated by subtracting creditors' and shareholders' anticipated returns on capital invested from after-tax operating income. It therefore represents the value added for shareholders. SVA is calculated using the weighted average cost of capital (WACC), which reflects the risk-adjusted anticipated rate of return. This means that the shareholder value added for each activity can be monitored more accurately, providing information that can be used to support a strategy of business selection and concentration.

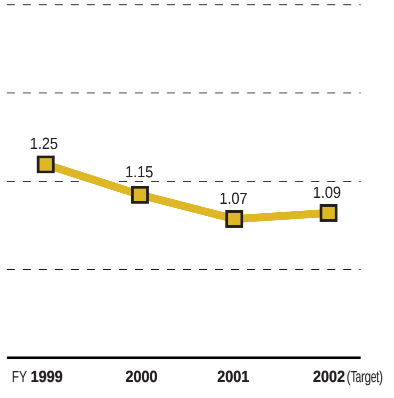
SVA = NOPAT– (interest-bearing liabilities + shareholders' equity) × WACC

NOPAT = Before-tax net income before deduction of interest paid × (1-effective tax rate) – (entertainment expenses – dividends received) × effective tax rate

Consolidated Return on Equity (%)



Consolidated Debt/Equity Ratio (Times)



Q How does Osaka Gas manage its cash flows to increase corporate value and market value. How does its approach differ from that of other companies?

As is apparent from our consolidated shareholders' equity ratio of 36.2%, and our debt equity ratio of 1.07, Osaka Gas has the strongest financial structure in the Japanese electric power and gas sectors. The advantage that we gain from this financial strength is our ability to invest actively in new projects and retire our shares, using not only cash flows but also debt leverage.

Q What is your thinking on the use of cash flows?

Our approach is to choose and implement the use that is most effective at the time from the viewpoint of enhancing shareholder value. We give first priority to investment in new activities with the potential to produce high rates of return. We next consider the improvement of our financial structure or returns to shareholders.

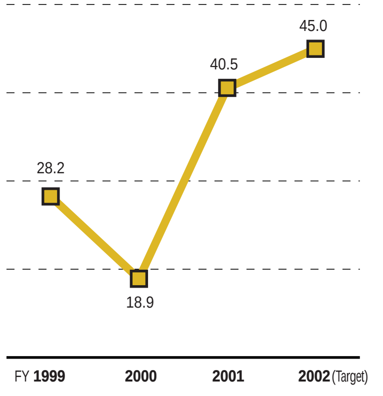
When investing in new activities, we focus mainly on energy-related businesses, such as natural gas, electric power and LPG areas that offer significant synergies with our gas operations. We see investment in upstream areas of the natural gas business as an effective way to secure reliable access to low-cost supplies. In fiscal year 2001 we invested ¥9.6 billion in the acquisition of interests in offshore gas fields in northern Australia. We also plan to invest actively in the electric power and LPG areas. Our aim is to provide customers with one-stop services to meet all of their energy needs. In fiscal year 2000 we acquired the Nissho Iwai Petroleum Gas Group for ¥7.5 billion. We also invested ¥1.9 billion in the establishment of a power retailing subsidiary, Ennet Corporation.

Investment decisions are based on stringent prior assessments. The criteria applied include reliable partners, and investment risks and returns. In the past decisions were made according to judgment criteria that were specific to each project. Since fiscal year 2001, however, we have adopted a uniform approach based on net present value (NPV), which is calculated using hurdle rates adjusted for specific project risks. We believe that this approach will help us to invest efficiently and effectively and in a variety of business fields.

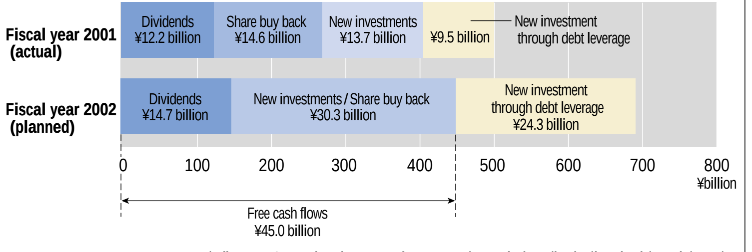
As far as the reinforcement of our financial structure and the return of profits to shareholders are concerned, we will continue to consider the share buy backs, dividend increases and other measures, taking into account our income and expenditure position, trends in our investment activities, share price movements, interest rates and other factors. The share buy backs benefit shareholders in various ways, including higher profit and ROE per share. Over the past three years we have bought and retired 99 million shares for a total of ¥30 billion.

Our basic dividend policy is to maintain stable dividends, but decisions will be based on a comprehensive view that also reflects business performance, future business plans, and other profit sharing measures. In fiscal year 2002 we aim to increase the annual dividend per share by ¥1 to ¥6.

Consolidated Free Cash Flow (Billions of Yen)



Free Cash Flow Utilization (¥billions)



Note: Free cash flows = Operating income after tax + depreciation (including incidentals) and other internal reserves – capital investment (cash basis)

Share Buy Back

Period	Number of shares retired	Value of retired shares	Purchase price
2–3/99	27.7 million shares	¥10.0 billion	¥361 per share
2–4/00	38.6 million shares	¥ 9.6 billion	¥248 per share
11–12/00	32.3 million shares	¥10.0 billion	¥310 per share

Note: Over the past two years, Osaka Gas has implemented three share buy back schemes. Further 151 million shares remain in the quota established by the Board of Directors.

Q The reduction of rates appears to have become an important priority, not only in terms of returning profits to consumers, but also as a way of countering escalating competition in the energy sector. What is your thinking on this issue?

We led the industry by cutting our rates by 3.61% in February 1999. We decided to initiate studies about the next round of changes when we are firmly on track to achieve the goals set down in our present medium-term plan. Our plans for fiscal year 2002 call for the achievement of the targets set down for fiscal year 2003 almost a year ahead of schedule, so we expect to review our rates in the first half of 2002.

In the gas business, there has always been competition from other forms of energy, such as oil and electricity, especially in the commercial and industrial markets. In the future, however, more new companies are expected to move into the gas supply market using our transportation services. We plan to adapt to this new environment by reducing our rates in areas affected by escalating price competition, and by offering an enhanced range of rate options. The process started last year with the introduction of rates based on total energy system contracts for cogeneration customers and the floor heating rate for residential customers, and a review of residential air conditioning rates. We will continue to enhance our competitiveness by developing and introducing strategic rate structures that help to boost demand while providing increased benefits to customers.

Current Directions in Deregulation

The Study Group on Gas Market Reform

- This is a non-statutory study group for the Directors-General of the Natural Resources and Fuel Department and Electricity and Gas Industry Department of the Ministry of Economy, Trade and Industry.
- Established in January 2001, it will carry out studies for one year. The results of this work will be handed over to a statutory policy council, which will make plans for a third round of deregulation in 2003.
- The main focus of research will be a grand design for market regulation over the medium- to long-term future (about 10 years).
  - Approaches to the specific business activities that make up the gas chain, including importation, storage, pipeline transportation, wholesaling and retailing
  - Reconciling supply safety and consumer protection with the development of a competitive environment
  - Approaches to safety, regulation, etc.

Q What is your basic policy in relation to recent trends in deregulation and the competition in the energy market?

The amendment of the Gas Utility Industry Law and the Electricity Utility Industry Business Law in 1999 and 2000 have increased the scope of liberalization in gas and electricity retailing. In the gas sector the threshold for large-volume gas supply was lowered from 2 million cubic meters per year to one million cubic meters. Other changes include the establishment of gas transportation services. Changes in the electricity business include not only the establishment of IPPs, but also the liberalization of retailing to special high-voltage users. The Study Group on Gas Market Reform of the Ministry of Economy, Trade and Industry is currently studying further reforms for the gas business, including a grand design for the next decade. Osaka Gas is helping to create optimized systems that match the realities of the Japanese energy situation by participating in the design of those systems.

Osaka Gas has not attempted to maintain the regulatory framework of the past. Instead we are responding positively to deregulation, which we see as an opportunity to expand demand for natural gas and move into the electricity business. We are determined to build an integrated energy business capable of competing with newcomers in the gas sector and expanding successfully into the electricity business.

Q What specific plans do you have for the electricity business?

We plan to build and own our generation facilities so that we can enter the market as a power generator. We also intend to move into the electricity retailing business by acquiring surplus power from major power users and other sources for sale to our commercial and industrial customers. We believe that there are ample opportunities to use our customer networks and proposal marketing capabilities in this field.

A specific example of our involvement in the electricity business is an IPP venture, which will start to wholesale electricity to Kansai Electric Power in April 2002. A 150Mw facility is currently under construction at Torishima in Osaka City. We have also moved into the electricity retailing business with the establishment of Ennet Corporation in April 2001. Ennet is a joint venture with NTT Facilities Co., Ltd. and Tokyo Gas Co., Ltd. The new company has made a pleasing start, including the placement of a successful tender to supply power to the Osaka Prefecture Government. In the future it will buy and sell surplus power through a network of existing Osaka Gas customers with cogeneration facilities. The Osaka Gas Group is also involved in on-site generation through a combination of contract private generation and ESCO operations. A scheme was launched in January 2001 at a large shopping center in Ibaraki City, Osaka Prefecture.

Q Compared with other utilities in Japan, Osaka Gas has a large group of businesses in an extremely wide range of fields. What is the current state of group management, and what is your future policy in this area?

The earnings of group companies that are still at the development stage are small compared with those of Osaka Gas. We will need to enhance the overall corporate value of the Group by pursuing a strategy of selection and concentration, and by building sound, strong business structures.

In fiscal year 2001, we made the transition from “G9” to “G10” with the addition of the Nissho Iwai Petroleum Gas Group to our Group. We now have 10 core companies, including Osaka Gas Co., Ltd., each of which will function as a growth engine. Our aim is to build a federal management structure under which we can increase the overall value of the Group by enhancing both the scale and depth of our activities.

We will ensure the financial health of all our core companies so that their shares can be listed in the future. This will require the achievement of profit levels that match shareholder expectations, and the proper disclosure of financial data. We are working to make all of our core companies independent and self-sufficient. This approach is exemplified by Kinrei Co., Ltd., our core company in the area of foodstuffs and restaurant operations, which in fiscal 2001 Kinrei achieved the listing of its shares for public trading.

In fiscal 2001 we established uniform investment criteria for the Group. These standards provide a framework for appropriate investment decision-making in a wide range of business areas, and for the realistic evaluation of M&A deals and overseas investments, which are on a trend of increase.

From fiscal year 2003 onwards, we will base the performance indicators for the internal organizations of Osaka Gas and its group companies on shareholders’ value added (SVA) instead of income before income taxes. When preparing our business plan for fiscal year 2002, we directed all group companies to work toward a positive SVA position by fiscal 2003. If any company is unable to attain this target, we will implement

business restructuring measures, which may include withdrawal or sale. This approach reflects our “selection and concentration” strategy, the aim of which is to concentrate resources into activities that offer higher returns. As part of the selection and concentration process, we decided in fiscal year 2001 to restructure the Harman Group, which produces and sells gas appliances and equipment, in partnership with Noritz Corp.

Another goal is the reinforcement of group management infrastructure. Measures in this area include the enhancement of group financial and cash management systems, the provision of incentive schemes, such as internal entrepreneurship systems based on employee share ownership, and performance evaluation systems for directors of group companies. We will also target the improvement of group management, and the development of a group accounting data system to support the early implementation of consolidated accounting, in order to provide enhanced segment data.

Q Finally, what message would you like to send to investors?

Competition in the energy sector will intensify as a result of deregulation. The gas business has a history of competition with other forms of energy, but in the future there will be also competition among gas suppliers. Our survival in this fiercely competitive environment will depend on our ability to adapt our management systems flexibly in response to change in our business environment. It will also be necessary to speed up our decision-making processes. We will continue to adapt vigorously while responding positively to deregulation and competition. Our aim is to ensure that the investors will continue to place a high value on the Osaka Gas Group. We look forward to your continued support in the future.

A. Nomura

Akio Nomura, President