

A hand is pointing at a laptop screen. The word "Fundamentals" is overlaid on the screen in a white, sans-serif font. The background is a warm, orange glow, and the laptop and keyboard are visible in the foreground.

Fundamentals

Maintaining a Sound Financial Structure
and Emphasizing Cash Flows

Osaka Gas is building a solid foundation for the entire Group by aggressively investing its cash flows in growth fields. The Company's high total asset turnover rate is the result of accurate past business investments and is becoming one of the Company's strengths.

In the current business environment characterized by intensifying competition, business investments for supporting growth strategies have assumed an unprecedented degree of importance. To support its strategic business investments, Osaka Gas intends to enhance its ability



to create cash flows by raising operational efficiency and will complement these efforts with funds procured from external sources when necessary. At the same time Osaka Gas will emphasize selectivity in making investments, which will be based on the Osaka Gas Group's uniform investment standards. Moreover, when the need arises Osaka Gas will reevaluate projects currently in progress and raise its investment efficiency. From the perspective of selection and concentration in carrying out its Groupwide business activities, Osaka Gas introduced shareholder's value added (SVA) as new indicator for monitoring business results.

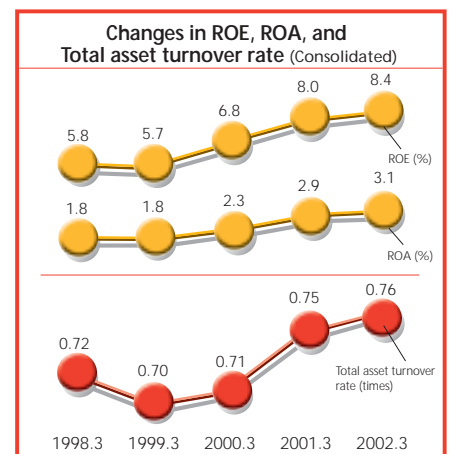
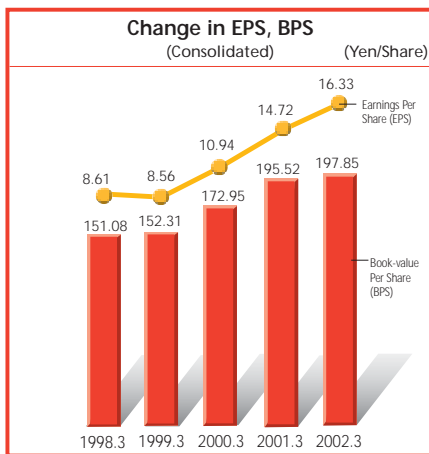
Creating Cash Flows

Approach to Raising Management Efficiency

Osaka Gas is registering steady progress in raising the efficiency of capital expenditures, reducing costs, and pruning its assets as it strengthens its ability to create cash flows. Regarding capital investment, besides aggressively developing and introducing new technologies, Osaka Gas is reviewing specifications while rationalizing its purchasing methods. These measures have allowed the Company to succeed in keeping the amounts of its capital expenditures within the range of depreciation.

On a different front, we are working to curb total labor costs by trimming personnel. Although the volume of administrative work has expanded yearly because of rises in the number of customers and sales volumes, by taking such steps as reviewing our work processes and organization and introducing information technologies, we plan to prune staff by approximately 1,100 at the end of fiscal 2006 compared with the end of fiscal 2002, and intend to operate with an 8,000-staff structure in fiscal 2007.

We will also vigorously progress with the sale and disposal of idle real estate and low-profit assets to raise our asset efficiency.

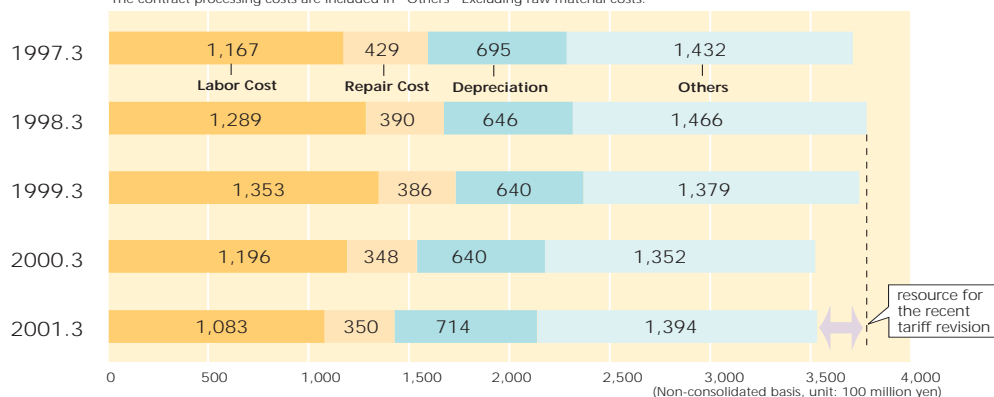


Restructuring Our Business in Accordance with SVA

In fiscal 2002 Osaka Gas introduced shareholder's value added (SVA) as an indicator for evaluating performance and began utilizing this indicator for reviewing profitability of individual Group companies. Accordingly, during fiscal 2002 we reorganized the Harman Group, which engages in the manufacture and sale of gas appliances. Osaka Gas also disposed of other existing businesses that included selling OG Royal and Kiccory as well as announcing a plan for liquidating the real estate business carried out by Urbanex in Kobe. Upon reconsidering from numerous perspectives, including future demand for gas and present supply capabilities, in April 2002 we decided to cancel plans for the construction of a third LNG terminal in Tsuruga, Fukui Prefecture. This decision follows the cancellation of the construction of a manufacturing facility in Hokko in the fiscal year ended March 31, 2002.

Resource Underlying the Recent Tariff Revision

Incidental expenses and miscellaneous expenses are not included.
The contract processing costs are included in "Others" Excluding raw material costs.



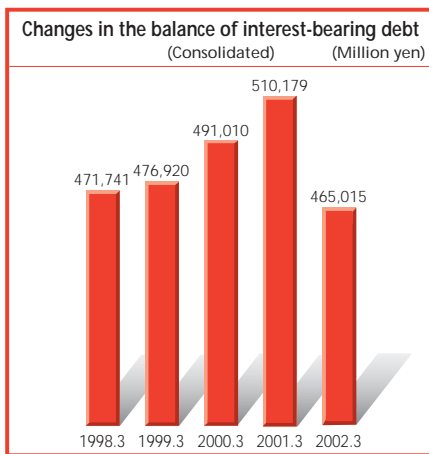
The Effects of Rate Revision

The rate revision implemented in March 2002 was undertaken by passing on savings from cost-reduction measures implemented during the three-year period following the previous rate reduction in February 1999. Although this rate reduction will result in a temporary decline in revenues, we intend to absorb this decrease by cultivating new demand as well as creating cash flows through further cost reductions.

Policy on Investments

Osaka Gas selects the use of cash flows that is most effective from the viewpoint of enhancing shareholder value. We give top priority to investments in new activities that we believe have the potential to generate high rates of return. We next consider enhancing our financial structure or returns to shareholders.

Principal new investments in fiscal 2002 included the establishment of Cogeneration Technology Service, in which Osaka Gas Group has a 56% share. This investment will enable Osaka Gas to develop its cogeneration business as one of its strategic business operations on a nationwide basis. To further expand its business foundations, Osaka Gas also invested in



Gaslight

Period	Shares bought back	Value of purchases	Price per share
99.2-3	27.7 Million	10.0 Billion Yen	361 Yen/Share
00.2-4	28.6 Million	9.6 Billion Yen	248 Yen/Share
00.11-12	32.3 Million	10.0 Billion Yen	310 Yen/Share
01.11-02.2	60 Million	18.3 Billion Yen	306 Yen/Share

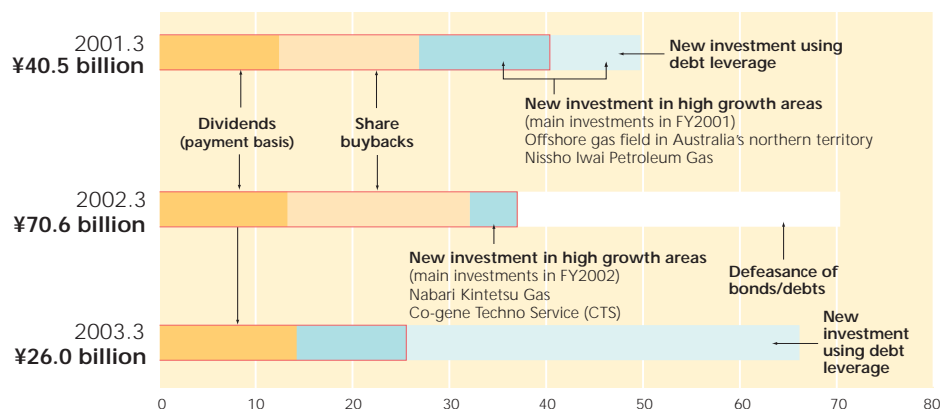
At the meeting of shareholders held in June 2002, a proposal was approved for the buyback of Company stock as treasury stock within the range of 100 million shares with the total amount of the purchase price limited to ¥30 billion.

Nabari Kintetsu Gas Co., Ltd.

Our investments in new businesses focus mainly on energy-related businesses such as natural gas, electric power, and LPG that generate significant synergies with our gas business.

As part of a continual commitment to reinforce our financial structure and return profits to shareholders, we will continue to consider share buybacks, 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 buybacks and share retirements benefit shareholders in various ways, including higher profits and return on equity (ROE) per share. Over the past four years we have bought and retired 159 million shares for a total of ¥47.9 billion.

Consolidated Free Cash Flow



Notes: Free cash flows = cash flows from operating activities – capital expenditures (operating profit after tax + depreciation expenses and other non-cash expenses)