



Akio Nomura, Chairman (Left)

Hirofumi Shibano, President (Right)

### CONSOLIDATED RESULTS FOR FISCAL 2003

In fiscal 2003, ended March 31, 2003, the final year of the three-year medium-term management plan GATE PLAN, Osaka Gas made aggressive efforts to expand its electricity business while stimulating gas demand in the energy business field. Further, the Company concentrated on encouraging growth and development in operations in the non-energy business field by accelerating the selection and concentration of businesses.

In fiscal 2003, gas sales volume increased 2.8% compared with the previous fiscal year. This increase was due in part to the Company's aggressive efforts to increase demand for gas floor heating systems for homes, and cogeneration systems and air-conditioning systems for industrial and commercial customers. In addition, the Company benefited from below-average temperatures in the second half of the fiscal year under review, and an apparent bottoming-out in general operating economic conditions in its service area.

In order to strengthen its competitiveness, Osaka Gas lowered gas rates in March 2002 and again in February 2003. As a consequence, consolidated net sales fell 2.6% year-on-year to ¥947.9 billion. The Company made every effort to bolster the earnings structure by working to reduce such costs as labor expenses and miscellaneous spending. Despite these ef-

orts, operating income dropped 11.1% to ¥85.9 billion from the previous fiscal year. Net income fell 24.7% to ¥29.6 billion, owing to extraordinary losses related to one-time expenses in accordance with its expanded early retirement program.

### RESULTS OF THE MEDIUM-TERM MANAGEMENT PLAN GATE PLAN

Value Creation Management is the fundamental management principle common throughout the Osaka Gas Group in the long-term management plan VISION 2010. The three-year medium-term management plan GATE PLAN, extending from fiscal 2001 to fiscal 2003, is the first phase of realizing VISION 2010. The GATE PLAN sets forth three targets for increasing corporate value, namely shareholder value, customer value, and social value, as concrete targets for realizing Value Creation Management. During fiscal 2003, the Osaka Gas Group made concerted efforts to achieve the objectives in the plan.

As for shareholder value, Osaka Gas has set numerical targets for operating income, net income, ROA, ROE and free cash flows. In fiscal 2002, the second year of the three-year plan, we had achieved roughly all of these targets. (For more detail, please refer to the column "GATE PLAN Results.") As a result, Osaka Gas increased cash dividends by ¥1 to ¥6 per

share for the fiscal year ended March 31, 2002, and bought back 60 million shares of capital stock in fiscal 2002, and approximately 70 million shares in fiscal 2003, increasing shareholder value.

For customer value, since we achieved our targets for increasing shareholder value a year early, we reduced gas rates by an average of 5.04% in March 2003 and again by an average of 0.87% in February 2003 for small-lot customers. Osaka Gas added four new options to its rate plans, and introduced other special rate plans such as those for customers with gas floor heating systems. Moreover, we continued our work to further improve services and safety, and as a result, achieved numerical targets in these areas.

For increasing social value, we are continuing activities in line with our concrete targets in the areas of environmental protection, social contribution, information disclosure and compliance.

## INTRODUCING SVA MANAGEMENT TO EMPHASIZE SHAREHOLDER VALUE

Regulatory reforms, as evidenced by cross-participation in the electricity and gas industries, are introducing competition into the energy sector. The operating environment is growing tougher as customers and capital markets become selective of

companies. Under these conditions, Osaka Gas believes it is important to accelerate its policy of “selection and concentration” in businesses and effectively utilize limited management resources to increase shareholder value.

Among companies in Japan’s energy industry, particularly the public utility sector, Osaka Gas boasts a robust financial structure and high shareholders’ equity ratio with relatively low dependence on interest-bearing debt. In addition, the Company expects to garner strong free cash flows over the medium term, which will facilitate investment in growth fields. Osaka Gas will promote higher management efficiency while aggressively investing in areas of growth to increase profits and cash flow and ultimately be an attractive investment for shareholders.

To incorporate the improvement of shareholder value into Companywide measures, Osaka Gas began using shareholder’s value added (SVA) in fiscal 2002 as a profitability benchmark for evaluating the performance of each internal division and Group companies. Moreover, Osaka Gas has used net present value (NPV) since fiscal 2001 as a common standard for evaluating investment across the Group. By using SVA as a performance benchmark and by setting investment standards, we are shifting our investment focus to growth fields able to obtain cash inflows above the investment amount.

During the fiscal year ended March 31, 2003, we focused investment on growth to increase SVA in the energy business. Osaka Gas acquired Nabari Kintetsu Gas Co., Ltd. in March 2002 in a move to expand its gas business. The Company also acquired Nakayama Joint Power Generation Co., Ltd. and Nakayama Nagoya Joint Power Generation Co., Ltd. as part of its aggressive efforts to build up the electricity business. In the non-energy business, Osaka Gas withdrew from unprofitable businesses by selling shares in Kiccory Co., Ltd., OG Royal Co., Ltd. and Harman Co., Ltd. We also withdrew from unprofitable businesses by selling real estate near Kobe Harbor Land, and advanced the selection and concentration of operations using SVA as a yardstick. We will continue promoting a stronger management base through the realization of positive SVA at each affiliated company.

Note: 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 shareholders' value added for each activity can be monitored more accurately.

## CORPORATE GOVERNANCE AND COMPLIANCE

As a publicly held company, Osaka Gas is obligated to adopt a corporate management structure based on corporate governance and legal compliance as well as a clear separation of owners and managers. Only by adopting such a management structure can we expect to carry out our business activities with the full confidence and support of equity markets and society at large and, as a result, maximize our corporate value. While we believe that the basis for such a management organization rests fundamentally on the ethical integrity and com-

mon sense of the individuals entrusted to run an organization, we also acknowledge the real need for a framework of checks and balances that effectively assures maneuverability, legal compliance, and legitimacy in business decision-making and execution.

At Osaka Gas, business decisions are made in accordance with clearly defined internal regulations and after sufficient debate by the Executive Board and the Board of Directors. The Board of Directors handles matters of importance concerning the entire Osaka Gas Group, including its subsidiaries. The Company makes every effort to facilitate precise and speedy decision-making at the Board of Directors while reinforcing oversight and auditing functions over management.

At the ordinary general meeting of shareholders held in June 2003, Osaka Gas shifted to a structure that fulfills the requirements for external auditors (please see Note below), as defined by the "Law Revising the Law Concerning Special Measures to the Commercial Code with Respect to Audit, etc. of Corporations (Kabushiki Kaisha) (2001, Law 149)."

With a structure that incorporates external auditors, we will assess the appropriateness of business execution by directors. Moreover, the Company established an auditing office, comprising staff outside the influence of directors, to support the activities of auditors in order to create a robust auditing structure.

In addition, Osaka Gas has formulated the Osaka Gas Group Code of Conduct. The Company will make every effort to apply the code in every facet of its business activities to instill a law-abiding mind-set among its employees.

Note: The two external auditors have no special personal relationship, capital affiliations or transactions, or any conflicts of interest with Osaka Gas.

## GATE PLAN Results

In the medium-term management plan GATE PLAN, Osaka Gas aimed to increase shareholder value through aggressive investment in growth fields and improvement in cash flows and profits, based on the objective of increasing corporate value.

Under deregulation and heightened competition in the energy sector, the Company concentrated efforts on reducing costs across all businesses and increasing sales volume in the gas business in particular. Over the three years of the plan, gas sales volume increased an average of 1.6% as a result of an increase in the number of residential customers, the development of heating demand, and efforts to stimulate demand in the industrial, commercial, public and medical sectors.

Moreover, Osaka Gas made Companywide efforts to reduce costs, including cuts to labor costs by reducing the number of employees, and lower depreciation by restricting capital investment and controlling projects.

As a result of these efforts, we were able to achieve most of the objectives of the GATE PLAN, and largely attained targets for free cash flows, ROE and ROA in the second year of the plan—one year ahead of schedule.

Cash flow was earmarked for investment in areas of growth, including for investment in the Northern Australia Gas Venture (NAGV), investment in Nissho Iwai Petroleum Gas Corporation in fiscal 2001, investment in Nabari Kintetsu Gas Co., Ltd., the establishment of Cogen Techno Service Co., Ltd. in fiscal 2002, and capital participation in Nakayama Joint Power Generation Co., Ltd. in fiscal 2003. In an aim to improve EPS and ROE, Osaka Gas bought back 160 million shares of its own stock at a cost of approximately ¥48.3 billion during the three-year period of the GATE PLAN.

## Principal Management Targets and Results

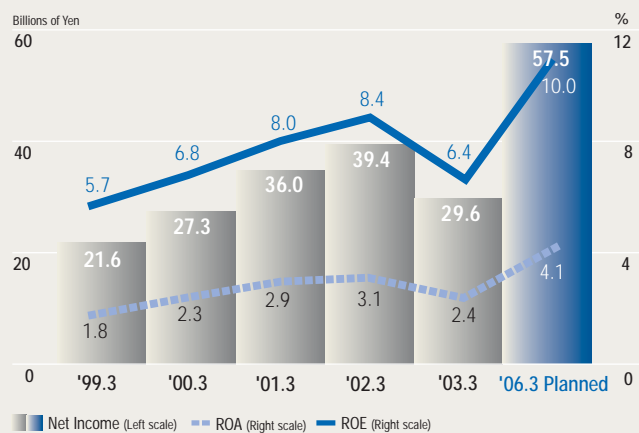
Unit: Billions of yen,%

	Result for fiscal 2001	Result for fiscal 2002	Target for GATE PLAN	Result for fiscal 2003
Ordinary profit .....	¥63.8	¥75.9	¥75.0	¥65.0
Net income .....	36.0	39.4	40.0	29.6
ROA .....	2.9%	3.1%	3.5%	2.4%
ROE .....	8.0%	8.4%	9.0%	6.4%
Free cash flows .....	40.5	70.6	—	23.7
SVA .....	11.1	13.1	—	3.1

Notes:1. Ordinary profit, under Japanese GAAP, is calculated by subtracting non-operating expenses from operating income and non-operating revenue.

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

## Net Income, ROA and ROE



## NEW MEDIUM-TERM MANAGEMENT PLAN INNOVATION CENTENNIAL AND FISCAL 2004 TARGETS

The operating environment surrounding Osaka Gas is becoming more challenging as the pace of change in business conditions has proceeded faster than originally envisioned in the long-term management plan VISION 2010, such as the end to an ever-growing economy and energy demand, faster deregulation in the electricity and gas markets, and stringent selection of companies by capital markets.

That said, business opportunities emerge when there are changes in the operating environment. While carefully watching these rapid changes in business conditions, Osaka Gas

seeks new growth opportunities by emphasizing flexibility, speed and constant innovation in its operations.

The medium-term management plan INNOVATION CENTENNIAL, spanning from fiscal 2004 to fiscal 2006, is the second phase of VISION 2010. Under INNOVATION CENTENNIAL, Osaka Gas is determined to switch from energy operations centered on the local gas supply business to the broad-area, multiple energy business. At the same time, the Company will work strenuously to increase the competitiveness and profitability of its non-energy business formed around core Group companies. (Please refer to the column “Strategy for Growth” for details on its objectives.)

In the first fiscal year of the plan, fiscal 2004, the first basic strategy is to make ensure our achievement of the first-year targets. We plan to further increase profit levels by compensating for the negative effect of February 2003 rate reductions on profits with higher sales volume and cost reductions.

Furthermore, Osaka Gas plans to reinforce competitiveness in its gas business in light of intensified competition between types of energy. The Company targets a year-on-year increase in gas sales volume through measures such as increasing the number of residential customers, developing heating demand during the winter, and proactively stimulating demand in the industrial, commercial, public and medical sectors. Overall, Osaka Gas expects gas sales volume to increase 0.8%, or 7,748 million cubic meters (45MJ base) from the previous fiscal year. In independent power producer (IPP) operations in the electrical power business, we expanded our scope of operations and promoted more efficient business management with the three operational bases under our three-base structure of the Torishima Energy Center, which produces 150MW, as well as Nakayama Joint Power Generation Co., Ltd. and Nakayama Nagoya Joint Power Generation Co., Ltd., both of which generate 150MW and were added in the fiscal year ended March 31, 2003.

In the non-energy business, we thoroughly reviewed the growth potential of each business at Group companies, and promoted selection and concentration in businesses with potential for steady development into the future. We are highly selective in choosing business areas as new fields expected to grow. At the same time, we push forward with value creation management as we take a hard look at the growth prospects of existing businesses.

## TOWARD SUSTAINABLE DEVELOPMENT

Osaka Gas will celebrate its 100th anniversary in the fiscal year ending March 31, 2006. Looking forward to this momentous occasion, the Osaka Gas Group will spur innovation in its energy and non-energy businesses with the ultimate aim of achieving sustainable development as the “Robust Osaka Gas Group” in the second century of its existence. Moreover, the Company aims to increase flexibility in management to precisely respond to changes in the operating environment. Aiming to become a one-stop energy solution provider, Osaka Gas strives to achieve superior competitiveness in all facets of its business, from cost and efficiency to environmental preservation and customer services. In all of our activities, we aim to become the corporate group that is the preferred choice of our customers.

We ask for your continued support and encouragement.



Akio Nomura, Chairman



Hirofumi Shibano, President