

Enhanc Competitive



“ Our energy consulting capabilities, backed by technological know-how, are one of the greatest strengths of Osaka Gas to stimulate customer demand and provide an optimal combination of products and systems developed to solve a specific problem. ”

ing Our Edge

FAQ:6

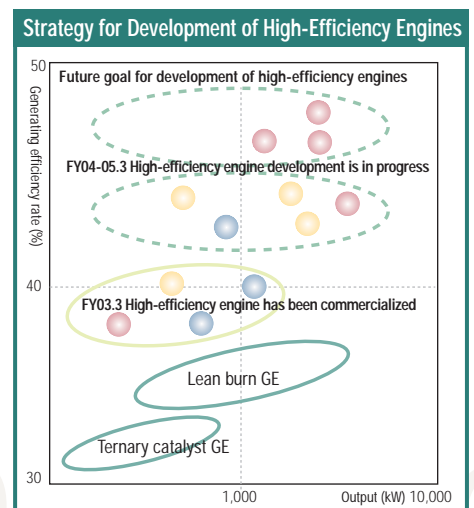
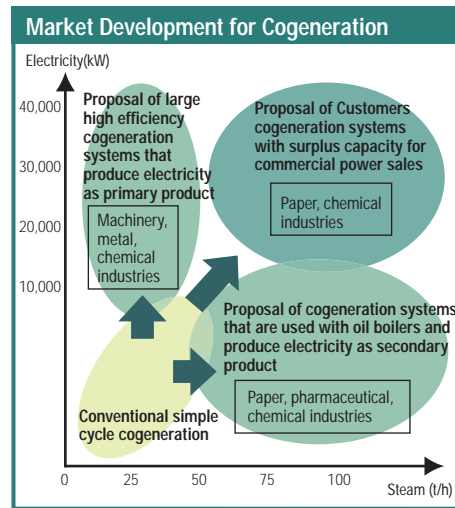
What are the competitive strengths of Osaka Gas?

FAQ:7

Acquaint us with the Company's efforts in the commercial and industrial fields.



This highly efficient 1MW class engine (made by Jenbacher AG) incorporates the latest technologies for a power generation efficiency of 41%.



STRENGTHS IN ENERGY CONSULTATION AND ON-SITE ENERGY SOLUTIONS

⑥ The Company's competitive strengths reside in its technological prowess and solution marketing skills. We believe that the key to growth at Osaka Gas is its energy consulting capabilities, which identify and solve problems faced by customers through the provision of optimal, customized systems developed using the Company's accumulation of technological capabilities.

In tandem with the increasing significance of deregulation and environmental issues, demand is growing for cogeneration systems at customer locations as a solution for the on-site generation of electricity and heat. Cogeneration systems offer three attractive advantages: lower utility costs via energy conservation, reduced CO₂ emissions, and energy supply stability.

Gas-powered cogeneration systems, where we have accumulated more than 20 years of R&D and marketing expertise, represent for Osaka Gas an increasingly strategic field. Osaka Gas boasts an installed capacity of over 1,100MW, and provides a product lineup that meets a wide range of demand, from large-scale facilities of several megawatts to small

equipment of 5-6 kW. ⑥ The Company is making every effort to create demand through its detailed energy consulting services, which provide advantages to customers through cogeneration systems.

CREATING DEMAND FOR COGENERATION IN DIFFERENT MARKET SEGMENTS

⑦ In the commercial and industrial fields, we continue to create demand by proposing solutions and developing technologies and products centered on the strategic areas of cogeneration systems and air-conditioning systems. The market for cogeneration systems is one of great potential for creating new demand in various sectors.

Osaka Gas is able to propose optimal systems according to industry type, even for customers that need large-scale cogeneration systems in plants. For instance, the Company offers cogeneration systems with high power generation efficiency for such industries as machinery and metals, which use more electricity than heat. For papermaking, pharmaceutical, chemical and other industries that use mainly heat, we propose cogeneration systems that mainly produce heat based on

FAQ:6

What are the competitive strengths of Osaka Gas?

FAQ:7

Acquaint us with the Company's efforts in the commercial and industrial fields.

our regenerative burner technology.

We install large-scale cogeneration systems at customer sites, and when customers generate more electricity than they need, we buy this excess electricity from them and sell it on the open market. These commercial energy sources and cogeneration systems provide cost and environmental benefits to customers through the introduction of cogeneration systems, and also provide Osaka Gas with the benefit of securing an electricity procurement source.

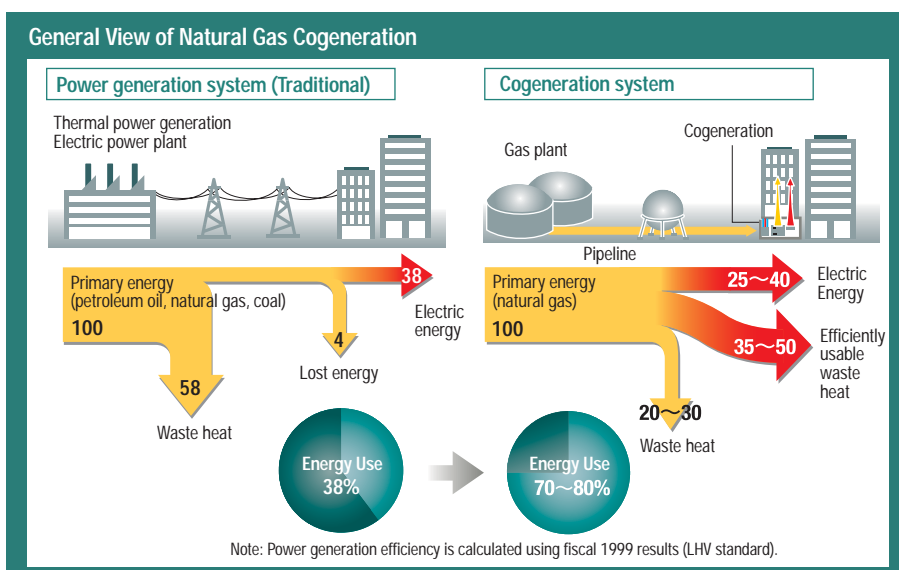
We are also working to commercialize cogeneration systems for medium- and small-scale demand in the commercial, public and medical sectors. The Company released the Gene-Light Series of compact 9.8-kW cogeneration systems in 1998, and followed up with 22-kW, 6-kW and 5-kW models in 2002. In 2003, we plan to announce an 8.0-kW model. By expanding its product lineup with so many models, Osaka Gas is gradually acquiring customers from franchise restaurants and medium- and small-scale office buildings.

TOWARD THE CREATION OF A NEW COGENERATION MARKET

7 Using the technological capabilities, products and maintenance know-how of the Osaka Gas Group, the Company is focusing efforts on the creation of new markets such as biogas cogeneration systems. Biogas can be generated from urban garbage, wastewater and organic industrial waste. Of these, the organic industrial waste field has high needs in the restaurant sector. Enacted in May 2001, the Food Recycling Law requires at least 20% of food waste to be recycled by 2006. Currently, only about 1% is recycled. Biogas cogeneration systems contribute to the achievement of this recycling target by producing electricity and heat from food waste.

OSAKA GAS PROVIDES FINANCING AND MAINTENANCE SERVICES

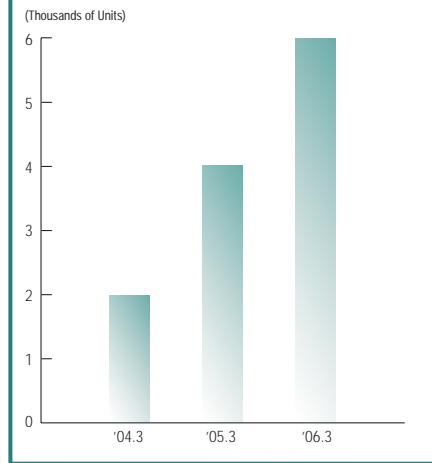
7 Our industrial customers are increasingly expected to restrict capital investment in fields other than their core businesses and to reduce general and administrative costs.





ECOWILL is a real solution for residential gas engine cogeneration systems.

Sales Projection for ECOWILL



Osaka Gas works to create demand and improve customer satisfaction by meeting these needs in the air-conditioning and cogeneration system fields.

In response to rising needs to restrict capital investment and keep assets off the balance sheet in recent years, Osaka Gas is offering a popular facility installation plan in the form of a consumption-linked scheme (no initial cost solution), which holds down initial costs for customers through leasing. Including financing, this is a framework where the cogeneration system is owned by Osaka Gas, eliminating costs at the customer for construction and the system itself, and the customer pays energy service fees in line with power generation volume to Osaka Gas.

To reduce maintenance costs and quickly discover and prevent equipment breakdown, we offer energy management services that use 24-hour remote monitoring and control systems.

Moreover, our new air-conditioning system Quick Multi is able to use existing cooling ducts, allowing for low-cost, highly efficient air-conditioning system replacement. We are concentrating our marketing efforts on the

air-conditioning market for existing buildings.

ANNOUNCEMENT OF RESIDENTIAL GAS ENGINE COGENERATION SYSTEM

8 In March 2003, Osaka Gas announced the industry's first residential gas engine cogeneration system **ECOWILL**. The system incorporates a 1-kW gas engine developed by Honda Motor Co., Ltd. and a system that uses an exhaust heat utilization system jointly developed with Toho Gas Co., Ltd. and NORITZ Corporation. The system has an overall energy efficiency of approximately 85%, and adaptive functions that adjust according to past energy usage patterns (self-learning function). The Company plans to sell 12,000 units over the next three years.

We are working toward the commercialization of residential fuel cell cogeneration systems in 2005. In June 2003, we signed an agreement with Ebara Ballard Co., Ltd., Sanyo Electric Co., Ltd., Toshiba International Fuel Cells Corporation and Matsushita Electric Industrial Co., Ltd. for the joint development of a polymer electrolyte fuel cell (PEFC) cogeneration system for residential

FAQ:8

What initiatives are underway in the residential field?

use. In the fiscal year ended March 31, 2003, prototypes of cell stacks and systems made by each company in the alliance were tested at Osaka Gas, verifying their potential for commercialization during the fiscal year ending March 31, 2006, based on the achievement of technical benchmarks for durability and reliability as well as on a projected cost basis after commercialization. Based on these results, Osaka Gas plans to continue development toward commercialization and to create a contract for joint development from the fiscal year ending March 31, 2004, with a manufacturer from among the four-company alliance that agrees with the Company's product commercialization schedule.

COMPETITIVE MEASURES IN THE RESIDENTIAL FIELD

8 The residential gas market is under intense competition with homes that use electricity for all their energy needs and induction-heating cooking appliances. Osaka Gas is increasing its competitiveness by introducing strategic products, creating rate plans that appeal to customers, and provid-

ing services that only Osaka Gas can offer.

Our mainstay strategic products include residential cogeneration systems, hot water floor heating systems, bathroom heaters and driers, fan heaters (forced air space heaters), and glass-top stoves. To further stimulate demand, we lowered the average rate for small-scale customers by 5.91% in February 2003. We also expanded our offering of rate schedules, introducing the special rate plans for residential customers using gas hot water floor heating systems and ECOWILL cogeneration systems. We are making efforts to reduce costs by improving the quality and efficiency of services through IT.

One benefit we provide to customers is the use of home services offered by the Osaka Gas Group. We are examining the provision of services unique to the Osaka Gas Group through synergies in non-energy operations for individual families, such as home security and condominium management and maintenance.

