

**Group Companies**

The Osaka Gas Group consists of 77 consolidated subsidiaries. The Group's business activities encompass such fields as natural gas, LPG, electricity, other energies, gas appliances, house-pipe installation, real estate leasing and other operations.

Nakayama Joint Power Generation Co., Ltd. and Nakayama

Nagoya Joint Power Generation Co., Ltd. were only included in the consolidated balance sheets during the fiscal year ended March 31, 2003, and are fully incorporated into the consolidated financial statements from April 2004.

**Changes in Segment Classifications and Method of Disposal for Unallocated Expenses**

The Osaka Gas Group implemented organizational reforms in April 2003. With this opportunity, Osaka Gas changed the way it classifies segments to more closely correlated segment information with its two major business fields of the Energy Businesses and the Non-Energy Businesses. The previous segment classifications were gas, house-pipe installation, gas appliances, LPG and industrial gas, real estate leasing and other businesses. From March 2004, segment classifications are 1) Gas, 2) LPG, Electricity and Other Energies, and 3) Gas Appliances and House-Pipe Installation, in the energy business, and 4) Real Estate and 5) Others, in the non-energy businesses. The primary changes to segment classifications are as follows. The previous fiscal year's results were reclassified according to the new segment classifications to facilitate calculations of year-on-year growth rates.

- Electricity supply, heat supply and consigned LNG process operations,

which were included in the previous other businesses segment, are combined with the previous LPG and industrial gasses segment into the new LPG, Electricity and Other Energies segment.

- Included in the previous other businesses segment, pipe laying and excavated earth recycling, along with the previous gas appliances and house-pipe installation segments, are combined into the new gas appliances and house-pipe installation segment.
- Building maintenance services, included in the former other businesses segment, along with real estate leasing, are combined into the new real estate segment.
- Previously recorded under corporate, the general administrative expenses of Osaka Gas are now distributed appropriately among each segment.

**Operating Revenues and Operating Income**

**1) Gas**

In the gas segment, the gas business forms the core operations of Osaka Gas Co., Ltd. In fiscal 2004, Osaka Gas provided gas to 6,316,000 residential homes, an increase of 68,000 homes from the end of the previous fiscal year. The Company made efforts to develop demand with fan-forced heaters, gas hot water floor heating systems and ECOWILL cogeneration systems for residential customers. The average monthly usage per residential customer declined 0.5% to 34.3 cubic meters compared with the previous fiscal year, owing to unseasonably cool temperatures in the summer and warm temperatures in the winter. As a result of customer growth, sales volume of gas to residential customers increased 0.3% year on year to 2,304 million cubic meters. In the commercial, public sector and medical fields, gas sales volume edged up 0.6% year on year to 1,545 million cubic meters, on account of the acquisition of new customers for buildings in mainly the medical field and for renewal air-conditioning projects in existing

buildings, despite a decline in air-conditioning related demand due to cool summer temperatures. In the industrial field, despite the adverse effects of some customers closing plants, sales volume to existing major customers increased as new demand was acquired, resulting in an increase of 1.3% in gas sales volume to 3,735 million cubic meters. In the field of wholesale gas customers, sales volume advanced 8.8% to 182 million cubic meters, reflecting the steady acquisition of major customers of gas suppliers. As a result, non-consolidated gas sales volume increased 1.0% to 7,766 million cubic meters compared with the previous fiscal year.

Owing to the aforementioned increase in gas sales volume, revenues rose 0.5%, or ¥2.8 billion, to ¥573.9 billion from the previous fiscal year. Operating income grew 1.7%, or ¥0.9 billion, to ¥58.0 billion on account of efforts to reduce costs across the board, despite the recording of one-time expenses for the disposal of land in accordance with the cancellation of the Tsuruga LNG terminal plan.

		2004/3 A	2003/3 B	A-B	A/B
Customers (meters installed) (thousand)	Residential	6,316	6,248	68	101.1%
	Commercial/ industrial	318	314	4	101.2%
	Total	6,634	6,562	72	101.1%
Average monthly usage per customer (m <sup>3</sup> /month)	Residential	34.3	34.5	(0.2)	99.5%
	Average of all customers	108.1	108.0	0.1	100.1%
Gas sales (million m <sup>3</sup> )	Residential	2,304	2,298	6	100.3%
	Commercial/ industrial	5,280	5,222	58	101.1%
	Industrial	3,735	3,686	49	101.3%
	Commercial	986	986	0	100.0%
	Public and medical institutions	559	550	9	101.6%
	Wholesale	182	168	15	108.8%
	Total	7,766	7,687	79	101.0%

[Unit: 45MJ/m<sup>3</sup>]

## 2) LPG, Electricity and Other Energies

In this segment, revenues climbed 10.5%, or ¥12.5 billion, to ¥132.1 billion along with an increase in consolidated subsidiaries including Nakayama Joint Power Generation Co., Ltd., Nakayama Nagoya Joint Power Generation Co., Ltd. and Cogeneration Technology Service Co., Ltd. Operating profit rose 19.5%, or ¥2.5 billion, to ¥15.7 billion as a result of an expanded scope of consolidation.

## 3) Gas Appliances and House-Pipe Installation

Revenues in this segment declined 5.4%, or ¥8.1 billion, to ¥143.5 billion. This decline was attributable to the exclusion of Harman Co., Ltd. from the scope of consolidation, which offset firm sales of gas appliances, especially large-scale appliances such as industrial cogeneration systems. On the contrary, operating profit rose 15.0%, or ¥0.2 billion, to ¥2.2 billion compared with the previous fiscal year as a result of cost reductions through efforts to lower gas appliance costs, including distribution costs, as well as installation costs.

## 4) Real Estate

Revenues from the real estate segment increased slightly, as higher sales stemming from the operational start of new properties were undermined by weaker sales due to the sale of real estate for lease in the Kobe Harbor Land area in 2003. As a result of efforts to reduce expenses, operating income rose 10.9%, or ¥0.6 billion, to ¥7 billion from the previous fiscal year.

## 5) Others

Sales of others rose 2.9%, or ¥3.8 billion, to ¥136.0 billion as a result of an increase in the number of consolidated subsidiaries with the addition of OG Maintenance Service Co., Ltd. and firm performance overall. Operating income grew 18.4%, or ¥1.1 billion, to ¥7.4 billion along with efforts to reduce costs.

(Unit: 100 million yen)

	Gas	LPG, Electricity and Other Energies	Gas Appliances and House-Pipe Installation	Real Estate	Others	Elimination of Internal Transactions and Transactions Involving All Companies	Consolidated Results
Operating revenues	+0.5%	+10.5%	-5.4%	+1.3%	+2.9%		+0.4%
	5,739	1,321	1,435	338	1,360	(682)	9,513
	[+28]	[+125]	[-81]	[+4]	[+38]	[-81]	[+33]
Operating income	+1.7%	+19.5%	+15.0%	+10.9%	+18.4%		+7.1%
	580	157	22	70	74	15	920
	[+9]	[+25]	[+2]	[+6]	[+11]	[+4]	[+61]

Each percentage figure shows a rate of change from the previous year.  
Each figure in [ ] shows a change from the previous year.

## Net Income

In fiscal 2004, Osaka Gas entered into debt assumption agreements with banks for notes payable in order to reduce interest-bearing debt. Accordingly, the Company recorded a ¥3.7 billion loss on debt assumption under other expenses. In addition, Osaka Gas proceeded to sell landholdings as a part of efforts to reduce assets. As a result, we recorded an extraordinary loss of ¥4.6 billion on loss on sale of property, plant and equipment.

In fiscal 2003, the Company recorded a ¥9.5 billion loss on write-down of investment securities due to the weak stock market, ¥13.2 billion in lump-sum benefits for early retirement, and a ¥10.6 billion loss on sale of real estate in Kobe Harbor Land. These items were absent in fiscal 2004.

As a result, net income totaled ¥47.0 billion, an increase of 58.5%, or ¥17.3 billion, from the previous fiscal year.

## Asset Management

### Asset Management Policies

The Osaka Gas Group views deregulation in the electricity and gas sectors as a business opportunity, and intends to aggressively expand business investment in growth fields—especially electricity—while reducing assets in unprofitable business fields and ongoing operations. In order to minimize investment risk caused by changes in the operating environment, Osaka Gas is tightening scrutiny on investment and cash flow analysis based on common Group investment stan-

dards that have been applied on individual investment proposals in the past. After due consideration of the weighting of third-party and internal capital on capital costs and maintaining a sound financial position, Osaka Gas aims to maximize capital efficiency by targeting a debt/equity ratio of approximately 10% and a shareholders' equity ratio of more than 40%.

### Capital Investment

In fiscal 2004, capital investment totaled ¥69.7 billion, of which ¥38.9 billion was focused mainly on supply facilities in the gas business. As for production facilities, Osaka Gas completed the Himeji No. 8 LNG tank during the fiscal year. For supply facilities, the Company extended its gas pipelines by 575 kilometers by beginning construction on the Kyoto-Shiga Line and the Himeji Line, as well as continuing construction on the Shiga Line during the fiscal year under review, for a total of 45,281 kilometers by March 31, 2004. Capital investment at consolidated subsidiaries totaled ¥22.7 billion, reflecting an increase in leasing assets at OGIC Corporation, which is involved in the leasing business, and construction work on power source cogeneration systems at Gas and Power Co., Ltd.

	2004/3	2003/3	Increase/Decrease
Production facilities	22	57	(35)
Supply facilities	389	366	23
Operational facilities, etc.	58	60	(2)
Total (Non-Consolidated)	470	483	(13)
Total (Consolidated)	697	671	26

(Unit: 100 million yen)

### Investment Performance

In fiscal 2004, Osaka Gas increased its investment in Daiya Nensho Co., Ltd. and decreased its stake in Harman Co., Ltd. to strengthen its presence in the LPG business field. Investments in securities were

increased by ¥30.0 billion to total ¥112.8 billion owing to an increase of ¥41.3 billion from mark-to-market valuation of securities.

### Efforts to Reduce Assets and Liabilities

The Osaka Gas Group is promoting reductions in total assets and liabilities from the perspective of enhancing management efficiency and improving financial stability. In fiscal 2004, the Company continued to

make contributions to the reserve for retirement benefits in the amount of ¥39.7 billion on a non-consolidated basis. We are methodically selling off investments in securities.

### Total Assets

Long-term tax deferred assets fell ¥18.4 billion year on year to ¥20.1 billion, owing to an increase in net unrealized gains on securities. Taking into account aforementioned capital investment, investment

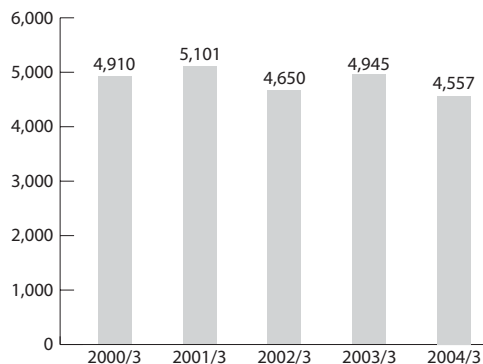
performance and asset reductions, total assets were ¥1,199.2 billion as of March 31, 2004, a decrease of ¥10.3 billion from a year earlier.

### Interest-Bearing Debt

Using generous cash flows during the fiscal year under review, the Company slashed interest-bearing debt. Osaka Gas repaid notes payable that matured in 2004 and entered into debt assumption agreements with banks for notes payable in Euroyen due 2012. As a result, notes payable declined ¥21.0 billion year on year to ¥218.8 billion. In addition, borrowings decreased ¥19.8 billion to ¥210.8 billion as of March 31, 2004, as a result of bond reimbursements for long-term debt and advanced redemption. After factoring in changes in commercial paper, interest-bearing debt totaled ¥455.7 billion, a year-on-year decrease of ¥38.8 billion.

#### Total Interest-Bearing Debt (at year-end)

(Unit: 100 million yen)



## Buyback of Treasury Stock

In fiscal 2004, Osaka Gas purchased 65,553,000 shares of its own stock for ¥20.0 billion in line with a resolution passed by the Board of Directors in December 2003. The share buyback was done within the framework setting an upper limit of 67 million shares and ¥20.0 bil-

lion, which was approved at the General Meeting of Shareholders. The acquired shares are retained as treasury stock. Accordingly, Osaka Gas has acquired a cumulative total of 291,941,000 shares of treasury stock for ¥87.9 billion.

## Employees' Severance and Pension Benefits

As of March 31, 2004, the fair value of pension assets had increased by approximately ¥76.0 billion compared with a year earlier in accordance with contributions to external pension funds. Due to an improvement in pension investments, unrecognized actuarial differences declined approximately ¥37.0 billion from the previous fiscal year-end. As a result of these factors, liability for severance and retirement benefits totaled ¥42.8 billion as of March 31, 2004.

In severance and retirement benefit expenses, service costs and interest cost declined as a result of a decrease in the number of employees. Write-off of actuarial gains increased ¥2.4 billion to ¥4.9 billion, reflecting pension asset investment conditions in fiscal 2002. As a result, severance and retirement benefit expenses grew ¥1.0 billion to ¥15.5 billion compared to the previous fiscal year.

### Reserve for Retirement Benefits (as of March 31, 2004)

(1) Projected benefit obligation .....	¥(286,310) million
(2) Plan assets as fair value .....	236,437
(3) Unfunded projected benefit obligation (1)+(2) .....	(49,873)
(4) Unrecognized actuarial difference .....	7,657
(5) Unrecognized prior service cost .....	—
(6) Net amount on balance sheet	
(3)+(4)+(5) .....	(42,216)
(7) Prepaid pension cost .....	673
(8) Employee's severance and retirement benefits	
(6)-(7) .....	(42,889)

Note: Some subsidiaries employ the simple computation method for calculating retirement benefits.

### Information on Retirement Benefit Costs

(for the year ended March 31, 2004)

(1) Service costs .....	¥8,513 million
(2) Interest expenses .....	4,900
(3) Expected return on investments .....	(2,869)
(4) Actuarial difference recognized as costs .....	4,941
(5) Past service liabilities recognized as costs .....	71
(6) Retirement benefit costs ((1)+(2)+(3)+(4)+(5)) .....	15,557

Note: Retirement benefit costs of consolidated subsidiaries adopting simple computation methods are included in "service costs."

### Information on the basis of determining retirement benefit liabilities and other costs:

Allocation of expected amount of retirement benefits to be paid to employees	Allocation of fixed amounts to relevant periods
Discount rate .....	Mainly 1.8%
Expected return on investments .....	Mainly 1.8%
Years to amortize past service liabilities .....	Mainly one year
Years to amortize actuarial difference .....	Mainly ten years

## Cash Flow Analysis

During the fiscal year ended March 31, 2004, net cash provided by operating activities rose ¥40.3 billion to ¥132.8 billion due to higher net income. Net cash used in investing activities increased ¥18.2 billion to ¥67.8 billion, reflecting the absence of gains on the sale of fixed assets recorded in fiscal 2003. Net cash used in financing activities

rose ¥45.8 billion to ¥75.9 billion, owing primarily to a reduction in interest-bearing debt.

As a result, cash and cash equivalents totaled ¥15.7 billion as of March 31, 2004, a decline of ¥10.3 billion from a year earlier.

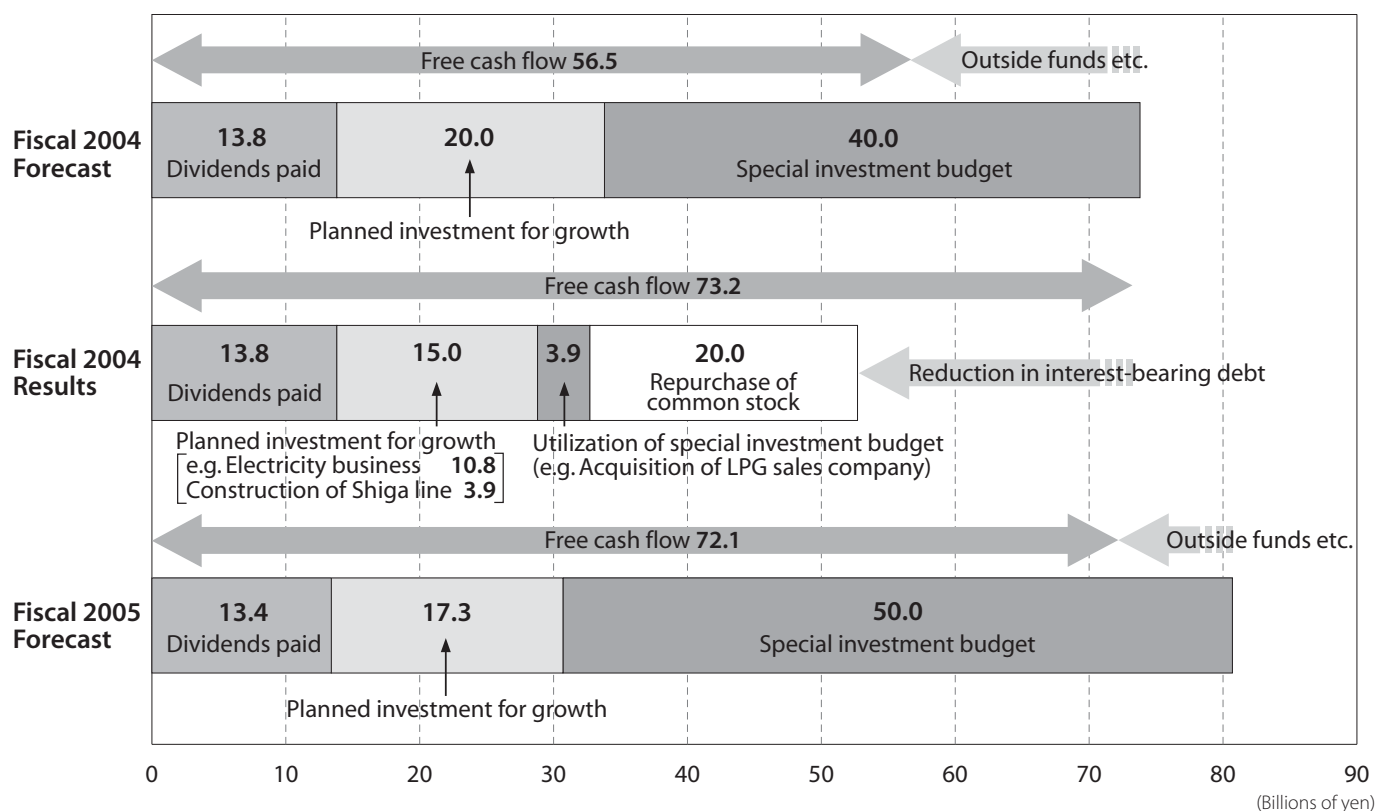
(Unit: 100 million yen)

	2004/3	2003/3	Increase/Decrease
Cash flow from operating activities	1,328	925	403
Cash flow from investment activities	(678)	(496)	(182)
Cash flow from financial activities	(759)	(300)	(458)
Increase/decrease of cash and cash equivalents	(108)	128	(236)
Cash and cash equivalents at year-end	157	260	(103)

## Free Cash Flow

In fiscal 2004, free cash flow grew ¥49.5 billion to ¥73.2 billion due to higher profits. In addition to dividend payments, the Company incurred additional IPP acquisition costs. The other investments allotment of ¥40.0 billion was used for the purchase of an LPG sales

company and the acquisition of treasury stock. Due to a lack of other promising investment proposals, the remainder of the allotment was used to pare down interest-bearing debt.



## Quantitative and Qualitative Disclosure of Risk

### Business Risk

As an independent corporation, Osaka Gas believes it has the management resources and business strategies to prosper amid competition for the foreseeable future based on currently available information. Profitability in the core gas business is primarily affected by the following factors:

- Declines in demand and prices due to the removal of barriers to outside companies participating in the gas business in accordance with deregulation in Japan's gas industry
- Fluctuations in weather and water temperatures affect gas demand.

- Greater-than-expected fluctuations in crude oil prices and exchange rates, which form the basis for LNG prices. LNG is the primary raw material for producing gas.

The profitability of other businesses is affected by conditions in their respective markets. However, Osaka Gas strives to minimize the impact of other businesses on profits through a firm grasp of and swift responses to business execution conditions in concert with all Group companies.

### Market Risk Management Policy

In addition to business risks, the Osaka Gas Group is exposed to market risks, including changes in foreign exchange and interest rates. To hedge against these risks, the Osaka Gas Group employs derivative transactions. These transactions are for the sole purpose of hedging against risks based on actual demand conditions. The Company does not conduct derivative transactions for speculative purposes. The execution and management of derivative transactions are based on internal rules and handled by the finance department of

each Group company, and overseen on a Groupwide basis by the accounting and finance departments of Osaka Gas.

The Osaka Gas Group constantly monitors market risks by periodically evaluating the market value of derivative transactions. The Osaka Gas Group believes that credit risk is negligible for the parties with which it enters into derivative transactions, as the Company only deals with major financial institutions in accordance with requirements stipulated by internal rules.

#### ● Air and Water Temperature (Weather) Risks

Gas sales volume is affected by changes in the temperature of air and water. A 1°C change in average annual temperatures affects residential gas sales volume by approximately 4–6%. For air-conditioning gas sales, a 1°C change in the average annual temperature affects gas sales volume by about 10%. Osaka Gas hedges against some risks from air and water temperatures by using derivative instruments.

purpose are in principle settled within a short period of approximately one week, and do not substantially affect the performance of the Osaka Gas Group. The Osaka Gas Group engages in currency swap contracts for principal on the issuance of applicable debt as a hedge against currency fluctuation risks on debt denominated in foreign currencies. These transactions are completed on the interest payment and maturity dates of the debt.

#### ● Foreign Exchange Rate and Oil Price Risks

Changes in foreign exchange rates and oil prices affects LNG prices. For the fiscal year ending March 31, 2005, for instance, a change ¥1/US\$ annually affects the cost of gas by about ¥1.4 billion, while a change of \$1/bbl in the price of oil has an impact of approximately ¥3.5 billion. The impact of changes in foreign exchange rates and oil prices is offset by reflecting these factors in gas prices through the fuel cost adjustment system, but due to a time lag in reflecting these items, they are occasionally carried forward into the next fiscal year.

The Osaka Gas Group engages in forward foreign currency contracts as it procures LNG, LPG and other basic materials with U.S. dollars for foreign currency payables. Forward foreign currency contracts for this

#### ● Interest Rate Risks

The Osaka Gas Group sustains an appropriate level of interest rate risk for capital procurement, and to reduce capital procurement costs over the long term, engages in interest rate swap contracts for corporate bonds and debt. Interest rate risk is determined through an assessment based on the value-at-risk (VaR) method. The Company uses interest rate swap contracts as and when necessary to fix appropriate interest rate levels against a specified amount of future cash flow. A 1% change in annual interest rates affects the Company's interest payments and bond interest by approximately ¥1.0 billion.

Note: The VaR method estimates the amount of maximum possible losses through a simulation of future price fluctuations on relevant assets.

## Consolidated Balance Sheets

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES  
As of March 31, 2003 and 2004

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2004	2004
<b>Current Assets:</b>			
Cash and time deposits .....	¥ 29,706	¥ 19,998	\$ 189,214
Receivables:			
Trade notes and accounts .....	113,216	108,085	1,022,660
Allowance for doubtful receivables.....	(731)	(787)	(7,446)
	112,485	107,298	1,015,214
Inventories.....	27,618	31,826	301,126
Deferred tax assets (Note 10) .....	11,555	14,828	140,297
Other current assets.....	35,432	29,928	283,168
Total current assets .....	216,796	203,878	1,929,019
<b>Investments and Other Assets:</b>			
Investments in securities:			
Unconsolidated subsidiaries and affiliated companies .....	21,598	14,556	137,723
Other (Note 3) .....	61,271	98,329	930,353
Deferred tax assets (Note 10) .....	38,670	20,195	191,078
Other investments and other assets.....	33,937	41,925	396,679
Allowance for doubtful receivables .....	(2,737)	(2,985)	(28,243)
	152,739	172,020	1,627,590
<b>Property, Plant and Equipment, at Cost:</b>			
Production facilities .....	476,242	493,383	4,668,209
Distribution facilities.....	1,374,106	1,443,000	13,653,137
Service and maintenance facilities .....	177,192	167,821	1,587,861
Other .....	324,171	335,363	3,173,081
Construction in progress .....	70,127	27,146	256,845
	2,421,838	2,466,713	23,339,133
Less accumulated depreciation .....	(1,599,658)	(1,670,893)	(15,809,376)
	822,180	795,820	7,529,757
<b>Intangibles and Deferred Assets .....</b>	17,913	27,511	260,299
	¥1,209,628	¥1,199,229	\$11,346,665

See accompanying notes

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2004	2004
<b>Current Liabilities:</b>			
Short-term loans .....	¥ 20,246	¥ 23,190	\$ 219,415
Long-term debt due within one year (Note 4) .....	39,824	29,859	282,515
Trade notes and accounts payable.....	43,207	35,779	338,528
Accrued income and enterprise taxes .....	17,542	29,767	281,644
Accrued expenses .....	51,997	63,427	600,123
Other current liabilities (Note 10).....	73,527	70,690	668,843
Total current liabilities .....	246,343	252,712	2,391,068
<b>Long-Term Debt Due after One Year</b> (Note 4).....	410,466	376,651	3,563,733
<b>Employees' Severance and Retirement Benefits</b> (Note 9).....	70,585	42,889	405,800
<b>Reserve for Repairs of Gas Holders</b> .....	1,639	1,531	14,486
<b>Other Non-Current Liabilities</b> (Note 10) .....	19,180	21,335	201,864
<b>Minority Interests</b> .....	8,130	8,476	80,197
<b>Contingent Liabilities</b> (Note 6)			
<b>Shareholders' Equity</b> (Note 5):			
Common stock			
Authorized — 3,840,849 thousand shares in 2004 and 3,840,849 thousand shares in 2003			
Issued — 2,369,012 thousand shares in 2004 and 2,369,012 thousand shares in 2003 .....	132,167	132,167	1,250,516
Capital surplus .....	19,482	19,482	184,331
Retained earnings .....	312,831	346,558	3,279,005
Net unrealized gains on securities .....	9,825	35,903	339,701
Foreign currency translation adjustments.....	85	2,931	27,732
Treasury stock, at cost:			
138,236,978 shares in 2004 and 71,683,495 shares in 2003.....	(21,105)	(41,406)	(391,768)
Total shareholders' equity .....	453,285	495,635	4,689,517
	¥1,209,628	¥1,199,229	\$11,346,665

## Consolidated Statements of Income

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES  
For the years ended March 31, 2003 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2004	2004
<b>Operating Revenues</b> (Note 11) .....	¥947,978	<b>¥951,324</b>	<b>\$9,001,079</b>
<b>Costs and Expenses</b> (Note 11):			
Costs .....	502,343	<b>497,397</b>	<b>4,706,188</b>
Selling, general and administrative expenses.....	359,661	<b>361,831</b>	<b>3,423,512</b>
	862,004	<b>859,228</b>	<b>8,129,700</b>
<b>Operating Income</b> (Note 11).....	85,974	<b>92,096</b>	<b>871,379</b>
<b>Other Income (Expenses):</b>			
Interest and dividend income .....	1,290	<b>1,205</b>	<b>11,401</b>
Interest expense .....	(6,149)	<b>(7,238)</b>	<b>(68,484)</b>
Gain on sale of investment securities .....	9,070	<b>2,721</b>	<b>25,745</b>
Loss on debt assumption .....	—	<b>(3,742)</b>	<b>(35,406)</b>
Loss on write-down of investment securities.....	(9,513)	<b>(1,231)</b>	<b>(11,647)</b>
Loss on write-down of investments in unconsolidated subsidiaries and affiliates .....	(4,887)	<b>(230)</b>	<b>(2,176)</b>
Gain on sale of property, plant and equipment.....	2,011	<b>1,555</b>	<b>14,713</b>
Loss on sale of property, plant and equipment.....	(11,609)	<b>(4,684)</b>	<b>(44,318)</b>
Loss on offset against the acquisition cost of property, plant and equipment.....	(233)	<b>(156)</b>	<b>(1,476)</b>
Lump-sum benefits for early retirement.....	(13,295)	—	—
Other, net.....	(1,634)	<b>(2,134)</b>	<b>(20,191)</b>
	(34,949)	<b>(13,934)</b>	<b>(131,839)</b>
<b>Income before Income Taxes</b> .....	51,025	<b>78,162</b>	<b>739,540</b>
<b>Income Taxes — Current</b> .....	20,086	<b>26,870</b>	<b>254,234</b>
— <b>Deferred</b> .....	649	<b>3,484</b>	<b>32,964</b>
<b>Minority Interests</b> .....	(604)	<b>(742)</b>	<b>(7,021)</b>
<b>Net Income</b> .....	¥ 29,686	<b>¥ 47,066</b>	<b>\$ 445,321</b>

	Yen		U.S. Dollars (Note 1)
	2003	2004	2004
<b>Net Income per Share — Basic</b> .....	¥ 12.56	<b>¥ 20.56</b>	<b>\$ 0.195</b>
<b>Cash Dividends per Share</b> .....	6.00	<b>6.00</b>	<b>0.057</b>

See accompanying notes

## Consolidated Statements of Shareholders' Equity

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES  
For the years ended March 31, 2003 and 2004

	Shares of Common Stock Issued (Thousands)	Millions of Yen					
		Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gains on Securities	Foreign Currency Translation Adjustments	Treasury Stock, at Cost
<b>Balance at March 31, 2002</b> .....	2,369,012	¥ 132,167	¥ 19,482	¥ 296,338	¥ 20,729	¥ —	¥ (10)
Net income.....				29,686			
Decrease in net unrealized gains on securities.....					(10,904)		
Adjustments from translation of foreign currency financial statements .....						85	
Cash dividends (including interim dividends) .....				(14,211)			
Bonuses to directors.....				(71)			
Increase due to newly consolidated subsidiaries.....				1,631			
Decrease due to a subsidiary excluded from consolidation.....				(542)			
Increase in treasury stock, net .....							(21,095)
<b>Balance at March 31, 2003</b> .....	2,369,012	132,167	19,482	312,831	9,825	85	(21,105)
Net income.....				<b>47,066</b>			
Increase in net unrealized gains on securities.....					<b>26,078</b>		
Adjustments from translation of foreign currency financial statements .....						<b>2,846</b>	
Cash dividends (including interim dividends) .....				<b>(13,783)</b>			
Bonuses to directors.....				<b>(81)</b>			
Increase due to newly consolidated subsidiaries.....				<b>492</b>			
Increase due to a subsidiary excluded from consolidation.....				<b>33</b>			
Increase in treasury stock, net .....							<b>(20,301)</b>
<b>Balance at March 31, 2004</b> .....	<b>2,369,012</b>	<b>¥132,167</b>	<b>¥19,482</b>	<b>¥346,558</b>	<b>¥ 35,903</b>	<b>¥2,931</b>	<b>¥(41,406)</b>

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gains on Securities	Foreign Currency Translation Adjustments	Treasury Stock, at Cost
<b>Balance at March 31, 2003</b> .....	\$ 1,250,516	\$ 184,331	\$ 2,959,892	\$ 92,961	\$ 804	\$ (199,688)
Net income.....			<b>445,321</b>			
Increase in net unrealized gains on securities.....				<b>246,740</b>		
Adjustments from translation of foreign currency financial statements .....					<b>26,928</b>	
Cash dividends (including interim dividends) .....			<b>(130,409)</b>			
Bonuses to directors.....			<b>(766)</b>			
Increase due to newly consolidated subsidiaries .....			<b>4,655</b>			
Increase due to a subsidiary excluded from consolidation.....			<b>312</b>			
Increase in treasury stock, net .....						<b>(192,080)</b>
<b>Balance at March 31, 2004</b> .....	<b>\$1,250,516</b>	<b>\$184,331</b>	<b>\$3,279,005</b>	<b>\$339,701</b>	<b>\$27,732</b>	<b>\$(391,768)</b>

See accompanying notes

## Consolidated Statements of Cash Flows

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES  
For the years ended March 31, 2003 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2004	2004
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes.....	¥ 51,025	¥ 78,162	\$ 739,540
Adjustments to reconcile net income before income taxes to net cash provided by operating activities:			
Depreciation.....	82,805	89,564	847,422
Decrease in employees' retirement benefits.....	(27,942)	(27,411)	(259,353)
Interest and dividend income.....	(1,290)	(1,205)	(11,401)
Interest expense.....	6,149	7,238	68,484
Loss on debt assumption.....	—	3,742	35,406
Gain on sale of investment securities.....	(9,070)	(2,721)	(25,745)
Loss on write-down of investment securities.....	9,513	1,231	11,647
Loss on write-down of investments in unconsolidated subsidiaries and affiliates.....	4,887	230	2,176
Gain on sale of property, plant and equipment.....	(2,011)	(1,555)	(14,713)
Loss on sale of property, plant and equipment.....	11,609	4,684	44,318
Loss on disposal of property, plant and equipment.....	2,498	2,155	20,390
Lump-sum payments for early retirement.....	12,958	—	—
Decrease (increase) in receivables.....	(3,951)	1,912	18,091
Decrease (increase) in inventories.....	4,557	(3,238)	(30,637)
Increase (decrease) in payables.....	2,944	(4,178)	(39,531)
Increase (decrease) in accrued expenses.....	(3,087)	9,407	89,005
Other.....	3,052	(3,992)	(37,771)
Total adjustments.....	93,621	75,863	717,788
Interest and dividends received.....	1,286	1,230	11,638
Interest paid.....	(6,061)	(7,809)	(73,886)
Lump-sum payments for early retirement.....	(12,958)	—	—
Income and enterprise taxes paid.....	(34,339)	(14,555)	(137,714)
Net cash provided by operating activities.....	92,574	132,891	1,257,366
<b>Cash Flows from Investing Activities:</b>			
Purchase of property, plant and equipment.....	(67,756)	(68,116)	(644,489)
Purchase of intangibles.....	(1,105)	(1,807)	(17,097)
Proceeds from sales of property, plant and equipment.....	11,678	4,502	42,596
Proceeds from sale of investment securities.....	22,945	5,522	52,247
Purchase of investments in subsidiaries and affiliates.....	(3,307)	(6,606)	(62,503)
Purchase of investments accompanied by change of the scope of consolidation.....	(3,468)	—	—
Other.....	(8,617)	(1,373)	(12,991)
Net cash used in investing activities.....	(49,630)	(67,878)	(642,237)
<b>Cash Flows from Financing Activities:</b>			
Increase (decrease) in short-term loans.....	(9,721)	3,940	37,279
Net increase in commercial paper.....	9,000	2,000	18,923
Proceeds from long-term debt.....	5,646	44,284	418,999
Repayment of long-term debt.....	(24,781)	(67,256)	(636,352)
Proceeds from issuance of bonds.....	39,970	—	—
Repayment of bonds.....	(14,848)	(24,743)	(234,109)
Purchase of treasury stock.....	(21,095)	(20,336)	(192,412)
Cash dividends paid.....	(14,159)	(13,732)	(129,927)
Cash dividends paid to minority shareholders.....	(106)	(122)	(1,154)
Other.....	—	35	331
Net cash used in financing activities.....	(30,094)	(75,930)	(718,422)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents.....</b>	(18)	71	672
<b>Net Increase (Decrease) in Cash and Cash Equivalents.....</b>	12,832	(10,846)	(102,621)
<b>Cash and Cash Equivalents at Beginning of Year.....</b>	12,837	26,094	246,892
<b>Cash and Cash Equivalents of Newly Consolidated Subsidiaries.....</b>	2,119	1,095	10,361
<b>Decrease in Cash and Cash Equivalents by Exclusion from Consolidation.....</b>	(1,694)	(599)	(5,668)
<b>Cash and Cash Equivalents.....</b>	¥ 26,094	¥ 15,744	\$ 148,964
<b>Supplemental Disclosures of Cash Flow Information:</b>			
<b>Cash and Cash Equivalents:</b>			
Cash and time deposits in the balance sheet.....	¥ 29,706	¥ 19,998	\$ 189,214
Time deposits with maturities over three months.....	(3,612)	(4,254)	(40,250)
<b>Cash and Cash Equivalents at End of Year.....</b>	¥ 26,094	¥ 15,744	\$ 148,964

See accompanying notes

## Notes to Consolidated Financial Statements

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES  
For the years ended March 31, 2003 and 2004

### ① BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Gas Utility Law and related regulations, the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. Osaka Gas Co., Ltd. (the “Company”) and its consolidated domestic subsidiaries have not adopted the new Japanese accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council of Japan on August 9, 2002) and the implementation guidance for accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6) issued by the Accounting Standards Board of Japan on October 31, 2003. The standard is required to be adopted in the year ended March 31, 2006 or earlier. The Company and its consolidated domestic subsidiaries will adopt the standard in the year ended March 31, 2005. The effects of adopting the standard have not been determined.

The accounts of overseas subsidiaries are based on their accounting

records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated financial statements of shareholders’ equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to US\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Certain 2003 consolidated financial statement items have been reclassified to conform to the presentation for 2004.

### ② SIGNIFICANT ACCOUNTING POLICIES

#### (1) CONSOLIDATION

Companies which are owned 40% or more and substantially controlled by the Parent are considered subsidiaries and included in the consolidation.

The consolidated financial statements include the accounts of the Company and its 77 (56 in 2003) significant subsidiaries. Consolidation of the remaining subsidiaries would have no material effect on the accompanying consolidated financial statements. Intercompany transactions and accounts have been eliminated.

The accounts of 7 consolidated subsidiaries are included on the basis of their fiscal years which end on December 31 (February 29 for 2 other subsidiaries). These subsidiaries do not prepare, for consolidation purposes, statements for the period which corresponds with the fiscal year of the Company. For these 9 consolidated subsidiaries, when there are significant transactions between their respective fiscal year ends and the Company’s year end, necessary adjustments are made to reflect such transactions properly in the accompanying consolidated financial statements.

The difference between the cost of investments and equity in their net assets at dates of acquisition of consolidated companies is charged or credited to income within 20 years. If the difference isn’t significant, it is charged or credited to income in the first year of consolidation.

Investments in unconsolidated subsidiaries and affiliates are not accounted for by the equity method, because they are insignificant.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

#### (2) CONSOLIDATED STATEMENTS OF CASH FLOWS

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

#### (3) SECURITIES

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by unconsolidated subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders’ equity. Realized gains on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by non-consolidated subsidiaries and affiliated companies, and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by such subsidiaries and affiliated companies is not readily available, such securities should be written down to net asset value in the event net asset value declines significantly. Unrealized losses on these securities are reported in the income statement.

#### (4) DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are stated at market value. See Note 2 (17).

#### (5) ALLOWANCE FOR DOUBTFUL RECEIVABLES

The Company and its consolidated subsidiaries (the “Companies”) provide the allowance for doubtful accounts principally at an amount computed based on the actual ratio of bad debts in the past plus the

estimated uncollectible amounts based on the analysis of certain individual receivables.

#### **(6) INVENTORIES**

Inventories are mainly valued at moving-average cost.

#### **(7) PROPERTY, PLANT AND EQUIPMENT**

Depreciation is provided mainly on the declining-balance method (the straight-line method by certain consolidated subsidiaries) over estimated useful lives. However, the Company and its domestic consolidated subsidiaries depreciate buildings acquired on or after April 1, 1998 using the straight-line method.

Repair and maintenance expenditures, excluding gas holders, are charged to income when incurred and major improvements are capitalized.

Certain capital gains arising from beneficiaries' contributions or expropriations of property, deferral of which is permitted for tax purposes, are offset against the acquisition cost of property purchased. Cumulative capital gains offset against the acquisition cost of property, plant and equipment at March 31, 2003 and 2004 were ¥279,516 million and ¥281,343 million (\$2,661,964 thousand), respectively.

#### **(8) SOFTWARE COSTS**

The Companies include software in intangible assets and depreciate it using the straight-line method over estimated useful lives.

#### **(9) RESEARCH AND DEVELOPMENT EXPENSES**

The Companies charge research and development expenses to selling, general and administrative expenses and manufacturing costs as incurred. Research and development expenses amounted to ¥13,726 million and ¥12,379 million (\$117,126 thousand) for the years ended March 31, 2003 and 2004, respectively.

#### **(10) INCOME TAXES**

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax.

The Companies recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

#### **(11) EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS**

The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

Prior service costs are recognized in expenses when they arise, and actuarial gains and losses are recognized in expenses over 10 years commencing with the following period.

#### **(12) BONUSES**

The Companies follow the general Japanese practice of paying bonuses to employees in June and December. Accrued bonus liabilities at the balance sheet date are calculated based upon management's estimate of annual amounts thereof and included in

accrued expenses. Bonuses to directors, which are subject to approval at the general meeting of shareholders, are accounted for as an appropriation of retained earnings.

#### **(13) RESERVE FOR REPAIRS OF GAS HOLDERS**

The Company and certain consolidated subsidiaries provide for future repairs to gas holders by estimating future expenditures and charging to income in equal annual amounts. The difference between the actual expenditure and the amount provided is charged to income in the year the repair is completed.

#### **(14) BOND AND NOTE ISSUE EXPENSES**

Bond and note issue expenses are charged to expense when incurred.

#### **(15) ACCOUNTING FOR LEASES**

Finance leases which do not transfer ownership are accounted for in the same manner as operating leases under Japanese GAAP.

#### **(16) TRANSLATION OF FOREIGN CURRENCIES**

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at year-end rates. Shareholders' equity is translated into Japanese yen at the historical rates. Income and expenses are translated into Japanese yen at interim average rates. The translation differences arising from the use of different rates are recognized as minority interests and foreign currency translation adjustments in the consolidated balance sheets.

#### **(17) DERIVATIVE TRANSACTIONS AND HEDGE ACCOUNTING**

The Companies state derivative financial instruments at fair value at the end of the fiscal year and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign currency exchange contracts and currency swap contracts are used as hedges and meet certain hedging criteria, forward foreign currency exchange contracts and currency swap contracts and hedged items are accounted for in the following manner:

If a forward foreign currency exchange contract or a currency swap contract is executed to hedge an existing foreign currency receivable or payable, the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date.

If a forward foreign currency exchange contract or a currency swap contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign currency exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

### (18) NET INCOME PER SHARE

The computations of net income per share of common stock shown on the consolidated statements of income are based on the weighted-average number of shares outstanding during each fiscal year.

Diluted net income per share of common stock for the years ended March 31, 2003 and 2004 is not shown since there were no outstanding convertible bonds or other common stock equivalents.

### SECURITIES

(1) The following tables summarize acquisition costs, book values (fair values) of available-for-sale securities with available fair values as of March 31, 2003 and 2004:

Securities with available fair values (book values) that exceed acquisition cost:

	Millions of Yen			Thousands of U.S. Dollars
	Acquisition Cost	Book Value	Difference	Difference
<b>For 2003:</b>				
Equity securities.....	¥ 13,916	¥ 30,304	¥ 16,388	
Bonds .....	1	1	—	
Total.....	¥ 13,917	¥ 30,305	¥ 16,388	
<b>For 2004:</b>				
Equity securities.....	¥22,943	¥80,185	¥57,242	\$541,603
Bonds .....	1	1	—	—
Total.....	¥22,944	¥80,186	¥57,242	\$541,603

Securities with available fair values (book values) that do not exceed acquisition cost:

	Millions of Yen			Thousands of U.S. Dollars
	Acquisition Cost	Book Value	Difference	Difference
<b>For 2003:</b>				
Equity securities.....	¥12,616	¥12,177	¥ (439)	
Bonds .....	9	9	—	
Total.....	¥12,625	¥12,186	¥ (439)	
<b>For 2004:</b>				
Equity securities.....	¥ 95	¥ 75	¥ (20)	\$ (189)
Bonds .....	9	9	—	—
Total.....	¥ 104	¥ 84	¥ (20)	\$ (189)

(2) The following table summarizes book values of available-for-sale securities with no available fair values as of March 31, 2003 and 2004:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Non-listed (non quoted) equity securities .....	¥18,780	¥18,059	\$170,868

(3) Maturities of available-for-sale securities with maturities are as follows:

	Millions of Yen			
	Within One Year	Over One Year but Within Five Years	Over Five Years but Within Ten Years	Total
<b>For 2003:</b>				
Governmental bonds and municipal bonds..	¥ 9	¥ 1	¥ —	¥ 10
Total.....	¥ 9	¥ 1	¥ —	¥ 10
<b>For 2004:</b>				
Governmental bonds and municipal bonds..	¥ 9	¥ 1	¥ —	¥ 10
Total.....	¥ 9	¥ 1	¥ —	¥ 10

	Thousands of U.S. Dollars			
	Within One Year	Over One Year but Within Five Years	Over Five Years but Within Ten Years	Total
<b>For 2004:</b>				
Governmental bonds and municipal bonds..	\$ 85	\$ 10	\$ —	\$ 95
Total.....	\$ 85	\$ 10	\$ —	\$ 95

(4) Total sales of available-for-sale securities in the year ended March 31, 2003 and 2004 amounted to ¥22,945 million and ¥5,522 million (\$5,247 thousand) and the related gains and losses amounted to ¥9,070 million and ¥2,721 million (\$25,745 thousand) and ¥1,280 million and ¥276 million (\$2,611 thousand), respectively.

#### ④ LONG-TERM DEBT

Long-term debt at March 31, 2003 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Loans principally from banks and insurance companies, principally at 0.17%–5.850%, maturing serially through 2019.....	¥210,410	<b>¥187,630</b>	<b>\$1,775,286</b>
5.875% notes payable in Euroyen due 2012 .....	10,000	—	—
2.95% notes payable due 2005 .....	15,000	<b>15,000</b>	<b>141,924</b>
3.4% notes payable due 2017 .....	15,700	<b>15,700</b>	<b>148,547</b>
7.125% bonds payable in U.S. dollars due 2007 .....	48,960	<b>48,960</b>	<b>463,241</b>
2.9% notes payable due 2018 .....	30,000	<b>29,000</b>	<b>274,387</b>
1.47% notes payable due 2008 .....	30,000	<b>30,000</b>	<b>283,849</b>
1.95% notes payable due 2009 .....	20,000	<b>20,000</b>	<b>189,233</b>
1.23% notes payable due 2005 .....	20,000	<b>20,000</b>	<b>189,233</b>
2.06% notes payable due 2007 .....	220	<b>220</b>	<b>2,082</b>
0.675% notes payable due 2004 .....	10,000	—	—
1.46% notes payable due 2012 .....	20,000	<b>20,000</b>	<b>189,233</b>
1.47% notes payable due 2022 .....	20,000	<b>20,000</b>	<b>189,233</b>
	450,290	<b>406,510</b>	<b>3,846,248</b>
Less amounts due within one year.....	39,824	<b>29,859</b>	<b>282,515</b>
	¥410,466	<b>¥376,651</b>	<b>\$3,563,733</b>

In the year ended March 31, 1999, the Company entered into debt assumption agreements with banks for 5.45% notes payable due 2004 (¥20,000 million).

In the year ended March 31, 2000, the Company entered into debt assumption agreements with banks for loans from banks (¥11,972 million due through the year ended March 31, 2010).

In the year ended March 31, 2002, the Company entered into debt

assumption agreements with banks for 2.95% notes payable due 2005 (¥33,900 million) and loans from banks (¥6,835 million due through the year ended March 31, 2010).

In the year ended March 31, 2004, the Company entered into debt assumption agreements with banks for 5.875% notes payable in Euroyen due 2012 (¥10,000 million).

However, the Company remains contingently liable on the amounts assumed by the banks.

Assets pledged as collateral mainly for short-term loans and long-term debt totaling ¥37,834 million and ¥34,794 million (\$329,208 thousand) at March 31, 2003 and 2004, respectively, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Property, plant and equipment .....	¥63,274	<b>¥60,281</b>	<b>\$570,357</b>
Cash and time deposits .....	2,053	<b>2,035</b>	<b>19,254</b>
Accounts receivable .....	802	<b>515</b>	<b>4,873</b>
Inventories and others.....	690	<b>841</b>	<b>7,957</b>
	¥66,819	<b>¥63,672</b>	<b>\$602,441</b>

The annual maturities of long-term debt are as follows at March 31, 2004:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2005.....	¥ 29,859	\$ 282,515
2006.....	53,165	503,028
2007.....	63,138	597,388
2008.....	36,967	349,768
2009.....	42,941	406,292
2010 and thereafter.....	180,440	1,707,257
Total.....	¥406,510	\$3,846,248

#### ⑤ SHAREHOLDERS' EQUITY

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by

resolution of the stockholders' meeting or may be capitalized by resolution of the board of directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains to be equal to or to exceeds 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code.

## ⑥ CONTINGENT LIABILITIES

At March 31, 2003 and 2004, the Companies were contingently liable as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
As guarantor of indebtedness of:			
Non-consolidated subsidiaries and affiliates.....	¥ 2,631	<b>¥ 2,926</b>	<b>\$ 27,685</b>
Employees .....	211	<b>157</b>	<b>1,485</b>
Debt assumption agreements .....	121,454	<b>82,707</b>	<b>782,543</b>
	¥124,296	<b>¥85,790</b>	<b>\$811,713</b>

## ⑦ FINANCE LEASES

Information for non-capitalized finance leases at March 31, 2003 and 2004 is as follows:

### As lessee (non-capitalized)

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Original lease obligations (including finance charges).....	¥5,142	<b>¥3,904</b>	<b>\$36,938</b>
Payments remaining:			
Payments due within one year.....	¥ 740	<b>¥ 620</b>	<b>\$ 5,866</b>
Payments due over one year .....	1,413	<b>1,328</b>	<b>12,565</b>
Total .....	¥2,153	<b>¥1,948</b>	<b>\$18,431</b>

Lease payments for such leases for the years ended March 31, 2003 and 2004 were ¥1,093 million and ¥1,063 million (\$10,058 thousand), respectively.

## ⑧ DERIVATIVE TRANSACTIONS

The Companies use forward foreign currency contracts, currency swaps, interest rate swaps, material price swap contracts and options and weather derivatives as derivative financial instruments only for the purpose of mitigating future risks of fluctuations of foreign currency exchange rates with respect to foreign currency payables for the purchase of materials and foreign currency bonds and loans payable, interest rate increases with respect to borrowings within the amounts of such borrowings or foreign currency payables, fluctuations of material prices and fluctuations in gas sales.

These derivatives are subject to risks of foreign exchange rate changes, interest rate changes, material price fluctuations and temperature changes, respectively.

The Companies' derivative transactions are executed and managed by the Companies' Finance Departments in accordance with the established policies and within the specified limit on the amounts of derivative transactions allowed.

### As lessor

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Original cost .....	¥12,229	<b>¥13,450</b>	<b>\$127,259</b>
Less accumulated depreciation .....	6,829	<b>8,009</b>	<b>75,778</b>
Total .....	¥ 5,400	<b>¥ 5,441</b>	<b>\$ 51,481</b>
Receipts remaining:			
Receipts due within one year.....	¥ 2,508	<b>¥ 2,694</b>	<b>\$ 25,489</b>
Receipts due over one year .....	4,904	<b>5,480</b>	<b>51,850</b>
Total .....	¥ 7,412	<b>¥ 8,174</b>	<b>\$ 77,339</b>

Lease receipts under such leases for the years ended March 31, 2003 and 2004 were ¥2,957 million and ¥3,023 million (\$28,603 thousand), respectively.

Depreciation for the years ended March 31, 2003 and 2004 were ¥1,854 million and ¥1,857 million (\$17,570 thousand), respectively.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:	Hedged items:
Interest rate swap contracts	Interest on bonds and loans payable
Currency swap contracts	Foreign currency bonds and loans payable
Forward foreign exchange contracts and currency options	Foreign currency future purchases
Material and other price swap contracts and options	Purchase cost of materials and other

The Companies evaluate hedge effectiveness by recognizing the association of hedging instruments and hedged items.

The following table summarizes market value information as of March 31, 2003 of derivative transactions for which hedge accounting has not been applied:

For 2003	Type	Notional Amount	Millions of Yen		Recognized Gains or Losses
			Over One Year	Market Value	
Items not traded	Interest rate swaps:				
on exchanges	Pay variable, receive fixed.....	¥2,962	¥2,962	¥129	¥129
	Pay fixed, receive variable.....	2,798	2,548	(77)	(77)
	Total .....	¥5,760	¥5,510	¥ 52	¥ 52

All derivative transactions as of March 31, 2004 are recorded by hedge accounting.

## ⑨ EMPLOYEES' SEVERANCE AND PENSION BENEFITS

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2003 and 2004 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Projected benefit obligation.....	¥ 276,175	<b>¥ 286,310</b>	<b>\$ 2,708,960</b>
Prepaid pension expenses.....	180	<b>673</b>	<b>6,368</b>
Less unrecognized actuarial differences.....	(45,349)	<b>(7,657)</b>	<b>(72,448)</b>
Less fair value of pension assets.....	(160,421)	<b>(236,437)</b>	<b>(2,237,080)</b>
Liability for severance and retirement benefits.....	¥ 70,585	<b>¥ 42,889</b>	<b>\$ 405,800</b>

Included in the consolidated statement of income for the years ended March 31, 2003 and 2004 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Service costs —			
benefits earned during the year .....	¥10,733	<b>¥ 8,514</b>	<b>\$ 80,556</b>
Interest cost on projected benefit obligation.....	7,304	<b>4,901</b>	<b>46,371</b>
Expected return on plan assets.....	(4,126)	<b>(2,869)</b>	<b>(27,145)</b>
Actuarial gains and losses.....	2,471	<b>4,941</b>	<b>46,750</b>
Prior service costs .....	(1,831)	<b>71</b>	<b>672</b>
Severance and retirement benefit expenses.....	¥14,551	<b>¥15,558</b>	<b>\$147,204</b>

The discount rate and the rate of expected return on plan assets used by the Company are mainly 1.8% and 2.7% in the year ended March 31, 2003 and 1.8% and 1.8% in the year ended March 31, 2004, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Prior service costs are recognized as incurred and actuarial gains/losses are recognized as an expense in equal amounts over 10 years.

## ⑩ INCOME TAXES

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 36.2%, in case of the Company (40.6% for certain consolidated subsidiaries) for the years ended March 31, 2003 and 2004.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rates for financial statement purposes for the years ended March 31, 2003 and 2004:

	2003	2004
Statutory tax rate.....	36.2%	<b>36.2%</b>
Statutory tax rate difference between the Company and certain subsidiaries.....	1.4	<b>1.0</b>
Non-deductible expenses.....	1.6	<b>1.2</b>
Per capita inhabitant tax.....	0.4	<b>0.2</b>
Other.....	1.0	<b>0.2</b>
Effective tax rate .....	40.6%	<b>38.8%</b>

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2003 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Deferred tax assets:			
Retirement benefits .....	¥ 16,915	<b>¥ 10,381</b>	<b>\$ 98,221</b>
Excess depreciation .....	12,346	<b>11,871</b>	<b>112,319</b>
Loss on cancellation of construction plan.....	3,750	<b>7,089</b>	<b>67,073</b>
Write-down of securities .....	8,752	<b>5,251</b>	<b>49,683</b>
Unrealized gains .....	2,472	<b>1,954</b>	<b>18,488</b>
Enterprise taxes .....	2,856	<b>3,095</b>	<b>29,284</b>
Other .....	12,285	<b>16,682</b>	<b>157,839</b>
Total deferred tax assets .....	59,376	<b>56,323</b>	<b>532,907</b>
Valuation allowance .....	(18)	<b>(478)</b>	<b>(4,522)</b>
Net deferred tax assets .....	59,358	<b>55,845</b>	<b>528,385</b>
Deferred tax liabilities:			
Special reserve for tax purposes.....	(4,855)	<b>(4,642)</b>	<b>(43,921)</b>
Deferred gains on real properties .....	(356)	<b>(344)</b>	<b>(3,255)</b>
Net unrealized gains on securities.....	(6,165)	<b>(21,285)</b>	<b>(201,391)</b>
Other .....	(1,422)	<b>(1,404)</b>	<b>(13,284)</b>
Total deferred tax liabilities .....	(12,798)	<b>(27,675)</b>	<b>(261,851)</b>
Net deferred tax assets .....	¥ 46,560	<b>¥ 28,170</b>	<b>\$ 266,534</b>

## ① SEGMENT INFORMATION

The Company's primary business activities include (1) Gas (2) LPG, Electricity and Other Energies (3) Gas Appliances and House-Pipe Installation (4) Real Estate (5) Others.

### Changes in the Classification of Business Segments

Since the introduction of INNOVATION CENTENNIAL, a medium-term management plan, greater stress has been placed on enhancing the ability of Osaka Gas Co., Ltd. and other core companies to offer quality energy services and non-energy services, the two main businesses of the Group. Under the plan, organizational reforms were implemented on April 1, 2003, and accordingly, the business segments were reclassified to properly present segment disclosure in the Group's two main businesses (Energy Businesses and Non-Energy Businesses) as shown below.

- The electric supply, thermal energy supply, LNG processing, etc. businesses previously included in the "Others" segment and the LPG and Industrial Gas businesses, were combined into the "LPG, Electricity and Other Energies" business segment.
- The road piping works, recycling of excavated soil, etc. businesses previously included in "Others," and the "Gas Appliances" and "House-Pipe Installation," were combined into the "Gas Appliances and House-Pipe Installation" businesses segment.
- The building management/maintenance business and other businesses, previously included in "Others," segment and "Real Estate Lease," business were combined into the "Real Estate" business segment.

Changes in the treatment of operating expenses and corporate assets included under "Elimination and Corporate" are as follows:

The operating expenses included under "Elimination and

Net deferred tax assets are reflected in the consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2004	2004
Current assets.....	¥ 11,555	<b>¥ 14,828</b>	<b>\$ 140,297</b>
Investments and other assets .....	38,670	<b>20,195</b>	<b>191,078</b>
Other current liabilities.....	(9)	<b>(12)</b>	<b>(114)</b>
Other non-current liabilities.....	(3,656)	<b>(6,841)</b>	<b>(64,727)</b>
	¥ 46,560	<b>¥ 28,170</b>	<b>\$ 266,534</b>

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities was 42.0% for the year ended March 31, 2002. Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, certain consolidated domestic subsidiaries used the aggregate statutory income tax rates of 42.0% and 40.5% for current items and non-current items, respectively, at March 31, 2003.

As a result of the change in the aggregate statutory at March 31, 2003 income tax rates, deferred income tax assets increased by ¥16 million and provision for deferred income taxes increased by ¥130 million and net unrealized gains on securities increased by ¥146 million compared with what would have been recorded under the previous local tax law.

Corporate" mainly comprised general expenses related to the administrative departments of Osaka Gas Co., Ltd. However, with the organizational reforms implemented on April 1, 2003 under the INNOVATION CENTENNIAL medium-term management plan, Osaka Gas Co., Ltd. was first given the status of corporate head office serving the entire Group and there was an examination into how the non-allocable operating expenses accrued and how those expenses related to each business segment. As a result of the examination, it was agreed that the non-allocable operating expenses would be treated as direct expenses for each segment, because doing so would better present the profit/loss information of each segment. There was also a reexamination of the corporate assets related to the administrative departments of the consolidated companies, which were included in the "Elimination and Corporate," to determine how those assets affected the performance of each business segment. The conclusion was reached that corporate assets excluding investment in securities, etc. had significantly contributed to the performance of each of the business segments, and should be treated as the assets of each segment. Following the allocation of the corporate assets to each business segment, depreciation expenses and capital expenditures were also allocated to each segment accordingly.

The effects of these changes for the year ended March 31, 2004 are as follows:

- Operating expenses: Operating expenses under "Elimination and Corporate" decreased by ¥76,915 million (\$727,742 thousand).
- Assets: Assets under "Elimination and Corporate" decreased by ¥76,252 million (\$721,468 thousand).

- Depreciation expenses:  
Depreciation expense in “Elimination and Corporate” decreased by ¥2,839 million (\$26,862 thousand).
- Capital expenditures:  
Capital expenditures in “Elimination and Corporate” decreased by ¥924 million (\$8,742 thousand).

A summary of segment information is as follows:

For 2003	Gas	Millions of Yen					Elimination and Corporate	Consolidated
		LPG, Electricity and Other Energies	Gas Appliances and House-Pipe Installation	Real Estate	Others	Total		
Operating revenues:								
Outside customers.....	¥566,998	¥118,006	¥151,426	¥ 14,801	¥ 96,747	¥ 947,978	¥ —	¥ 947,978
Inside group.....	4,030	1,602	329	18,668	35,438	60,067	(60,067)	—
	571,028	119,608	151,755	33,469	132,185	1,008,045	(60,067)	947,978
Cost and expenses.....	513,980	106,441	149,815	27,085	125,863	923,184	(61,180)	862,004
Operating income.....	¥ 57,048	¥ 13,167	¥ 1,940	¥ 6,384	¥ 6,322	¥ 84,861	¥ 1,113	¥ 85,974
Identifiable assets.....	¥717,200	¥159,451	¥ 79,852	¥102,826	¥128,502	¥1,187,831	¥ 21,797	¥1,209,628
Depreciation.....	61,008	8,949	862	4,622	8,450	83,891	(1,086)	82,805
Capital expenditure.....	44,591	4,836	1,359	7,119	10,049	67,954	(847)	67,107

For 2004	Gas	Millions of Yen					Elimination and Corporate	Consolidated
		LPG, Electricity and Other Energies	Gas Appliances and House-Pipe Installation	Real Estate	Others	Total		
Operating revenues:								
Outside customers.....	¥568,047	¥130,671	¥143,164	¥ 13,745	¥ 95,697	¥ 951,324	¥ —	¥ 951,324
Inside group.....	5,856	1,499	397	20,153	40,318	68,223	(68,223)	—
	573,903	132,170	143,561	33,898	136,015	1,019,547	(68,223)	951,324
Cost and expenses.....	515,860	116,429	141,330	26,820	128,529	928,968	(69,740)	859,228
Operating income.....	¥ 58,043	¥ 15,741	¥ 2,231	¥ 7,078	¥ 7,486	¥ 90,579	¥ 1,517	¥ 92,096
Identifiable assets.....	¥676,782	¥172,638	¥ 69,145	¥102,526	¥115,158	¥1,136,249	¥ 62,980	¥1,199,229
Depreciation.....	64,778	11,772	793	4,503	8,674	90,520	(956)	89,564
Capital expenditure.....	47,234	7,860	676	4,085	10,320	70,175	(395)	69,780

For 2004	Gas	Thousands of U.S. Dollars					Elimination and Corporate	Consolidated
		LPG, Electricity and Other Energies	Gas Appliances and House-Pipe Installation	Real Estate	Others	Total		
Operating revenues:								
Outside customers.....	\$5,374,652	\$1,236,361	\$1,354,566	\$130,050	\$ 905,450	\$ 9,001,079	\$ —	\$ 9,001,079
Inside group.....	55,408	14,183	3,756	190,680	381,474	645,501	(645,501)	—
	5,430,060	1,250,544	1,358,322	320,730	1,286,924	9,646,580	(645,501)	9,001,079
Cost and expenses.....	4,880,878	1,101,608	1,337,213	253,761	1,216,094	8,789,554	(659,854)	8,129,700
Operating income.....	\$ 549,182	\$ 148,936	\$ 21,109	\$ 66,969	\$ 70,830	\$ 857,026	\$ 14,353	\$ 871,379
Identifiable assets.....	\$6,403,463	\$1,633,437	\$ 654,225	\$970,063	\$1,089,583	\$10,750,771	\$595,894	\$11,346,665
Depreciation.....	612,906	111,382	7,503	42,606	82,070	856,467	(9,045)	847,422
Capital expenditure.....	446,911	74,368	6,396	38,651	97,644	663,970	(3,737)	660,233

Geographic segment information is not disclosed due to operations outside Japan being not material compared to consolidated net sales and assets. Information for overseas sales is not disclosed due to overseas sales being not material compared to consolidated net sales.

## ②SUBSEQUENT EVENT

At the ordinary shareholders' meeting of the Company held on June 29, 2004, year end dividends of ¥3.0 per share for a total of ¥6,692 million (\$63,317 thousand) were approved.

## Independent Auditors' Report

OSAKA GAS CO., LTD.  
March 31, 2003 and 2004



To the Shareholders and Board of Directors of  
Osaka Gas Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Osaka Gas Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Osaka Gas Co., Ltd. and subsidiaries as of March 31, 2003 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 11 to the consolidated financial statements, which states that on April 1, 2003, Osaka Gas Co., Ltd. and its consolidated subsidiaries have changed the classification of business segments and the treatment of non-allocable operating expenses and corporate assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

Osaka, Japan  
June 29, 2004