

Business Report for 184<sup>th</sup> Financial Year  
(Year from 1 April 2001 through 31 March 2002)

Osaka Gas Co., Ltd.

## Operating Report for the Year ended 31 March 2002

### I. Overview

#### 1. Business Operations and Results

##### (1) Operating Activities

The overall Japanese economy in this financial year has been in a difficult situation due to the slowdown in the area of IT which was first seen in the United States and the outbreak of terrorism on 11 September 2001. The exchange rate, on the other hand, has changed on the weak yen trend, and the prices of crude oil have been at a low level in general due to the globally weakening demand for crude oil. However, the economic conditions have taken on some changes towards the end of the financial year such as signs of recovery of the US economy and a shift of the prices of crude oil towards a rising trend.

Against this economic background, the Company has aggressively conducted its business based on “Value Creative Management” as its core objective.

Sections (a) ~ (c) below give an outline of the Company’s business in the financial year ended 31 March 2002.

##### a) Gas and By-Products

The number of customers (number of meters installed) increased by 83 thousand to 6.484 million as of the end of this term. Sales of gas decreased by 1.3% over the preceding term to 7.309 billion cubic metres.

As the temperature has stayed comparatively high from January through March, total sales of gas for residential purposes decreased by 2.2% to 2.194 billion cubic metres compared to the preceding financial year.

Despite the Company’s efforts to increase demand, total sales of gas for industrial use decreased by 3.0% compared to the preceding financial year, greatly influenced by the economic slowdown. Total sales of gas for commercial and public services/medical use, on the other hand, increased by 3.2% and 4.6%, respectively, compared to the preceding financial year, due to the development of increased demand. Total sales of gas for non-residential use decreased by 1.1% compared to the preceding financial year to a total of 4.982 billion cubic metres, out of which sales of gas in large supplies was 3.389 billion cubic metres.

Wholesale supply of gas increased by 6.9% to 132 million cubic metres compared to the preceding financial year.

[< Please see chart1 >](#) [Sales of gas by segment and the number of customers (number of meters installed)]

As stated above, despite the decrease in sales of gas, revenues from gas sales increased by 2.2% to ¥594.338 billion compared to the preceding financial year due to the upward adjustment of unit prices of gas through the sliding rate adjustment system. Sales of by-products amounted to ¥240 million.

#### b) Gas Appliances, Housepipe Installations

Although the Company aggressively promoted gas appliances such as floor heating, bathroom heater/drier, residential air conditioning for residential use, and cogeneration and gas heat pump-type air conditioning systems, which are environmentally friendly and energy efficient, for non-residential use, total revenues from the sales of gas appliances decreased by 9.4% to ¥91.879 billion compared to the preceding financial year due to the economic slowdown etc.

Despite a 1.4% decrease in the number of new construction works, total revenues from housepipe installations rose by 4.7% to ¥39.353 billion due to increased large-scale construction works.

As a result of the above, miscellaneous business revenues, consisting mainly of revenues from gas appliances and housepipe installations, decreased by 5.5% to ¥131.553 billion compared to the preceding financial year.

#### c) Incidental Business

Incidental business revenues decreased by 24.4% to ¥24.909 billion compared to the preceding financial year due to the transfer of part of the Company's heat supply business to its fully owned subsidiary, Gas & Power Investment Co., Ltd.

Total sales for each segment of the business during this financial year were as follows:

[< Please see chart2 >](#) [Sales for each Segment]

As a result, total revenues (sales of gas + sales of by-products + miscellaneous business revenues + incidental business revenues) decreased by 0.4% to ¥751.042 billion compared to the preceding financial year.

[< Please see chart3 >](#) [Sales]

Overall costs fell due to a decrease of raw materials costs with the decline in sales of gas and the Company's efforts to increase efficiency in its general management.

Consequently, the Company's recurring profit increased by 30.4% to ¥70.327 billion, and its net income

increased by 14.2% to ¥37.693 billion compared to the preceding financial year.

[< Please see chart4 >](#) [Recurring Profit and Net Income]

### (2) Capital Investment Activities

The amount of capital investment made during the year ended 31 March 2002 came to ¥65.044 billion. The main item of expenditure on production facilities during this term was the work on No.8 LNG storage tank at the Himeji Terminal which was still in progress. The increase in distribution facilities consisted of an additional 456 kilometres of trunk and branch lines brought the total length of the Company's trunk and branch lines to 44,291 kilometres in the financial year ended 31 March 2002. The work on Kinki Trunkline-Keiji Line was still in progress.

[< Please see chart5 >](#) [Capital Investment]

### (3) Financing Activities

The Company has not procured any long-term loans or issued any bonds to raise funds during this financial year. Regarding long-term loans, the Company repaid ¥5.58 billion and further reduced the loans by ¥9.675 billion by entering into a debt assumption contract during the term, resulting to a total reduction in long-term loans of ¥15.255 billion.

Regarding bonds, the Company redeemed ¥10.0 billion, and bought-back and cancelled ¥2.4 billion during this financial year. An additional ¥33.9 billion was reduced by entering into an agreement on undertaking of performance of obligation; thus, the total reduction in bonds was ¥46.3 billion.

### (4) Outstanding Issues for the Company

A continuing depression in the Japanese economy, especially a slowdown in the economic conditions of the Kinki region, where the Company has its business base, has affected the demand for energy. In addition, progress toward regulatory reform in the energy business is expected to further intensify competition among energy businesses.

Against this economic background, the Company will use its best efforts to increase efficiency at all management levels and price competitiveness, as well as improve technology such as engineering and maintenance, and the quality of safety and services in order to expand the demand for city gas, and will also develop its business by making the most of new business opportunities which are increasing through regulatory reform etc.

As well as lowering prices of gas in respect to small supplies on 1 March this year, the Company has reviewed its rate system such as to review structures of contracts for general gas supply and to create new selective contracts in order to have a rate system which meets various needs of customers more flexibly. In terms of the market for households, the Company has further lower prices of gas prescribed by selective contracts such as “Residential Gas Hot Water under Floor Heating Contracts (Hot-Rate)” and “Residential Air Conditioning Contracts”, which are customer-friendly rate plans. The Company hopes that customers will utilize these rate plans, and at the same time, seeks to popularize and promote the use of products such as floor heating, bathroom heater/drier and residential air conditioning which all provide lifestyle convenience based on natural gas consumption in order to increase sales of gas for residential use.

In terms of the market for non-residential use, in conjunction with increasing price competitiveness by price cutting and creation of new selective contracts, the Company will make the efficient energy utilization proposals which include air conditioning and cogeneration which are tailor-made for each customer. In addition, by utilizing know-how concerning the use of energy such as engineering and maintenance, which the Company has developed for many years, the Company seeks to provide high quality services which are differentiated from those of other companies. The Company will also expand its energy business through power generation business such as the sales of cogeneration, both inside and outside the authorized gas distribution areas.

Major premises of the expansion and development of the Company’s energy business are the improvement in quality of safety and services, stability of supplies as well as the preservation of environment.

With regard to the improvement of safety, while providing sufficient preventive maintenance of gas production and supply facilities such as terminals and pipelines, the Company will continue to provide information on the need and appropriateness for customers to adequately implement repairs with regard to the safety of customer facilities.

With regard to the improvement of services, the Company will continue to value contacting customers through telephone services and visiting customers at their home, and while utilizing customers’ comments for the improvement of operations, the Company will increase efficiency for improved competitiveness and will take more speedy and accurate measures to respond to customers’ needs.

With regard to the stability of supplies, the Company will further diversify the sources of natural gas, and ensure that its supply network is in good repair. As to the Company’s Tsuruga LNG Terminal Project, because the Company’s facility becomes to provide sufficient capacity room as the completion time has been fixed with regard to the contractually entrusted processing of approximately 2 million tons of LNG, which is almost equal to a quarter of the total amount of LNG handled by the Company, and because an expansion of the capacity of pipelines etc. was proven possible from a technological aspect, the Company considered the current two

terminals system could afford long-term stable supplies, and decided to call off the Project on 8 April this year.

With regard to environmental issues, while committing to a further increase in the general use of “environmental friendly” natural gas, the Company intends to decrease environmental load as a result of the Company’s business activities, contribute to the reduction of environmental load by prompting use of the Company’s “environmental friendly” gas appliances and to increase its active involvement in environmental protection activities conducted within and outside the region, both at home and abroad, through the acquisition of ISO 14001 and follow-up activities at offices.

The Company will also aggressively innovate its business and operation through information technology and technological development for its business expansion. With regard to technological development, the Company will focus on the development of residential cogeneration such as early commercialization of cogeneration with residential gas engines as well as the development of fuel-cells for residential purposes.

The Company will cope with the above issues in an appropriate manner and adopt a flexible and quick approach in its business operations while pursuing increases in “Customer Value”, “Shareholder Value” and “Community Value” pursuant to its core objective of “Value Creative Management”. The company also intends to ensure its compliance and to conduct strict risk management in order to maintain the soundness of the Osaka Gas Group in the 21st Century.

The Company hopes all shareholders will continue to extend support and encouragement to the Company.

## 2. Operating Results and Financial Position

(Yen in millions)

Division	Year ended March 1998 (180th term)	Year ended March 1999 (181st term)	Year ended March 2000 (182nd term)	Year ended March 2001 (183rd term)	Year ended March 2002 (184th term)
Total Revenues	729,929	699,916	695,125	754,127	751,042
Recurring Profits	38,311	43,583	39,465	53,929	70,327
Net Income	19,116	17,132	24,527	32,992	37,693
Net Income Per Share (yen)	7.56	6.78	9.82	13.45	15.62
Total Assets	987,593	997,029	1,013,011	1,067,154	1,004,378
Net Assets	351,172	345,598	385,402	418,037	405,922

Note: Net income per share was calculated based on average number of shares issued and outstanding (including the Company's own shares) through the 183rd term, but net income per share in the 184th term (this year) was calculated based on average number of shares issued and outstanding (excluding the Company's own shares).

### Year ended March 1998 (180th term)

Total sales of gas increased by an aggregate of 3.7 % compared to the preceding financial year due to Company sales efforts and an increase in the number of customers. Despite increased costs due to payments to the pension fund, and an increase in raw materials costs due to the rise in prices of LNG and a weakened yen and labor costs, the recurring profit increased by 25.2%, as a result of its efforts to improve overall management efficiency.

### Year ended March 1999 (181st term)

Total sales of gas were almost equal to total sales in the preceding financial year. A decrease in the cost of raw materials due to the decline in prices of LNG caused by the lower crude oil prices as well as Company efforts to control the expenditure, resulted in the recurring profit increase of 13.8%.

### Year ended March 2000 (182nd term)

Total sales of gas increased by an aggregate of 8.4 % compared to the preceding financial year due to Company sales efforts and an increase in the number of customers. Despite Company efforts to increase overall management efficiently, an increase in the cost of raw materials due to the rise in prices of LNG caused by the rise in prices of crude oil, resulted in the recurring profit decrease of 9.4 %.

Year ended March 2001 (183rd term)

Total sales of gas increased by an aggregate of 3.5% compared to the preceding financial year due to Company sales efforts and an increase in the number of customers. Despite an increase in the cost of raw materials due to the rise in prices of LNG caused by the higher crude oil prices, the recurring profit increased by 36.6%, as a result of its efforts to improve overall management efficiency.

Year ended March 2002 (184th term)

Please refer to "1. Business Operations and Results" above.



## II. Outline of the Company (as of 31 March 2002)

### 1. Principal Activities

- (1) Production, distribution, and sales of gas
- (2) Sales of gas appliances and related installation work
- (3) Construction orders for gas housepipe

### 2. Shares and Shareholders

#### (1) Number of Shares Issued and Number of Shareholders

Items	Contents
Number of Authorized Shares	3,840,848,909 shares
Number of Shares Issued and Outstanding	2,369,011,539 shares
Number of Shareholders (as of financial year end)	203,868

Note: As a result of cancellation of the Company's own shares (invalidation of shares), the aggregate number of authorized shares and the number of shares issued and outstanding have, respectively, decreased by 60,552,091 shares during the financial year ended 31 March 2002.

#### (2) Principal Shareholders

Shareholders	Shareholders' Holding in Osaka Gas		Osaka Gas's Holding in Shareholder Companies	
	No. (1,000s)	Holding %	No. (1,000s)	Holding %
Nippon Life Insurance Company	124,288	5.25	0	0
The Daiwa Bank, Limited	118,478	5.00	0	0
UFJ Bank Limited	99,938	4.22	0	0
The Mitsubishi Trust and Banking Corporation (trust account)	75,914	3.20	0	0
Sumitomo Mitsui Banking Corporation	62,753	2.65	8,611	0.15

Japan Trustee Services Bank, Ltd. (trust account)	48,353	2.04	0	0
Yasuda Mutual Life Insurance Company	40,754	1.72	0	0
Nissay Dowa General Insurance	34,961	1.48	1,477	0.36
Shinsei Bank, Limited	32,144	1.36	0	0
Sumitomo Life Insurance Company	30,593	1.29	0	0

Notes:

- 1) The Company owns 50,875 thousand shares (0.90 %) of Daiwa Bank Holdings, Inc. which is the joint holding company of The Daiwa Bank, Limited.
- 2) The Company owns 32,592 shares (0.67 %) of UFJ Holdings, Inc. which is the joint holding company of UFJ Bank Limited.

### 3. Purchase, Reselling, Cancellation, etc. and Holding of the Company's own shares

#### (1) Purchased Shares

- (a) Purchase of the Company's own shares, by using profit, for the purpose of strengthening its financial structure pursuant to the resolution of the Board of Directors held on 20 November 2001

Common shares: 60,000,000 shares

Total acquisition cost: ¥18,329,919,000

- (b) Purchase of the Company's own shares by purchasing fractional shares under the 2001 amendment of the Commercial Code of Japan (including fractional shares under the 1982 amendment of the Commercial Code of Japan)

Common shares: 1,512,221 shares

Total acquisition cost: ¥544,157,691

#### (2) Resold Shares

Common shares: 1,002,000 shares

Total revenue: ¥375,467,000

#### (3) Cancelled Shares

Common Shares: 60,552,091 shares

#### (4) Share holding as of financial year end

Common Shares: 33,082 shares

#### 4. Subsidiaries and Affiliates

##### Outline of Principal Subsidiaries

Company	Capital (Yen in millions)	Holding (%) (including in- direct holding)	Main Activities
Liquid Gas Co., Ltd.	1,030	100	Production, sales and delivery of LNG and other types of high pressure gases; sales of cold energy of LNG and sales of LPG
Nissho Iwai Petroleum Gas Corp.	1,726	70.00	Import and sales of LPG
Gas and Power Investment Co., Ltd.	2,100	100	Energy business at home and abroad; related survey, planning, development and investment activities
Harman Co., Ltd.	300	60.00	Sales of gas appliances
Urbanex Co., Ltd.	1,421	100	Management, operation and lease of real estate; survey and research of urban development
Kinrei Corporation	966	74.74	Production and sales of frozen foods; operation of restaurants
Osaka Gas Information System Research Institute Co., Ltd.	400	100	Information processing services via computers, production, sales and lease of related equipment and software
Osaka Gas Chemical Co., Ltd.	480	100	Manufacture and sales of coke, chemical products and carbon products, etc.
OG Capital Co., Ltd.	3,000	100	Management of intra-group finances, management of affiliated companies operation, management, operation and lease of real estate

Notes: 1) Development of company affiliations

a) Heat supply business of Gas and Power Investment Co., Ltd.

The Company transferred a part of its heat supply business to Gas and Power Investment Co., Ltd. on 1 July 2001.

b) Split-up of Harman Co., Ltd.

After changing its corporate name to Harman Planning Co., Ltd., Harman Co., Ltd., which had conducted production and sales of gas appliances, split up into Harman Pro Co., Ltd. conducting development and production of gas appliances, Harman Co., Ltd. conducting sales of gas appliances and Harman Planning Co., Ltd. conducting management of real estate as of 1 September 2001.

The Company thereafter assigned a part of its shares of Harman Pro Co., Ltd. and Harman Co., Ltd. to Noritz Corp. on 1 October 2001, and it now holds 10.00 % and 60.00 %, respectively, of shares of the two companies.

The Company considers Harman Co., Ltd. which conducts sales of gas appliances as a core company (the "Core Company") in the area of sales of gas appliances, and it became the Company's principal subsidiary.

c) Capital Increase of Urbanex Co., Ltd.

Urbanex Co., Ltd. increased its capital by ¥438.957 million on 31 March 2002.

2) Results of company affiliations

There are 43 subsidiaries including 9 of the principal subsidiaries referred to in the table above, and the consolidated turnover for the financial year ended 31 March 2002 increased by 2.3 % to ¥973.565 billion with a consolidated net income increase of 9.2 % to ¥39.418 billion compared to the preceding financial year.

5. Major Lenders

Lenders	Loans Outstanding on 31 March 2002 (Yen in millions)	Lenders' Holding in the Company	
		No. (1,000s)	Holding (%)
Development Bank of Japan	29,011	0	0
Nippon Life Insurance Company	28,000	124,288	5.25
The Yasuda Mutual Life Insurance Company	15,000	40,754	1.72
Daido Life Insurance Company	12,600	2,046	0.09
Sumitomo Life Insurance Company	10,300	30,593	1.29
BNP Paribas	6,090	0	0

Note: Daido Life Insurance Company was converted into a joint stock company on 1 April 2002.

## 6. Major Plants and Offices

Major plants and offices of Osaka Gas Co., Ltd. are as follows:

Head Office	Head Office (Osaka Prefecture)
District Business Headquarters	Osaka Business Headquarters (Osaka Prefecture) Southern Business Headquarters (Osaka Prefecture) (including Wakayama District Office [Wakayama Prefecture]) North Eastern Business Headquarters (Osaka Prefecture) Hyogo Business Headquarters (Hyogo Prefecture) (including Toyo-oka District Office [Hyogo Prefecture]) Keiji Business Headquarters (Kyoto Prefecture) (including Shiga East District Office [Shiga Prefecture])
Terminals	Senboku Terminal (Osaka Prefecture) Himeji Terminal (Hyogo Prefecture)
Research Centres etc.	Research and Development Department (Osaka Prefecture)

Note: As of 28 June 2001, the Company reorganized the structure of the head office and research centres engaging in distribution and sales.

## 7. Employees

Number of Employees	Average Age (years)	Average Length of Service (years)
8,810	42.7	18.3

Note: The above figure of employees includes staff on fixed term contracts, and does not include staff on secondment.

## 8. Directors and Auditors

### **Name**

Shin-ichiro Ryoki	Chairman	
Akio Nomura	President	
Takemi Arimoto	Executive Vice- President	
Shozo Endo	Executive Vice-President	
Hirofumi Shibano	Executive Vice-President	
Hironori Yamada	Senior Managing Director	Responsible for Head Office Resident Representative, Secretariat Dept., Corporate Communication Dept., General Affairs Dept., and Research Institute for Culture, Energy and Life
Yuji Matsumura	Senior Managing Director	Head of Technology and R&D; Responsible for Environment Dept., Information and Communications System Dept., Technology Dept., Research and Development Dept., and Residential Cogeneration Development Dept.
Yoshikazu Koyama	Managing Director	Head of Safety; Responsible for Central Safety & Distribution Control Dept., Gas Resources Dept., Production Dept., and Transmission Dept.

Nobuhiko Hattori	Managing Director	Responsible for Head Office Resident Representative, Business Development Dept., Accounting & Finance Dept., and Regional Development Planning Dept.
Hidetoshi Nakatani	Managing Director	Head of Customer Services; Responsible for Distribution & Marketing Planning Dept., Residential Market Development Dept., Commercial and Industrial Market Development Dept., Pipeline and Facilities Engineering Dept., Large Customer Sales Dept., Customer Relations Dept., and Corporate Sales Dept.
Tamotsu Okajima	Managing Director	Responsible for Tokyo Representative, Auditing Dept., Tokyo Office, Personnel Dept., and Purchasing Dept.
Kunishige Asai	Managing Director	General Manager, Keiji Business HQ
Seishiro Yoshioka	Managing Director	Head of Business Innovation by utilizing IT; Corporate Planning Dept., Energy Business Development Dept., and Tsuruga LNG Terminal Project Dept.
Masaru Oh-e	Director	General Manager, Distribution & Marketing Planning Dept.
Akio Nakashiba	Director	General Manager, R&D Dept.
Masakazu Kato	Director	General Manager, Production Dept.

Yukihiro Endo	Director	Director of Japan Gas Association
Ikuo Okada	Director	General Manager, Engineering Dept.
Susumu Mita	Director	General Manager, Hyogo Business HQ
Yoshikazu Ishida	Director	General Manager, North Eastern Business HQ
Takashi Nabari	Director	General Manager, Corporate Sales Dept.
Zenzo Ideta	Director	General Manager, Southern Business HQ
Chiaki Gomi	Director	General Manager, International Gas Union Dept. of Japan Gas Association
Toshio Tsuchiyama	Auditor (full-time)	
Kojiro Ambashi	Auditor (full-time)	
Keizo Hikasa	Auditor (full-time)	
Kojiro Niino	Auditor	President of Kobe City Issues Research Institute
Reisuke Shimada	Auditor	Professor of Faculty of Law of Kansai University

Notes:

- 1) The Chairman, President, Vice-Presidents, and Senior Managing Directors are each a Representative Director.
- 2) The following persons were newly elected Directors upon the resolution at the Annual Meeting of Shareholders held on 28 June 2001:

Yoshikazu Ishida	Director
Takashi Nabari	Director
Zenzo Ideta	Director
Chiaki Gomi	Director



- 3) The following persons were newly elected Executive Directors upon the resolution at the Meeting of the Board of Directors held on 28 June 2001 (previous position in brackets):

Hirofumi Shibano	Executive Vice- President	(Senior Managing Director)
Yuji Matsumura	Senior Managing Director	(Managing Director)
Tamotsu Okajima	Managing Director	(Director)
Kunishige Asai	Managing Director	(Director)
Seishiro Yoshioka	Managing Director	(Director)

- 4) Auditor, Keizo Hikasa has been elected a full-time Auditor by the Board of Corporate Auditors after the Annual Meeting of Shareholders held on 28 June 2001.
- 5) Auditors, Kojiro Niino and Reisuke Shimada both satisfy the qualifying conditions specified in Article 18, Section 1 of the Commercial Code concerning the Special Measures applicable to Auditing Practices in Joint Stock Companies (qualifying conditions for external auditors).
- 6) The following Directors and Auditors retired at the end of the Annual Meeting of Shareholders held on 28 June 2001:

Masaji Yamamoto	Executive Vice- President
Masaaki Hasegawa	Managing Director
Mitsuo Endo	Managing Director
Makoto Ogasahara	Director
Teruo Adachi	Director
Motoi Yoshida	Director
Koichiro Yasuba	Auditor
Tadao Harada	Auditor

- 7) Tsuruga LNG Terminal Project Dept. became Tsuruga Affairs Dept. on 8 April 2002.

## Balance Sheets

(As of 31 March 2002)

(Yen in millions)

<b>Assets</b>		<b>Liabilities</b>	
Fixed Assets	879,951	Fixed Liabilities	426,224
Tangible Fixed Assets	651,172	Corporate bonds	199,660
Production facilities	123,245	Long-term loans	128,466
Distribution facilities	365,467	Reserves for retirement allowance	93,716
Operating facilities	97,057	Reserves for repairs of gasholders	1,602
Incidental business facilities	773	Other fixed liabilities	2,779
Idle facilities	1,532	Current Liabilities	172,231
Construction in progress	63,097	Fixed liabilities due within one year	18,354
Intangible Fixed Assets	6,296	Trade accounts payable	10,520
Patents	0	Accrued debts	25,296
Leaseholds	2,853	Accrued expenses	48,916
Other intangible fixed assets	3,442	Accrued income tax, etc.	28,308
Investments, etc.	222,481	Advance payment	9,169
Investments securities	62,813	Deposits received	1,339
Investment in affiliated companies	83,002	Short-term debts to affiliated companies	13,303
Long-term loans receivable of affiliated companies	34,741	Commercial paper	15,000
Financing receivables	104	Other current liabilities	2,021
Long-term prepaid expenses	4,032	Total Liabilities	598,456
Deferred tax assets	30,847	<b>Shareholders' Equity</b>	
Other investments	7,693	Common Stock	132,166
Provision for doubtful debts	(752)	Legal Reserve	52,524
Current Assets	124,423	Capital reserve	19,482
Cash & bank deposits	3,869	Retained earnings reserve	33,041
Notes and bills receivable	1,017	Surplus	212,413
Trade accounts receivable	60,428	Reserves for deferred gain from replacement of designated properties, etc.	224
Trade accounts receivable of affiliated companies	4,637	Reserves for depreciation of designated gas pipeline construction	2,587
Accrued payments	12,732	Reserves for losses incurred in overseas investments, etc.	6,235

Products manufactured	87	Reserves for adjustment of cost changes	89,000
Raw materials	12,799	Special reserves	62,000
Inventory	8,810	Unappropriated earnings	52,365
Affiliated companies short-term credits	6,582	(Income	37,693)
Deferred tax assets	9,392	Variance of the Valuation	8,828
Other current assets	4,639	Variance of the valuation for other marketable securities	8,828
Provision for doubtful debts	(573)	the Company's Own Shares	(10)
Deferred Assets	3	the Company's own shares	(10)
Discount on issued bonds	3	Total Shareholders' Equity	405,922
Total Assets	1,004,378	Total Liabilities & Shareholders' Equity	1,004,378

(Notes)

1. Significant accounting policies:

(1) Tangible fixed assets is depreciated using the Declining-Balance Method. However, the Straight-Line Method has been used for buildings (excluding structures attached to buildings) acquired after 1 April 1998.

(2) Valuation of marketable securities is carried out as follows;

Shares of subsidiaries and associated companies:

The Cost Method based on the Moving-Average System

Other marketable securities:

With current market value:

Mark to Market Value Method

(All variance of the valuation is subject to the Direct Capitalization Method and cost of sale is calculated based on the Moving-Average System.)

Without current market value:

The Cost Method based on the Moving-Average System

(3) Products manufactured are valued using the Cost Method based on the Weighted-Average Method and both raw materials and inventories are estimated using the Cost Method based on the Moving-Average System.

(4) Record of significant reserves is as follows:

Reserves for retirement allowance:

For the purposes of employee retirement allowance, the record is based on the estimate of the retirement allowance obligation and pension assets at the end of the financial year.

Reserves for repair of gasholders:

To provide for the necessary expenditure for periodical repair of spherical gasholders for a given period is estimated based on the expenditure to a previous period, and this estimate is proportionally allotted for the period up to the next scheduled repair.

- (5) Consumption taxes, etc. are omitted in the accounting procedure.
2. According to the amendment of the regulations of accounting process for gas-business, the Company's own share previously recorded as "other current assets" is this time recorded as "the Company's own shares" in Shareholders' Equity.
  3. Total depreciation of tangible fixed assets: ¥1,427,652 million
  4. Shares held in subsidiaries that are included under "investment in affiliated companies": ¥43,675 million
  5. Monetary credit and debt toward subsidiaries that are included in monetary credit and debt towards affiliated companies are as follows;
    - Long-term credit: ¥64,059 million
    - Short-term credit: ¥11,083 million
    - Short-term debt: ¥13,229 million
  6. Significant foreign currency assets:
    - Investment in affiliated companies: ¥10,008 million (Australian \$162,131 thousand and English £450 thousand)
  7. Reserves for repair of gasholders are a reserve provided for in Article 287-2 of the Commercial Code.
  8. Contingent liabilities for guarantees: ¥17,038 million (amount guaranteed by the Company: ¥12,671 million)  
Contingent liability for debt assumption contracts, etc. of corporate bonds and loans: ¥125,302 million
  9. Income per share for the financial year: ¥15.62
  10. Net assets provided for in Article 290, paragraph 1, section 6 of the Commercial Code: ¥8,828 million

## Income Statements

(Year from 1 April 2001 through 31 March 2002)

(Yen in millions)

Costs and Expenses		Operating Revenues	
<b>Ordinary Profit and Loss</b>			
Operating Profit and Loss			
Cost of products sold	201,974	Sales of products manufactured	594,579
Inventory at the beginning of the period	97	Sales of gases	594,338
Cost of products manufactured	203,254	Sales of by-products	240
Amount of products purchased	4		
Own use of products manufactured	1,294		
Inventory at the end of the period	87		
(Gross profit on sales)	(392,604)		
Expenses for distribution and sales	253,287		
General administrative expenses	69,276		
(Operating profit)	(70,040)		
Miscellaneous operation expenses	126,925	Miscellaneous business profits	131,553
Installations expenses	36,781	Revenues from house pipe installations	39,353
Appliance sales expenses	90,144	Appliances selling revenues	91,879
		Other miscellaneous business revenues	321
Expenses for incidental business	17,873	Profits for incidental business	24,909
(Operating income)	(81,705)		
<b>Non-Operating Profit and Loss</b>			
Non-operating expenses	18,863	Non-operating revenues	7,486
Interest payments	2,039	Interest earned	423
Interest for corporate bonds	3,215	Interest on securities	121
Amortization of discount on issued bonds	1	Dividends earned	523
Loss on redemption of corporate bonds	3,315	Dividends earned from affiliated companies	1,009

Appraisal loss on stock investment	6,649	Revenues from leases	1,638
Other miscellaneous expenses	3,641	Other revenues	3,769
(Recurring profit)	(70,327)		
<b>Extraordinary Profit and Loss</b>			
Extraordinary losses	11,325	Extraordinary profit	610
Loss on sale of fixed assets	343	Profit on sale of fixed assets	610
Loss on advanced depreciation of fixed assets	600		
Loss on suspension of Tsuruga LNG Terminal Project	10,381		
(Income before tax)	(59,612)		
Income tax, etc.	28,470		
Adjustments for income tax, etc.	(6,551)		
Income	37,693		
Total	759,138	Total	759,138
Income			37,693
Retained earnings brought forward from previous financial year			40,472
Retirement of treasury stock			18,512
Interim dividends			7,288
Unappropriated earnings			52,365

Notes: Transactions with subsidiaries

Sales	¥12,914 million
Purchases	¥73,169 million
Non-operational transactions	¥21,966 million

Proposed Appropriation of Earnings

	Yen
Unappropriated earnings	52,365,308,467
Reversal of reserves for depreciation of designated gas pipeline construction	306,306,919
Reversal of reserves for losses incurred in overseas investments, etc.	8,570,611
<b>Total</b>	<b>52,680,185,997</b>
<u>To be appropriated as follows:</u>	
Cash dividends (¥3.0 per share)	7,106,935,371
Directors' bonuses	60,000,000
Reserves for depreciation of designated gas pipeline construction	8,970,531
Earnings to be carried forward	45,504,280,095

Notes:

1. An interim dividend of ¥7,288,602,303 (¥3.0 per share) was paid on 10 December 2001.
2. The reversal amount and the amount to be reserved for reserves for depreciation of designated gas pipeline construction and the reversal amount for reserves for losses incurred in overseas investments, etc. are in accordance with the provisions specified in the Special Taxation Measures Law, and the figures take into account adjustments for tax effect.



**Certified Copy of Auditors' Report Prepared by Accounting Auditors**

Report of Independent Certified Public Accountants

9 May 2002

To: Akio Nomura

President of Osaka Gas Co., Ltd.

Asahi& Co.

Representative Partner Certified Public Accountant Akiyoshi Miwa [seal]

Representative Partner Certified Public Accountant Shyuichi Madokoro [seal]

Representative Partner Certified Public Accountant Akira Yonebayashi [seal]

We have examined the balance sheets, income statements, operating report (only in respect of the section concerning the accounts), the proposed appropriation of earnings, and the supporting schedules (only in respect of the section concerning the accounts) of Osaka Gas Co., Ltd. for the 184th business year which was from 1 April 2001 through 31 March 2002, in accordance with Article 2 of "the Commercial Code concerning the Special Measures applicable to Auditing Practices in Joint Stock Companies". The sections concerning the accounts in the operating report and the supporting schedules which were subject to our audit, are those in accordance with the accounting records of the operating report and the supporting schedules.

We have carried out this audit in accordance with generally accepted auditing standards. In addition, this audit includes the examination of the Company's subsidiaries which we deemed necessary.

As a result of this audit, we have reached the following conclusions:

1. The balance sheets and income statements give a true and proper account of the Company's assets and earnings in accordance with applicable laws and the Articles of Incorporation;
2. The operating report (only in respect of the section concerning the accounts) gives a true and proper account of the Company's operations in accordance with applicable laws and the Articles of Incorporation;
3. The proposed appropriation of earnings is appropriate in accordance with applicable laws and the Articles of Incorporation; and
4. The supporting schedules (only in respect of the section concerning the accounts) do not include any items which were necessary to be pointed out in accordance with the Commercial Code.

Neither Asahi & Co. nor any of its general partners have any conflict of interests with Osaka Gas Co., Ltd., which is required to be described under the Certified Public Accountant Law.

Asahi & Co.

## Certified Copy of Auditors' Report Prepared by the Board of Corporate Auditors

### Auditors' Report

The current audit covers the 184th term which was from 1 April 2001 through 31 March 2002. Each Auditor has prepared a report of the method and the results of the audit in respect of performances of Directors' duties.

We report as follows:

#### 1. Outline of the method of audit:

Each Auditor has effectuated the audit, in accordance with the policy which was defined by the Board of Corporate Auditors.

- (1) We have attended the meetings of the Board of Directors and other important meetings and have been informed in respect of their business results. Furthermore, we have examined important documents in respect of settlements, etc., and inspected the operations and the assets of the Company at its principal business offices. We have also required subsidiaries to report on their activities, and visited them in order to inspect their operations and assets, when necessary.
- (2) We have received reports and explanations from the Accounting Auditors, and examined the financial statements and the supporting schedules.
- (3) In respect of competitive transaction by the Directors; conflict-of-interest transaction between the Directors and the Company; unrewarded offering benefit of a proprietary nature by the Company; unusual transactions between subsidiaries or shareholders and the Company; and purchase and disposal of the Company's own treasury stocks, we have, in addition to the method of audit above, required reports from the Directors and others when necessary, and examined the relevant transactions minutely.

#### 2. The results of the audit:

- (1) Methods used by Asahi & Co. as the Accounting Auditors for this audit, and the results thereof, are fair and proper.
- (2) The operating report gives a fair and proper account of its business in accordance with applicable laws and the Articles of Incorporation.
- (3) The proposals for appropriation of earnings contain no matters which need to be pointed out, in the light of the Company's assets or any other considerations.
- (4) The supporting schedules give a true statement of the information required, and do not include any items which need to be pointed out.
- (5) No dishonesty or material facts that are in breach of applicable laws or the Articles of Incorporation have been detected in respect of execution by the Directors of their duties including the duty regarding subsidiaries.

Additionally, no breach of duty by the Directors has been recognized in respect of competitive transaction by the Directors; conflict-of-interest transaction between the Directors and the Company; unrewarded offering benefit of a proprietary nature by the Company; unusual transactions between subsidiaries or shareholders and the Company; and purchase and disposal of the Company's own shares.

14 May 2002

Osaka Gas Co., Ltd. the Board of Corporate Auditors

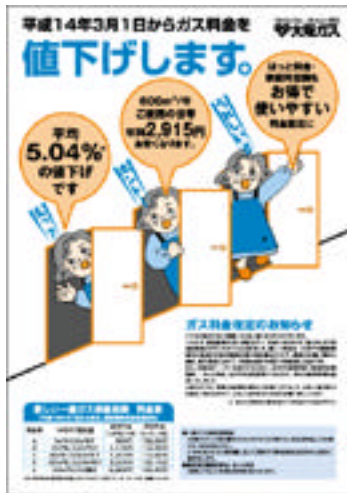
Toshio Tsuchiyama	Auditor (Full-time)	[seal]
Kojiro Ambashi	Auditor (Full-time)	[seal]
Keizo Hikasa	Auditor (Full-time)	[seal]
Kojiro Niino	Auditor	[seal]
Reisuke Shimada	Auditor	[seal]

Note: Auditors, Kojiro Niino and Reisuke Shimada both satisfy the qualifying conditions specified in Article 18, Section 1 of the Commercial Code concerning the Special Measures applicable to Auditing Practices in Joint Stock Companies (qualifying conditions for external auditors).

## TOPICS

### Implementation of Lowering Gas Rate (Average 5.04%):

The Company notified the Ministry of Economy, Trade and Industry and revised the gas rate from 1 March 2002. The new rate was realized because of cost reductions brought about by management efficiencies and continued efforts to promote efficiency.



A poster regarding implementation of lowering gas rate

### “Residential Gas Hot Water under Floor Heating Contracts (Hot-Rate)” Becoming Easier to Use:

Gas floor heating is an ideal heating system because the radiant heat from the floor face warms up one’s feet. It is highly regarded, and its sales performance for financial year 2001 was 120,000 systems (an increase of 31% compared to the previous year). The Company has made efforts to further diffuse the floor heating by modifying the “Hot-Rate” system for customers, that set up the facilities which make use of gas floor heating, to make it more reasonable and easier to use in accordance with the revised rate.



Residential gas hot water under floor heating contracts, “Hot-Rate”

The comforts of gas floor heating

**Gas Cogeneration System is Becoming Increasingly Diffuse:**

The gas cogeneration system is used in factories, buildings, restaurants, etc. The Company is targeting the commercialization of the residential cogeneration system during the 2002 financial year. Also, the Company is attempting to stimulate gas demand through the diffusion of the gas cogeneration system by recently establishing the “Cogeneration System Contract for Complex Housing” which is intended for customers that set up the system in complex housing and so on at this revised rate.



Complex housing employing the gas cogeneration system

**24-Hour Substantial Support:**

The central control room at the Head Office oversees the pipelines by utilizing advanced technologies and controls the production and supply of city gas so as to provide a steady supply to customers. Also, it has made an effort to enhance safety by sequentially introducing new instruction systems and communication technologies to provide exact and increasingly prompt correspondence during emergencies.



An emergency vehicle providing 24-hour substantial support

### **10th Year Anniversary of Active Life Place “DILIPA” for Experiencing Comfortable Lives by Using Gas Appliances:**

Appliances produced by Osaka Gas are prevalent throughout one’s daily life. Active Life Place “DILIPA” provides potential and current customers with opportunities to see, feel, and use Osaka Gas appliances and recently marked its 10th anniversary. Approximately 500,000 people, mainly customers considering building a new house or renovating a home, visit every year, and 5,000,000 people have visited during the past 10 years.



Active Life Place “DILIPA” (Suita-shi, Osaka)

### **Procedures for Acquisition of “ISO 14001” Certification to Meet the Environmental Objective for Financial Year 2010:**

The Company’s environmental objective for financial year 2010 recognizes the principle that “environmental protection on a local and global scale is of utmost importance for energy businesses”. Because of this, the Company is pursuing company-wide “ISO 14001” certification. The Gas Building of the Head Office and the Osaka Business Headquarters acquired certification after the Production Department, Technology Department (Construction Work Division) and Transmission Department, etc. The Company is vigorously pursuing “ISO 14001” certification for the remainder of the departments and is seeking early company-wide certification.



Separation of paper and materials to enhance the recycling rate

**Gas and Power Inc., which is Responsible for the Electric Power Business, has Started Wholesale Supply of Electric Power:**

“Torishima Energy Center” (Konohana-ku, Osaka-shi) which has a 149,900kW energy output started its operations in April, 2002. Gas and Power Inc. has conducted wholesale supply of electric power generated to Kansai Electric Power, Co., Ltd. This electric power plant has generated electric power by utilizing gas pressure in addition to adopting efficient generating systems which use natural gas as fuel, and, as a result, realizes the same level of high-efficiency power generation as a large state of the art steam power plant.



“Torishima Energy Center” achieves high energy conservation

**OG Sports Provides Comprehensive Support for Healthy Lives and has Established a New Outlet:**

OG Sports Co., Ltd. runs fitness and tennis clubs based on the motto “Increasing health through sports”. It currently has 12 outlets in the fitness club field, such as “Kosupa Goido” which is regarded as the premiere facility within Nara, and approximately 34,000 club members.



“Kosupa Goido” opened in May, 2002 (Kashiba-shi, Nara)



Customers enjoying the facility

## Principal Management Indexes

Non-consolidated basis				Consolidated basis			
Year	Year ended March 2000	Year ended March 2001	Year ended March 2002	Year (Number of consolidated subsidiaries)	Year ended March 2000 (25)	Year ended March 2001 (35)	Year ended March 2002 (43)
Items				Items			
Revenues (Yen in 100 millions)	6,951	7,541	<b>7,510</b>	Revenues (Yen in 100 millions)	8,492	9,519	<b>9,735</b>
Recurring profit (Yen in 100 millions)	394	539	<b>703</b>	Recurring profit (Yen in 100 millions)	456	638	<b>759</b>
Net profit (Yen in 100 millions)	245	329	<b>376</b>	Net profit (Yen in 100 millions)	273	360	<b>394</b>
Shareholders' equity (Yen in 100 millions)	3,854	4,180	<b>4,059</b>	Shareholders' equity (Yen in 100 millions)	4,285	4,750	<b>4,687</b>
Total assets (Yen in 100 millions)	10,130	10,671	<b>10,043</b>	Total assets (Yen in 100 millions)	12,195	13,109	<b>12,435</b>
Net profit per share (Yen)	9.82	13.45	<b>15.62</b>	Net profit per share (Yen)	10.94	14.72	<b>16.33</b>
Shareholders' equity per share (Yen)	155.54	172.06	<b>171.35</b>	Shareholders' equity per share (Yen)	172.95	195.52	<b>197.85</b>
ROE (%)	6.7	8.2	<b>9.1</b>	ROE (%)	6.8	8.0	<b>8.4</b>
ROA (%)	2.4	3.2	<b>3.6</b>	ROA (%)	2.3	2.9	<b>3.1</b>
Free cash flow (Yen in 100 millions)	122	372	<b>673</b>	Free cash flow (Yen in 100 millions)	189	405	<b>706</b>

\* Free Cash Flow: Cash flow from operating activities - capital investment



## Consolidated Balance Sheets

(As of 31 March 2002)

(Yen in millions)

<b>Assets</b>			<b>Liabilities</b>		
Items	End of this consolidated fiscal year (as of 31 March 2002)	End of of previous consolidated fiscal year (for your reference purposes only) (as of 31 March 2001)	Items	End of this consolidated fiscal year (as of 31 March 2002)	End of of previous consolidated fiscal year (for your reference purposes only) (as of 31 March 2001)
<b>Fixed Assets</b>	<b>1,049,544</b>	<b>1,088,356</b>	<b>Fixed Liabilities</b>	<b>513,300</b>	<b>565,770</b>
<b>Tangible fixed assets</b>	<b>837,627</b>	<b>850,090</b>	Corporate bonds	199,880	251,028
Production facilities	122,346	134,814	Long-term loans	189,127	192,472
Distribution facilities	363,465	381,115	Reserves for retirement allowance	98,548	101,278
Operating facilities	96,928	90,206	Reserves for repairs of gasholders	1,602	1,957
Other facilities	186,546	183,900	Others	24,142	19,034
Idle facilities	1,532	1,532	<b>Current Liabilities</b>	<b>254,374</b>	<b>263,501</b>
Construction in progress	66,807	58,521	Fixed liabilities due within one year	29,819	23,611
<b>Intangible fixed assets</b>	<b>14,431</b>	<b>14,931</b>	Notes and bills payable & trade accounts payable	39,716	48,103
<b>Investments and other assets</b>	<b>197,486</b>	<b>223,334</b>	Short-term borrowing	31,425	43,079
Investments securities	128,351	154,051	Accrued income tax, etc.	30,976	25,261
Long-term loans receivable	-	15,625	Others	122,436	123,446
Deferred tax assets	35,483	19,687	<b>Total Liabilities</b>	<b>767,675</b>	<b>829,272</b>
Others	36,123	36,516	<b>Minority Shareholders' Interest</b>		
Provision for doubtful debts	(2,471)	(2,547)	<b>Minority Shareholders' Interest</b>	<b>7,139</b>	<b>6,683</b>
<b>Current Assets</b>	<b>193,971</b>	<b>222,613</b>			

Cash & bank deposits	12,892	29,120	<b>Shareholders' Equity</b>		
Notes and bills receivable & trade accounts receivable	105,579	111,001	<b>Common Stock</b>	<b>132,166</b>	<b>132,166</b>
Inventory assets	32,289	39,100	<b>Capital Reserve</b>	<b>19,482</b>	<b>19,482</b>
Deferred tax assets	11,777	11,377	<b>Consolidated Surplus</b>	<b>296,338</b>	<b>288,140</b>
Others	32,196	32,920	<b>Variance of the Valuation for Other Marketable Securities</b>	<b>20,729</b>	<b>35,253</b>
Provision for doubtful debts	(764)	(906)		<b>468,716</b>	<b>475,043</b>
<b>Deferred Assets</b>	<b>3</b>	<b>5</b>	<b>Treasury Stock</b>	<b>(10)</b>	<b>(23)</b>
Discount on issued bonds	3	5	<b>Total Shareholders' Equity</b>	<b>468,706</b>	<b>475,019</b>
<b>Total Assets</b>	<b>1,243,520</b>	<b>1,310,976</b>	<b>Total Liabilities, Minority Shareholders' Interest &amp; Shareholders' Equity</b>	<b>1,243,520</b>	<b>1,310,976</b>

Consolidated Income Statements  
(Year from 1 April 2001 through 31 March 2002)

(Yen in millions)

Items	End of this consolidated fiscal year (from 1 April 2001 through 31 March 2002)	End of previous consolidated fiscal year (for your reference purposes only) (from 1 April 2000 through 31 March 2001)
<b>Revenues</b>	<b>973,565</b>	<b>951,926</b>
<b>Cost of products sold</b>	<b>500,586</b>	<b>501,490</b>
<b>(Gross profit on sales)</b>	<b>(472,979)</b>	<b>(450,436)</b>
<b>Expenses for distribution and sales and general administrative expenses</b>	<b>376,302</b>	<b>376,381</b>
<b>(Operating income)</b>	<b>(96,676)</b>	<b>(74,055)</b>
<b>Non-operating revenues</b>	<b>7,253</b>	<b>9,272</b>
Interest earned	416	648
Dividends earned	1,222	1,552
Profits on sale of stock investment		1,916
Other revenues	5,614	5,154
<b>Non-operating expenses</b>	<b>27,947</b>	<b>19,477</b>
Interest payments	7,338	7,605
Loss from redemption of debentures	3,315	
Appraisal loss on stock investment	7,266	
Appraisal loss on stock investment in affiliated companies		4,402
Other miscellaneous expenses	10,026	7,470
<b>(Recurring profit)</b>	<b>(75,983)</b>	<b>(63,849)</b>
<b>Extraordinary profit</b>	<b>918</b>	<b>1,132</b>
Profits on sale of fixed assets	918	1,132
<b>Extraordinary losses</b>	<b>11,537</b>	<b>5,137</b>
Loss on sale of fixed assets	422	1,817
Advanced depreciation deduction of fixed assets	732	590
Loss from cancellation of Tsuruga LNG Terminal Project	10,381	

Allowances for variance due to change of retirement allowance accounting standards		2,729
<b>(Net profit before adjustments for income tax, etc.)</b>	<b>(65,363)</b>	<b>(59,844)</b>
<b>Income tax, residential tax and business tax</b>	<b>33,491</b>	<b>28,089</b>
<b>Adjustments for income tax, etc.</b>	<b>(7,719)</b>	<b>(4,792)</b>
<b>Interest of a minority shareholder</b>	<b>173</b>	<b>450</b>
<b>Net profit</b>	<b>39,418</b>	<b>36,097</b>

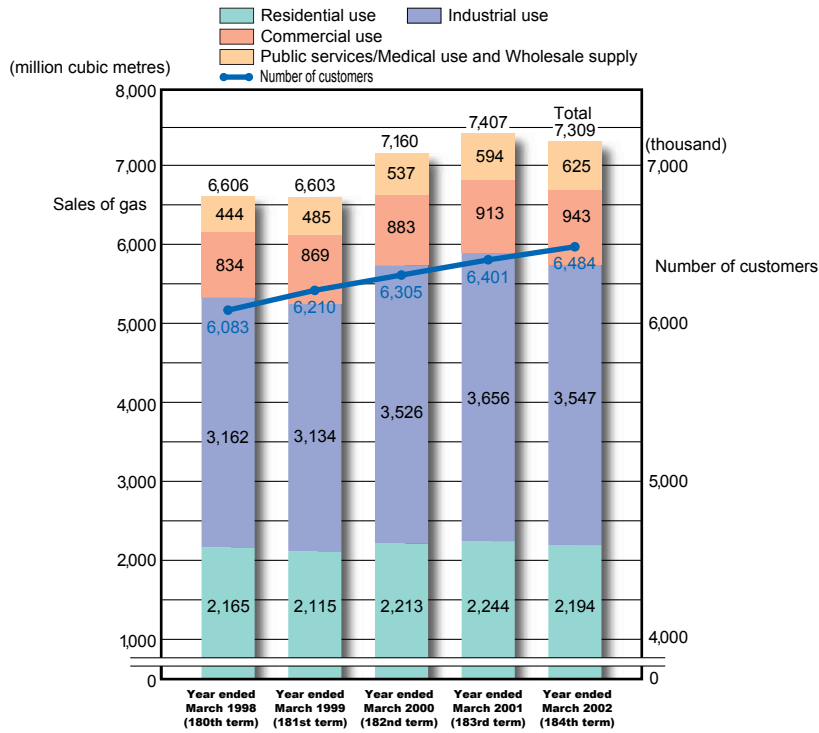
## Outline of Consolidated Cash Flow Statement

(Year from 1 April 2001 through 31 March 2002)

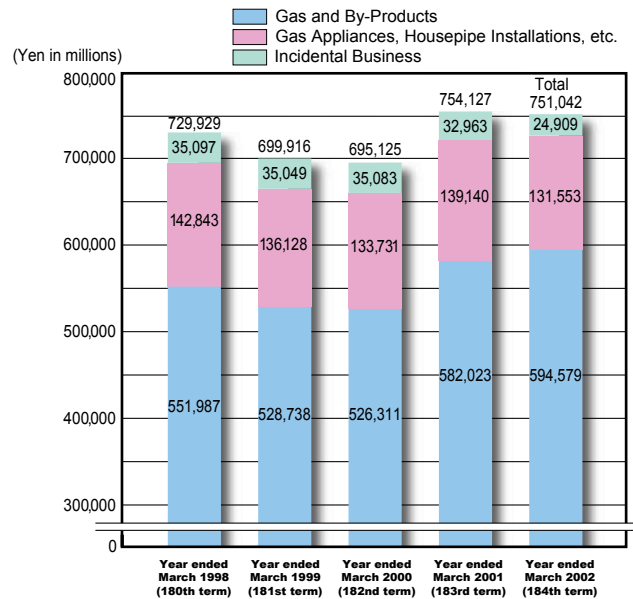
(Yen in millions)

Items	End of this consolidated fiscal year (from 1 April 2001 through 31 March 2002)	End of previous consolidated fiscal year (from 1 April 2000 through 31 March 2001)
Cash flow from operating activities	155,121	140,981
Cash flow from investment activities	(88,546)	(109,047)
Cash flow from financing activities	(82,868)	(27,015)
Increase (decrease) in cash and cash equivalents	(16,287)	4,915
Cash and cash equivalents at the beginning of year	28,676	22,774
Cash and cash equivalents at the end of year	12,837	28,676

### Sales of gas by segment and the number of customers (number of meters installed)

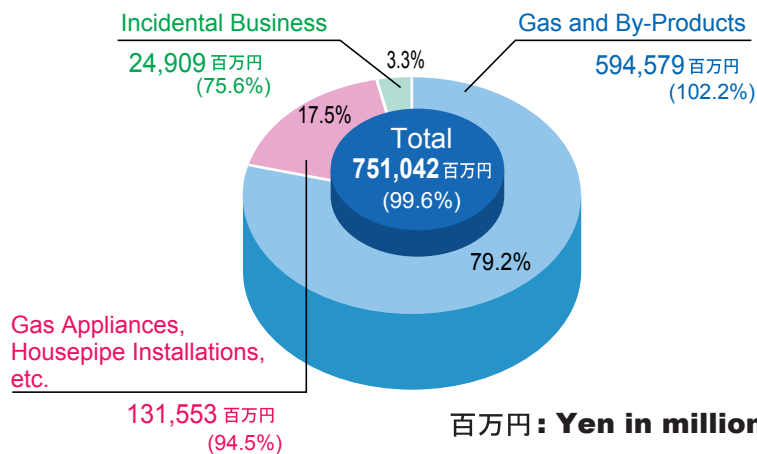


### Sales

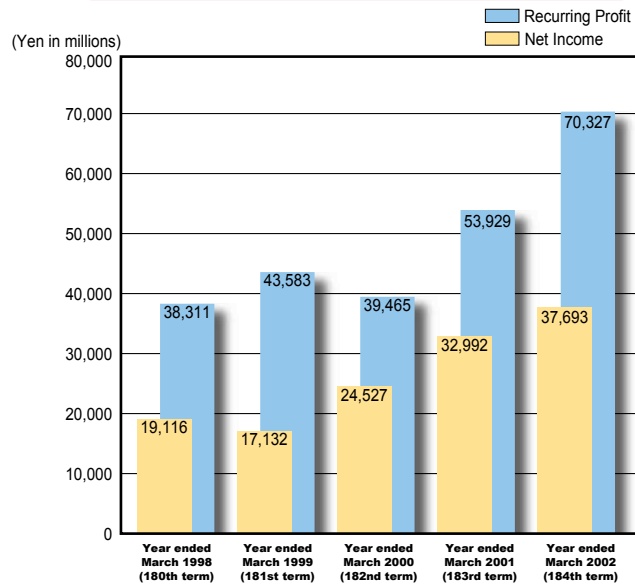


### Sales for each Segment

% in parentheses stands for change over last year.  
Other % stands for the share.



## Recurring Profit and Net Income



## Capital Investment

