

Business Report for the 186th Financial Year
(Year from 1 April 2003 through 31 March 2004)

Osaka Gas Co., Ltd.

Operating Report for the Year ended 31 March 2004

I. Overview

1. Business Operations and Results

(1) Operating Activities

The Japanese economy in this financial year has shown some signs of recovery toward the year-end supported by better export performance and increased capital investment, despite the continuing deflation and severe employment situation.

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 2004.

a) Gas

The number of customers (number of meters installed) increased by 72 thousand to 6.634 million as of the end of this term. Sales of gas increased by 1.0% over the preceding term to 7.766 billion cubic metres.

Despite the relatively high temperature for the winter compared to the preceding year, total sales of gas for residential purposes increased by 0.3% to 2.304 billion cubic metres compared to the preceding financial year, owing to the Company's sales efforts and the increased number of customers.

Regarding gas for non-residential use, although sales of gas for commercial use stayed at the same level as in the previous financial year, sales of gas for industrial and public services/medical use increased by 1.3% and 1.6%, respectively, due to the Company's efforts to increase demand. Total sales of gas for non-residential use increased by 1.1% compared to the preceding financial year to a total of 5.280 billion cubic metres, out of which sales of gas in large supplies were 3.620 billion cubic metres.

Wholesale supply of gas increased by 8.8% to 182 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 a result of the above, revenues from gas sales increased by 0.5% to ¥572.127 billion compared to the preceding financial year.

b) Gas Appliances, Housepipe Installations

The Company has made efforts to expand sales of gas appliances such as the residential gas cogeneration system, "ECOWILL," which efficiently generates electric power and heat necessary for a household, as well as underfloor heating, bathroom heater/drier and gas fan heater for residential use, and it has also aggressively promoted for non-residential use, gas cogeneration systems and gas heat pump-type air conditioning systems, which are environmentally friendly and energy efficient. As a result, the total revenues from the sales of gas appliances increased by 6.2% to ¥97.505 billion compared to the preceding financial year.

Despite a 0.5% increase in the number of new construction works, total revenues from housepipe installations decreased by 3.1% to ¥34.333 billion compared to the preceding financial year, due to a decreased number of large-scale construction works and other reasons.

As a result of the above, miscellaneous business revenues, consisting mainly of revenues from gas appliances and housepipe installations, increased by 3.9% to ¥132.458 billion compared to the preceding financial year.

c) Incidental Business

Incidental business revenues decreased by 0.4% to ¥25.337 billion compared to the preceding financial year.

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 + miscellaneous business revenues + incidental business revenues) increased by 1.1% to ¥729.923 billion compared to the preceding financial year.

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

Despite an increase of depreciation costs with the completion of major facilities, overall costs fell due to the Company's efforts to increase efficiency in its general management.

Consequently, the Company's recurring profit increased by 18.8% to ¥64.379 billion, and its net income increased by 55.1% to ¥39.475 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 financial year ended 31 March 2004 amounted to ¥47.070 billion. The main item of expenditure on production facilities during this term was the work on the No.8 LNG storage tank at the Himeji Terminal which has already been completed. The increase in distribution facilities consisted of an additional 575 kilometres of trunk and branch lines brought the total length of the Company's trunk and branch lines to 45,281 kilometres in the financial year ended 31 March 2004. The work on Kinki Trunkline-Keiji Line has also been completed.

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

(3) Financing Activities

The Company has obtained additional long-term loans aggregating to ¥33.3 billion during this financial year. On the other hand, a decrease in long-term loans amounted to ¥46.818 billion owing to repayments, etc. made during the year.

The Company has not issued any corporate bonds during this financial year, while a decrease in corporate bonds totaled ¥21.0 billion due to redemption and execution of agreements on undertaking of performance of obligation during this financial year.

(4) Outstanding Issues for the Company

The Japanese economy finally began to show some signs of recovery, such as better export performance and increased capital investment. However, how long such economic recovery will last is still unpredictable and it is too early to take an optimistic view of the future economy. In addition, as regulatory reform in the energy market further develops, competition in the market is expected to be more intensified.

In such a business environment, it is of primary importance that the Company becomes “the company selected” by customers and in the local community. In the financial year ending 31 March 2005, which is the second year of the Company’s medium-term management plan, “Innovation 100,” the Company will conduct its business always from the viewpoint of customers and strengthen its price competitiveness by further promoting management efficiency. The Company will also seek to promote natural gas, which contributes to the enhancement of the customers’ convenience and development of industries as well as environmental protection, by actively making comprehensive proposals including those concerning services and engineering, based on a premise of stable energy supply and assurance of safety. In addition, the Company will further develop multi-energy business in which the Company group integrally provides energies requested by customers such as natural gas, electric power and LPG by improving new business opportunities arising through regulatory reform.

In general markets for city gas, the Company will focus on increasing sales of gas by, among other things, utilizing customer-friendly rate plans. In terms of the market for households, the Company will work to further popularize and promote the use of products such as the residential gas cogeneration system, “ECOWILL,” underfloor heating, bathroom heater/drier, residential air conditioning and fan heater, which all promise lifestyle convenience based on gas consumption. The Company will comprehensively meet customers’ requests by providing not only energies but also various services, including a security service utilizing the Internet, called “AIRUSU,” provided in cooperation with one of the Company’s subsidiaries.

In terms of the market for non-residential use, the Company will seek to increase the demand for city gas in dispersed power source markets by proposing a highly efficient and capable gas cogeneration system. The Company will also promote gas heat pump-type air conditioning, "GAS HEAT PUMP AIR-CONDITIONERS," the product lineup for which has been enhanced by introducing a new product having electric power generation function, and natural-gas-powered automobiles. In addition, the Company will propose energy systems best fitted for each customer through the provision of high quality services by utilizing technology such as engineering and maintenance, which the Company has cultivated for many years.

With regard to the improvement of services, the Company will continue its efforts to utilize customers' comments for the improvement of operations, and take more speedy and accurate measures to respond to customers' needs.

With regard to the assurance of safety, while providing sufficient preventive maintenance of gas production and supply facilities, the Company will continue its employee education and training. As to the safety of customer facilities, the Company will continue to provide information on the need and appropriateness for customers to adequately implement repairs.

With regard to the stability of supplies, the Company will further diversify the sources of natural gas and ensure that its gas production and supply system is in good repair.

With regard to environmental issues, while committing to a further increase in the general use of environmentally friendly natural gas, which also follows the direction of the government's energy policy, the Company will be actively involved in environmental protection activities such as commitment to environmental improvement in community, as well as both inside and outside the country by reducing the environmental load through the provision of the Company's products and services.

With regard to technological development, the Company will contribute to environmental protection and energy conservation, as well as focus its efforts on the development of fuel-cells for residential purposes and improvement of efficiency and function of a gas cogeneration system for non-residential use, in light of enhancement of the customers' convenience. In addition, the Company will dedicate its efforts to the efficient operation of customer facilities by utilizing information technology such as remote control systems.

The Company will implement the above measures in an appropriate manner and pursue increases in “Customer Value,” “Shareholder Value” and “Community Value” pursuant to its core objective of “Value Creative Management.” The Company will also strictly comply with the relevant laws and regulations, and continue to make constant efforts for promoting the evolution of the Osaka Gas Group.

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 2000 (182nd term)	Year ended March 2001 (183rd term)	Year ended March 2002 (184th term)	Year ended March 2003 (185th term)	Year ended March 2004 (186th term)
Total Revenues	695,125	754,127	751,042	722,240	729,923
Recurring Profits	39,465	53,929	70,327	54,177	64,379
Net Income	24,527	32,992	37,693	25,453	39,475
Net Income Per Share (yen)	9.82	13.45	15.62	10.77	17.24
Total Assets	1,013,011	1,067,154	1,004,378	972,954	977,805
Net Assets	385,402	418,037	405,922	391,983	417,741

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 has been calculated based on average number of shares issued and outstanding (excluding the Company's own shares) since the 184th term.

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 efficiency, 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 a 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 higher crude oil prices, recurring profit increased by 36.6%, as a result of its efforts to improve overall management efficiency.

Year ended March 2002 (184th term)

Although total sales of gas decreased by 1.3% compared to the preceding financial year, revenues from gas sales increased by 2.2% due to the upward adjustment of unit prices of gas through the sliding rate adjustment system. Decreased raw materials costs caused by the decline in sales of gas and Company efforts to improve overall management efficiency resulted in a recurring profit increase of 30.4%.

Year ended March 2003 (185th term)

Despite a 2.8% increase in total sales of gas compared to the preceding financial year, revenues from gas sales decreased by 4.2% due to the lowering of the price of gas and other causes. As to costs, although the Company has made efforts to improve overall management efficiency, recurring profit resulted in a decrease of 23.0%.

Year ended March 2004 (186th term)

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

II. Outline of the Company (as of 31 March 2004)

1. Principal Activities

- (1) Production, distribution and sales of gas
- (2) Sales of gas appliances and related installation work
- (3) Construction of 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)	205,751

(2) Principal Shareholders

Shareholders	Shareholders' Holding in the Company		The Company's Holding in Shareholder Companies	
	No. (1,000s)	Holding Ratio of Voting Rights (%)	No. (1,000s)	Holding Ratio of Voting Rights (%)
Nippon Life Insurance Company	121,544	5.53	---	---
Japan Trustee Services Bank, Ltd. (trust account)	114,884	5.23	---	---
The Master Trust Bank of Japan, Ltd. (trust account)	75,732	3.45	---	---
UFJ Bank Limited	63,938	2.91	0	0
Resona Bank, Limited	52,778	2.40	0	0
Meiji Yasuda Life Insurance Company	36,289	1.65	---	---
Nissay Dowa General Insurance	30,961	1.41	1,477	0.38
Toyu-kai (Employees' Stockholding)	27,611	1.26	---	---
Sumitomo Mitsui Banking Corporation	24,376	1.11	0	0
Shinsei Bank, Limited	20,144	0.92	0	0

3. Purchase, Reselling, Cancellation, etc. and Holding of the Company's Own Shares

(1) Purchased Shares

Common shares:	66,671,162 shares	Total acquisition cost:	¥20,336,077,190
----------------	-------------------	-------------------------	-----------------

Note: The number of purchased shares which were purchased pursuant to the resolution of the Annual Meeting of Shareholders held on 27 June 2003 was 65,553,000 common shares, total acquisition cost of which was ¥19,991,668,000.

(2) Resold Shares

Common shares:	117,679 shares	Total revenues:	¥35,137,867
----------------	----------------	-----------------	-------------

(3) Share holding as of financial year end

Common shares:	138,236,978 shares
----------------	--------------------

4. Subsidiaries and Affiliates

Outline of Principal Subsidiaries

Company	Capital (Yen in millions)	Holding Ratio of Voting Rights (%) (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
Urbanex Co., Ltd.	1,570	100	Management, operation and lease of real estate; survey and research of urban development
Kinrei Corporation	966	74.82	Operation of restaurants; production and sales of frozen foods
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, carbon products, etc.
OG Capital Co., Ltd.	3,000	100	Management, operation and lease of real estate

(1) Development of Company Affiliation

(i) Changes in Principal Subsidiaries as of 1 April 2003

The Company considers core companies in each business area (each the “Core Company”) as its principal subsidiaries.

Gas and Power Investment Co., Ltd., which had been one of the Core Companies through the preceding financial year, ceased to be the Core Company in connection with the organizational reform implemented on 1 April 2003.

In addition, the Company assigned a part of its shares of Harman Co., Ltd. to Noritz Corp. on 1 April 2003, and the Company now holds 10.00% of the voting rights of Harman Co., Ltd., which ceased to be a subsidiary of the Company.

(ii) Separation of Real Estate Business under a Scheme of Corporate Separation (*Kaisha-Bunkatsu*)

The Company separated a part of its real estate business under a scheme of corporate separation and caused Urbanex Co., Ltd. to succeed to the same on 1 October 2003. OG Capital Co., Ltd. also separated a part of its real estate business under the same scheme and caused Urbanex Co., Ltd. to succeed to the same on 1 December 2003. As a result, the capital amount of Urbanex Co., Ltd. increased by ¥148 million during this financial year.

(iii) Separation of Gas Business, etc. Conducted at Toyooka Office under a Scheme of Corporate Separation

The Company resolved at the meeting of the Board of Directors held on 24 February 2004 that it should separate the gas business, etc. conducted at the Toyooka Office under a scheme of corporate separation and cause a new company to be established thereby to succeed to the same on 25 June 2004.

(2) Result of Company Affiliation

There are 77 consolidated subsidiaries, including 7 of the principal subsidiaries mentioned above, and the consolidated turnover for the financial year ended 31 March 2004 increased by 0.4% to ¥951.324 billion with a consolidated net income increase of 58.5% to ¥47.065 billion compared to the preceding financial year.

5. Major Lenders

Lenders	Loans Outstanding on 31 March 2004 (Yen in millions)	Lenders' Holding in the Company	
		No. (1,000s)	Holding Ratio of Voting Rights (%)
Nippon Life Insurance Company	35,050	121,544	5.53
Development Bank of Japan	23,174	0	0
Sumitomo Life Insurance Company	13,300	12,237	0.56
Meiji Yasuda Life Insurance Company	12,000	36,289	1.65
Daido Life Insurance Company	11,800	2,046	0.09
Fukoku Mutual Life Insurance Company	6,000	6,860	0.31

6. Major Plants and Offices

Major plants and offices of the Company are as follows:

Head Office	Head Office (Osaka Prefecture)
Residential Energy Business Unit	Osaka Residential Sales Dept. (Osaka Prefecture) Nanbu Residential Sales Dept. (Osaka Prefecture) Hokutobu Residential Sales Dept. (Osaka Prefecture) Hyogo Residential Sales Dept. (Hyogo Prefecture) Keiji Residential Sales Dept. (Kyoto Prefecture) Toyooka Office (Hyogo Prefecture) Shiga East Office (Shiga Prefecture)
Commercial & Industrial Energy Business Unit	Osaka Commercial & Industrial Energy Sales Dept. (Osaka Prefecture) Nanbu Commercial & Industrial Energy Sales Dept. (Osaka Prefecture) Hokutobu Commercial & Industrial Energy Sales Dept. (Osaka Prefecture) Hyogo Commercial & Industrial Energy Sales Dept. (Hyogo Prefecture) Keiji Commercial & Industrial Energy Sales Dept. (Kyoto Prefecture)
Pipeline Business Unit	Osaka Pipeline & Facilities Engineering Dept. (Osaka Prefecture) Nanbu Pipeline & Facilities Engineering Dept. (Osaka Prefecture) Hokutobu Pipeline & Facilities Engineering Dept. (Osaka Prefecture) Hyogo Pipeline & Facilities Engineering Dept. (Hyogo Prefecture) Keiji Pipeline & Facilities Engineering Dept. (Kyoto Prefecture)
LNG Terminal & Power Generation Business Unit (Terminals)	Senboku LNG Terminal (Osaka Prefecture) Himeji LNG Terminal (Hyogo Prefecture)
Technology Division (Laboratories)	Energy Technology Laboratories (Osaka Prefecture)

- Notes: 1. The Company implemented an overall organizational reform on 1 April 2003.
2. The Company is planning to separate the gas business, etc. conducted at the Toyooka Office under a scheme of corporate separation (*Kaisha-Bunkatsu*) and establish a new company to succeed to the same on 25 June 2004.

7. Employees

Number of Employees	Average Age (years)	Average Length of Service (years)
7,081	42.8	18.6

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

8. Directors and Corporate Auditors

Name

Akio Nomura	Chairman	
Hirofumi Shibano	President	
Hironori Yamada	Executive Vice-President	President of Administration & General Affairs Division
Yuji Matsumura	Executive Vice-President	Head of Safety and Technology
Hidetoshi Nakatani	Senior Managing Director	Head of Customer Services
Seishiro Yoshioka	Senior Managing Director	Head of Business Innovation by Utilizing IT; President of Strategy & Finance Division; Head, Energy Resources Business Unit
Kunishige Asai	Managing Director	Regional Representative for Kyoto and Shiga; President of Kyoto Research Park Co., Ltd.
Yukihiro Endo	Managing Director	Head, Residential Energy Business Unit
Hiroshi Yokokawa	Managing Director	President of Tokyo Division; Regional Representative for Osaka, Wakayama and Nara
Takashi Nabari	Managing Director	Head, Commercial & Industrial Energy Business Unit
Zenzo Ideta	Managing Director	President of Communication & HR Division
Chiaki Gomi	Managing Director	President of Technology Division
Yoshikazu Ishida	Director	Regional Representative for Hyogo

Yoshishige Suzuma	Director	General Manager, Accounting & Planning Dept.
Hideaki Nagata	Director	Head, LNG Terminal & Power Generation Business Unit
Yoichi Higuchi	Director	Head, Pipeline Business Unit
Katsumi Makino	Director	Vice-President of Strategy & Finance Division
Hiroshi Ozaki	Director	Responsible for Tokyo Representative; Director of The Japan Gas Association
Hiroshi Nishiura	Director	Vice-President of Administration & General Affairs Division; General Manager, General Affairs Dept.
Tsuneo Mitsuda	Director	General Manager, Pipeline & Facilities Engineering Dept., Pipeline Business Unit
Masateru Sato	Director	General Manager, Corporate Sales Dept., Residential Energy Business Unit
Masao Nishino	Director	General Manager, Residential Market Development Dept., Residential Energy Business Unit
Tamotsu Okajima	Corporate Auditor (full-time)	
Keizo Hikasa	Corporate Auditor (full-time)	
Reisuke Shimada	Corporate Auditor	Professor of Faculty of Law of Kansai University
Junjiro Kanamori	Corporate Auditor	Director of International Institute for Advanced Studies

Notes:

- 1) The Chairman, President, Vice-Presidents and Senior Managing Directors are each a Representative Director.
- 2) The following persons were newly elected Directors and Corporate Auditor pursuant to the resolution adopted at the Annual Meeting of Shareholders held on 27 June 2003:

Hiroshi Yokokawa	Director
Hiroshi Nishiura	Director
Tsuneo Mitsuda	Director
Masateru Sato	Director
Masao Nishino	Director
Tamotsu Okajima	Corporate Auditor

- 3) The following persons were transferred to new positions pursuant to the resolution adopted at the Meeting of the Board of Directors held on 27 June 2003 (previous positions in brackets):

Akio Nomura	Chairman	(President)
Hirofumi Shibano	President	(Executive Vice-President)
Seishiro Yoshioka	Senior Managing Director	(Managing Director)
Hiroshi Yokokawa	Managing Director	(Newly Elected)
Takashi Nabari	Managing Director	(Director)
Zenzo Ideta	Managing Director	(Director)
Chiaki Gomi	Managing Director	(Director)

- 4) Corporate Auditor, Tamotsu Okajima, has been elected a full-time Corporate Auditor by the Board of Corporate Auditors after the Annual Meeting of Shareholders held on 27 June 2003.
- 5) Corporate Auditors, Reisque Shimada and Junjiro Kanamori, are both external auditors specified in Article 18, paragraph 1 of the Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha.
- 6) The following Directors and Corporate Auditors retired at the end of the Annual Meeting of Shareholders held on 27 June 2003:

Shin-ichiro Ryoki	Chairman
Yoshikazu Koyama	Managing Director
Tamotsu Okajima	Managing Director
Masakazu Kato	Director
Susumu Mita	Director
Toshio Tsuchiyama	Corporate Auditor
Kojiro Ambashi	Corporate Auditor

Balance Sheets

(As of 31 March 2004)

(Yen in millions)

Assets		Liabilities	
Fixed Assets	822,205	Fixed Liabilities	361,583
Tangible Fixed Assets	601,674	Corporate bonds	218,660
Production facilities	117,468	Long-term loans	100,066
Distribution facilities	372,629	Reserves for retirement allowance	38,110
Operating facilities	86,845	Reserves for repairs of gasholders	1,469
Incidental business facilities	2,332	Other fixed liabilities	3,277
Idle facilities	1,532	Current Liabilities	198,480
Construction in progress	20,866	Fixed liabilities due within one year	13,978
Intangible Fixed Assets	5,261	Trade accounts payable	11,356
Patents	0	Accrued debts	20,702
Leaseholds	3,021	Accrued expenses	56,322
Other intangible fixed assets	2,239	Accrued income tax, etc.	22,752
Investments and Other Assets	215,269	Advance payment	7,155
Investments securities	73,708	Deposits received	1,108
Investment in affiliated companies	75,461	Short-term loans payable to affiliated companies	21,662
Long-term loans receivable of affiliated companies	37,932	Short-term debts to affiliated companies	12,863
Financing receivables	198	Commercial paper	26,000
Long-term prepaid expenses	4,022	Other current liabilities	4,579
Deferred tax assets	14,384	Total Liabilities	560,064
Other investments	10,646	Shareholders' Equity	
Provision for doubtful debts	(-1,084)	Common Stock	132,166
Current Assets	155,570	Capital Surplus	19,482
Cash & bank deposits	6,668	Capital reserve	19,482
Notes and bills receivable	1,545	Other capital surplus	0
Trade accounts receivable	65,891	Profits from reselling of the Company's own shares	0
Trade accounts receivable of affiliated companies	5,063	Retained Earnings	282,269
Accrued payments	16,170	Retained earnings reserve	33,041
Products manufactured	84	Reserves for deferred gain from replacement of designated properties, etc.	224
Raw materials	10,970	Reserves for depreciation of designated gas pipeline construction	1,983
Inventory	8,234	Reserves for losses incurred in overseas investments, etc.	6,222
Short-term loans receivable of affiliated companies	18,239	Reserves for adjustment of cost changes	89,000
Affiliated companies short-term credits	1,451	Special reserves	62,000
Deferred tax assets	11,624	Unappropriated earnings	89,796
Other current assets	10,251	Variance of the Valuation for Equity Securities, etc.	25,228
Provision for doubtful debts	(-625)	Variance of the valuation for other marketable securities	25,228
Deferred Assets	29	the Company's Own Shares	(-41,406)
Discount on issued bonds	29	the Company's own shares	(-41,406)
		Total Shareholders' Equity	417,741
Total Assets	977,805	Total Liabilities & Shareholders' Equity	977,805

(Notes)

1. Significant accounting policies:

(1) Tangible fixed assets are 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 the periodical repair of spherical gasholders, an amount for the next scheduled repair is estimated based on the actual expenditure for the previous period, which is proportionally allotted for the period up to such next scheduled repair.

(5) Consumption taxes, etc. are omitted in the accounting procedure.

2. Total depreciation of tangible fixed assets: ¥1,534,104 million

3. Shares held in subsidiaries that are included under investment in affiliated companies: ¥45,114 million

4. Monetary credit and debt toward subsidiaries that are included in monetary credit and debt toward affiliated companies are as follows:
 - Long-term credit: ¥62,095 million
 - Short-term credit: ¥24,165 million
 - Short-term debt: ¥34,395 million
5. Reserves for repair of gasholders are a reserve provided for in Article 43 of the Commercial Code Enforcement Regulations.
6. Contingent liabilities for guarantees: ¥7,550 million
Contingent liability for debt assumption contracts, etc. of corporate bonds and loans: ¥82,706 million
7. Net assets provided for in Article 124, item 3 of the Commercial Code Enforcement Regulations: ¥25,228 million

Income Statements
(Year from 1 April 2003 through 31 March 2004)

(Yen in millions)

Costs and Expenses		Operating Revenues	
Ordinary Profit and Loss			
Operating Profit and Loss			
Cost of products sold	202,805	Sales of products manufactured	572,127
Inventory at the beginning of the period	86	Sales of gases	572,127
Cost of products manufactured	204,557		
Amount of products purchased	0		
Own use of products manufactured	1,754		
Inventory at the end of the period	84		
(Gross profit on sales)	(369,321)		
Expenses for distribution and sales	236,197		
General administrative expenses	76,915		
(Operating profit)	(56,208)		
Miscellaneous operation expenses	129,067	Miscellaneous business profits	132,458
Installations expenses	33,050	Revenues from housepipe installations	34,333
Appliance sales expenses	96,017	Appliances sales revenues	97,505
		Other miscellaneous business revenues	619
Expenses for incidental business	17,580	Profits for incidental business	25,337
(Operating income)	(67,356)		
Non-Operating Profit and Loss			
Non-operating expenses	10,736	Non-operating revenues	7,759
Interest payments	1,461	Interest earned	452
Interest for corporate bonds	3,625	Dividends earned	1,070
Amortization of discount on issued bonds	2	Revenues from leases	1,494
Loss on redemption of corporate bonds	3,742	Profit on sale of stock investment	1,509
Other miscellaneous expenses	1,904	Other revenues	3,231
(Recurring profit)	(64,379)		
Extraordinary Profit and Loss			
Extraordinary losses	3,503	Extraordinary profit	362
Loss on sale of fixed assets	3,372	Profit on sale of fixed assets	362
Loss on advanced depreciation of fixed assets	130		
(Income before tax)	(61,238)		
Income tax, etc.	17,800		
Adjustments for income tax, etc.	3,962		

Income	39,475		
Total	738,044	Total	738,044
Income			39,475
Retained earnings brought forward from previous financial year			57,212
Interim dividends			6,890
Unappropriated earnings			89,796

Notes: 1. Transactions with subsidiaries

Sales	¥16,448 million
Purchases	¥67,107 million
Non-operational transactions	¥9,072 million

2. Net income per share ¥17.24

Proposed Appropriation of Earnings

	Yen
Unappropriated earnings	89,796,620,901
Reversal of reserves for deferred gain from replacement of designated properties, etc.	7,915,702
Reversal of reserves for depreciation of designated gas pipeline construction	306,306,919
Reversal of reserves for losses incurred in overseas investments, etc.	4,068,680
Total	90,114,912,202
<u>To be appropriated as follows:</u>	
Cash dividends (¥3.00 per share)	6,692,323,683
Directors' bonuses	60,000,000
Earnings to be carried forward	83,362,588,519

Notes:

1. An interim dividend of ¥6,890,691,114 (¥3.00 per share) was paid on 28 November 2003.
2. The reversal amounts for reserves for deferred gain from replacement of designated properties, etc., reserves for depreciation of designated gas pipeline construction and reserves for losses incurred in overseas investments, etc. are those in accordance with the provisions specified in the Special Taxation Measures Law and other provisions, and the figures take into account adjustments for tax effect.
3. Other capital surplus will be carried forward in full to the next financial year.

Certified Copy of Auditors' Report Prepared by Accounting Auditors

Report of Independent Certified Public Accountants

27 April 2004

To: The Board of Directors of Osaka Gas Co., Ltd.

AZSA & Co.

Representative Partner	Certified Public Accountant	Shyuichi Madokoro	[seal]
Representative Partner	Certified Public Accountant	Hiroshi Sonoki	[seal]
General Partner	Certified Public Accountant	Satoshi Kitamoto	[seal]

We have examined the financial statements, i.e., 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 186th business year which was from 1 April 2003 through 31 March 2004, in accordance with Article 2, paragraph 1 of "the Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha." 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. The management is responsible for the preparation of these financial statements and the supporting schedules, and it is our responsibility to form an independent opinion on such financial statements and supporting schedules.

We have carried out this audit in accordance with generally accepted auditing standards in Japan. These auditing standards require that we perform the audit to obtain reasonable assurance about whether the financial statements and the supporting schedules are free of material misstatement. The audit includes an overall examination, on a test basis, of the information in the financial statements and the supporting schedules including an assessment of the accounting policies adopted by the management and the method of application thereof, as well as of the estimates made by the management. We believe that our audit provides a reasonable basis for the expression of our opinion. 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 AZSA & Co. nor any of its partners have any conflict of interests with Osaka Gas Co., Ltd., which is required to be described under the Certified Public Accountant Law.

AZSA & Co.

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

Corporate Auditors' Report

The current audit covers the 186th term which was from 1 April 2003 through 31 March 2004. Each Corporate 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 Corporate 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 shares, 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 AZSA & 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.

27 April 2004

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

Tamotsu Okajima	Corporate Auditor (Full-time)	[seal]
Keizo Hikasa	Corporate Auditor (Full-time)	[seal]
Reisuke Shimada	Corporate Auditor	[seal]
Junjiro Kanamori	Corporate Auditor	[seal]

Note: Corporate Auditors, Reisuke Shimada and Junjiro Kanamori are both external auditors specified in Article 18, paragraph 1 of the Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha.

TOPICS

“ECOWILL” has Won the Grand Prize for Energy Conservation:

The residential gas engine cogeneration system, “ECOWILL,” is a system which efficiently generates necessary electric power and heat by driving a 1kw gas engine and uses such electric power for lighting, etc. and such heat for hot water supply and heating. In recognition of its high energy efficiency, “ECOWILL” has won the Financial Year 2003 Energy Conservation Center Chairman’s Prize among the “Grand Prizes for Energy Conservation” which commend appliances with high energy-saving performance. Sales of the system are also brisk, as the Company sold 3,181 systems during the financial year 2003, which far exceeded the targeted 2,000 systems.



ECOWILL promising a comfortable lifestyle

Release of New KAWAK with Mist Sauna Facility which Provides Easy Way to Enjoy Sauna at Home:

The Company released in April 2004 a new model of bathroom heater/dryer, KAWAK, which has been well-received by customers. The new model has been added a mist sauna facility, which atomizes hot water into mist and fills a bathroom with it, so that you can easily enjoy a sauna at home. Reflecting recently increasing interest in health and beauty, this new KAWAK has acquired a good reputation as a product proposing a new style of bathing.



KAWAK turns your bathroom into a sauna

Glass-topped Kitchen Stoves in Good Demand:

Glass-topped kitchen stoves have been appreciated for their fine appearances and easiness of cleaning. The number of such stoves sold during the financial year 2003 amounted to 73,335 (195% of sales for the preceding financial year) . In particular, kitchen stoves of the “class S” series released in October 2003 have been enjoying popularity among customers as they have a tasteful design and have been equipped with various safety and useful functions. The Company released the latest model of the series in March 2004 to further enhance the product line.



Glass-topped kitchen stove enjoying a good reputation

Gas Air Conditioning System Becoming More Popular:

(1) Gas Air Conditioning System Utilized at Various Places

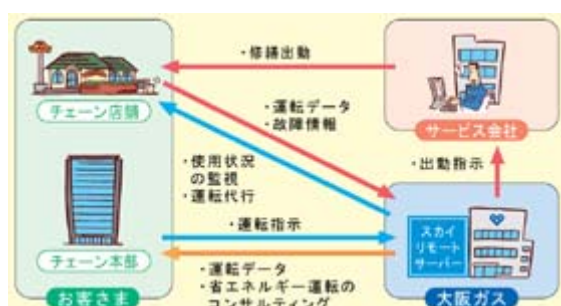
A gas air conditioning system which uses gas for cooling and heating is widely used in large buildings and commercial facilities. Particularly, gas heat pump-type air conditioning, “GAS HEAT PUMP AIR-CONDITIONERS,” is recently growing in number of installation especially in outlets, schools and office buildings. The Company increased its lineup by introducing a new product with electric power generation function, “GAS HEAT PUMP AIR-CONDITIONERS HIGH POWER MULTI,” in April 2003.



Gas air conditioning system which makes outlets and offices be comfortably air-conditioned

(2) Launch of “SKY REMOTE” Service Utilizing the Internet

In November 2003, the Company started to provide “SKY REMOTE” service, with which users can remotely control or check the operational status of “GAS HEAT PUMP AIR-CONDITIONERS,” etc. through the Internet. As the service allows users to remotely control daily operating time and air conditioning temperature, it is utilized by chain stores in order for the headquarters to centralize control of facilities installed in multiple retail outlets. Additionally, in case of any failure of facilities, “SKY REMOTE” can automatically transmit information on such failure, which enables the facilities to be repaired promptly.



System chart of SKY REMOTE (example of use at chain stores)

Electric Power Generation Facilities at the Himeji Terminal will Start Its Operation:

The electric power generation facilities constructed within the premises of the Himeji Terminal for the purpose of development of electric power business, with a generating capacity of 50,000kw of electricity, are going to be in operation from June 2004. The facilities have adopted a combined cycle system (which is a highly efficient electricity generation system using a combination of a gas turbine and a steam turbine) using the most advanced gas turbine, and they can achieve the world's highest level electricity generation efficiency compared with other facilities of the same class. In addition, the facilities are also environmentally friendly, as they are equipped to limit emissions of nitrogen oxide.



Electric power generation facilities at the Himeji Terminal

Development of Technology to Produce Hydrogen from Natural Gas:

The Company has been engaging in the development of technology and equipment to produce hydrogen, which is attracting attention as an energy source for the next generation, from natural gas, and, since April 2003, has been selling the “compact hydrogen producing equipment, HYSERVE,” which is almost one-half of both the size and price of the previous model. In addition to expanding sales of the equipment into industrial fields which require hydrogen, such as the semiconductor industry, the Company will continue its development with the aim of utilization of the technology and equipment at hydrogen stations which provide hydrogen to be used for fuel-cell-powered automobiles.



Hydrogen station established through the project of an independent administrative institution, NEDO (New Energy and Industrial Technology Development Organization), in which project the Company has participated.

“Environmental and Social Action Report 2003” has Won the Environmental Report Award:

The Company has been actively involved in various environmental activities such as introduction of an Environmental Management Index which measures reduction of the environmental load by the amount of money. The Company’s “Environmental and Social Action Report 2003,” which summarized the results of such activities, won the highest award, the Environmental Report Award (Minister of the Environment Award) at “the seventh Environmental Report Awards” held in January 2004, in recognition of the Company’s proactive environmental action and information disclosed in the Report. The Company will continue its efforts to reduce the environmental load through its development of technology to enhance the efficiency of gas appliances and systems, as well as through the promotion of environmentally friendly natural gas.

* “Environmental and Social Action Report 2003” is on the Company’s website:
<http://www.osakagas.co.jp/kankyo/>.



The Company’s “Environmental and Social Action Report 2003”

Homepro Co., Ltd. Providing Web-Based Intermediary Service for Housing Renovation:

One of the Company’s subsidiaries, Homepro Co., Ltd. is serving as an intermediary of housing services such as housing renovation by utilizing the Internet. According to a customer’s request made through the Internet, Homepro introduces several companies that meet the needs of the customer free of charge. Homepro is now attracting increasing attention, for the number of customers registered for the company’s service exceeded 100,000 in November 2003, and it also won the Japan Information Processing Development Corporation President’s Prize in February 2004 at “the fifth Japan IT Management Awards.”

* Homepro Co., Ltd. website: <http://www.homepro.co.jp>



Structure of intermediation of housing renovation

Principal Management Indexes

Non-consolidated basis				Consolidated basis			
Year	Year ended March 2002	Year ended March 2003	Year ended March 2004	Year (Number of consolidated subsidiaries)	Year ended March 2002 (43)	Year ended March 2003 (56)	Year ended March 2004 (77)
Items				Items			
Revenues (Yen in 100 millions)	7,510	7,222	7,299	Revenues (Yen in 100 millions)	9,735	9,479	9,513
Recurring profit (Yen in 100 millions)	703	541	643	Recurring profit (Yen in 100 millions)	759	650	814
Net profit (Yen in 100 millions)	376	254	394	Net profit (Yen in 100 millions)	394	296	470
Shareholders' equity (Yen in 100 millions)	4,059	3,919	4,177	Shareholders' equity (Yen in 100 millions)	4,687	4,532	4,956
Total assets (Yen in 100 millions)	10,043	9,729	9,778	Total assets (Yen in 100 millions)	12,435	12,096	11,992
Net profit per share (Yen)	15.62	10.77	17.24	Net profit per share (Yen)	16.33	12.56	20.56
Shareholders' equity per share (Yen)	171.35	170.60	187.24	Shareholders' equity per share (Yen)	197.85	197.28	222.15
ROE (%)	9.1	6.4	9.8	ROE (%)	8.4	6.4	9.9
ROA (%)	3.6	2.6	4.0	ROA (%)	3.1	2.4	3.9
Free cash flow (Yen in 100 millions)	673	113	569	Free cash flow (Yen in 100 millions)	706	237	732

* Free Cash Flow: Cash flow from operating activities - Capital expenditure

Consolidated Balance Sheets

(As of 31 March 2004)

(Yen in millions)

Assets			Liabilities		
Items	End of this consolidated financial year (as of 31 March 2004)	End of previous consolidated financial year (as of 31 March 2003)	Items	End of this consolidated financial year (as of 31 March 2004)	End of previous consolidated financial year (as of 31 March 2003)
Fixed Assets	995,321	992,799	Fixed Liabilities	442,405	501,869
Tangible fixed assets	795,820	822,179	Corporate bonds	218,880	229,880
Production facilities	117,638	114,098	Long-term loans	157,771	180,585
Distribution facilities	372,430	348,003	Reserves for retirement allowance	42,889	70,585
Operating facilities	87,458	94,769	Reserves for repairs of gasholders	1,530	1,638
Other facilities	189,614	193,648	Others	21,334	19,180
Idle facilities	1,532	1,532	Current Liabilities	252,711	246,343
Construction in progress	27,146	70,127	Fixed liabilities due within one year	29,987	40,002
Intangible fixed assets	27,481	17,880	Notes and bills payable & trade accounts payable	35,778	43,207
Consolidated adjustment account	8,440	9,143	Short-term borrowing	23,189	20,245
Others	19,040	8,737	Accrued income tax, etc.	29,766	17,542
Investments and other assets	172,020	152,739	Accrued expenses	63,426	---
Investments securities	112,885	82,868	Others	70,562	125,345
Deferred tax assets	20,194	38,669	Total Liabilities	695,117	748,213
Others	41,924	33,937	Minority Shareholders' Interest		
Provision for doubtful debts	(-2,984)	(-2,736)	Minority Shareholders' Interest	8,476	8,129
Current Assets	203,877	216,795	Shareholders' Equity		
Cash & bank deposits	19,997	29,705	Common Stock	132,166	132,166
Notes and bills receivable & trade accounts receivable	108,084	113,215	Capital Surplus	19,482	19,482
Inventory assets	31,825	27,618	Retained Earnings	346,558	312,830
Deferred tax assets	14,828	11,554	Variance of the Valuation for Other Marketable Securities	35,903	9,824
Others	29,927	35,432	Foreign Currency Translation Adjustment	2,930	85
Provision for doubtful debts	(-786)	(-731)	Treasury Stock	(-41,406)	(-21,104)
Deferred Assets	29	32	Total Shareholders' Equity	495,635	453,284
Discount on issued bonds	29	32	Total Liabilities, Minority Shareholders' Interest & Shareholders' Equity	1,199,228	1,209,627
Total Assets	1,199,228	1,209,627			

Consolidated Income Statements
(Year from 1 April 2003 through 31 March 2004)

(Yen in millions)

Items	End of this consolidated financial year (from 1 April 2003 through 31 March 2004)	End of previous consolidated financial year (from 1 April 2002 through 31 March 2003)
Revenues	951,324	947,977
Cost of products sold	497,397	502,342
(Gross profit on sales)	(453,926)	(445,635)
Expenses for distribution and sales and general administrative expenses	361,830	359,660
(Operating income)	(92,096)	(85,974)
Non-operating revenues	7,849	6,608
Interest earned	296	241
Dividends earned	908	1,048
Profits on sale of stock investment	2,720	
Other revenues	3,923	5,318
Non-operating expenses	18,498	27,502
Interest payments	7,237	6,149
Loss on redemption of corporate bonds	3,742	
Appraisal loss on stock investment		9,513
Appraisal loss on stock investment in affiliated companies		4,886
Other miscellaneous expenses	7,518	6,953
(Recurring profit)	(81,446)	(65,079)
Extraordinary profit	1,555	11,081
Profits on sale of fixed assets	1,555	2,011
Profits on sale of stock investment		9,069
Extraordinary losses	4,840	25,136
Loss on sale of fixed assets	4,684	11,608
Advanced depreciation deduction of fixed assets	156	232
Early retirement expenses		13,294
(Net profit before adjustments for income tax, etc.)	(78,161)	(51,025)
Income tax, residential tax and business tax	26,870	20,085
Adjustments for income tax, etc.	3,483	649
Interest of a minority shareholder	741	603
Net profit	47,065	29,685

Outline of Consolidated Cash Flow Statement
(Year from 1 April 2003 through 31 March 2004)

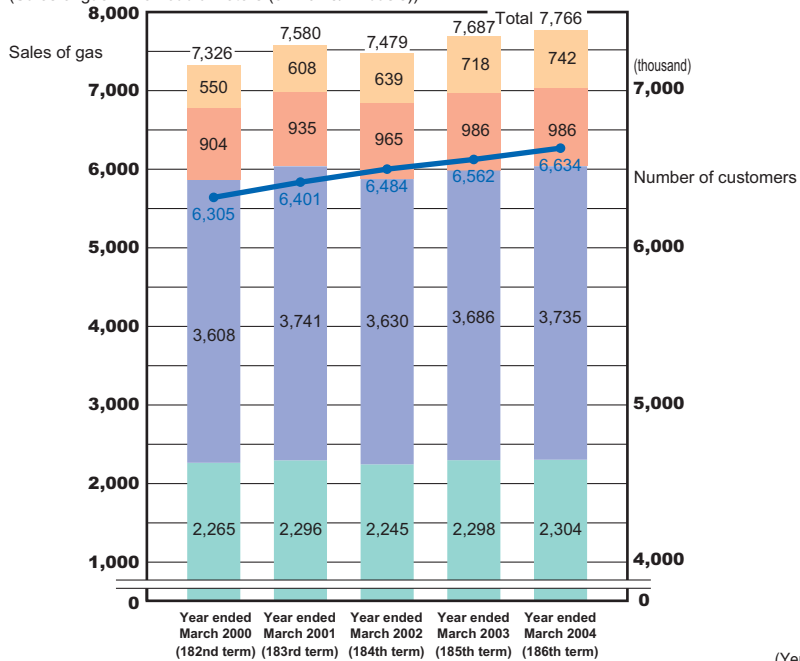
(Yen in millions)

Items	End of this consolidated financial year (from 1 April 2003 through 31 March 2004)	End of previous consolidated financial year (from 1 April 2002 through 31 March 2003)
Cash flow from operating activities	132,891	92,573
Cash flow from investment activities	(-67,877)	(-49,629)
Cash flow from financing activities	(-75,930)	(-30,093)
Increase (decrease) in cash and cash equivalents	(-10,846)	12,831
Cash and cash equivalents at the beginning of year	26,093	12,837
Cash and cash equivalents at the end of year	15,743	26,093

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

- Residential use
- Industrial use
- Commercial use
- Public services/Medical use and Wholesales supply
- Number of customers

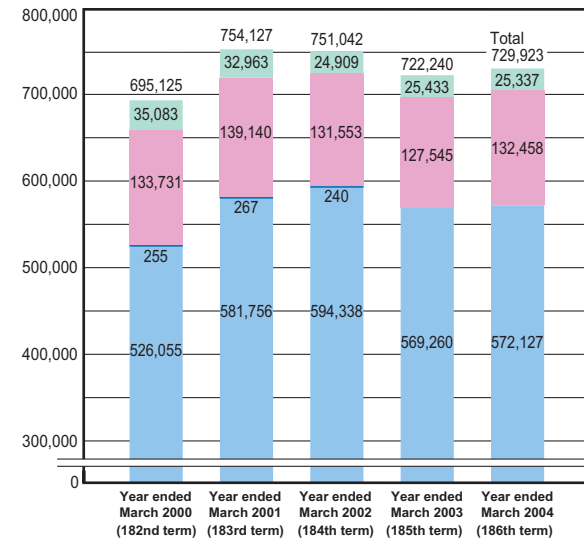
(Sales of gas: million cubic meters (on 45MJ/m³ basis))



Sales

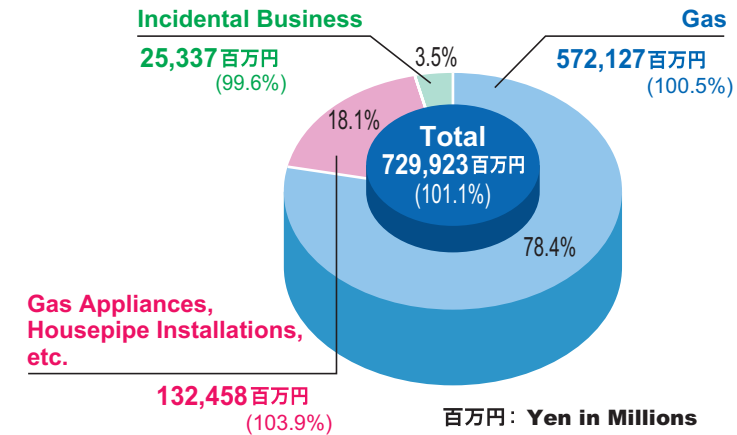
- Gas
- By-Products
- Gas Appliances, Housepipe Installations, etc.
- Incidental Business

(Yen in million)



Sales for each Segment

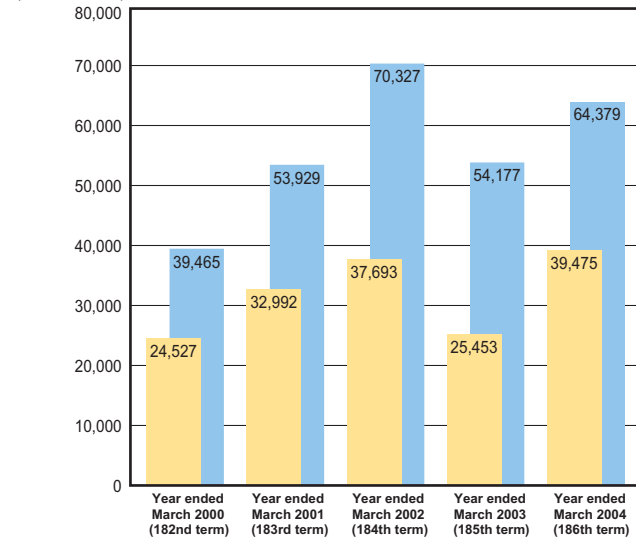
% in parentheses stands for change over last year. Other % stands for the share.



Recurring Profit and Net Income

- Recurring Profit
- Net Income

(Yen in millions)



Capital Investment

- Production Facilities
- Distribution Facilities
- Operating Facilities, etc.

(Yen in millions)

