

Fiscal 2004—Fiscal 2006 Medium-Term Management Plan: INNOVATION CENTENNIAL

In INNOVATION CENTENNIAL, the medium-term management plan announced in January 2003, Osaka Gas is targeting consolidated shareholder's value added (SVA) of ¥35.0 billion by fiscal 2006. This target corresponds to consolidated operating income of ¥113.0 billion and net income of ¥57.5 billion. The primary management targets of the plan are outlined in the table on the right.

To achieve this SVA target, the Osaka Gas Group intends to work aggressively to expand its operations based on unified investment return criteria for the Group. To minimize investment risks arising from changes in the operating environment, the Company strives to precisely invest according to decisions based on investment return criteria on a per-project basis. At the same time, Osaka Gas plans to expand investment while maintaining a sound financial structure, aiming for a debt-to-equity ratio of approximately 1 and a shareholders' equity ratio of more than 40%.

In the medium-term management plan, the Company plans to invest approximately ¥120.0 billion over the three-year period from fiscal 2004 to fiscal 2006 to expand the electricity business, pipeline installation, and upstream operations in the energy business in addition to an investment of ¥197.0 billion to sustain regular operations. Moreover, the Company has set aside approximately ¥120.0 billion to expand the non-energy and other businesses.

INNOVATION CENTENNIAL's Principal Management Targets

Unit: Billions of yen

	Result for fiscal 2003	Target for fiscal 2004	Target for fiscal 2006
Operating income	¥85.9	¥84.5	¥113.0
Ordinary profit	65.0	77.5	100.0
Net income	29.6	42.5	57.5
ROA	2.4%	3.4%	4.1%
ROE	6.4%	9.0%	10.0%
Free cash flows	23.7	56.5	85.0
SVA	3.1	22.0	35.0

Note: For a definition of ordinary profit, please refer to the note on page 7.

As a result, Osaka Gas expects consolidated interest-bearing debt to reach about ¥570.0 billion by March 31, 2006, with a debt-to-equity ratio of 0.95 and shareholders' equity ratio of 42%.

The Company plans to reduce pipeline installation expenses through competitive purchasing, the introduction of large-diameter (300mm) PE pipes, and the expanded application of a non-excavating method for installing steel pipes. During the three-year period from fiscal 2004 to fiscal 2006, Osaka Gas plans to restrict pipeline construction expenditures to ¥197.0 billion, or an average of ¥65.7 billion annually. The Company plans capital investment of ¥313.5 billion over the same three-year period, or an average of ¥104.5 billion per year, including investments to expand operations such as the electricity business.

Application of Consolidated Free Cash Flows

