

To Our Stakeholders: Message From the Management



Akio Nomura Chairman

Hirofumi Shibano President

Consolidated Results for Fiscal 2006

In fiscal 2006, ended March 31, 2006, the Osaka Gas Group posted growth in sales and profits compared with the previous fiscal year, achieving record highs in operating revenues, operating income, ordinary profit, and net income. Thanks to efforts to expand sales of gas and to reduce costs throughout our business, we attained the ultimate goal of our medium-term business plan Innovation Centennial—consolidated ordinary profit of 100 billion yen. The fiscal year under review was the final year of the plan, which covered the fiscal years 2004 to 2006.

Consolidated operating revenues climbed 90.6 billion yen from the previous fiscal year, reaching 1,065.9 billion yen. Among the factors contributing to growth in operating revenues were a greater volume of gas sold, a higher sales price based on the fuel cost adjustment system due to the rise in the cost of LNG, business expansion of existing consolidated subsidiaries, and an increase in the number of consolidated subsidiaries.

Operating income rose 4.6 billion yen compared to the previous fiscal year, to 100.6 billion yen. There was an increase in the cost of sales because of a higher volume of gas sold and greater gas material costs along with the rise in crude oil prices.

Nevertheless, we achieved growth in operating income through continued efforts to reduce costs throughout our business including those related to gas supply and marketing as well as general and administrative expenses. Ordinary profit expanded 5.8 billion yen year on year, to 103.3 billion yen, due to an increase in return from investments by affiliates.

Net income gained 30.0 billion yen from the previous year, jumping to 80.7 billion yen because of extraordinary gains from the settlement payment related to revision of LNG handling contracts.

SVA Management Through Selection and Concentration

The Osaka Gas Group has used shareholders' value added (SVA) for some time as a tool in pursuing management methods that recognize capital costs. Specifically, Osaka Gas makes concerted efforts to maximize SVA by taking an aggressive investment approach to business fields that enhance SVA. On the other hand, affiliated companies with negative SVA become the focus of restructuring measures, including withdrawal, except under special circumstances, such as a brief operational period after business launch.

Progressive reforms are under way in the energy market in Japan, and recognizing these reforms as an opportunity for new business, we are targeting growth as a group by actively reinforcing our core gas business, while at the same time developing a portfolio of new energy businesses including electricity and LPG.

Against this backdrop, the Group has made unprecedented new investments in growth businesses and proceeded with a revision of our Group business structure. In fiscal 2006, our investments in growth businesses included buying interests in oil and gas fields overseas in our upstream energy business, purchasing independent power producers (IPPs) in the United States and Spain in our other energy business, and acquiring the environmental and carbon material business of Takeda Pharmaceutical Co., Ltd. in our non-energy business. Furthermore, we took decisive action to divest Kinrei Co., Ltd., partly because its correlation with other Group business had weakened in recent years, but also to accelerate its growth rate. Kinrei is a food and restaurant business that got its start using the cryogenic energy of LNG in its business.

Management Policies and Goals for Fiscal 2007

In the fiscal year ending March 2007, we forecast that consolidated operating revenues will increase 116.1 billion yen compared with fiscal 2006, rising to 1,182.0 billion yen. The factors driving this growth include an increased volume of gas sold due to the development of new demand and a higher sales price based on the fuel cost adjustment system due to the rise in the cost of LNG. Business expansion of existing consolidated subsidiaries will also contribute to expansion in operating revenues.

We estimate that operating income will decline 14.6 billion yen to 86.0 billion yen and ordinary profit will decline 16.8 billion yen to 86.5 billion yen. Although we will continue our efforts to reduce costs, profits will fall due to a drop off in revenues from our associated businesses due to the revision of LNG handling contracts. Consequently, we forecast that net income will decline 31.2 billion yen, to 49.5 billion yen, falling further than operating income and ordinary profit because of the lack of the substantial extraordinary gain posted in fiscal 2006.

	(Millions of yen, %)		
	FY2006/3	FY2007/3 Forecast	Change
Operating revenues	1,065,900	1,182,000	+10.9
Operating income	100,600	86,000	-14.5
Ordinary profit	103,300	86,500	-16.3
Net income	80,700	49,500	-38.7

Management Policies for Fiscal 2007

1. Radically Boost Competitiveness in the Gas Supply Business

- 1-1. Strengthen relationship with customers, furthering promotion of the benefits of gas
- 1-2. Expand profits from gas sales
- 1-3. Provide safe and reliable gas supply services with attractive benefits for customers

2. Solidify Base as a Multi-energy Supplier

- 2-1. Develop an electric power business that is a leading competitor in the market
- 2-2. Build geographically expanded energy business with strong earnings potential

3. Ramp up Selection and Concentration Strategies in Group Businesses

4. Further Reinforce Management Structure

- 4-1. Continue to enhance cost competitiveness, becoming a leaner company
- 4-2. Concentrate power on development of technologies that will support the Osaka Gas Group's future development
- 4-3. Continue to be an innovative and dynamic company
- 4-4. Put the Group management philosophy into practice, increasing the value of the Osaka Gas brand

Capital and Dividend Policies

It has been the policy at Osaka Gas to actively pursue profit growth by expanding revenues and increasing operating efficiency. We have retained these profits to strengthen our financial structure and achieve further expansion, as well as to pay stable dividends to our shareholders. Our basic dividend policy is to maintain stable interim and year-end dividend payments. In declaring dividends, we take into account the Company's overall circumstances, including performance, business plans, and other forms of returning profits to shareholders. We endeavor to keep the dividend payout ratio at 20% or greater. The remaining retained earnings are allocated to capital investments and investments in new business.

For fiscal 2006, we paid an annual dividend of 7 yen per share comprised of a 6-yen per share regular dividend and a 1-yen per share commemorative dividend in celebration of our centennial anniversary. For fiscal 2007, we plan to maintain the current level of dividends by transferring the commemorative dividend into the regular dividend amount, resulting in an annual dividend of 7 yen per share.

Corporate Governance and Corporate Social Responsibility

Commencing in 2000, we have progressively reduced our number of directors to promote greater management efficiency and to speed up decision-making. In June 2006, we took further steps to improve the soundness of our management and to enable us to respond faster and more accurately to changes in our operating environment.

We substantially cut the number of directors and introduced an operating officer system. By concentrating the efforts of the Board of Directors on making management decisions on managerial issues faced by the overall Osaka Gas Group and on monitoring and oversight of business operations, we have further revitalized the role of the Board of Directors, increasing management efficiency and enhancing business oversight. The newly appointed operating officers on the Board of Directors are responsible for the execution of specific business activities.

The Osaka Gas Group's fundamental management principle is to allocate top priority to maximizing value for customers in pursuing Value Creation Management that enhances value for all stakeholders, including customers, shareholders, society and employees. We believe that the pursuit of Value Creation Management is fundamental to our corporate social responsibility (CSR) activities. We have had the Code of Conduct and Environmental Activities Philosophy for some time, and conduct environmental preservation, compliance, and social contribution activities.

In April 2006, to further clarify our CSR principles and our commitment to society, we created the Osaka Gas Group CSR Charter. At the same time, we established a CSR promotion organization, including a CSR Promotion Council, CSR Committee, and CSR Executive. By ensuring that the directors and employees of the Osaka Gas Group adhere to the principles of the CSR Charter, we aim to become the corporate group of choice for customers, business associates, and regional communities.

In Closing

Osaka Gas celebrated its 100th anniversary in October 2005. In its second century of operations, the Group plans to remain a sound corporation that continues to evolve and innovate in its businesses as it targets sustained development. Moreover, we will take additional steps toward becoming our customers' corporate group of choice. Among our objectives is increasing management flexibility to accurately respond to changes in the business environment. In addition, we aim to achieve full-line services in our energy business and establish a dominant competitive position for the Group in all aspects of our business—cost, efficiency, low environmental impact, and safety and reliability.

In meeting the challenges of our second century of operations, we ask for your continued support and understanding.



Akio Nomura Chairman



Hirofumi Shibano President