

The Second Century—a New Start

Osaka Gas Group Medium-term Business Plan, Design 2008 (fiscal 2007 to fiscal 2009)

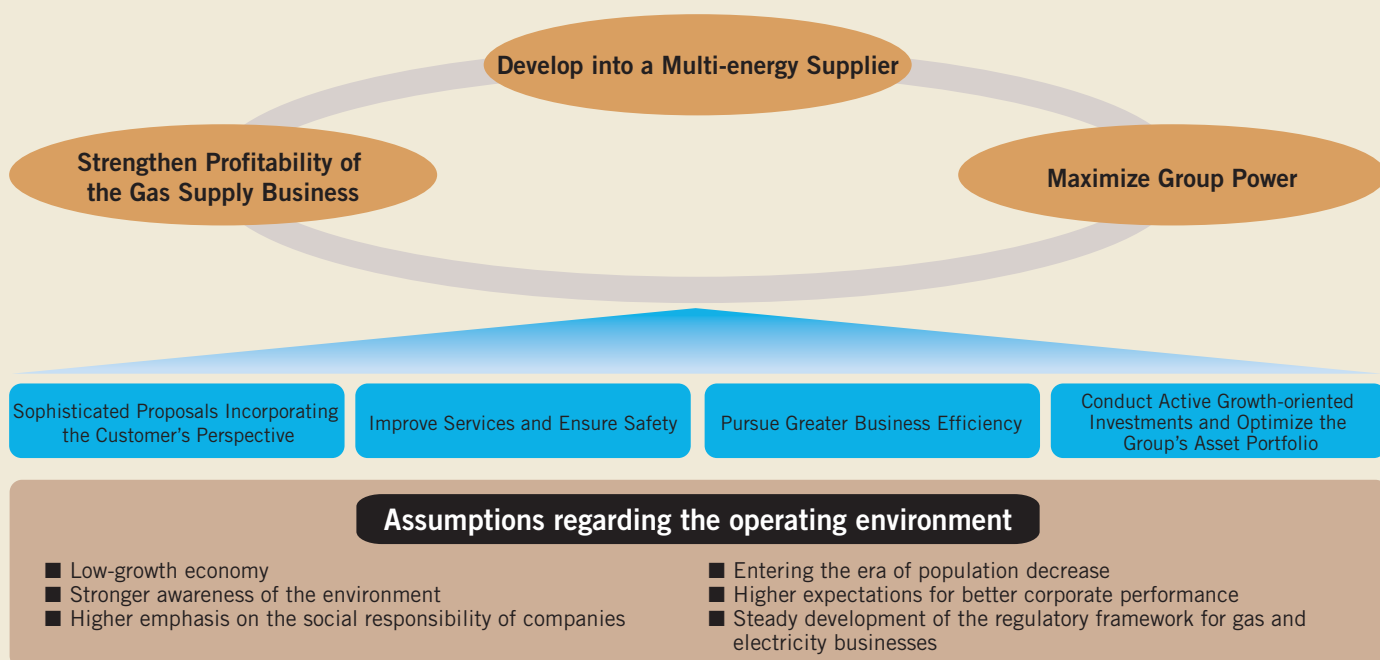
Design 2008

Having just celebrated its centennial anniversary, the Osaka Gas Group has positioned the three-year medium-term business plan starting in fiscal 2007 as a period of evolution and reform to establish a foundation to continue achieving sustained growth throughout its second century.

From the viewpoint of management, we expect the next three years to be a difficult period. Amid intensifying competition, we need to make focused investments in such projects as the Senboku Natural Gas Power Plant to establish the basis of a multi-energy supply business.

We also intend to survive the competition in the gas supply business by greater earning power achieved through even greater management efficiency. All our efforts will be premised on offering innovative solutions tailored to our customers and improving services and assuring safety. We will also establish our identity as a multi-energy supplier by enhancing our Group strength through an aggressive growth-oriented investment strategy and optimization of the Group's asset portfolio.

Having transformed ourselves during this period into a powerful corporate group, we will then reap the fruits of our earlier growth-oriented investments, such as the FY2010 full-scale start of an electricity retail business utilizing new large-scale electric power generation facilities. Through these measures, the Osaka Gas Group will enter an era of continued growth in its second century of operations.



Design 2008



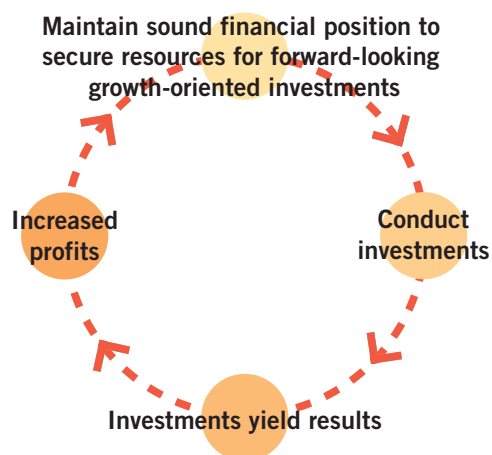
The Design 2008 Medium-term Business Plan

Profit Targets for Fiscal 2009

Osaka Gas will continue to focus on natural gas, and our gas supply business will continue to be our major source of earnings. Considering the trend of lower growth of the economy of the Kansai region, the falling birth rate, and intensifying competition, however, there is a risk that concentrating only on the gas supply business could lower our chances of achieving sustained growth.

In order for Osaka Gas to attain continued expansion into the future, we have to further build our competitiveness in the gas supply business. Other urgent tasks required for sustained growth include becoming a multi-energy supplier by building new core businesses, such as full-scale development of the electric power business, geographic expansion of our energy business, and enlarging operations in advantageous non-energy fields. During the three years of Design 2008, we will make growth-oriented investments totaling ¥256.0 billion. Including returns on previous growth-oriented investments, we are aiming to reach consolidated ordinary profit of ¥100.0 billion by the end of the medium-term business plan.

Attaining this profit goal will allow us to restrict the growth in our interest-bearing debt and continue to maintain a strong financial position as well as providing the funds needed to invest in further growth. By reaping the benefits of those investments, we will create a growth cycle that will be the basis for maintaining sustained expansion throughout our second century.



Principal Management Targets and Results (Consolidated)

Billions of yen	'06.3/R	'07.3/E	'09.3
SVA*	55.3	23.5	26.0
Operating income	100.6	86.0	102.0
Ordinary profit	103.3	86.5	100.0
Net income	80.7	49.5	56.0
EPS (yen/share)	36.1	22.2	25.0
ROE (%)	13.9	7.7	8.7

* SVA (Shareholders' Value Added) = net income before interest and income taxes – corporate taxes – cost of capital

Management's Direction Under the Design 2008 Medium-term Business Plan

Strengthen Profitability of the Gas Supply Business



Gas supply business will remain the core of our multi-energy supply business. Together with our Group companies and external business partners, we will take different steps to address a variety of customers' needs. We will propose solutions supported by technological and engineering prowess developed over the years. We will offer comfortable, convenient, safe and energy-efficient gas systems. Our rate schedule will be made easy to use. The Group will supply customers with a wide range of products, including electricity, LPG, security services and internet services, combined with a strong capability for providing services and proposing innovative solutions. We will thoroughly utilize our infrastructure assets, including pipeline networks, to serve customer needs. Through these actions, we will find ways to cope with the population decrease in the Kansai region and the intense competition in the energy sector, thereby achieving sustained growth in the volume of our gas sales.

Continuing to improve services and ensure safety, we will maintain and strengthen our price competitiveness by providing lower gas rates and the pursuit of greater business efficiency.

Develop Into a Multi-energy Supplier



Recognizing the liberalization of the energy market in Japan as a business opportunity, we intend to overcome the intense competition in the market and build an independent future for the Osaka Gas Group as a multi-energy supplier.

To that end, we will set our profit targets high based on business expansion and thoroughgoing cost reductions. With the cash flow produced, we will actively make growth-oriented investments in fields that will contribute to the medium- to long-term growth of our domestic energy business, such as the domestic electricity retail business or expansion of our natural gas business, and in overseas independent power producers (IPPs) or upstream interests in energy development that could be expected to quickly contribute to consolidated profits.

In other words, we will undertake full-scale development of electricity retailing as our second core business while also expanding our energy business to include the entire value chain, from upstream to downstream, both in Japan and overseas.

Maximize Group Power



Under the new group management organization introduced in July 2005, we are seeking to maximize the strengths of the Group. In our LPG and real estate businesses, we look to take maximum advantage of synergies with the energy business in pursuing growth. We will make our IT and chemical products and carbon materials businesses fully autonomous to enable them to pursue business outside the Group and contribute to consolidated profits.

To implement these measures, we are actively undertaking growth-oriented investments in fields where there is market growth and the Group has business advantages (concentrated investment), while also actively selecting highly efficient Group businesses (selective investment). Through this process, we are optimizing the Group's asset portfolio.

Strengthening Profitability of the Gas Supply Business

Maintaining Sustained Growth in Gas Sales

At this point, the population growth of the Kansai region is constrained. However, as the number of people per household is falling, there is expected to be a slight increase in the number of households. Growth in the number of households will contribute to increased gas sales and to sales of gas appliances, especially those for space heating. For these reasons, we anticipate that residential gas sales will remain in a growth trend.

In the non-residential gas fields, such as commercial and industrial gas, we are expecting sales growth to be limited because of the constrained expansion of the Kansai regional economy. With limited growth anticipated in the overall energy consumption in the regional market, gas has increased its market share up to now at the expense of other energy fields. In future, we plan to maintain our sales growth by enlarging our market share.

Residential Gas Business—Building a Closer Relationship With Customers

To address the intensifying competition with all-electric systems for households, we are taking steps to get customers to recognize the advantages of gas and gas appliances. We are attracting customers by making sophisticated and innovative proposals that fully comprehend their needs, offering them an upgraded level of comfort in their lifestyles. On the occasion of our centennial anniversary, the Osaka Gas Group is dedicated more than ever to collaborating in making gas the energy of choice.

Commercial and Industrial Energy Business—Thorough Deepening of Area Market

We plan to achieve sustained growth in our energy businesses by differentiating ourselves in the market through our proven record in natural gas utilization technologies. We also will apply our “Only One Business Model,” which offers individual customers an optimum energy solution. To provide that solution, the model combines multi-energy supplies of natural gas, electricity, liquefied natural gas (LNG), and others; an Eco Wave energy service utilizing advanced financial management technologies; and an energy management service featuring IT-enabled remote monitoring systems.

Strengthening Supply Infrastructure Through Strategic Pipeline Construction

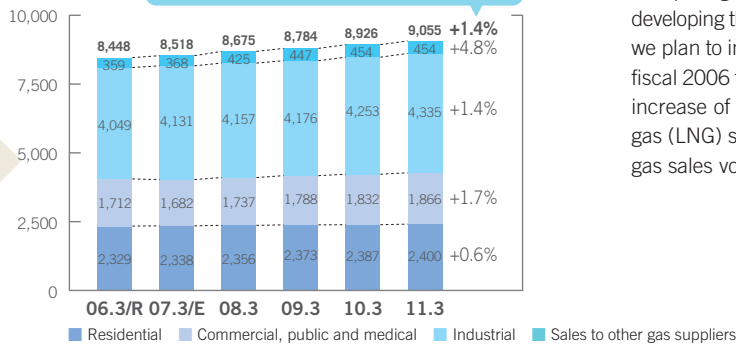
We will continue our investment in infrastructure to develop demand, primarily in such regions as the Yokaichi area in Shiga Prefecture and the western part of Himeji in Hyogo Prefecture. In addition, we are proceeding with construction of the Shiga Line, a pipeline which stretches for approximately 46 kilometers between Kusatsu City and Taga Town in Shiga Prefecture, to meet increased demand for gas supply in Shiga Prefecture. The Shiga Line is scheduled to be completed in October 2006.

To improve the stability of gas supplies, we are working jointly with the Chubu Electric Power Co., Inc. in laying the Mie-Shiga Line, a pipeline approximately 60 kilometers long running between Taga Town in Shiga Prefecture and Yokkaichi City in Mie Prefecture. The pipeline is scheduled to be completed in the fiscal year ending March 2011.

Projected Gas Sales

(45MJ/1000 m³)

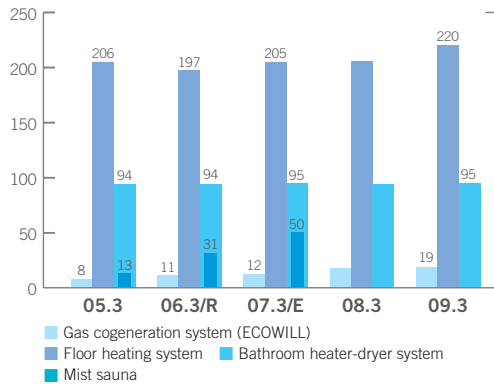
Average annual percentage change from fiscal 2006 to fiscal 2011 (estimated)



Competing rigorously with electricity in the residential market and developing the demand for gas in the commercial and industrial markets, we plan to increase gas sales volume from 8.45 billion cubic meters in fiscal 2006 to an estimated 8.78 billion cubic meters in fiscal 2009, an increase of around 0.30 billion cubic meters. Including liquid natural gas (LNG) sales outside our supply region, we will continue to expand gas sales volume.

Projected Sales of Strategic Products for Residential Market

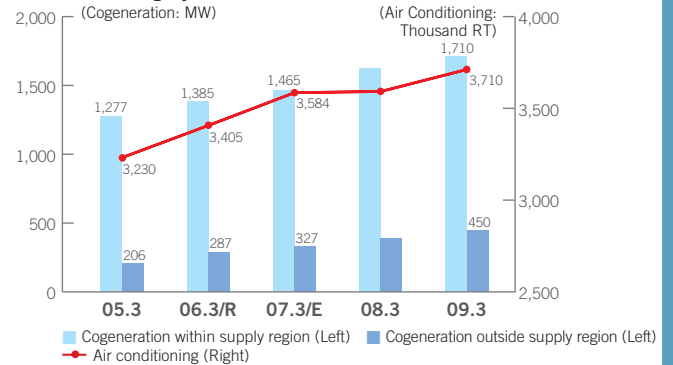
(Thousand units per year)



We will deliver “the good life” and a greater degree of satisfaction to more customers, mainly by promoting sales of innovative gas appliances. ECOWILL is a gas cogeneration system for homes offering superior environmental, economic, and comfort benefits. We have a bathroom heater-dryer system with a mist sauna function that offers the ease of use possible only with gas. NOOK is a gas hot water floor heating system. Along with these gas appliances, we will also recommend comfortable, convenient and safe products and services developed through the combined expertise of the Group companies, such as the home security service I-rusu. Moreover, to contribute to increased energy conservation, we will aim to upgrade the power generation efficiency of ECOWILL and work to popularize use of our highly efficient condensing hot water heater Eco-Jozu.

In this field, we will develop new cogeneration systems with reduced costs and improved power generation efficiency. To improve air conditioning systems, we will promote the use of gas heat pump air conditioners for commercial use equipped with an electricity generating function, aiming to integrate air conditioning and power generation and to reduce energy costs borne by the customer. To introduce progressive heating systems, we will promote the use of environment-friendly natural gas based on our innovative technology. In this process, we will take advantage of unique technologies and engineering prowess developed over many years in such areas as natural gas combustion technologies tailored to manufacturing processes and the Only One Burner systems tailored to specific needs in different industries and business styles.

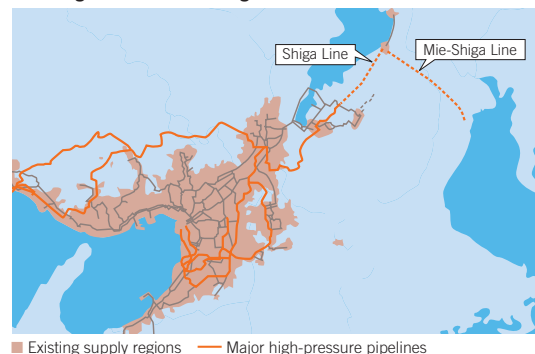
Cumulative Capacities of Gas Cogeneration Systems and Gas Air Conditioning Systems Installed



Possible methods of expanding our gas business include acquiring new customers in existing supply regions, increasing the volume of gas used by existing customers, and broadening our operating area to develop new demand in new supply regions.

On the east side of our current supply region, we are constructing two pipelines to develop demand: the Shiga Line and the Mie-Shiga Line. On the west side, we are conducting exploratory work for laying a gas pipeline between Himeji City and Okayama City.

The Shiga Line and Mie-Shiga Line Routes



Developing Into a Multi-energy Supplier

Full-scale Development of the Electric Power Business

As a Group, we believe that the gas supply business alone will be insufficient to meet our stakeholders' expectations of growth in corporate value under the current economic conditions in Japan. For that reason, we are aiming to create a multi-energy supply business, including electricity, to drive the Group's growth in future.

We have accumulated a great deal of know-how about the energy industry through our sale of gas and gas appliances over the years. This knowledge means we are able to provide full-line consulting services to our customers regarding all their energy needs, including electricity. Moreover, we intend to own highly competitive electric power generation facilities in future. Combining competitive electricity supply with our gas facilities will enable us to provide customers with comprehensive energy services, affording the Osaka Gas Group a competitive advantage in the energy sector.

Against this backdrop, we are commencing full-scale development of the electricity business as shown below. In line with this full-fledged development of the electricity retail business, we will offer customers the best energy mix for their needs: gas, electricity based on gas cogeneration systems, or electricity. In this way we will accelerate a dual approach to growth based on the gas supply and electric power businesses.

In our IPP business, following our acquisition of the Tenaska Gateway IPP in the United States, and the Amorebieta IPP in Spain, we purchased nine IPP assets owned by Fort Point Power LLC, of the United States. In future, we will continue to look for new high-grade investment opportunities, mainly overseas, to build our knowledge of the electricity business and to increase earning capacity.

Development of an LNG Upstream Business

In the international LNG market, we expect the supply-demand balance to remain tight. Consequently, we plan to secure a stable supply of LNG for the Osaka Gas Group and reduce our LNG procurement costs, as well as use our accumulated know-how and networking assets to expand earnings. We will achieve this by entering upstream businesses.

In our gas and oil production businesses, we are preparing to commercialize the operations of the Greater Sunrise Gas Field and other fields in which we have acquired interests. We will also continue to seek high-grade investment opportunities, such as participation in LNG projects and the recent acquisition of a stake in Idemitsu Snorre Oil Development Co., Ltd. These investments will contribute to stabilizing our supply, to natural hedging of our risks by achieving a balance between our upstream and downstream businesses, and to growth in consolidated profits.

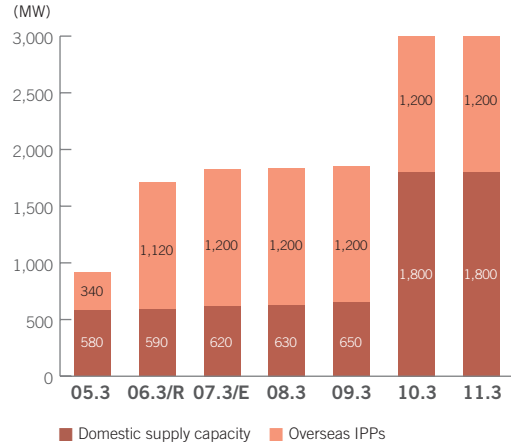
We are pursuing our LNG transportation business as a contributor to lower costs in the gas business and as a new source of earnings. On the cost side, by having independent transportation capacity, the Group can source LNG supplies economically. In addition, against a backdrop of globally rising interest in LNG use, we anticipate business opportunities for a transportation business that can contribute to eliminating the gap between demand and supply.

■ Source of Electricity

Prior to the startup of the Senboku Natural Gas Power Plant, which is slated to come onstream in 2009 with capacity of approximately 1,100 megawatts, we intend to procure electric power from various sources. We will build a competitive electric power supply portfolio by purchasing surplus power from customers' cogeneration systems (power exporting cogeneration systems) and using the Japan Electric Power Exchange that opened in April 2005, as well as using our own electric power sources. Furthermore, we will start full-scale development of an electricity retail business tailored to customers' needs, utilizing the customer sales networks built up through our gas supply business.

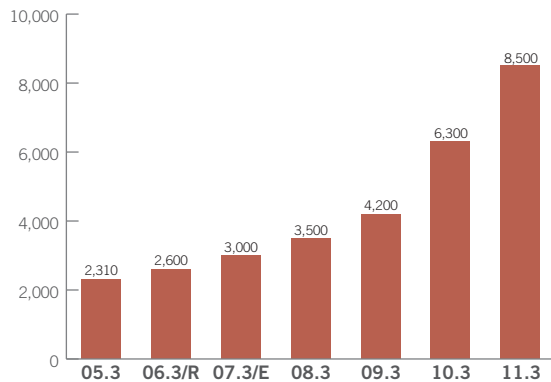
Installing highly efficient, large-scale cogeneration systems to meet customers' thermal energy demand, we will purchase the surplus electricity produced by these cogeneration systems. These heat and electricity supply systems conserve energy and reduce costs, and we are aiming to increase their electric power exporting capacity to approximately 200 megawatts by 2010.

Electric Power Procurement Forecasts



Domestic Electric Power Sales Forecasts

(GWh/Year)



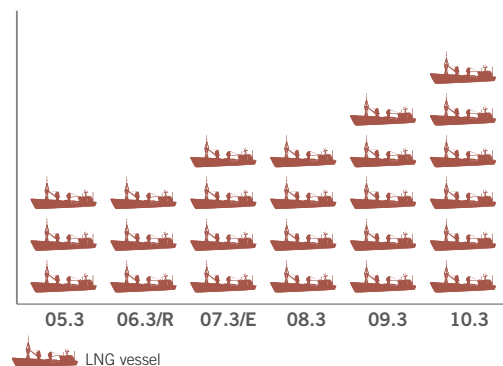
■ Sales Plan for Electric Power Business

We are endeavoring to achieve low construction and maintenance costs at our Senboku Natural Gas Power Plant. To realize a natural gas-fueled electric power station that is highly competitive in the market, we are also targeting low cost operations by not hiring additional staff, using the existing staff to run the LNG terminal and the power generation operations.

We envisage the scale of our overall electricity business around 2010 to be approximately 1,800 megawatts, or about 3,000 megawatts if the capacity of our overseas IPPs is included. This figure combines our own generation capacity and that of our domestic IPPs. Our annual electricity sales in the domestic market will be about 8,500 GWh, yielding an ordinary profit of ¥10 billion.

We will increase our fleet of LNG vessels from three to five by fiscal 2009, further expanding this figure to six in fiscal 2010. By increasing our independent transportation capacity, we plan to reduce transportation costs. Concurrently, we will expand our transportation and trading businesses using the excess capacity provided by the larger fleet.

Projected Number of LNG Vessels



Maximizing Group Strength

Growth Strategies in Non-energy Businesses

In the past, we have developed non-gas businesses in various fields closely related to our gas business. We are now proceeding with evaluation of those non-gas businesses in terms of degrees of synergy, their SVA, contribution to consolidated profits, autonomy, competitiveness, and market growth potential. Based on this assessment, we are selecting appropriate strategies for each segment, such as market exit, divestiture, and integration with another company.

During the fiscal year under review, we proactively worked to transform ourselves into a highly efficient Group, aiming to optimize our Group asset portfolio. Among the steps taken, a Group company, Osaka Gas Chemicals Co., Ltd., acquired Japan EnviroChemicals, Ltd. for the purpose of strengthening our carbon materials business. In contrast, because synergies between the Group businesses and Kinrei Co., Ltd. have dissipated, we sold this food product and restaurant business in fiscal 2006.

Innovating Businesses Based on R&D, Engineering, and IT

Our technology and product development efforts are thoroughly selective and concentrated in their investment of resources, focusing on fields that can contribute to strengthening our competitiveness in the energy business. Our targets include substantially improving the electric power generating efficiency of our gas cogeneration system ECOWILL for the residential gas market and our industrial cogeneration systems. We also are working to achieve combined air conditioning and electric power generation in our gas heat pump air conditioners and substantial cost reductions in our gas appliances.

We are in the process of developing fuel cell cogeneration systems for the residential market. Test models in actual customers' houses have been installed and their operation monitored. The data is being used to improve power generation efficiency, durability, and economy. We aim to commercialize the product as soon as possible.

We also are actively utilizing IT to expand and upgrade the range of services we offer in our energy-related businesses. Echo Line collects and makes available useful information for monitoring, control, and prognostic maintenance of cogeneration systems. SKYREMOTE remotely monitors the operation of gas heat pump air conditioners and cogeneration systems, enabling rapid response to system breakdowns. We also make an energy conservation navigation system that uses a remote controller in the kitchen to control energy use in a home, while Iruusu is an Internet-based home security service.

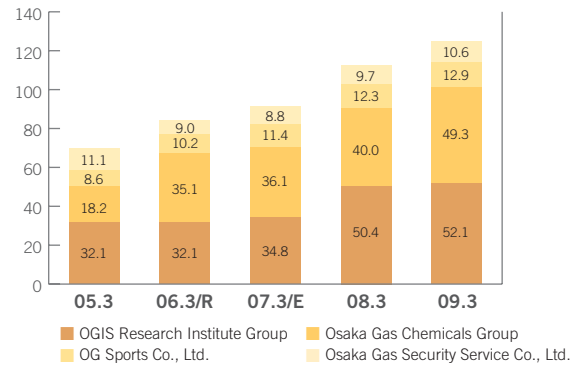
Pursuing Greater Management Efficiency

When we consider strategies for expansion of our top line, such as further growth in electricity sales volume, or strategies for growth in our bottom line, such as maximization of Group earnings, the issue of reducing the costs that lie in between will continue to be a top priority. We are strongly emphasizing cost reductions, particularly in our gas operations. By measures such as restricting growth in the number of employees and implementing carefully planned capital investments, we will continue striving to reduce ongoing fixed costs related to gas operations.

In fields not related to the energy business, Osaka Gas Information System Research Institute Co., Ltd. and Osaka Gas Chemicals Co., Ltd. have been charged with pursuing accelerated growth in information-related business and advanced material-related business, respectively. To this end, the two companies will undertake strategic growth-oriented investment programs including M&A. In other areas, we will also target accelerated growth in our fitness and security services businesses as candidate strategic businesses (concentrated investment).

Among the businesses that have a strong relationship to the gas business, Urbanex Co., Ltd., a real estate company that provides energy systems, is trying to capture synergies with the energy businesses and produce cash inflows from outside our Group.

Projected Sales in Major Non-energy Businesses
(Billions of yen)

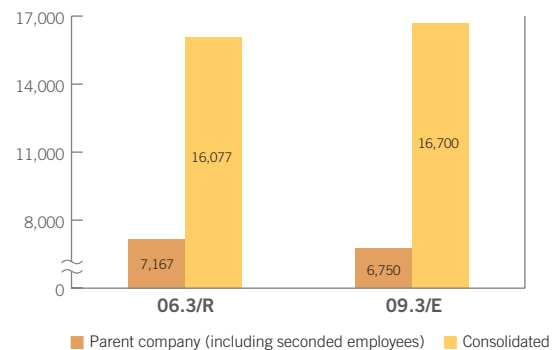


Streamlining Employee Numbers

We will reduce the total number of employees of the parent company Osaka Gas Co., Ltd. by about 400 employees. This will take the number from 7,167 at the end of fiscal 2006 to 6,750 at the end of fiscal 2009, including employees seconded to affiliated companies. To that end, general administrative departments will seek to thoroughly streamline their operations by enhancing performance and by aiming to keep their employee numbers to within 5% of the total for the company as a whole (this ratio was 7% for fiscal 2006, the first year of the plan). Operational departments will endeavor to achieve greater efficiency by revising their work to improve administrative productivity or by increasing outsourcing.

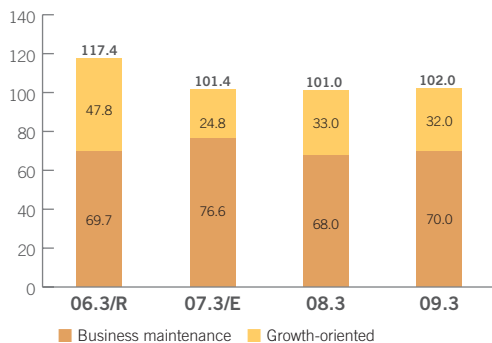
The Osaka Gas Group as a whole will actively address its obligation to hire older people. We will work to support the growth of the Group by constraining labor expenses while still increasing the work force. We plan to achieve this goal by using a variety of hiring methods and making use of a diverse group of human resources. During the next three years, the total number of employees on a consolidated basis will rise from 16,077 at the end of fiscal 2006, to 16,700 at the end of fiscal 2009.

Projected Number of Employees



Projected Capital Expenditures (Consolidated)

(Billions of yen)



Reduction of Fixed Costs

We are aiming to reduce our fixed cost* per sale of one cubic meter of gas in fiscal 2009 by 14% from the level recorded in fiscal 2005. To achieve this goal, we will redouble our efforts to cut costs through such measures as decreasing the labor force and labor costs, reducing capital investments, and improving the productivity of periodical safety inspections and billing and other tasks. We will also cut gas meter delivery costs using supply chain management and reduce information system maintenance and management costs.

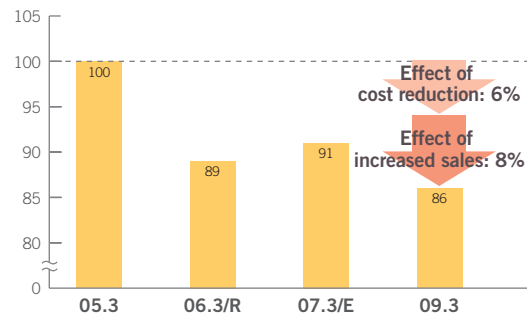
*Fixed costs = labor costs + overhead costs + cost of capital, etc.

Capital Expenditures

Capital expenditures not earmarked for growth-oriented investments but for regular maintenance of business are allocated to active configuration of our pipeline infrastructure and preventative maintenance in such areas as increasing competitive trading, reducing indirect costs in constructing pipelines by utilizing IT, and increasing applications for the non-excavation method. During the business plan, we intend to limit our capital expenditures to under ¥69.7 billion, which was the fiscal 2006 figure. Since we also plan on making growth-oriented investments of ¥30.0 billion per year, total capital expenditures will be about ¥100.0 billion annually for the duration of the plan.

Fixed Costs per m³ of Gas Sold

(Assuming FY05=100)



Aggressive Growth-oriented Investment, Capital and Financing Strategies

Aggressive Growth-oriented Investment

Our previous medium-term business plan, Innovation Centennial, covered the period from April 1, 2003 to March 31, 2006. During those three years, we established a framework for growth-oriented investments aimed at building a management base that would enable the Osaka Gas Group to sustain growth. Based on the plan, we invested in the electricity business, trunk pipelines and upstream businesses. Under our new plan, we are taking that strategy further, using free cash flow and additional funds procured within the scope of maintaining our sound financial position to aggressively make new growth-oriented investments.

Our basic thinking about growth-oriented investments is:

- (1) Investments should be in accordance with either of our two management strategies: expansion of our multi-energy supplier business or concentrated and selective investments in non-energy businesses,**
- (2) Investments should be in fields where the Group can leverage its strengths and where markets have growth potential, and**
- (3) Investments should be able to quickly and substantially contribute to consolidated profits.**

Our areas of emphasis are:

- (1) Investments that will contribute to growth of the energy business in the medium to long term, and**
- (2) Investments that will quickly contribute to consolidated profits.**

Capital and Financing Strategies

In our capital and financial strategies, we will be seeking to maintain a balance of profitability, growth potential, and financial health.

Our management performance indicators have been chosen mainly from the perspective of profitability and growth potential. Our target will be to maintain satisfactory levels of SVA, profit, net income per share (EPS), return on equity (ROE), as well as a stable dividend level.

On the other hand, from the viewpoint of financial health, we will seek a balance among SVA, free cash flow, interest-bearing debt, and other important financial health indicators. We will work constantly to maintain the following criteria of financial health: a consolidated equity ratio of at least 40% and a consolidated D/E ratio (interest-bearing debt divided by shareholders' equity) of approximately 1.

■ Application of Free Cash Flow

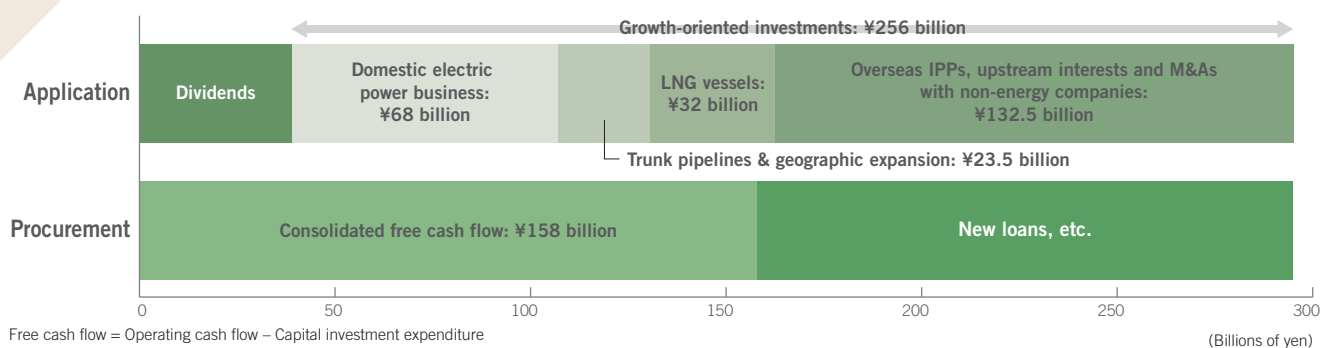
The investments that will contribute to the growth of our domestic energy business in the medium to long term include investments in the domestic electric power business, in trunk pipelines, in the geographic expansion of the natural gas business, and in LNG vessels. Through these investments we plan to expand the scope of the core energy business of the Osaka Gas Group.

Likely candidates to contribute quickly to consolidated profit include earnings-oriented investments in overseas IPPs and upstream interests. At the same time, we will actively invest in promising non-energy businesses, accelerating our concentrated and selective investment strategy.

All investment decisions are premised on maintaining a sound financial position. Other factors considered in making the investment decision include profitability, risk assessment, and whether the investment is in accordance with management strategies.

Based on this framework, detailed application (growth-oriented investment categories) of consolidated free cash flow over the three years of fiscal 2007 to fiscal 2009 is as follows:

Free Cash Flow Application During Fiscal 2007 to Fiscal 2009

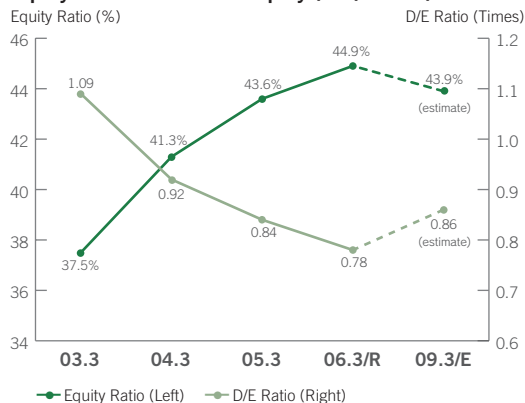


■ Approach to Optimizing Capital Structure

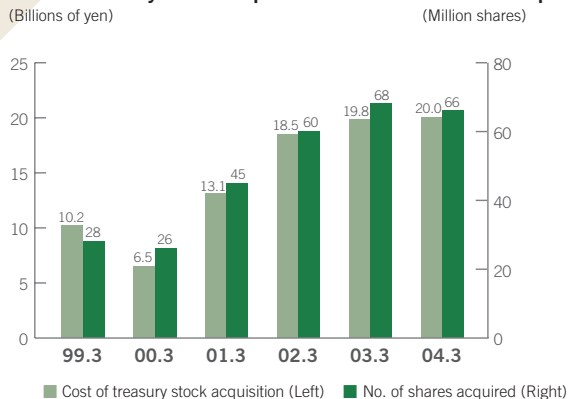
We continually are looking at what overall composition of debt and equity will maximize our capital efficiency. Currently, we believe that an equity ratio of about 40% and a debt-to-equity ratio of approximately 1 give us a capital structure that maximizes capital efficiency for each of our stakeholders.

Since our current capital structure almost matches these targets, we believe it is possible to increase debt somewhat along with the growth in equity provided by retained earnings while maintaining our sound financial position.

Equity Ratio and Debt-to-Equity (D/E) Ratio (Consolidated)



Cost of Treasury Stock Acquisition and No. of Shares Acquired



■ Policy on Treasury Stock

In the past, we have regularly used buybacks of our shares as one method of returning profits to shareholders by boosting earnings per share.

During the period of the current medium-term business plan, however, given the stagnation in our gas business, our priority in application of our free cash flow will be investments for corporate growth. For that reason, we will continue to consider the acquisition and retirement of treasury stock with a view to improving the EPS and ROE, but it will be done flexibly on condition that growth-oriented investments have been made first and that there is sufficient cash flow.