

Long-term Vision and Medium-term Business Plan of the Osaka Gas Group



President **Hiroshi Ozaki**

“Field of Dreams 2020”

Osaka Gas has formulated a long-term vision for the year 2020 to guide the Group’s business restructuring over the long term and a medium-term business plan for the five-year period from fiscal 2010 to fiscal 2014 to achieve the goals of this vision. The vision and plan together have been named “Field of Dreams 2020.”

► Our Determination

The Osaka Gas Group is determined to achieve sustainable growth both at home and overseas in order to provide its customers with comfortable lifestyles friendly to the environment and solutions to their business activities. We will continuously strive to explore our potential utilizing our versatile and rich business foundations, human resources, technologies and expertise, nurtured through natural gas and energy business over the past century.

(1) Evolution into global energy and environment businesses group

- 1) Further strengthen our core multi-energy business in the home market of the Kansai region and seek growth of energy business centered on natural gas along energy value chain at home and abroad
- 2) As an energy professional, contribute to customers’ lives with comfort and business prosperity, and further, to reduce impacts on global environment through advanced energy solutions and stable energy supply, including renewables
- 3) Provide solutions to customer needs in non-energy fields in and beyond our home market, including urban development, IT, advanced materials, life support and global environment contribution

(2) Implement management practices to become a corporate group of choice

Provide customer-originated high-quality products and services (advanced, innovative and reliable) while ensuring safety and, through fair and transparent business practice, contribute to the global environment, and management based on human respect, thereby achieving sustained growth of the Group and increasing value for all stakeholders, including customers, shareholders, society, and employees

▶ The Osaka Gas Group in 2020

By implementing high-quality management to become the company of choice of all stakeholders, we aim by 2020 to be a Global Energy and Environment Businesses Group with solid foundations in the three fields of domestic energy businesses, international energy businesses along the energy value chain, and environment and non-energy businesses.

Domestic energy businesses will continue to be the Group's largest source of revenue going forward. For international energy businesses along the energy value chain and environment and non-energy businesses, we will pursue growth until the two areas combined rival the profit levels of domestic energy businesses. To this end, we will expand business scope and improve business quality while raising consolidated return on assets to around 4% and consolidated return on equity to approximately 9% over the long term.

Global Energy and Environment Businesses Group with solid foundations making progress in the fields of:

- Domestic energy businesses
- International energy businesses along the energy value chain
- Environment and non-energy businesses

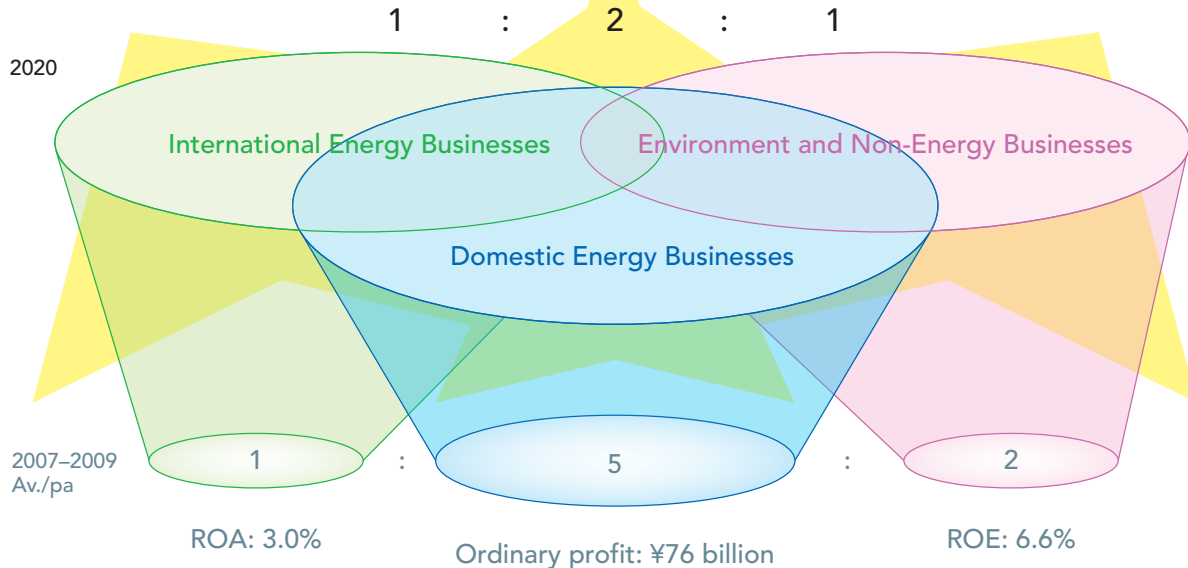
Global Energy and Environment Businesses Group

(consolidated)

ROA: approx. 4%

ROE: approx. 9%

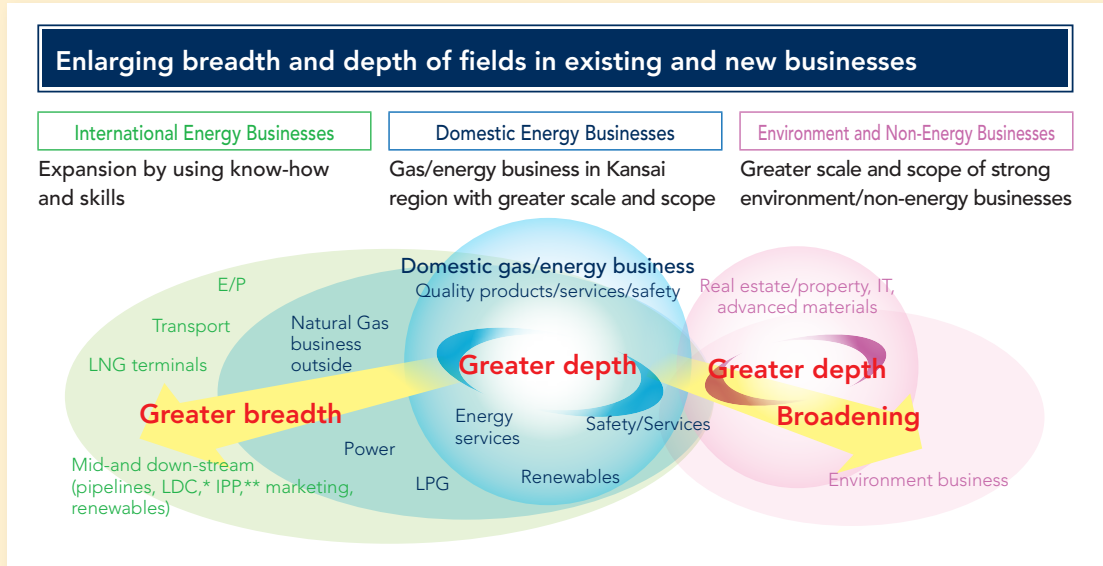
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Actions to Realize Our Vision for 2020

In order to realize our vision of becoming a Global Energy and Environment Businesses Group, the Osaka Gas Group will work on “broadening business fields” and “fortifying solid business foundations.”

► Broadening Business Fields



* LDC=Local Distribution Company ** IPP=Independent Power Producer: a power generation plant used for the business of the wholesale supply of electricity.

We will provide high quality products and services and high levels of safety, generate added value in the form of energy savings and security, and offer multiple sources of energy that include electricity, LPG and new energies, as we enhance the gas business in our core area of the Kansai region. We will also strive to expand the geographic scope of our enhanced services and the multi-energy business. Moreover, overseas, we plan to develop international energy businesses along the energy value chain in upstream sectors such as resource development and in midstream/downstream sectors, which include trading operations that utilize LNG terminals as well as pipelines, gas supply and power generation. For environment and non-energy businesses, the Group will enhance and broaden existing areas of strength such as

urban development, information technology and advanced materials. We also will work to pioneer and nurture environmental businesses by drawing on the Group’s technologies and expertise.

We will broaden our business fields in the sense of enlarging both the breadth and depth of our businesses by improving existing businesses and expanding new businesses and bases. To broaden our business fields, we are planning a total of ¥1.5 trillion in investments over the 12 years up from the current fiscal year until the year ending March 2021, aiming to powerfully develop the entire Osaka Gas Group.

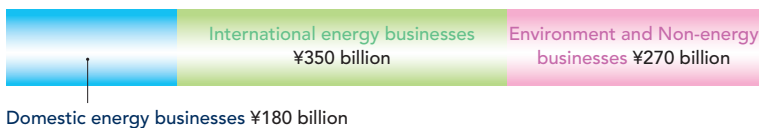
¥1.5 trillion investments for solidifying three business fields

Total of **¥1.5 trillion** investment FY2010–FY2021 [¥700 billion FY2010–FY2014]

Upgrading existing businesses: ¥700 billion [¥300 billion]

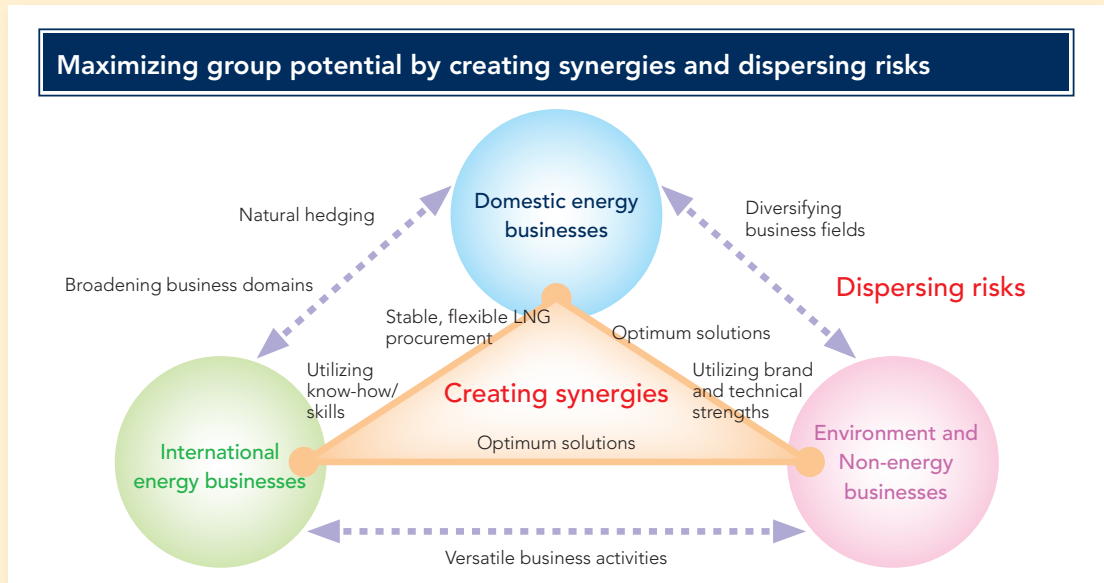


Investments for incubation and expansion: ¥800 billion [¥400 billion]





► Fortifying Solid Business Foundations



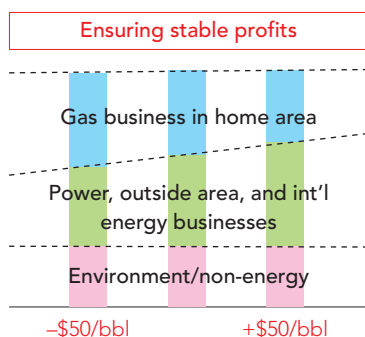
We will pursue the creation of synergies in the three fields of domestic energy businesses, international energy businesses along the energy value chain, and environment and non-energy businesses. With each business growing as they benefit from the synergies which they create, our business risks will be spread out, allowing us to maximize the collective strength of the Group, thereby fortifying solid business foundations.

The graph below illustrates the future impact on profits of fluctuations in oil prices after the three business fields have been expanded. Growth in upstream businesses and other areas will make it possible to secure earnings in an extremely stable manner, even when there are major fluctuations in oil prices. Moreover,

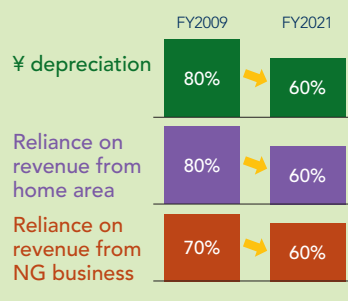
enlarging business areas, including overseas, developing the multi-energy business and broadening environment and non-energy businesses will minimize the impact of certain risk factors on finances—risks such as the impact of yen depreciation or declining business shares in the Kansai region or natural gas business.

Building solid business foundations resistant to external changes through optimizing business portfolio

- Impact of oil price volatility on consolidated profit (excluding loss due to time lag)



Growth of optimized portfolio enhances resilience against risks



► Direction Forward for Each Business Field

1) Domestic energy businesses (residential market)

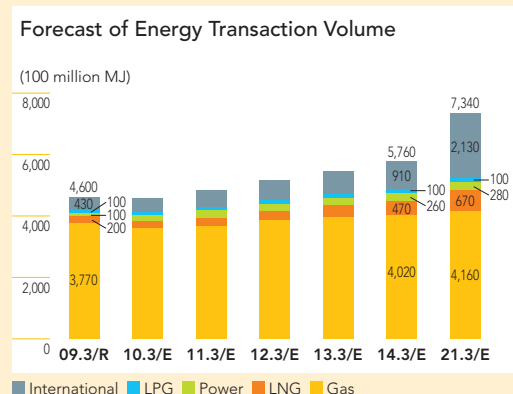
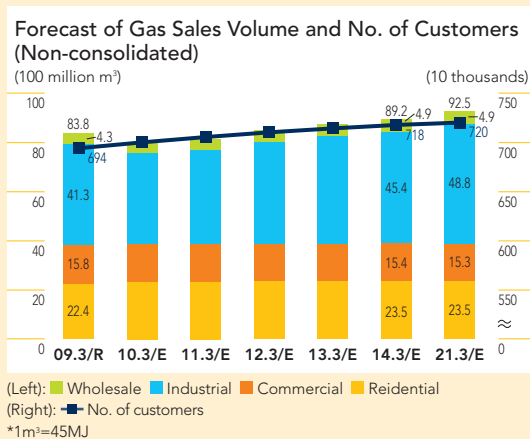
In the residential sector, we will work to popularize systems that help reduce environmental impact, such as ENE-FARM, other residential cogeneration systems and solar cell and cogeneration combined systems. Such systems are designed to help customers reduce their carbon dioxide emissions. We will also dramatically improve service quality by improving appliance service levels by utilizing the latest information technology, and by providing customers with services that enhance safety like the I-rusu and Kurupiko services. Moreover, we will provide home energy management systems that help home environment performance, security systems and other total home services to meet the needs of Japan's aging population. We will also provide advanced energy systems and services centering on natural gas, such as remote diagnostic services for home energy appliances and lifestyle products that use mist and steam to enhance comfort.

2) Domestic energy businesses (commercial and industrial markets)

In the commercial and industrial sector, we will further deepen our engineering capacities in areas such as energy efficiency, one of our major strengths, provide multiple sources of energy, including natural gas, electricity, LPG and industrial gases, generate added value in the form of IT-based remote monitoring services for energy facilities and utilities management, including water treatment, as we endeavor to grow as an energy services provider. We will partner with various regional energy providers to create stable, geographically expansive supply systems for natural gas, and we will utilize this infrastructure to broadly develop high added-value services domestically and abroad. Our goal is to increase use of environmentally friendly natural gas and facilitate energy efficiency in order to reduce customer carbon dioxide emissions by a cumulative total of 10 million tons.

3) Power business

In the power business segment, we started operating the Semboku Natural Gas Power Plant in April 2009, which brings our generating capacity to approximately three million kilowatts on a combined domestic and overseas basis. Going forward, we plan to secure new sources of power and further review our power portfolio. Our goal for 2020 is to make the power business a major source of earnings behind the gas business.





4) International energy businesses along the energy value chain

The Group already has equity holdings in seven upstream projects, and moving forward we intend to further develop these projects and acquire equity rights in additional projects in order to increase our LNG volume and secure stable, competitive LNG supplies. Our goal for 2020 is to own upstream rights for approximately 15% of all the LNG we handle. Additionally, utilizing “equity lifting,” which allows LNG production equivalent to equity held to be sold freely, we will develop a trading business with our overseas LNG terminals and tankers to take profits and facilitate flexible procurement in line with domestic demand.

Osaka Gas Group's 7 Upstream Equity Holdings	
Natural gas	Universe Gas & Oil, Qalhat, Sunrise, Gorgon, Evans Shoal
Oil and gas	Idemitsu-Snoree
Condensate	Crux

In the midstream and downstream sectors, we will aggressively expand pipelines, gas distribution and IPP operations on the premise that stable profits can be expected. We are already involved in multiple IPP projects and pipeline operations, and we intend to expand the scope of activities in this area by drawing on expertise cultivated by the Group over many years in gas supply and energy efficiency engineering, centering on countries in Europe, North America, Asia and Oceania with minimal country risk.

5) Environment and non-energy businesses

Our existing environment and non-energy businesses have grown into an enterprise with sales of ¥190.0 billion. Looking ahead, we plan to expand in these existing areas by leveraging the strengths of Osaka Gas in urban development, information technology and advanced materials. Moreover, we will leverage the Group’s technologies and expertise while forming strategic alliances in an effort to pioneer environmental and energy-efficiency businesses such as solar power, biomass and environmental engineering. Our goal for the fiscal year ending March 2021 is to double the scale of this business area while providing cutting-edge products and reducing environmental impact.

► Consolidating Business Foundations

The Group will proactively promote technological development and IT utilization, which constitute our business foundations. In terms of major technological developments, we will work strategically to improve residential energy-efficient systems, starting with fuel cells, raise the energy performance of commercial and industrial equipment, and develop alternative natural gas manufacturing technologies, new construction techniques for higher safety levels and lower costs, and technologies for reducing carbon output through the use of renewable energies and hydrogen.

These technological developments will be promoted quickly and efficiently through open innovation, which involves applying outside knowledge to Osaka Gas technologies. Additionally, we will draw on “service science,” which is based on ergonomics and environmental psychology, fields in which we are on Japan’s leading edge, in order to improve processes and raise productivity.

In order to “broaden business fields” and “fortify solid business foundations” promoting technological development and utilizing IT

Key Technological Developments

Residential appliances

- Enhance performance of fuel cells
- Advanced home energy management systems
- Mist/steam generation technology for enhanced product value

Commercial/industrial appliances

- More efficient A/Cs, cogeneration systems, and boilers
- Advanced commercial-use kitchen systems
- Energy management

Stable supply, safety

- Supply of substitute natural gas from coals
- New construction methods for greater safety
- Resource development engineering

For a low-carbon society

- Utilization of photovoltaic power, solar heat, and biomass
- Hydrogen production

Advanced business

- Advanced fine materials, electrode materials [Advanced materials]
- Deepen “model base development” [Information]

▶▶ Prompt, efficient technological development through open innovation

Key IT Applications

Closer ties with customers

- My Page
 - Online communications with customers
- Eneflex Service
 - Real-time equipment monitoring, automatic energy saving operations

Productivity enhancement

- Service science
 - Enhance productivity and create new services through analysis and behavior improvement based on ergonomics and environmental psychology, etc.
- Develop IT tools and office environment
 - Change working styles

▶ Long-term Management Goals of the Osaka Gas Group: Increased Corporate Value

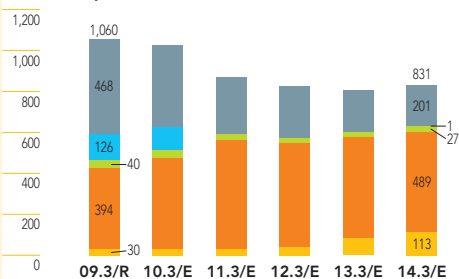
One of the long-term goals of the Group is to increase corporate value. Doing so, first of all, involves improving asset and capital efficiency, and to this end we plan to continually increase profit margins in pursuit of the long-term goals of consolidated return on assets of around 4% and consolidated return on equity of approximately 9%. As a yardstick, by the year ending March 2014, we are aiming for consolidated ROA of approximately 3.5% and consolidated ROE of approximately 8%.

Another aspect of increasing corporate value is returning profits to shareholders. In this regard, we plan to change the target dividend payout ratio from at least 20% on a non-consolidated basis to at least 30% on a consolidated basis in order to consistently redistribute the fruits of the Group’s growth, while at the same time continuing to place basic emphasis on dividend stability. With regard to acquiring treasury stock, our policy will remain the same: Treasury stock will be acquired in a flexible manner when there is leeway in our finances and cash flow to do so after having made business investment for future growth.

A third aspect of increasing corporate value is maintaining financial soundness. We plan to conduct quantitative risk management and strive to maintain an equity ratio of at least 40% and a debt-to-equity ratio of around 1 on a medium-to-long-term basis.

Capital Expenditure (FY2009 – FY2014)

(100 million yen)



■ Subsidiaries ■ Incidental Business ■ Operational Facilities
■ Distribution Facilities ■ Production Facilities

Units:yen	FY2009/R	FY2014/E	FY2021/E
Domestic energy businesses	1,306.9 billion	1,490.0 billion	1,630.0 billion
Overseas energy businesses along the energy value chain	10.4 billion	70.0 billion	220.0 billion
Environment and Non-energy businesses	189.1 billion	240.0 billion	350.0 billion
Consolidated adjustment, etc.	-179.6 billion	-200.0 billion	-200.0 billion
Consolidated operating revenues	1,326.7 billion	1,600.0 billion	2,000.0 billion
Consolidated total assets	1,452.4 billion	1,850.0 billion	2,100.0 billion

*The above figures are based on an oil price assumption of \$100/bbl and a forex assumption of ¥100/US\$ (reference values).