

FY04.3-06.3 Medium term business plan “Innovation Centennial”

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Osaka Gas Co., Ltd



Table of Contents

Presentation materials

■	Outline of “Innovation Centennial”	
■	The Purpose of “Innovation Centennial”	P3
■	Goals to Be Achieved	4
■	Basic Management Strategies	5
■	Natural Gas Business	
■	Business Development of the Natural Value Chain	6
■	Residential Energy Business	7
■	Commercial/ industrial Energy Business	8
■	Development of the Electricity Business	9
■	Improvement of Non-energy Business Revenues	10
■	Cost Reduction Efforts	11
■	Improvement of Total Group Ability	12
■	Consolidated Free Cash Flow	13

References

■	Medium-term business plan by main segments	
■	LP Gas Business	P15
■	Foods and Restaurants Business	16
■	Carbon and Chemical Materials Business	17
■	Other Non-energy businesses	18
■	Residential 1-kW-output Gas Engine Co-generation System Development Updates	19
■	Market Development for Cogeneration	20
■	Activities of Cogene Techno Service	21
■	Strengthen of Supply Infrastructures by Strategic Pipeline Construction	22
■	Lean and Responsive Structure for Decision-Making	23
■	Outline of Gas Tariff Revision and Other Reforms	24

The Purpose of “Innovation Centennial”

Group management vision

Vision 2010(Established in October 1999)

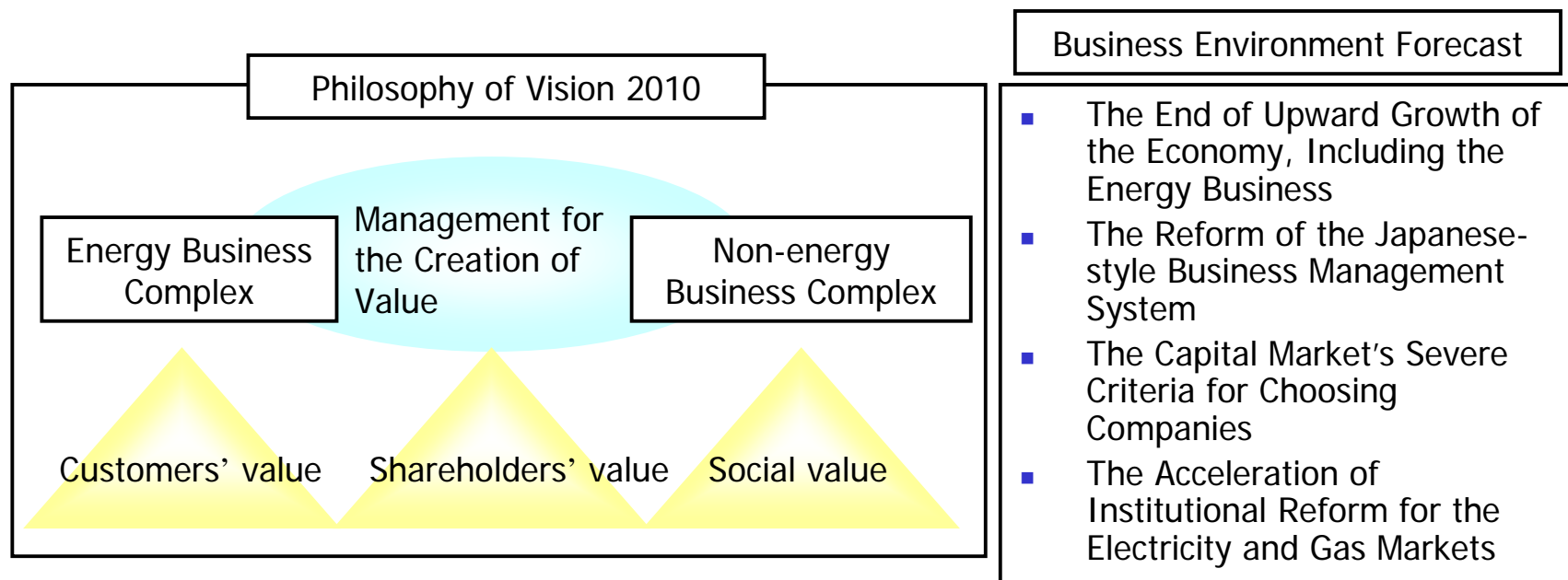
Medium term business plan

FY01.3-03.3

GATE PLAN

FY04.3-06.3

Innovation Centennial

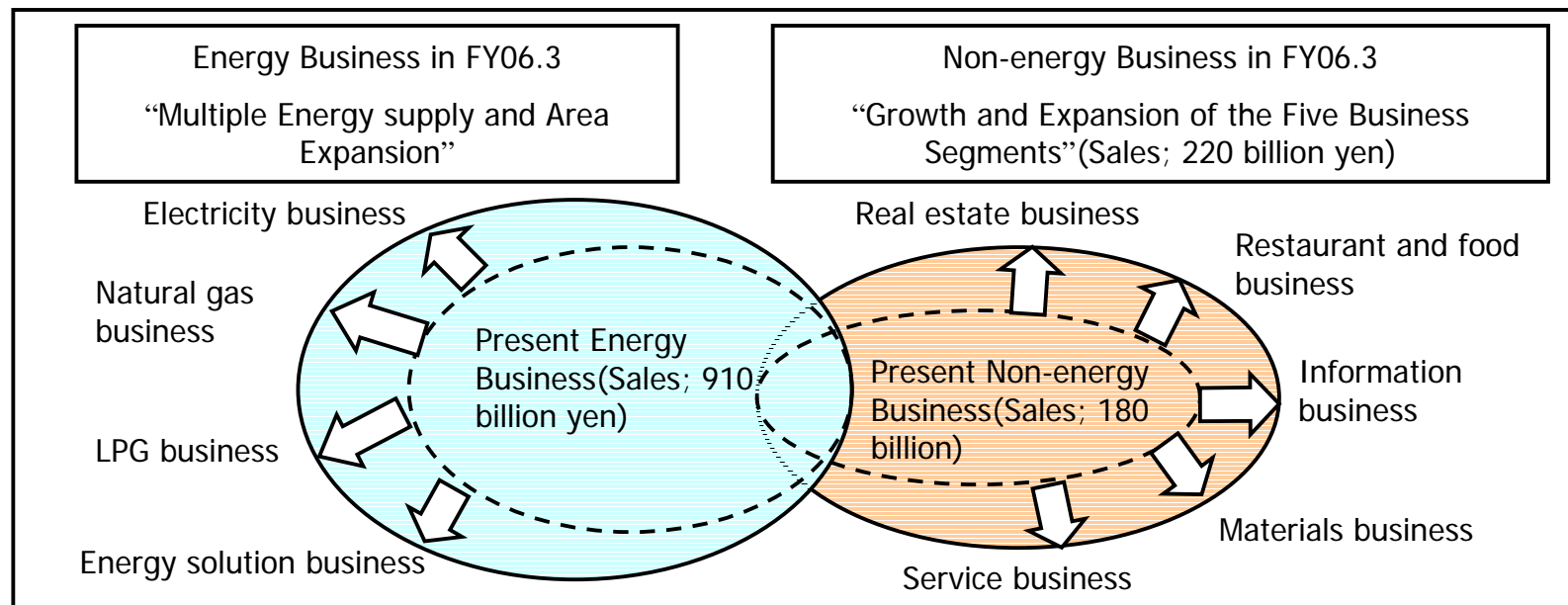


Business Environment Forecast

- The End of Upward Growth of the Economy, Including the Energy Business
- The Reform of the Japanese-style Business Management System
- The Capital Market's Severe Criteria for Choosing Companies
- The Acceleration of Institutional Reform for the Electricity and Gas Markets

Goals to Be Achieved

- Shift from a local corporate group in the Kinki bloc to a corporate group that expands into a wider area beyond the Kinki bloc.
 - Shift from management led by Osaka Gas to management led by each core group company.
- In the area of the energy business,
- Shift to a “value-chain-based business model” in which each of the five business divisions from the upstream to the downstream of natural gas businesses strives to improve its competitiveness and profitability.
 - Shift from a “gas-based business” to a “multi-energy business” to include the electricity and LPG businesses.



Basic Management Strategies

■ Energy Business Segment

- Taking into account the severe business environment, the management reform should be sped up to accelerate both the attainment of the targets in Vision 2010 and the expansion of business sizes.
- Taking advantage of deregulation of the gas and electric power industries as business opportunities, active business expansion and growth strategies should be pursued.
- A “multi-energy business” should be developed that can provide customers, with one-stop, “natural gas,” “electric power,” and/or “LPG” , according to the needs of each customer.
- “Wide-area energy business” should also be pursued to expand the service area beyond the Kinki bloc market
- Thorough cost reduction in existing businesses should be achieved through the “complete rationalization of operational efficiency”. Active investment should also be made in the growing businesses for “expanding the business size.”

■ Non-energy Business Segment

- “Selection and concentration” of businesses should be continued for “further expansion of growing businesses” and the “early achievement of SVA positive of affiliated companies.”
- We will enter into new businesses, based on whether they will become core businesses that can lead the growth of the Group and whether a measurable synergistic effect with existing businesses can be expected.

Business Development of the Natural Gas Value Chain

Natural Gas Value Chain

Resources business

Investment in tankers, gas fields, etc



Inside the group: LNG purchasing with price competitiveness

Outside the group: Revenue expansion through business trades

Gas/ electricity production business

Maintenance an advantage in gas and electricity production cost by reducing costs

New business development by utilizing the excess capacity of base plants

Piping business

Reduction of transportation costs by reducing the cost of pipelines, meters, etc

Construction of pipelines for the development of new demands

Residential energy business

Increase of heating equipment sales, such as floor heating systems and fan heaters

Commencement of cogeneration systems for residential use

Establishment of strategic gas charge plans for customers by reducing costs

Commercial/ industrial energy business

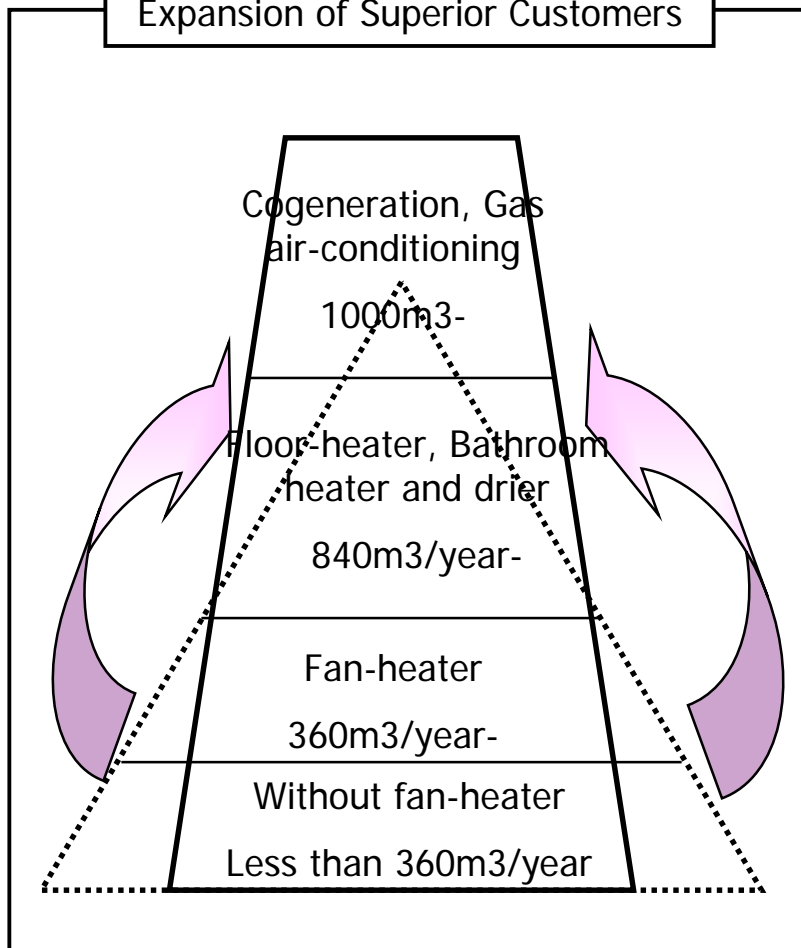
Expansion of the cogeneration market by developing new products and applications

Provision of multi-energy supply (purchasing electricity from customers, and implementing the Duel Fuel Service)

Expansion into a wide geographical market (CTS, etc)

Residential Energy Business

Expansion of Superior Customers



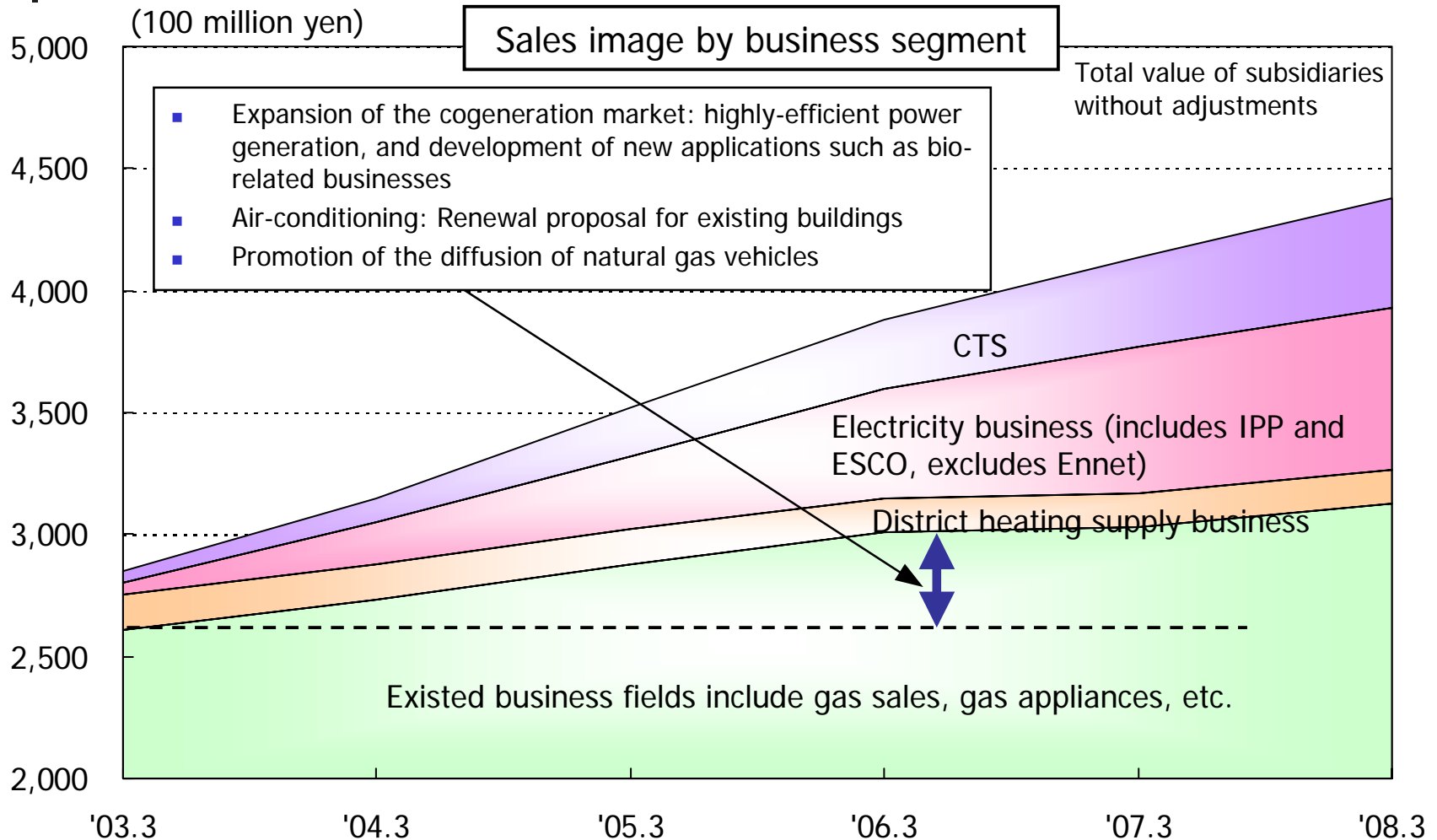
Creation of New Demands

- Focus on space heating market
 - Gas floor heating system: about 550 thousand units to be sold during coming 3 years
 - Fan-heaters: about 710 thousand units during 3 years
- Development of new applications
 - Residential gas cogeneration (March 03-)
 - Commercialization of residential fuel cells (2005)
- Strategic rate policy
 - New charge menu for residential CGS users (Home eco)
 - “Marugoto Waribiki” for residential users

Services for Differentiation

- further increase in rate menu
- IT-based new services
 - IT condominiums, automatic meter-reading, remote monitoring
 - Offer of special “membership services”
 - Businesses for senior citizens

Commercial/ industrial Energy Business



Development of the Electricity Business

Marketing of electricity to specific customers

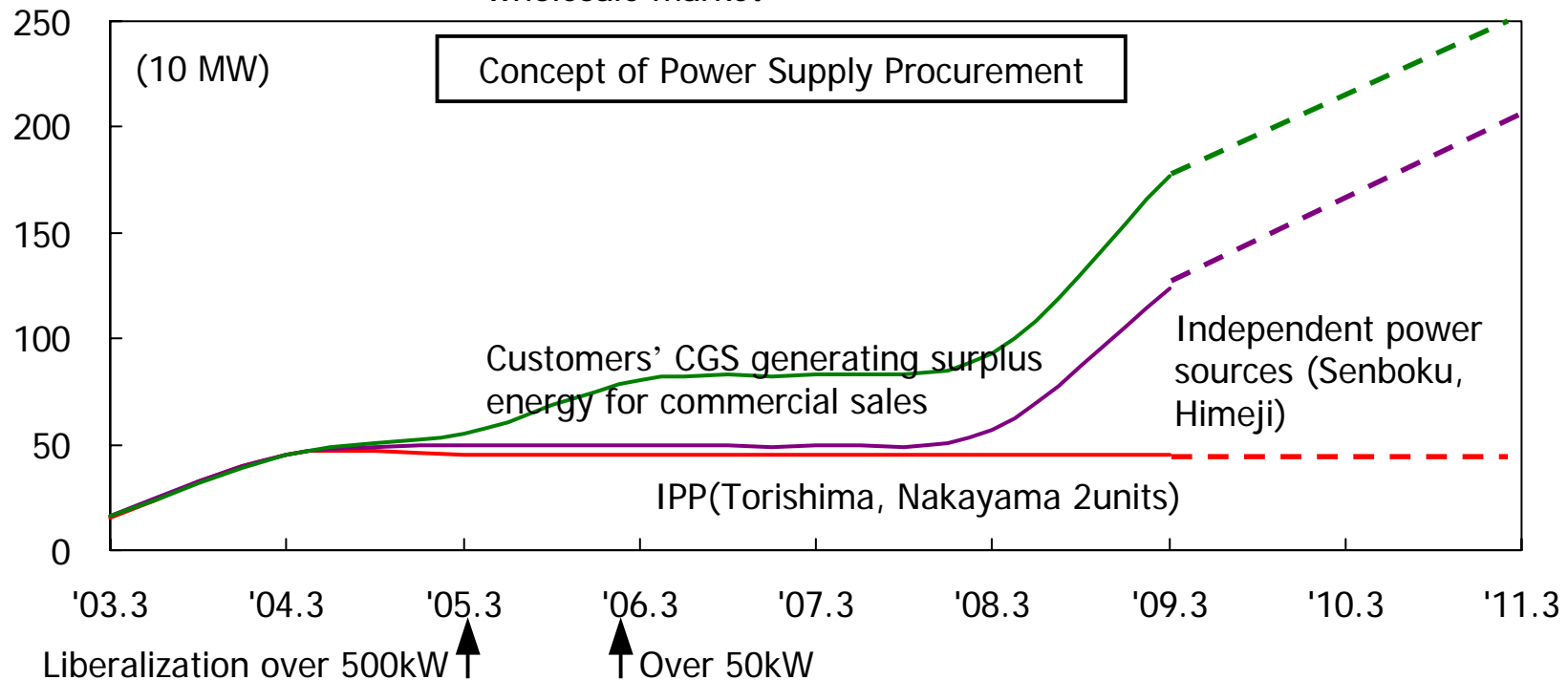
Proposing multi-energies to specific customers

Expanding into a wide geographical area

Marketing of electricity to specific customers whose need matches to limited power supply

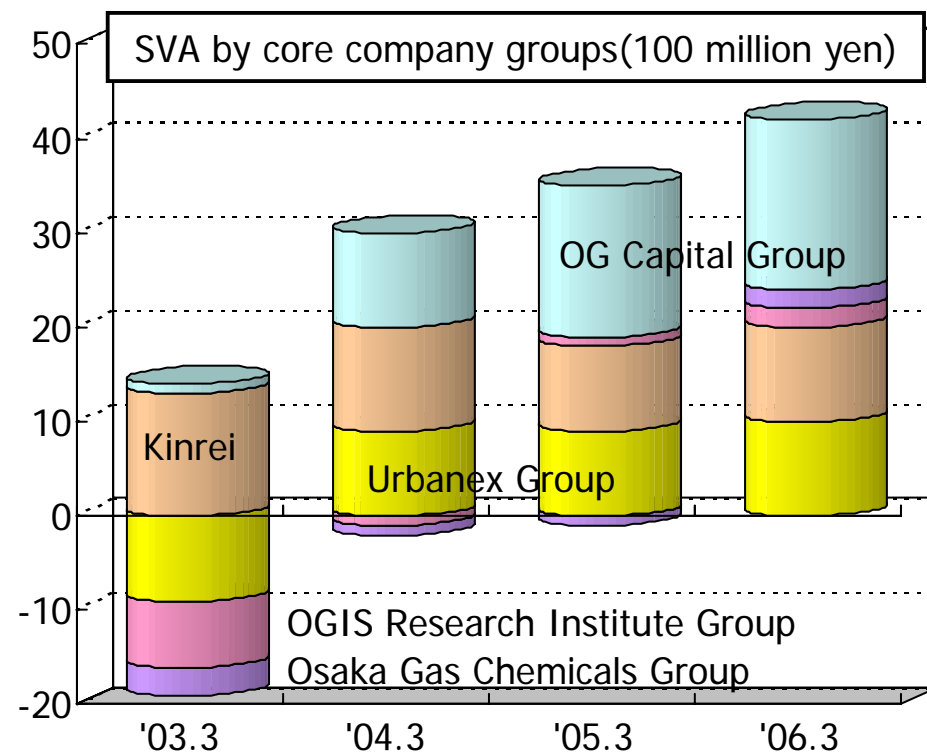
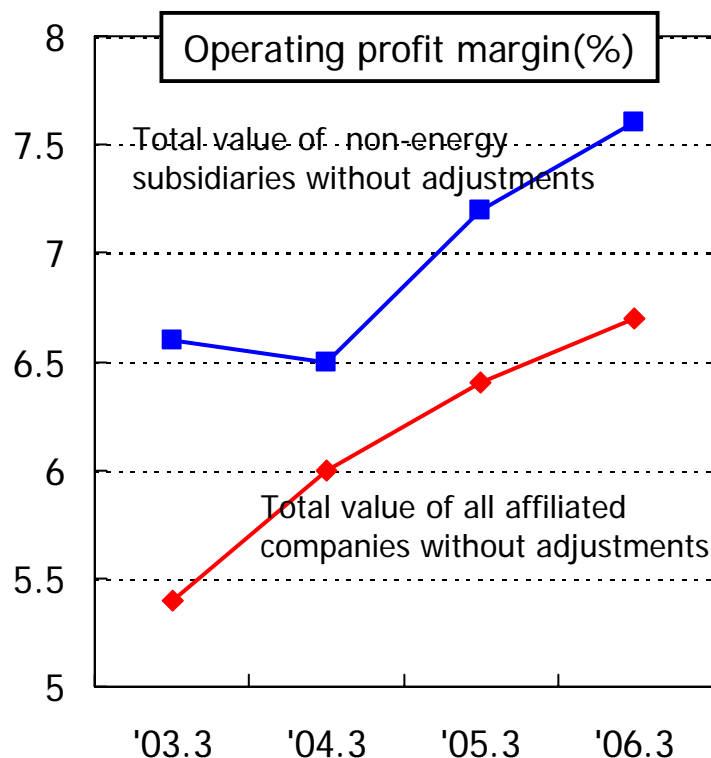
Best match of power supplies with customers, utilizing the middle power supply
 Procuring power supply by utilizing the wholesale market

Expanding the market through large-sized independent power sources



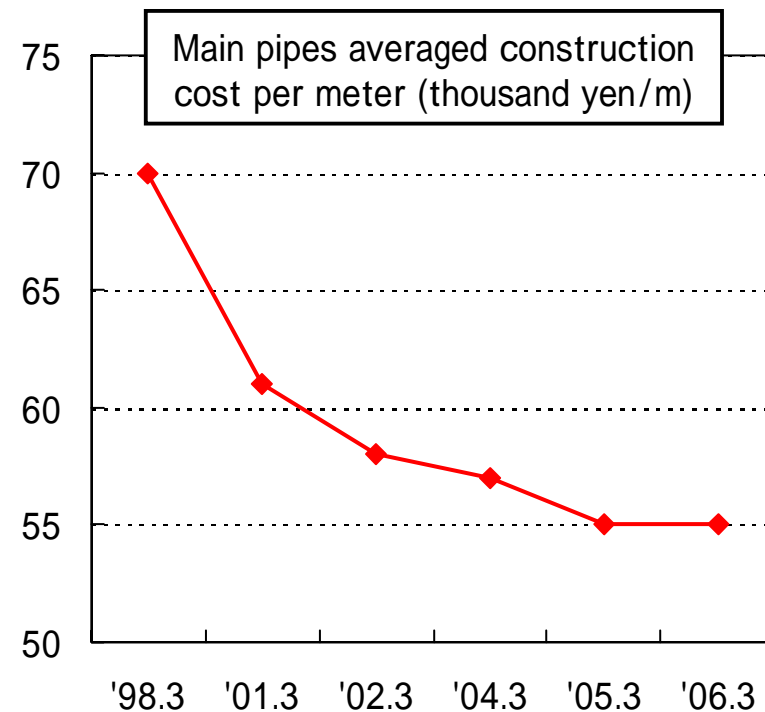
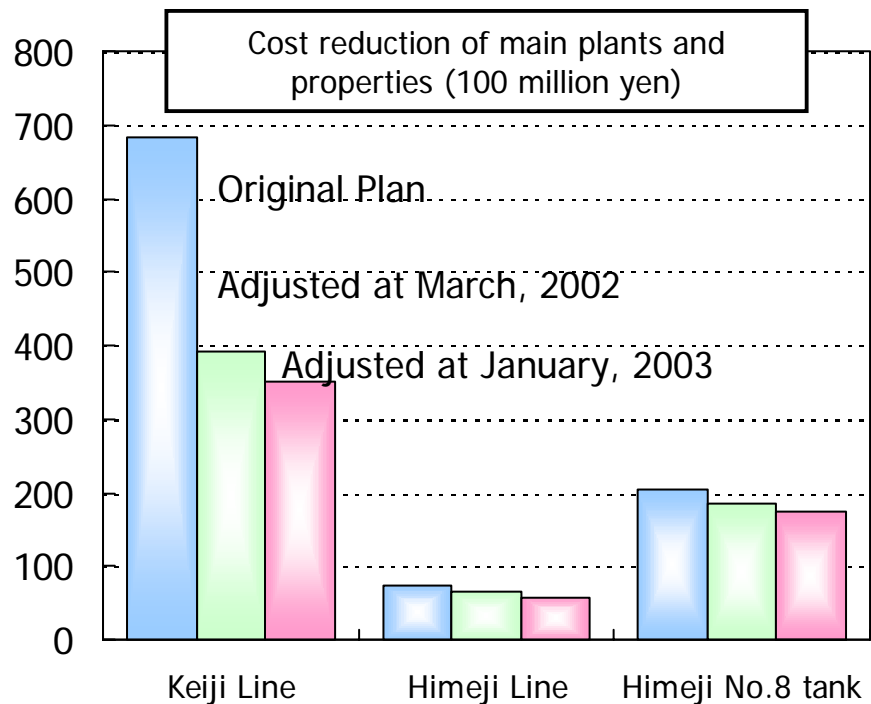
Improvement of Non-energy Business Revenues

- Through the pursuit of SVA management, SVA profit should be achieved by all core company groups by FY06.3.
- During the period of this medium-term plan in which energy-related new businesses such as electricity business are in their start-up stage, Non-energy Business should lead the expansion of the Group's revenues.



Cost Reduction Efforts

- Capital expenditures: Introducing large-diameter PE pipes, applying a non-excavating method for steel pipes, thoroughly implementing competitive purchasing, etc.
 - Expenses: Reducing gas-charge-related costs (meter readings, charge collections, etc), costs of regular security patrols, modifying gas meter specifications, etc.
- => **Through these efforts, the fixed expenses per m³ of gas should be reduced by 19% in FY06.3, compared with FY03.3**



Improvement of Total Group Ability

Consolidated basis, 100 million yen

	FY03.3	FY06.3
SVA	114	350
Sales	9,600	10,900
Operating profit	745	1,130
Net income	380	575
FCF	294	850

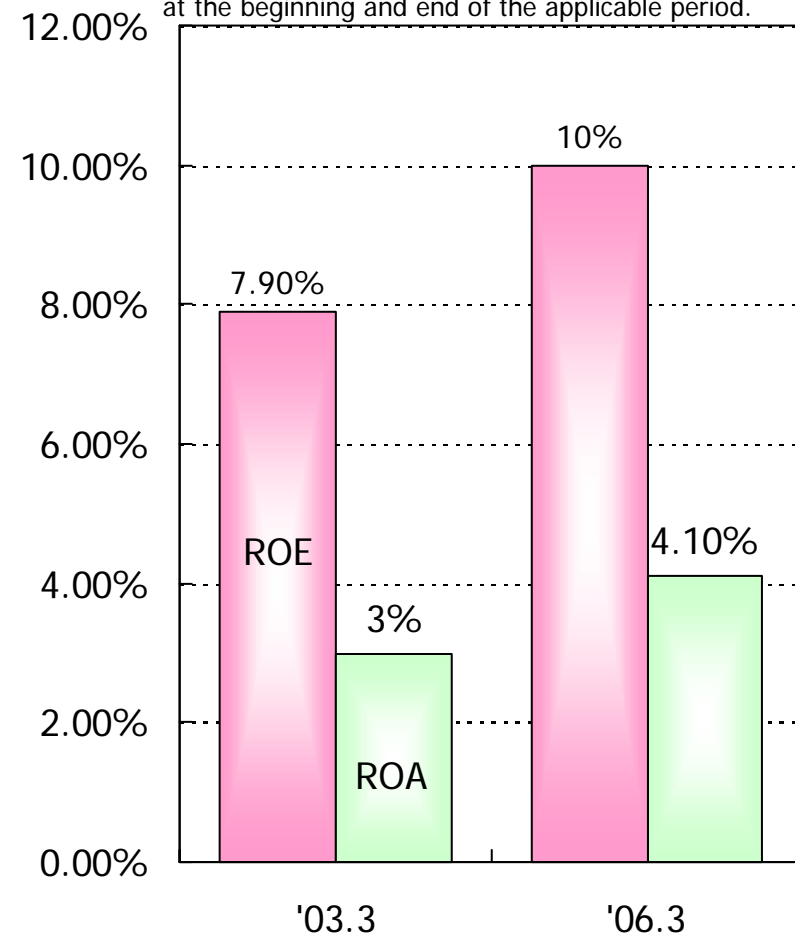
Shareholders' equity ratio	39.4%	42.1%
Total assets	12,486	14,165
Interest-bearing-debt	4,845	5,750
Capital expenditure	821	855

Group-to-parent ratio

Sales	1.33	1.41
Ordinary profit	1.20	1.25

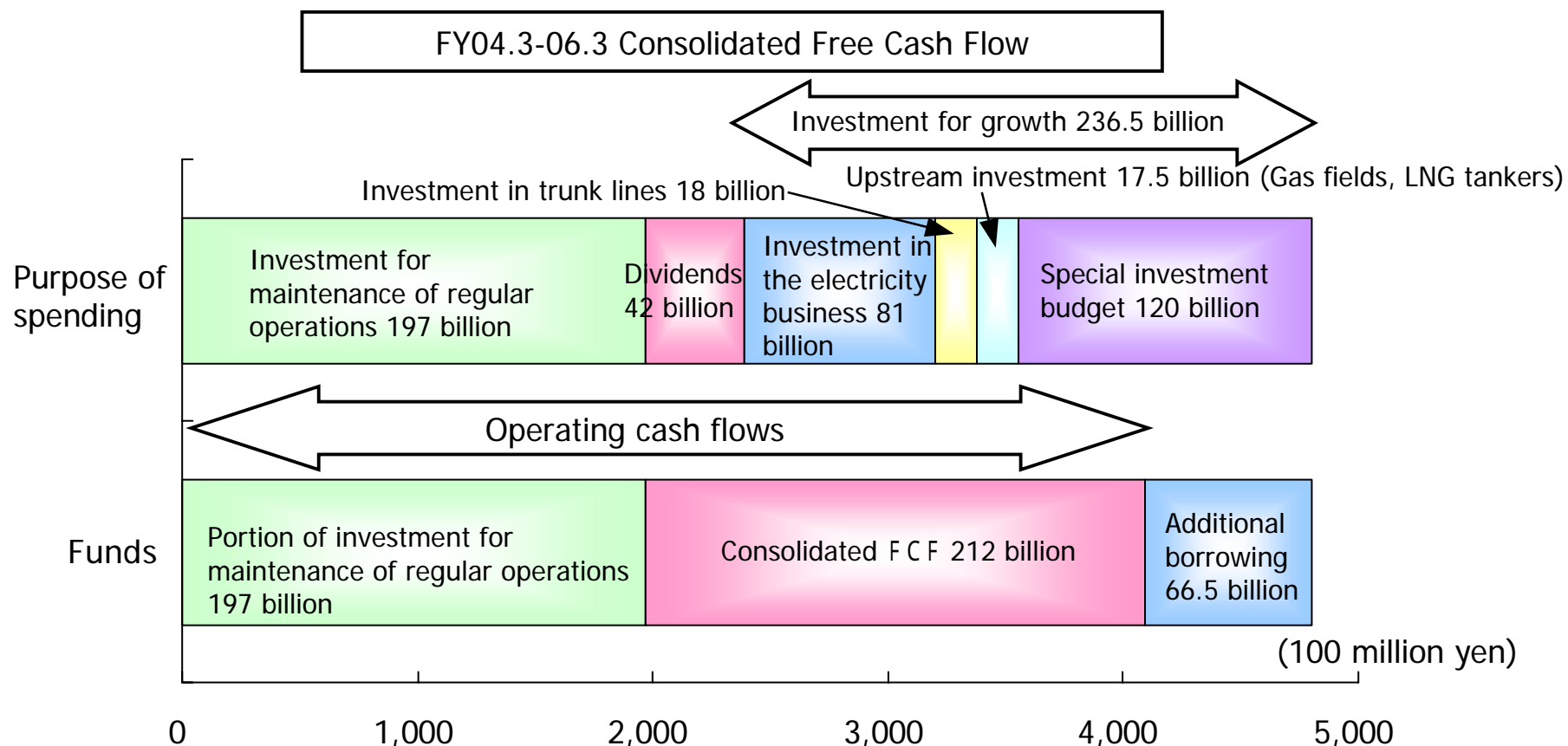
Exchange rate 125yen/US\$, Crude oil price (JCC) 25\$/bbl

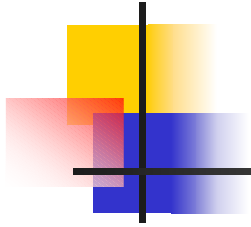
The numerators of both ROE and ROA are net income after tax; the denominators are the average of the levels at the beginning and end of the applicable period.



Consolidated Free Cash Flow

- It is planned to use about 210 billion yen of consolidated FCF for investment in growing businesses such as the electricity business.



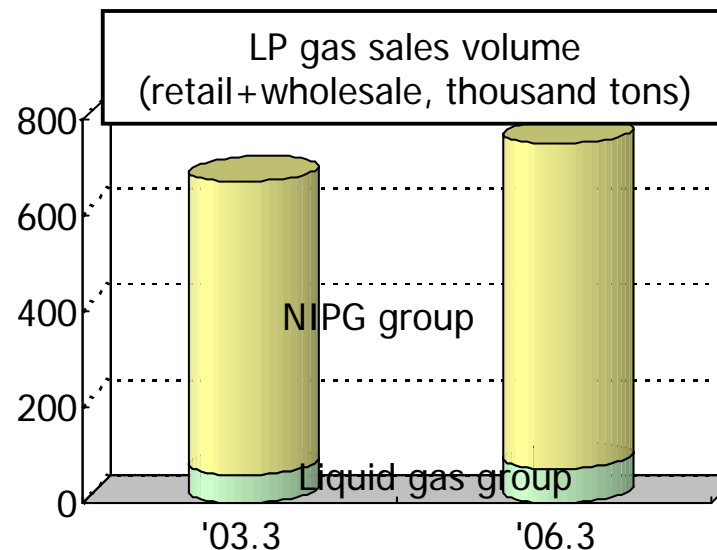
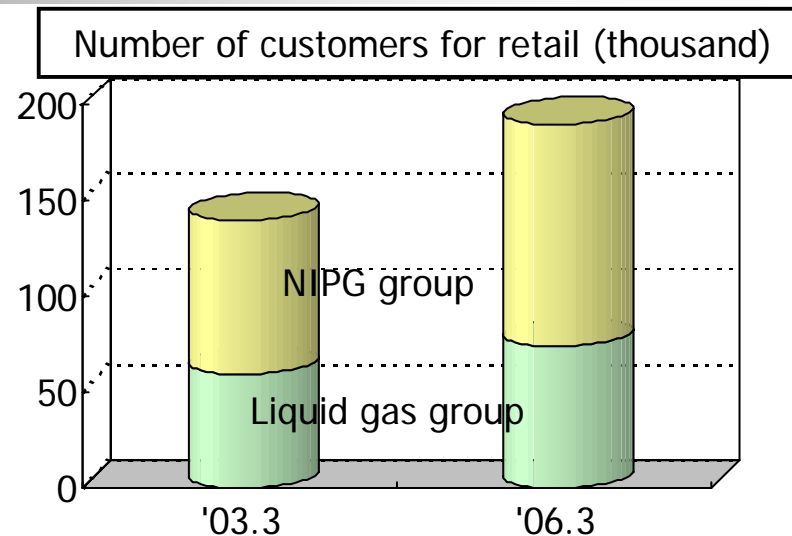


References

Medium-term business plan by main segments 1

LP Gas business (Liquid gas, NIPG group)

- Actions for increasing sales
 - Utilizing the retailing know-how of Osaka Gas, equipment sales should be increased.
 - Promotion of M&A inside and outside the group
 - Sales promotion of strategic appliances, such as Cogeneration systems(both residential and commercial/ industrial), and GHP.
 - Provision of new gas charge plans for customers, such as variable gas charges depending on the time zone, to explore new demands.
- Actions for reducing costs
 - Reduction of the LPG purchase price by basket purchasing a required quantity by the entire Osaka Gas Group.
 - Rationalization of physical distribution and delivery, and utilization of joint transportation



Medium-term business plan by main segments 2

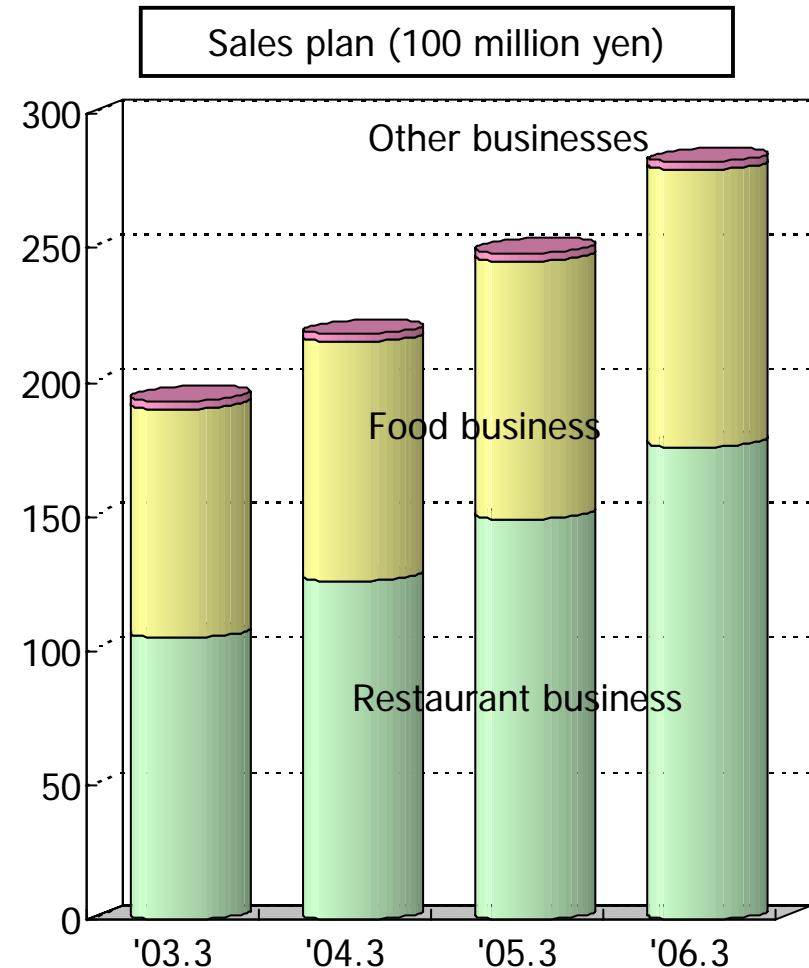
Foods and Restaurants Business (Kinrei)

■ Advantages

- “Restaurant business”: Assuring high earning capacity by opening restaurants at selected sites
- “Food”: Product power of frozen cooked noodles

■ Future Development

- In the restaurant business, business resources should be concentrated in “Kagonoya.” Development of new restaurants should be accelerated, aiming at having 60 Kagonoya restaurants in the Kansai region by FY 05.3
- Expansion of the Kagonoya restaurants into the Kanto region is planned for FY04.3
- In the food business, diversification of sales routes for bagged dry noodles and noodles for restaurant use



Medium-term business plan by main segments 3

Carbon and Chemical Materials Business

(Osaka Gas Chemicals)

Development of the fine materials business into the third largest pillar supporting revenues, following environmental materials and electrode materials businesses

Environmental materials, such as water purifiers

Development of new style products, such as central water purifiers

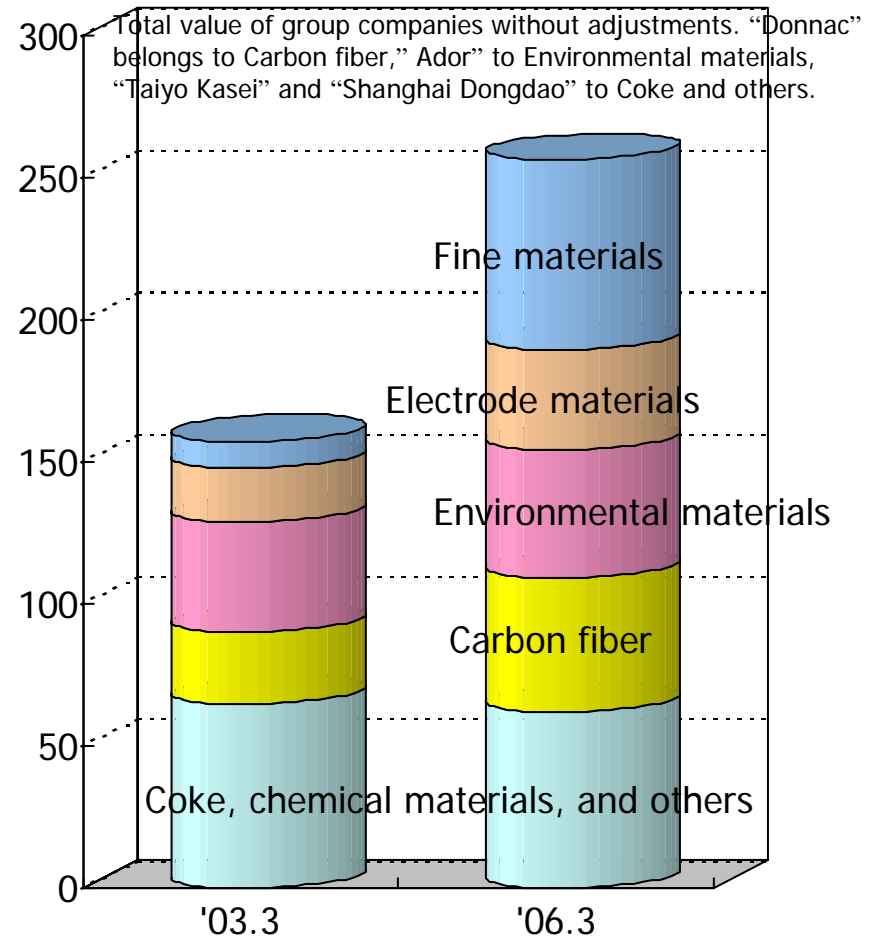
Electrode materials, such as batteries for mobile phones

Commercial manufacture of carbon nanotubes

Fine materials, such as liquid crystal display materials

Market extension through cooperation with the Nagase Group

Group sales plan (100 million yen)

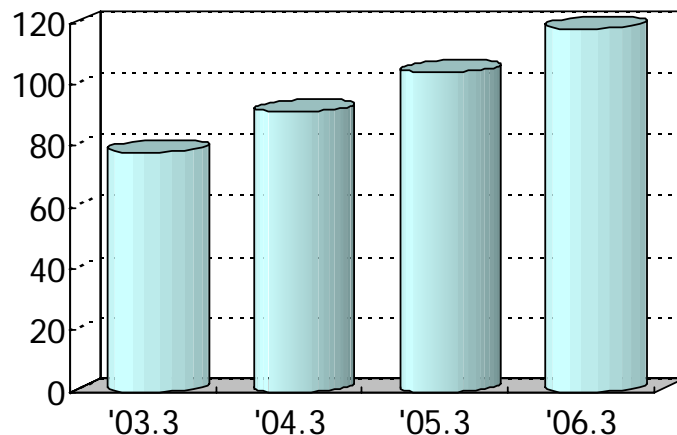


Medium-term business plan by main segments 4

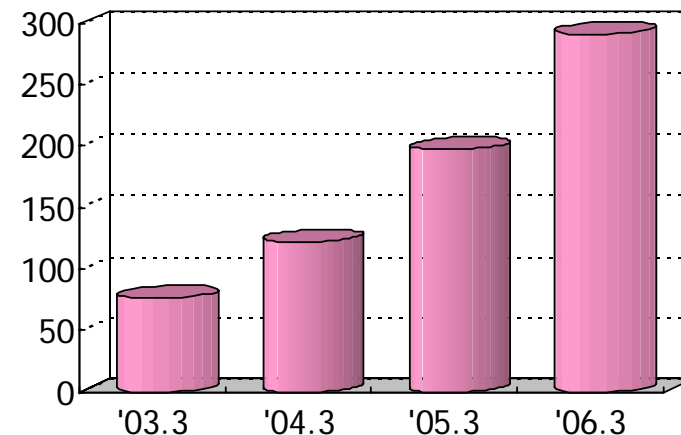
Other Non-energy Businesses

- New business where growth is expected
 - Security and disaster prevention business (Osaka Gas Security Service: OSS, Unitika Life)
 - Brokerage of home renovation on the website (Home Pro)
- Real estate business (Urbanex Group)
 - Since the real estate business in the Kobe area was reorganized in FY03.3, SVA profit will be recorded in and after FY04.3.
 - Strengthening of the Research Park business through venture business support and exchange between Industry and Academic Circles (Kyoto Research Park: KRP)
- IT business (OGIS Research Institute Group)
 - Putting more focus on the object/UML field, in which we have advantages; basic system development business for corporate users should be expanded.

Plan for OSS Security Service Contracts (thousand)

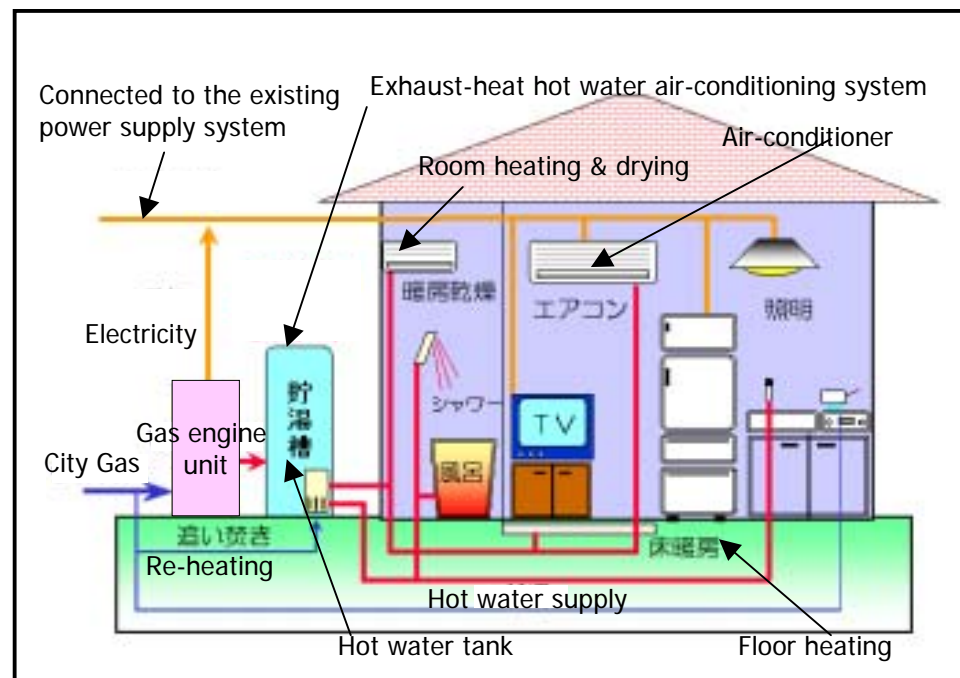
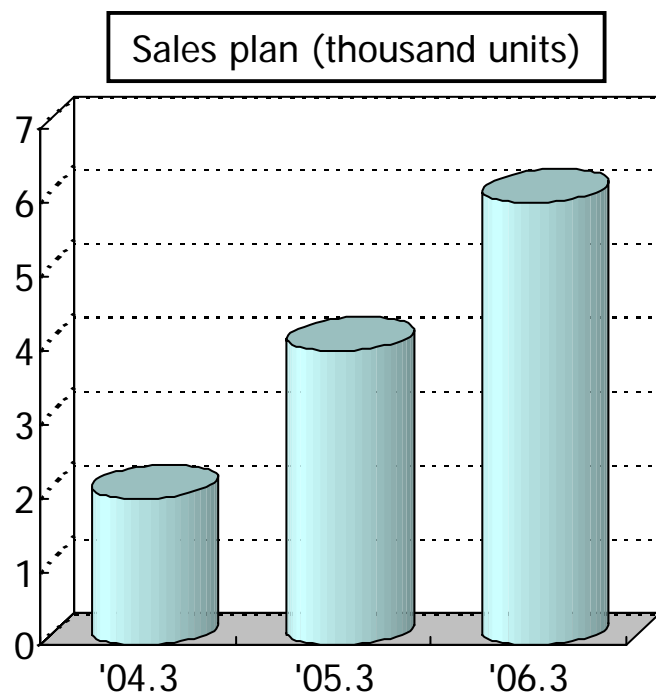


Plan for the number of Home Pro members (thousand)



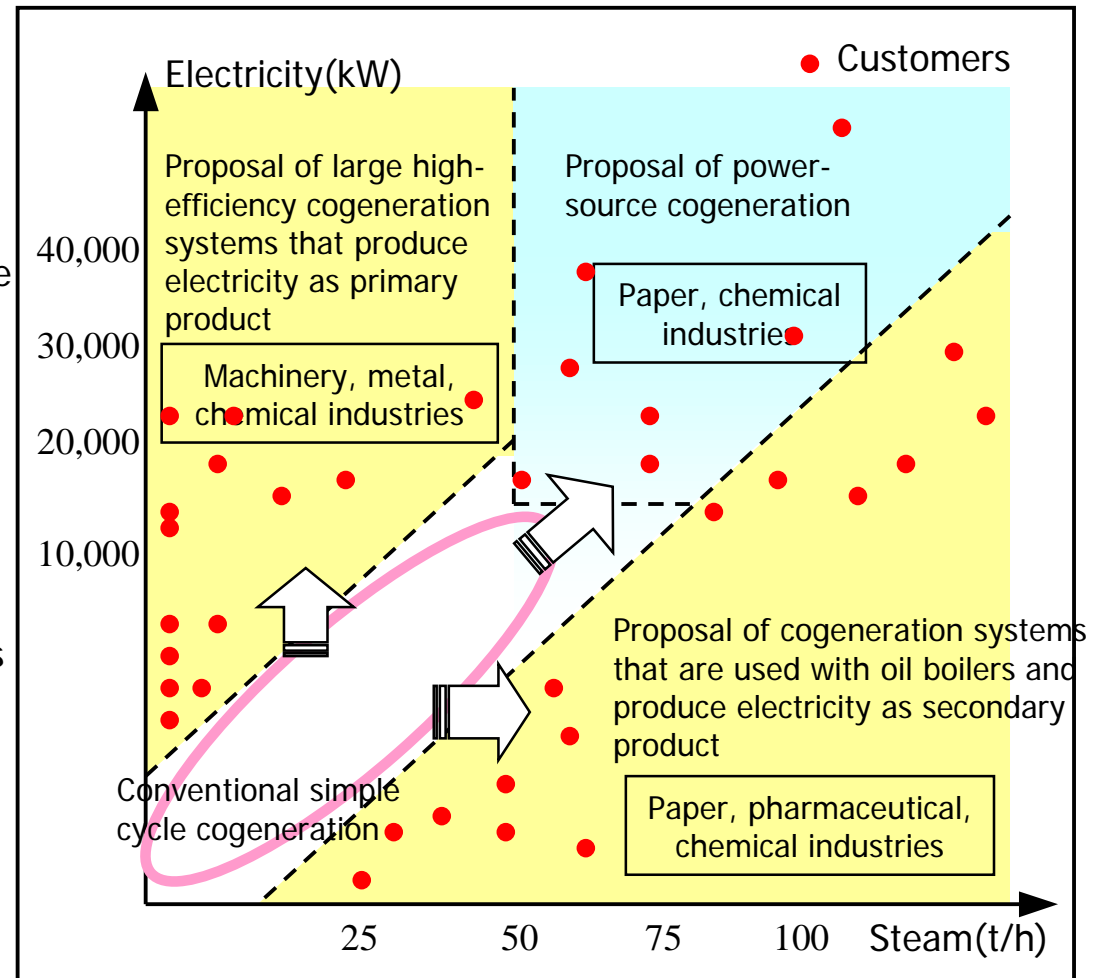
Residential 1-kW-output Gas Engine Co-generation System Development Updates

- Named "Ecowill", planned to be put on sale by March 2003.
- This system combines a gas engine developed by Honda Motor Co., Ltd. and an engine-exhaust-heat utilization system developed jointly by 3 other companies and Osaka Gas.
- The system will account for 40% of the current residential electric-power demand (200 m³/system). Osaka Gas plans to sell about 10,000 units over the first three years (from the year ending in March 2004 to the year ending in March 2006).



Market Development for Cogeneration

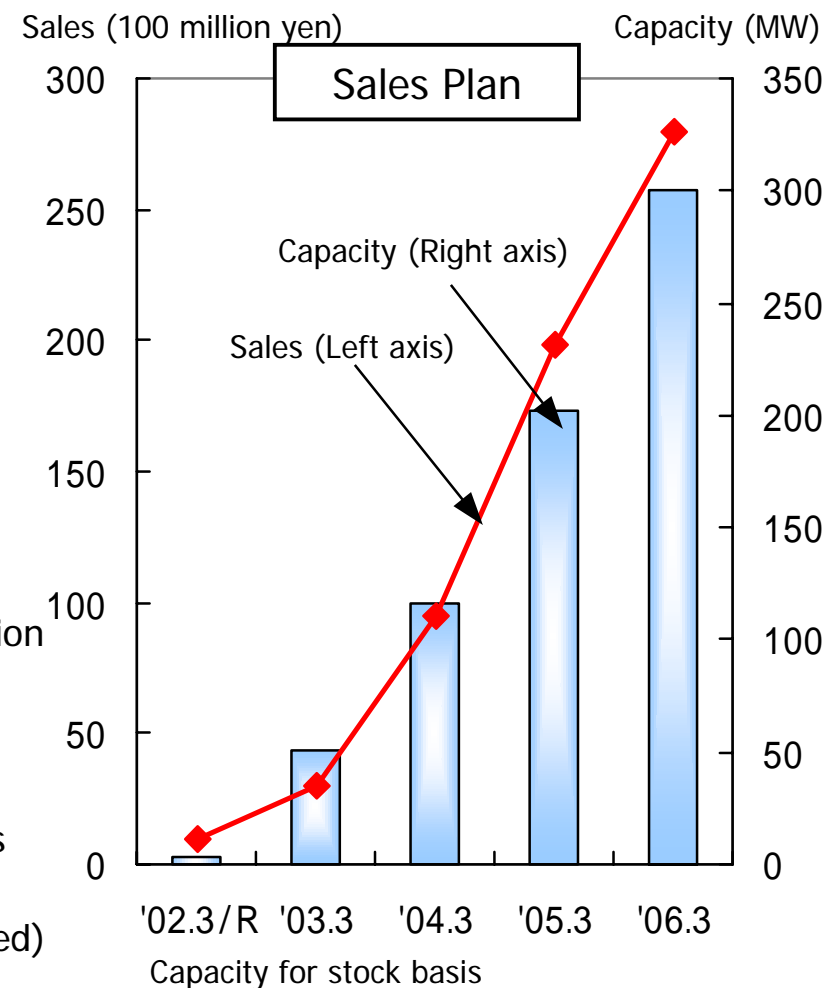
- Expansion of the market for co-generation systems that generate “electricity as primary, and heat as secondary product” (by using high-efficiency engines etc.)
- Expansion of the market for cogeneration systems that generate “heat as primary, and electricity as secondary product” (by using exhaust gas re-burning/re-heating techniques etc.)
- Development of power-sale cogeneration systems (large-capacity cogeneration systems for excess power to be sold)
- Exploration of new markets (biogas cogeneration, agricultural cogeneration (tri-generation))
- Subjects for System Development
 - Higher efficiency, larger size
 - Lower costs: initial cost, maintenance cost



Energy solution business

Activities of Cogene Techno Service

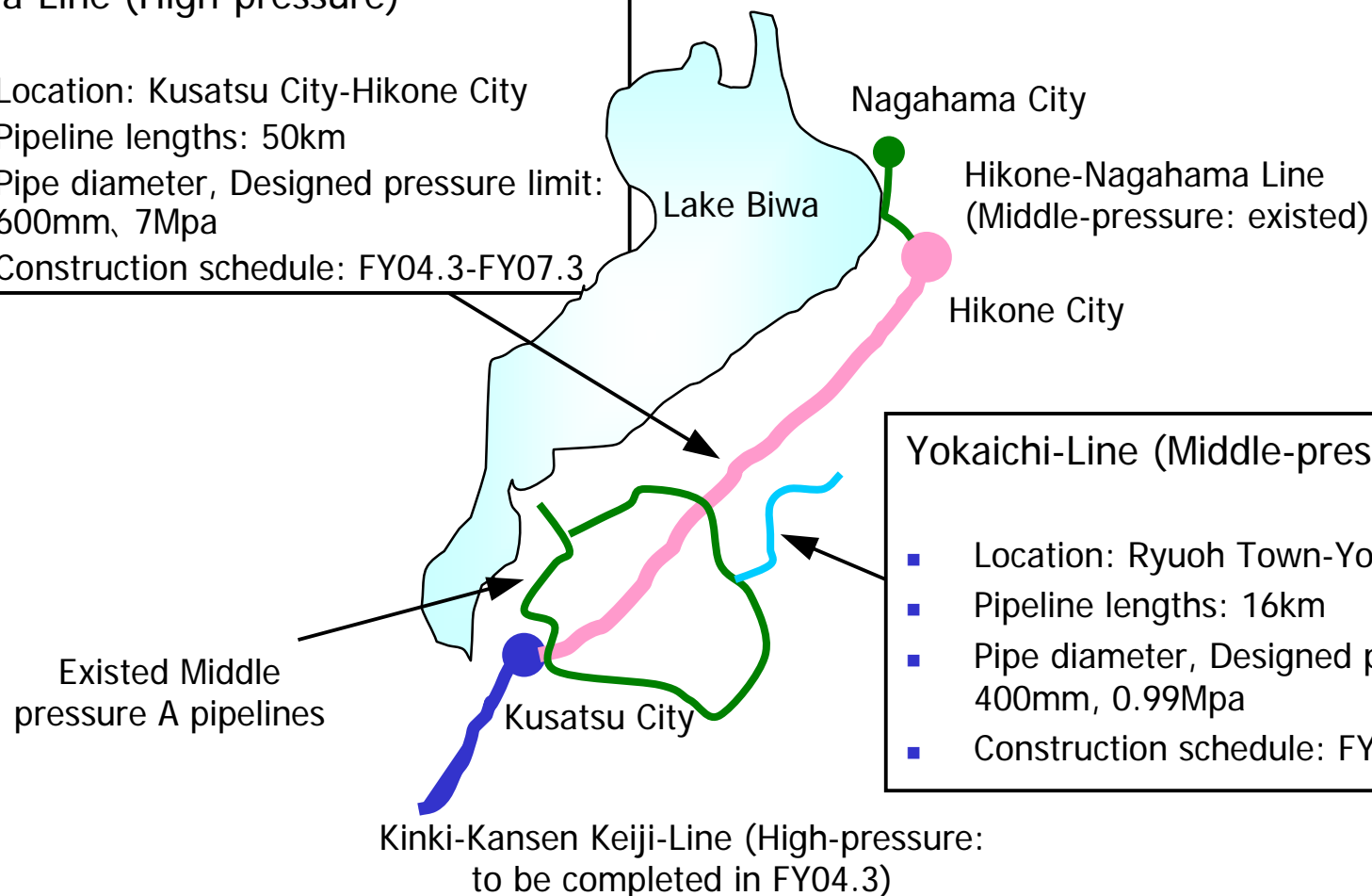
- National business expansion through CTS Consortium
 - Tokyo office opened in March 2002
 - Northern Cogene Power established in May 2002 in Aomori as the business base for Tohoku Region
- Product development efforts
 - Introduction of high-efficiency, low-cost diesel/LPG cogeneration systems using the technologies of Osaka Gas
- Proposal marketing with offer of unique finance schemes
 - Energy service coupled with electricity generation (Business model patent application submitted)
 - Fixed heavy oil price service
- Service organization
 - Networking of local collaborative companies
 - Remote monitoring system "Echo Line" (Business model patent application submitted)



Strengthen of Supply Infrastructure by Strategic Pipeline Construction

Shiga-Line (High-pressure)

- Location: Kusatsu City-Hikone City
- Pipeline lengths: 50km
- Pipe diameter, Designed pressure limit: 600mm, 7Mpa
- Construction schedule: FY04.3-FY07.3



Yokaichi-Line (Middle-pressure)

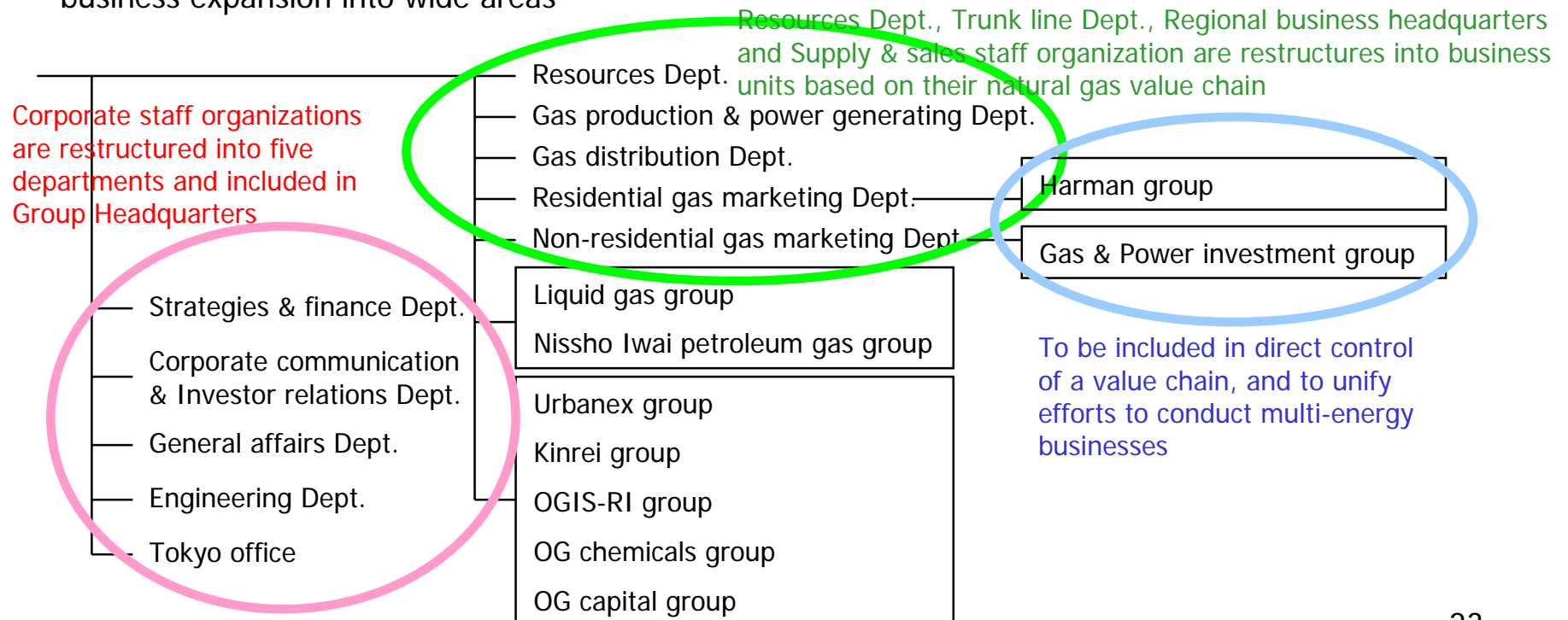
- Location: Ryuoh Town-Yokaichi City
- Pipeline lengths: 16km
- Pipe diameter, Designed pressure limit: 400mm, 0.99Mpa
- Construction schedule: FY03.3-FY05.3

Kinki-Kansen Keiji-Line (High-pressure: to be completed in FY04.3)

Lean and Responsive Structure for Decision-Making

Objectives of organizational restructuring (Scheduled for April 2003)

- To divide natural gas-related businesses into units according to their value-chain, to clarify the independence and responsibility of each unit, leading to improvement of competitiveness and profitability
- To unify the head office function and the production site of each unit into one place, to enhance management flexibility and responsiveness
- To engage in diverse energy businesses, with the main focus on gas and electricity, and to accelerate business expansion into wide areas



Outline of Gas Tariff Revision and Other Reforms (February 2003-)

- Executes from February 27, 2003
- Revision of standard heat capacity: 46.04655MJ(11,000kcal) => 45MJ(about 10,750kcal)
- Contents of tariff revision
 - The average payment reduction among regulated areas: -0.87%. For customers under alternative contracts: -1.67%
 - The average price reduction under general contracts: -0.69% (For a standard household consuming 600 m³ of gas per year: -0.70%)
 - Transportation service for third party access: -1.70%
- Establishment of new charge plans and revisions
 - Newly established: Residential Cogeneration System Contract (Home Eco contract), Cogeneration System Contract by Operating Rate (CGSMAX), and Cogeneration System Contract C.
 - Floor heating system and bathroom heater & drier discount, and floor-heating/bathroom heater & drier/gas cooking stove discount ("Marugoto" discount) are applicable to the Home Eco contract.
 - Floor heating system and bathroom heater & drier discount, and floor-heating/bathroom heating & drier/gas cooking stove discount ("Marugoto" discount) are applicable to the residential air-conditioning contract. (Planned for May 1, 2003)
 - Floor-heating/bathroom heater & drier/gas cooking stove discount ("Marugoto" discount) are applicable to the residential gas hot water floor heating system contract ("Hotto Ryokin"). (Planned for May 1, 2003)