

FY '04.3 – '06.3

Medium-term Business Plan of the Osaka Gas Group

“Innovation Centennial”

January 2003

Osaka Gas Co., Ltd.

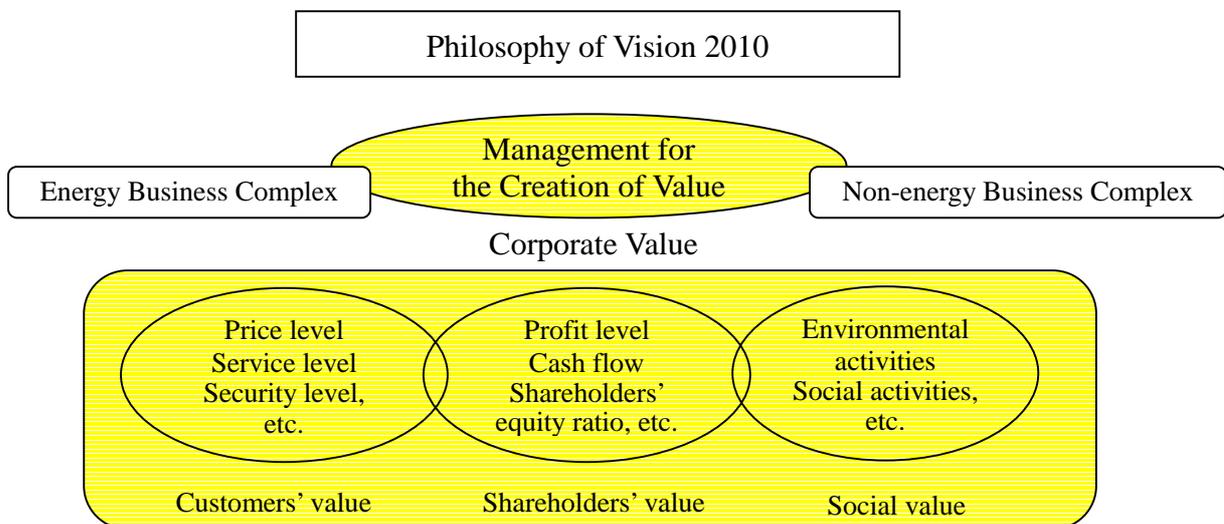
I. The Purpose of “Innovation Centennial”

The Osaka Gas Group established its “Vision 2010” in October 1999 as the Group’s management vision for the 21st century. In Vision 2010, businesses in the Group were categorized into two business domains: Energy Businesses and the Non-energy Businesses, and “Management for Creation of Value” was set as its basic management policy, with the overall goal of improving the business performance of the entire Group.

As the first phase of realizing Vision 2010, the “GATE PLAN,” a 3-year medium-term business plan from fiscal 2001.3 to fiscal 2003.3, was established; and three specific business goals for value creation were set and announced: creation of “value for customers,” “value for shareholders,” and “value for society.” During these three years, Group business management was carried out to attain the “GATE PLAN” goals. We were able to achieve the targets for fiscal 2003.3 in fiscal 2002.3, the second year of the medium-term, and succeeded in lowering the gas charge rates for customers and increasing shareholders’ dividends in fiscal 2002.3.

“Innovation Centennial” was established as a new medium-term business plan for the second phase of the embodiment of Vision 2010, for the three years from fiscal 2004.3 through fiscal 2006.3. Osaka Gas will see the 100th anniversary of its establishment in fiscal 2006.3. In preparing for its 100th anniversary, which is the starting point of the second century for Osaka Gas, the new medium-term plan was named “Innovation Centennial,” aiming at achieving continuous growth of a “sound Osaka Gas Group” by implementing innovation in the energy business and the Non-energy Business segments.

The environment surrounding the Group has become much more severe than was forecast in the Vision 2010. Under these rapidly changing business conditions, we intend to achieve the business targets of “Innovation Centennial” by adequately coping with such changes, and implementing “constant innovation” “with “flexibility” and “speed.”



II. Goals to Be Achieved

1. Business Environment Forecast

In Vision 2010, the following four significant trends were forecast, based upon which the future management of the Osaka Gas Group until fiscal 2011.3 was planned:

- ① The End of Upward Growth of the Economy, Including the Energy Business
The growth of energy demand is expected to become quite sluggish because of the slowdown of economic growth due to the decrease in population and the aging of society, as well as to further advancement of energy-saving techniques.
- ② The Reform of the Japanese-style Business Management System
The Japanese-type business management system must be reformed because the globalization of the economy and the advance of information technologies will eliminate the boundaries currently dividing markets. Higher transparency of business management will be demanded of companies, as well as adoption of market rules, international standards (including international accounting standards), and a corporate governance system.
- ③ The Capital Market's Severe Criteria for Choosing Companies
Fund-raising by companies is shifting from indirect financing to borrow funds from banks and other financial institutions to direct financing by which a company raises funds on its own through the issuance of bonds, etc. In order to raise funds with lower cost and with less difficulty, a company must acquire confidence from investors by improving its growth prospect, transparency of management, and compliance to win in the severe screening of the capital market.
- ④ The Acceleration of Institutional Reform for the Electricity and Gas Markets
The public policy for gas business operators has been to promote the expansion of the city gas supply system throughout Japan. However, the national government is drastically changing the policy to promote competition among business operators to encourage reduction of gas charges and to expand the range of choices for consumers. This deregulation has lowered the boundary between the gas and electricity businesses, which promotes the full-scale entry of gas operators into the electricity business, and vice versa. The Company must, as an ordinary business operator, now compete with other companies for the superiority of pricing and quality of products and services, as well as the excellence of its corporate performance.

Vision 2010 forecast that these business environment changes would occur gradually as long-term trends by 2010. However, these changes are occurring more rapidly than expected. Therefore, the Osaka Gas Group recognizes that innovation should be accelerated to respond to these environmental changes each year to be addressed as urgent, not long-term issues. On the other hand, the national government has set the energy policy to encourage active use of natural gas as an environment-friendly energy source. Accepting this movement for shifting to natural gas more actively, the Group will strive to expand the use of

natural gas, aiming at preserving the environment while maintaining the business growth of the Group.

2. Direction of Business Management and Goals to Be Achieved

The Osaka Gas Group aims at shifting from a local provider of gas and other energies to a provider of a “multi-energy business in a wide area,” and at the same time, endeavors to maintain the competitiveness and profitability of the Non-energy Business led by the core business groups.

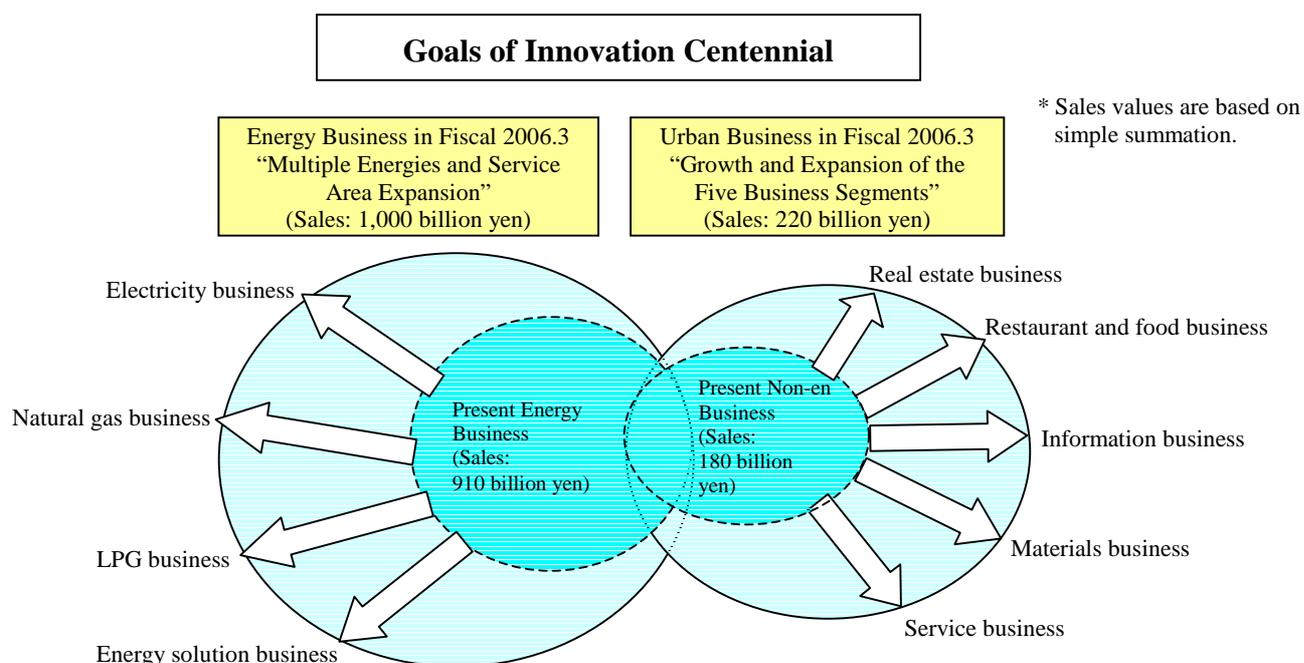
The management should be carried out in line with the following four courses of direction:

- ① Shift from a local corporate group in the Kinki bloc to a corporate group that expands into a wider area beyond the Kinki bloc
- ② Shift from management led by Osaka Gas to management led by each core group company.

In the area of the energy business,

- ③ Shift from a “vertically-combined business model” from material procurement to retail sales, 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.
- ④ Shift from a “gas-based business” to a “multi-energy business” to include the electricity and LPG businesses.

Goals of Innovation Centennial are as follows:



Basic management strategies for the Energy Business and Non-energy Business segments are as follows:

<Energy Business Segment>

- Taking into account the severe business environment after further institutional reform (deregulation) of the gas and electric power industries, 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” products/services offered by companies under the Osaka Gas Group, according to the needs and requests 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” at each stage from the upstream (procurement/import of LNG) to the downstream (sales of natural gas to customers) in the natural gas business. Active investment should also be made in the growing businesses for “expanding the business size.”
- Under the new organizational structure to be formed in April 2003, positioning the energy business as the core business segment, the “provision of multiple energies in a wider area” should be promoted to achieve the “high business management targets.”

<Non-energy Business Segment>

- Responsibility for independent and autonomous business management should be increased for the five core company groups in the Non-energy Business segment. “Selection” and “concentration” of businesses should be continued for “further expansion of growing businesses” and the “early achievement of SVA profit 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.

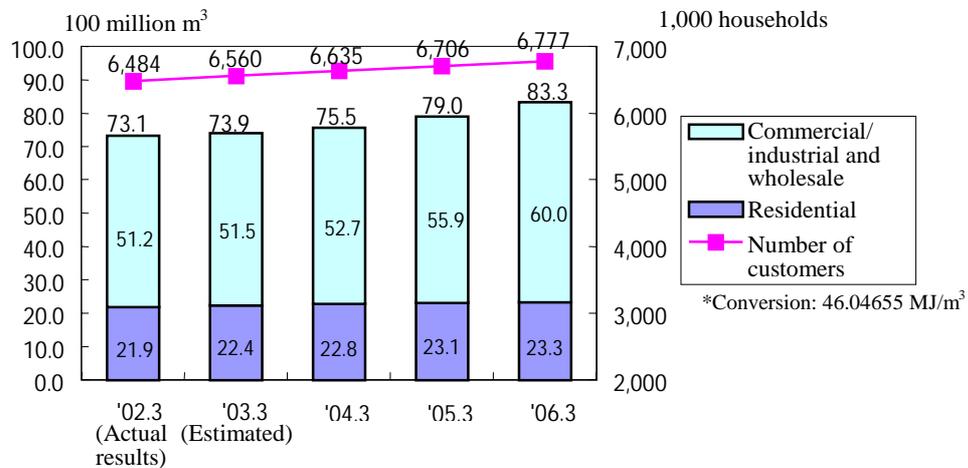
III. Business Growth/Expansion Targets

1. Energy Business

(1) Natural Gas Business

A gas sales volume of 8,330 million m³ (average growth rate of 4.1% by fiscal 2006.3) should be achieved in fiscal 2006.3 through further development of the gas market in the service area through the development of new products and technologies, and strengthening of competitiveness in the competition between gas and electricity and between gas and gas operators.

<Number of Customers, Expected Gas Sales Volume>

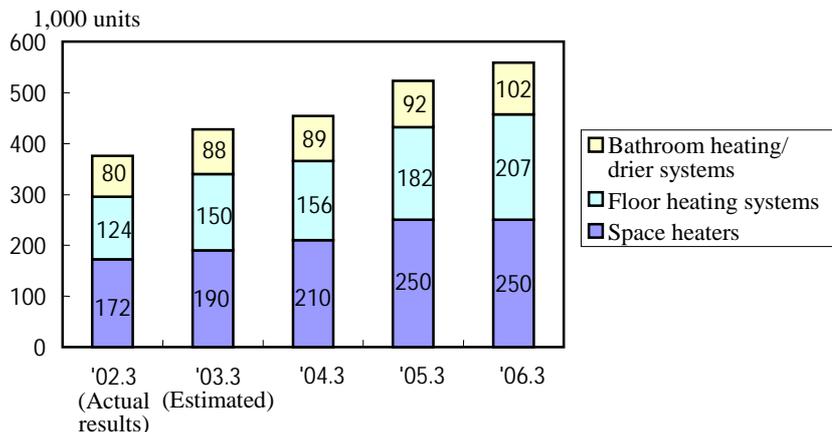


① Residential market

An average growth rate of 1.4% should be achieved in the gas sales volume during the period from fiscal 2003.3 to fiscal 2006.3, through the enhancement of competitiveness against electric power operators and sales expansion of strategic products, including gas floor-heating systems, gas space heaters, and residential gas engine cogeneration units (Ecowill).

While improving the efficiency of security/service operation through the utilization of information technologies, service businesses for residential customers such as the home security business should be expanded.

<Sales of Main Residential Appliances>

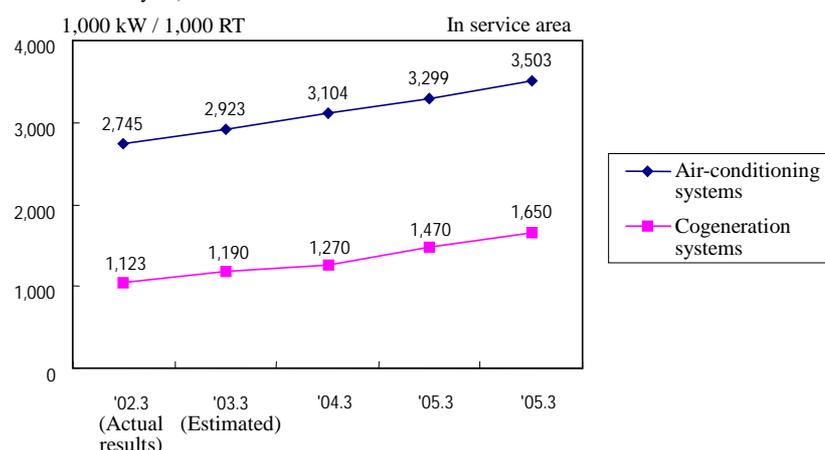


② Commercial/industrial market

Expansion of the distributed-power-supply market should be promoted through active technical development and the provision of high efficiency, high performance, and low-priced cogeneration systems. Furthermore, we will introduce a scheme to propose to customers a cogeneration system that can generate more electricity than the volume consumed by the customer, and then to purchase the excess power from the customer for resale (Power Supply Cogeneration Scheme). The demand for gas air-conditioning systems should also be actively explored. Furthermore, with the aim to reduce environmental burdens and increase gas sales, the number of natural gas automobiles in service should be increased to 10,000 units in fiscal 2007.3 and then to 20,000 units in fiscal 2008.3 (5,000 units are expected to be in service in fiscal 2003.3).

By implementing these efforts, our aim is to achieve a gas sales volume growth rate of 5.1% in the commercial/industrial market from fiscal 2003.3 to fiscal 2006.3.

<Accumulated Capacity of Installed Cogeneration/Air-Conditioning Systems (end of each fiscal year)>



③ Strengthening and Expansion of Supply Infrastructure by Strategic Pipeline Construction

The stable gas supply and increase of capacity in the Shiga area should be achieved through the construction of the Keiji-Line (to be completed in 2004.3), and the Shiga Line extension from Keiji-Line (Kusatsu to Hikone, groundbreaking in 2004.3, with completion around 2008.3). New demand for natural gas of about 200 million m³ should be explored by fiscal 2011.3 by utilizing the Yokaichi Line (to be completed in 2005.3).

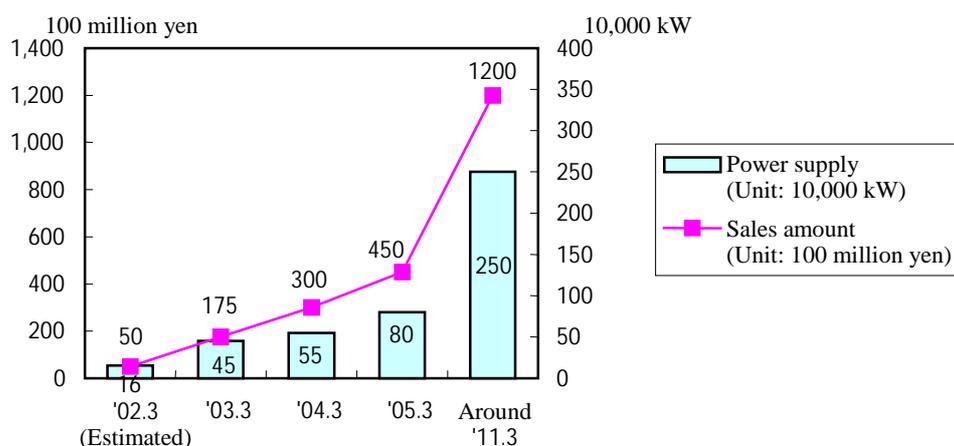
④ Starting up the LNG Upstream Business

In the LNG upstream business, our long-term perspective is to promote the “purchase/sale of LNG,” “transportation,” “gas field development” and other related businesses. The Sunrise Project in North Australia plans to commence production in fiscal 2009.3.

(2) Electricity Business

The electricity business enables us to demonstrate the advantages of the Osaka Gas Group (its upstream infrastructure, ability to make proposal-type marketing, our network with existing customers, etc.), following the natural gas business. Taking advantage of deregulation as a business opportunity, we will endeavor to expand the electricity business into our “second core business” following the natural gas business, with the aim of achieving an independent power supply capacity of 2.5 million kW (including retailing and IPP), sales of 120 billion yen, and ordinary profit of 10 billion yen.

<Expansion of the Electricity Business>



<Retailing of electricity>

- 2003.3: 18,000 kW from Semboku No. 1
- 2005.3: 50,000 kW from Himeji
- 60,000 kW from CGS generating surplus electricity for commercial sales
- 2009.3: 800,000 kW by two systems at the Semboku Natural Gas Power Plant
- 2011.3: 800,000 kW by two systems at the Semboku Natural Gas Power Plant

<IPP>

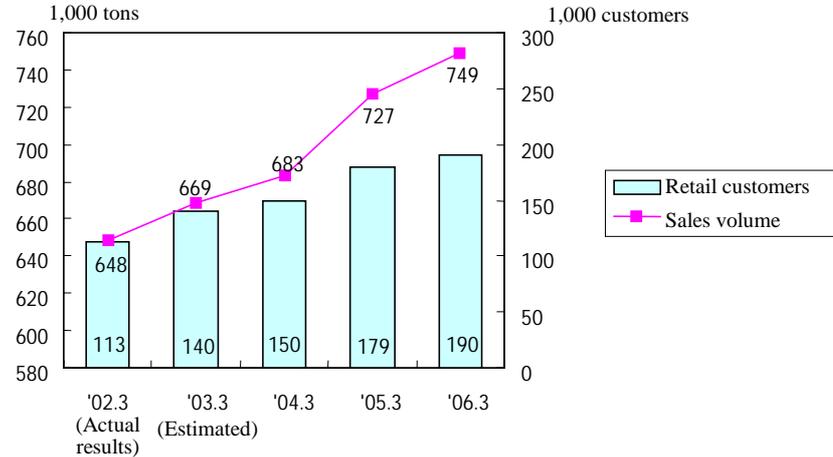
- 2003.3: 150,000 kW from the G&P Torishima Energy Center
- 2004.3: 150,000 kW from the Nakayama Joint Thermal Power Plant (60% investment)
- 150,000 kW from the Nakayama Nagoya Joint Thermal Power Plant (60% investment)

*All projects are in operation or in the planning stage.

(3) LPG Business

In the LPG business, we endeavor to increase our profit by increasing the number of retail customers and sales volume per household in the Liquid Gas Group and the NIPG group.

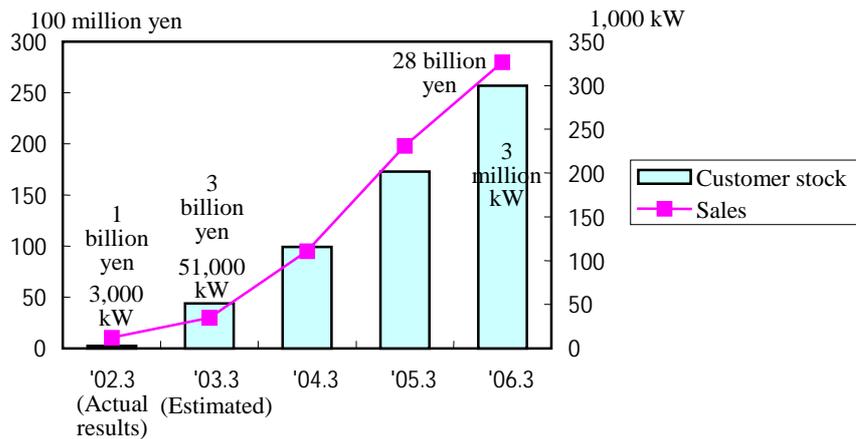
<Growth of the LPG Business>



(4) Energy Solution Business

In areas where city gas is not serviced, we intend to pull together our advanced know-how backed by our experience in installing the largest number of natural gas cogeneration systems in Japan, to develop an energy solution business in a wide area, combining engineering, maintenance and finance, led mainly by Cogene Techno Service (CTS). CTS aims at achieving sales of 28 billion yen and ordinary profit of 1 billion yen in fiscal 2006.3.

<Growth of CTS>

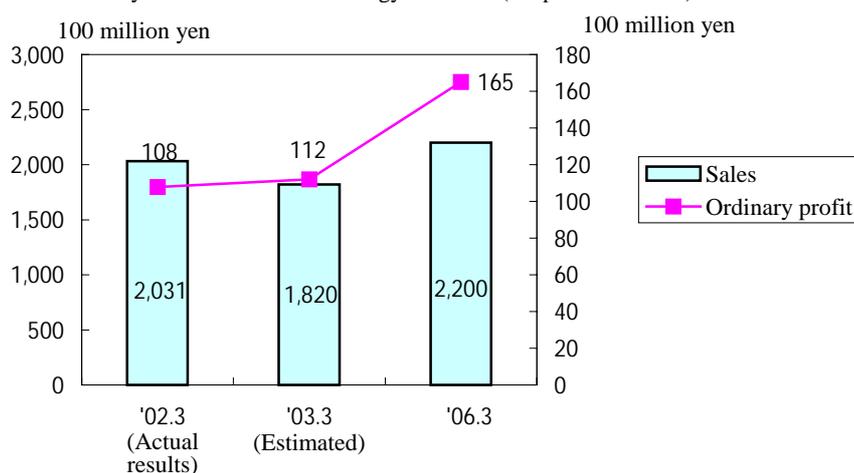


2. Non-energy Business

(1) Sales and Ordinary Profit of the Entire Non-energy Business

Increased revenue and increased profit should be attained by all core company groups. We will aim at 1.2 times growth in sales and 1.5 times growth in ordinary profit in fiscal 2006.3 compared with fiscal 2003.3.

<Sales and Ordinary income of the Non-energy Business (simple summation)>



(2) Acceleration of Selection and Concentration

① Expansion of Growing Businesses

○ Urbanex Group

- Maintenance and expansion of the value of the Group's real estates by property management (maximizing asset value)
- Expansion of the housing lease business, utilizing unused land (two buildings and 260 houses in fiscal 2006.3)

○ Kinrei

- Increase of restaurants in the restaurant business (80 Kagonoya restaurants in fiscal 2006.3, compared with 38 restaurants at the end of fiscal 2003.3)
- Entry into the Kanto bloc market in fiscal 2004.3

○ OGIS Research Institute Group

- Expansion of sales including M&A (50 billion yen level in fiscal 2007)
- Expansion of transactions with parties outside the Osaka Gas Group (64% of total sales in fiscal 2006.3, compared with 54% in fiscal 2003.3)

○ Osaka Gas Chemicals Group

- Strengthening of the foundation for existing products like coke, chemical synthetic materials, carbon materials, and electrode materials
- Expansion of sales of new products of fine materials, utilizing the results of RDE (sales of 3 billion yen in fiscal 2006.3)

- OG Capital group
 - Active expansion of the athletics business (22 directly-owned OG Sports studios in fiscal 2006.3 compared with 16 studios in fiscal 2003.3)
 - Expansion of the security service business (120,000 Osaka Gas Security Service Contracts in fiscal 2006.3, compared with 80,000 in fiscal 2003.3)
 - A leading home renovation brokerage website in Japan (4,000 Home Pro Brokerage Contracts in fiscal 2006.3 compared with 400 contracts in fiscal 2003.3)

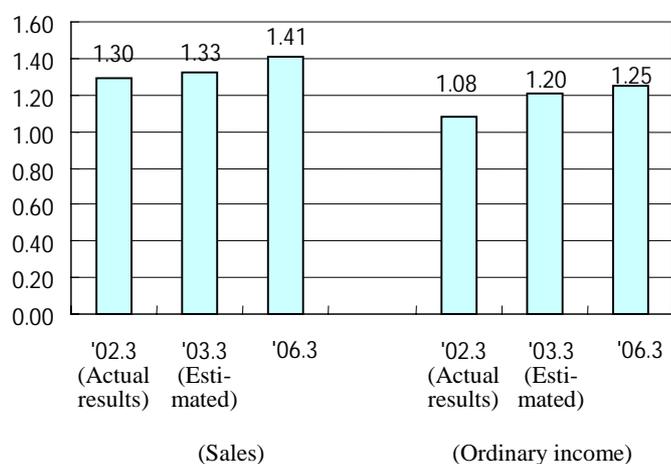
② Early Achievement of SVA Profit

All the core company groups in the Non-energy Business should attain SVA profit in fiscal 2006.3 (estimated profit for fiscal 2003.3 is 500 million yen, and 4,200 million yen in fiscal 2006.3). In addition, the corporate value of the Group should be increased through the active expansion of businesses with parties outside the Osaka Gas Group.

(3) Improvement of Total Group Ability

Because the growth of the non-natural-gas energy businesses (LPG, electricity, and energy solutions) and the Non-energy Businesses will exceed the growth of the natural gas business, the group-to-parent ratio of each index in the consolidated management will greatly improve.

<Improvement of Group-to-Parent Ratio>



3. Maintenance and Improvement of a Sound Business Structure

(1) Controlling Investments for Growth and Maintaining a Sound Financial Structure

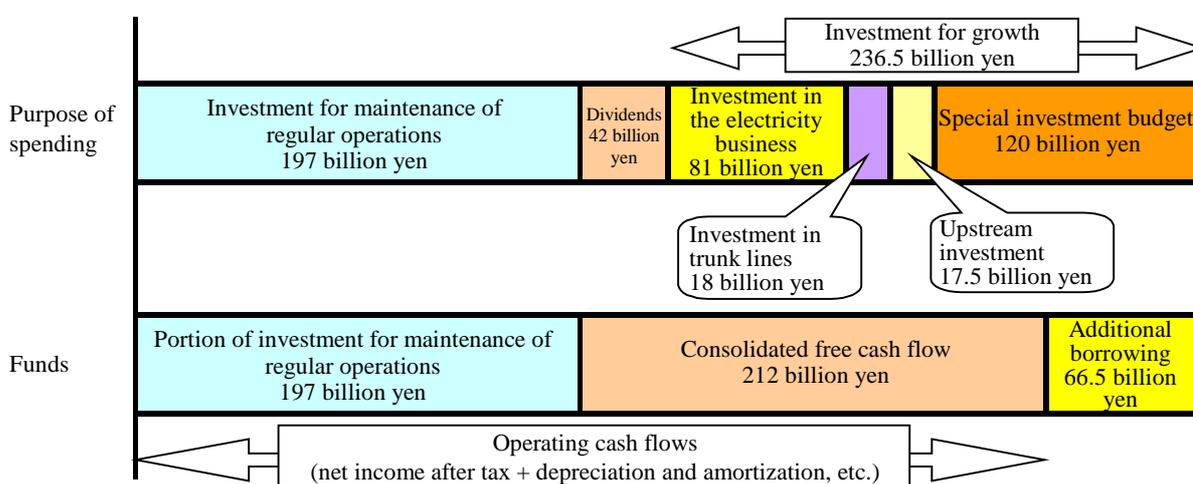
We will continue active business expansion based on the uniform investment standards of the Group. To minimize the investment risk of change in the business environment, each investment proposal should be assessed more strictly than before in accordance with investment profitability assessment standards;

and an interest-bearing liabilities/shareholders' equity (D/E) ratio of about 1.0, and 40% or higher shareholders' equity ratio should be achieved to ensure maintenance of a sound financial structure with increased investment.

In addition to the investment for maintenance of regular operations (197 billion yen), investment of about 120 billion yen is planned for fiscal 2004.3 through fiscal 2006.3 in the medium-term plan for investment in the electricity business and construction of main pipelines as well as the expansion of upstream energy businesses. Furthermore, about 120 billion yen from a special investment budget will be planned for the expansion of other businesses, including the Non-energy Business.

Consequently, the D/E ratio will become 0.95 and the shareholders' equity ratio will be 42%, while the consolidated interest-bearing liabilities outstanding at the end of fiscal 2006.3 will be about 570 billion yen.

<Consolidated Free Cash Flow and the Purpose of Additional Borrowing (Aggregate for Fiscal '04.3 - '06.3)>



(2) Pursuing Further Improvement of Management Efficiency

① Personnel

Workloads are expected to increase each year as the number of customers and gas sales volume increase. However, the number of employees of Osaka Gas Co., Ltd. (including employees loaned to other group companies) will be reduced to 7,350 at the end of fiscal 2006.3 from 7,960 at the end of fiscal 2003.3 through operational reforms by utilizing information technologies, outsourcing, and other efforts.

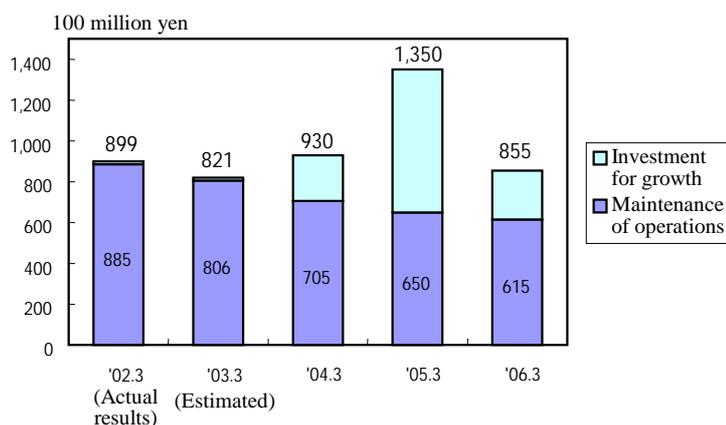
On the other hand, the number of employees in the entire Osaka Gas Group will increase to about 14,500 at the end of fiscal 2006.3 from about 13,800 at the end of fiscal 2003.3 due to the inclusion of additional subsidiaries in the consolidation. We will continue our efforts of maintaining employee retention throughout the Group.

② Capital Expenditures

Because excessive capacity will arise in and after fiscal 2006.3 as existing processing service contracts terminate successively, no construction of gas production facilities, high-pressure lines, and other infrastructures will be made for the time being, except for existing construction projects already in progress and the construction of the main pipeline in the Shiga area.

The cost of pipeline constructions should be reduced through competitive purchasing, introduction of large diameter (300 A) PE pipes, the application of a non-excavating method for steel pipes, etc. to reduce the capital expenditure of the entire Osaka Gas Group for the maintenance of regular operations. It should be reduced to 197 billion yen for the three years from fiscal 2004.3 to fiscal 2006.3 (65,700 million yen per year). Total capital expenditures including investments for business expansion such as the electricity business will be 313.5 billion yen for the three years from fiscal 2004.3 to fiscal 2006.3 (104.5 billion yen per year).

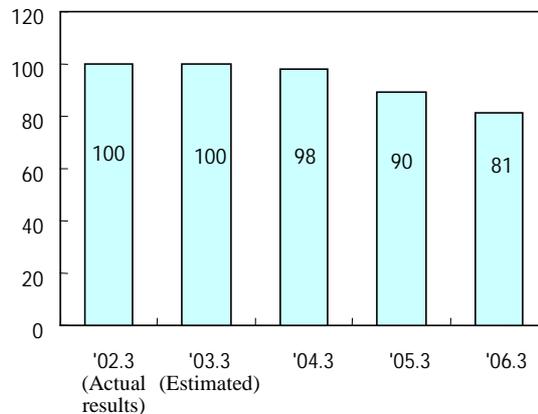
<Capital Expenditures by the Entire Osaka Gas Group (on a consolidated basis)>



③ Reducing Fixed Costs

Fixed costs per m³ should be reduced by 19% in fiscal 2006.3 compared with fiscal 2003.3, through the expansion of gas sales volume and efficient use of repair expenses, a radical reduction of gas charge collection costs, regular security patrol costs and other costs, a reduction of the purchase price of gas meters through a modification of the specifications, and a reduction of expenses and capital costs through the thorough rationalization of general administrative activities, etc. (Fixed costs = labor costs + overhead expenses + capital costs, etc.)

<Reduction of fixed costs per m³ sold (fiscal 2002.3 = 100)>



(3) Business Renovation and Operational Reengineering through RDE and IT

RDE continues to be a pillar supporting continued growth of the Osaka Gas Group, and should be concentrated in promising fields where we can expect future profit. Specifically, resources should be concentrated in the development of residential fuel cells, improvement of commercial/industrial cogeneration systems, expansion of our product lineup, and product development of fine materials, etc., to expand these businesses.

Reengineering of field operations, call center operations, and back-office operations should also be carried out as well as a reengineering of the basic operation systems, including the consolidated management system, by utilizing information technologies.

4. Improvement of Service Level and Assurance of Security

(1) Improving the Service Level

The CS Mind should be cultivated to place top priority on customer satisfaction so that customers can use gas with the highest satisfaction. Operational processes should also be improved, listening to customer opinions for further enhancement of the service level.

- The C-VOICE system (a monitoring program in the customer call center) will be used to personally listen to customer opinions, which will be incorporated in the on-going effort of improving our operations.
- While maintaining and improving the service level and quality of operation, the efficiency of our operations should also be improved.

(2) Assuring Security

We recognize that an assurance of security is a gas business operators' greatest social responsibility and a prerequisite to achieving satisfaction in conducting our business. In order to assure customers' safety in their use of gas, we will continue maintenance and improvement of the security level of gas production/supply facilities as well as systems installed in customers' home and sites.

- The "zero" occurrence of serious accidents (injury or death, or large-scale shutdown of the gas supply) in the LNG transportation systems and main facilities of Osaka Gas (manufacturing facilities and high-pressure gas pipelines) must continue.
- Scheduled renovation of old middle- and low-pressure gas pipes should be carried out and the use of pipes having high earthquake resistance and corrosion resistance should be expanded.
- To achieve a "zero" occurrence of fatal accidents on customers' premises by the end of fiscal 2011.3, we need to improve the safety of the facilities installed on customers' premises, while the customers' awareness of their responsibility for facility control should also be cultivated.

5. Efforts for Energy Conservation and Environmental Preservation

While making efforts to mitigate the environmental burdens imposed by our business activities through the promotion of energy conservation activities, use of recycled materials, and other environmental activities, we should also contribute to reducing environmental burdens through the introduction of environment-friendly products. We should also contribute positively to improving the environment in the community in and outside Japan where we serve, through the development and spread of energy-saving and environmental preservation technologies. Specifically, we aim to achieve the environmental targets in the medium-term plan by fiscal 2006.3, through the steady implementation of environmental management, and then to further proceed toward achieving the environmental targets for fiscal 2011.3.

These efforts are followed up in the Environmental Activity Report released every year in July.

6. Efforts for Improvement of Compliance

To obtain confidence from society as a business operator providing public services, it goes without saying that we must comply with all applicable laws and regulations, and cultivate sound common sense as a member of the community, based on which we should make our actions. A fair relationship must be maintained with customers, suppliers and all other people we meet, to obtain confidence from society for our transparent business activities.

IV. Major Management Targets for Fiscal 2006.3

SVAs to be achieved in fiscal 2006.3 are set at 35 billion yen on a consolidated basis and 27 billion yen on a non-consolidated basis.

We aim at achieving ordinary profit of 100 billion yen on a consolidated basis and 80 billion yen on a non-consolidated basis, as well as net income of 57,500 million yen on a consolidated basis and 48,500 million yen on a non-consolidated basis.

Major management indices are as follows:

(Unit: 100 million yen, %)

	Fiscal 2003.3		Fiscal 2006.3		Change from '03.3 to '06.3	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated
SVA	114	118	350	270	+236	+152
Operating revenues	9,600	7,238	10,900	7,755	+1,300	+517
Operating income	745	561	1,130	850	+385	+289
Ordinary income	650	540	1,000	800	+350	+260
Net income	380	330	575	485	+195	+155
FCF ^{*1}	294	249	850	710	+556	+461
ROE	7.9%	7.9%	10.0%	10.3%	+2.1	+2.4
ROA	3.0%	3.2%	4.1%	4.4%	+1.1	+1.2
Shareholders' equity ratio	39.4%	41.3%	42.1%	43.6%	+2.7	+2.3
Total assets	12,486	10,350	14,165	11,175	+1,679	+825
Interest-bearing liabilities outstanding	4,845	4,032	5,750	4,585	+905	+553
Capital expenditures	821	580	855	487	+34	-93
Including investment for maintenance of regular operations ^{*1}	811	570	615	403	-196	-167
Employees ^{*2}	13,816	7,960	14,580	7,350	+764	-610
Number of consolidated subsidiaries	54	--	102	--	+48	--

*1. FCF does not include investment for maintenance of regular operations but does include investment for growth, such as investment in the electricity business.

*2. The number of employees on a non-consolidated basis does not include part-time employees.

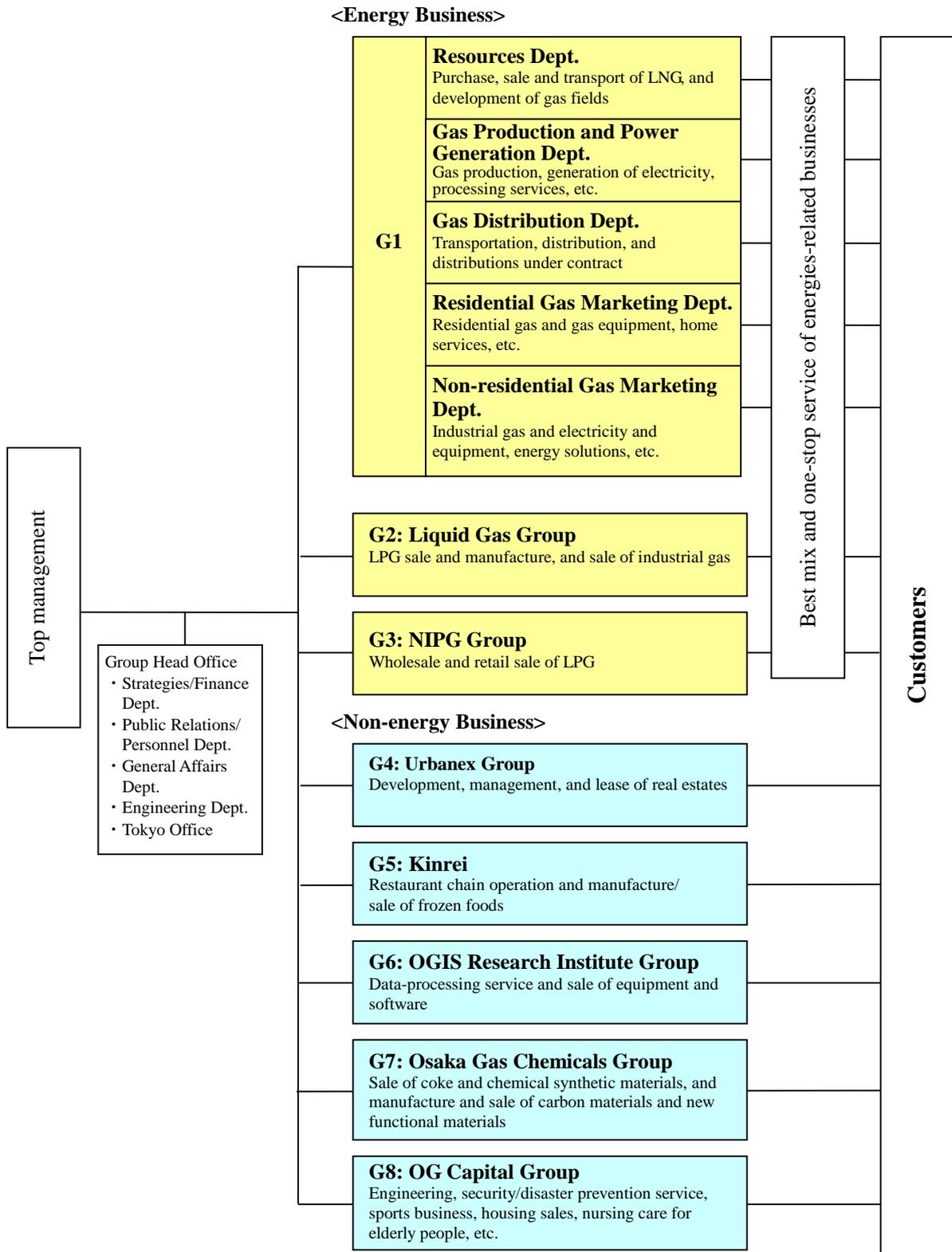
V. Organization for Achieving the Plan

“Innovation Centennial” will be promoted under the “G8 Organization,” a new organizational structure of the Osaka Gas Group formed in April 2003, consisting of five business divisions and seven core companies.

Each business division and core company will implement further independent and autonomous management to contribute to the improvement of the entire Group's performance. The Group Head Office will be formed into a small organization as much as possible and be mainly responsible for overall Group strategy, risk management, and common services. It will provide support to each business division/core company for achieving their respective plans, and also support flexible management of each business division/core company, by foreseeing changes in the business environment.

* The G&PI Group will belong to the Non-residential Gas Marketing Dept.; the Harman Group will belong to the Residential Gas Marketing Dept.

Business Organization of the Osaka Gas Group after April 2003



[Attachment 1]

Management targets for fiscal 2006.3

1. Improving Customer Value

<p>① Improving the Service Level</p>	<p>For constant reduction of gas charges for customers, we will endeavor to improve the work efficiency of personnel and cost reduction in capital expenditures. We will also explore new demands for gas that will contribute to improving the efficiency of equipment, such as residential gas floor heating, gas air-conditioning and gas cogeneration systems, thereby leading to a reduction of product costs. The gas charge plans will also be revised so that each customer can choose the most advantageous gas price plan to fit their needs.</p> <p>The CS Mind should be cultivated that puts first priority on customer satisfaction so that customers can use gas with the highest satisfaction. Operational processes should also be improved, listening to customer opinions for further enhancement of the service level.</p> <ul style="list-style-type: none"> • Customer satisfaction should be maintained and improved at the point of contact with customers. (According to the results of the customer satisfaction survey conducted by the Company, about 80% of customers are “very satisfied” or “satisfied” with our products or service.) • At least 85% completion on the day after the receipt should be maintained and improved for equipment repair.
<p>② Assuring Security</p>	<p>We recognize that an assurance of security is a gas business operators’ greatest social responsibility and a prerequisite to achieving satisfaction in conducting our business. In order to assure customers’ safety in their use of gas, we will continue maintenance and improvement of the security level of gas production/supply facilities as well as systems installed in customers’ home and sites.</p> <ul style="list-style-type: none"> • The “zero” occurrence of serious accidents (injury or death, or large-scale shutdown of the gas supply) in the LNG transportation systems and the main facilities of Osaka Gas (manufacturing facilities and high-pressure gas pipelines) must continue. • Scheduled renovation of old middle- and low-pressure gas pipes should be carried out and the use of pipes having high earthquake resistance and corrosion resistance should be expanded. • To achieve a “zero” occurrence of fatal accidents on customers’ premises by the end of fiscal 2011.3, we need to improve the safety of the facilities installed on customers’ premises, while the customers’ awareness of their responsibility for facility control should also be cultivated. <p>- Accidents at the consumption stage should be prevented by eliminating gas facilities with poor air intake and exhaust conditions and small-size water boilers without an incomplete combustion prevention device; and by proposing installation of a gas alarm.</p> <p>(Targets to be achieved by the end of fiscal 2006.3: Facilities with poor air intake and exhaust discharge conditions in use: 4,200 units; Small-size water boilers without an incomplete combustion prevention device in use: 55,000 units; Diffusion rate of gas alarms: more than 52%)</p>

2. Improving Shareholders' Value

SVAs to be achieved in fiscal 2006.3 are set at 35 billion yen on a consolidated basis and 27 billion yen on a non-consolidated basis.

These targets correspond to ordinary profit of 100 billion yen on a consolidated basis and 80 billion yen on a non-consolidated basis, and net income of 57.5 billion yen on a consolidated basis and 48.5 billion yen on a non-consolidated basis. Major management indices are as follow:

(Unit: 100 million yen, %)

	Fiscal '03.3		Fiscal '06.3	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
SVA	114	118	350	270
Operating Revenues	9,600	7,238	10,900	7,755
Operating income	745	561	1,130	850
Ordinary income	650	540	1,000	800
Net income	380	330	575	485
FCF ^{*1}	294	249	850	710
ROE	7.9%	7.9%	10.0%	10.3%
ROA	3.0%	3.2%	4.1%	4.4%
Shareholders' equity ratio	39.4%	41.3%	42.1%	43.6%
Total assets	12,486	10,350	14,165	11,175
Interest-bearing liabilities outstanding	4,845	4,032	5,750	4,585
Capital expenditures	821	580	855	487
Including investment for maintenance of regular operations ^{*1}	811	570	615	403
Employees ^{*2}	13,816	7,960	14,580	7,350
Number of consolidated subsidiaries	54	--	102	--

*1. FCF does not include investment for maintenance of regular operations but does include investment for growth, such as investment in the electricity business.

*2. The number of employees on a non-consolidated basis does not include part-time employees.

3. Improving Social Value

① Environmental Activities	<p>While making efforts to mitigate the environmental burdens imposed by our business activities through the promotion of energy conservation activities, use of recycled materials, and other environmental activities, we should also contribute to reducing environmental burdens through the introduction of environment-friendly products. We should also contribute positively to improving the environment in the community in and outside Japan where we serve, through the development and spread of energy-saving and environmental preservation technologies. Specifically, we aim to achieve the environmental targets in the medium-term plan by fiscal 2006.3, through the steady implementation of environmental management, and then to further proceed toward achieving the environmental targets for fiscal 2011.3.</p> <ul style="list-style-type: none"> • CO₂ emission in the urban gas business should be reduced by 25% to 19 g-CO₂/m³ from 25 g-CO₂/m³ recorded in fiscal 1999.3. • The increase of CO₂ emission resulting from the growth of city gas sales volume expected in fiscal 2006.3 should be reduced by 20% through the diffusion of use of gas cogeneration and gas air-conditioning systems. <p>These efforts are followed up in the Environmental Activity Report released every year in July.</p>
② Compliance	<p>To obtain confidence from society as a business operator providing public services, it goes without saying that we must comply with all applicable laws and regulations, and cultivate sound common sense as a member of the community, based on which we should make our actions. A fair relationship must be maintained with customers, suppliers, and all other people we meet to obtain confidence from society for our transparent business activities.</p>
③ Social activities	<p>Activities contributing to the community are carried out mainly in the welfare field, through local collaboration, environmental preservation, arts and sciences, promotion of local industries, and international exchanges, including the activities of the Osaka Gas Group Welfare Foundation and Osaka Gas Foundation of International Cultural Exchange.</p>

[Attachment 2]

Gas Sales Volumes

Figures on the left of each box: % change from previous year

	'02.3 (Actual results)	'03.3 (Estimated)	'04.3	'05.3	'06.3	Average growth rate '06.3/'03.3
Customers (Unit: 1,000)	+1.3% 6,484	+1.2% 6,560	+1.1% 6,635	+1.1% 6,706	+1.1% 6,777	+1.1%
Residential	-2.2% 21.9	+1.9% 22.4	+2.0% 22.8	+1.2% 23.1	+1.0% 23.3	+1.4%
Commercial	+3.7% 14.4	+4.1% 14.9	+3.5% 15.5	+3.0% 15.9	+3.1% 16.4	+3.2%
Industrial	-3.0% 35.5	-1.4% 35.0	+1.5% 35.5	+7.0% 38.0	+9.5% 41.6	+6.0%
Commercial/ industrial	-1.1% 49.9	+0.1% 49.9	+2.1% 51.0	+5.8% 53.9	+7.6% 58.0	+5.1%
Wholesale supply	+6.9% 1.3	+22.4% 1.6	+4.2% 1.7	+16.0% 2.0	+3.0% 2.0	+7.6%
Total (Unit: 100 million m ³)	-1.3% 73.1	+1.1% 73.9	+2.1% 75.5	+4.6% 79.0	+5.6% 83.3	+4.1%
Residential gas sales per household (m ³)	-3.6% 33.25	+0.9% 33.55	+0.8% 33.81	+0.2% 33.87	+0.2% 33.94	+0.4%

* Conversion with 46.04655 MJ/m³

[Attachment 3]

Management Indices for Each Group in the G8 Organization

*Simple summation

	'03.3 (Estimated)	'06.3	Increase and decrease
Sales (Unit: 100 million yen)	10,916	12,248	+1,332
G1	8,267	9,028	+761
Osaka Gas non-consolidated	7,238	7,755	+517
G1-affiliated companies	1,029	1,273	+244
G2: Liquid Gas Group	205	240	+35
G3: NIPG Group	623	776	+153
G4: Urbanex Group	335	348	+13
G5: Kinrei	193	282	+89
G6: OGIS Research Institute Group	354	412	+58
G7: Osaka Gas Chemicals Group	157	256	+99
G8: OG Capital Group	782	906	+124
Ordinary profit (Unit: 100 million yen)	715	1,063	+348
G1	576	863	+287
Osaka Gas non-consolidated	540	800	+260
G1-affiliated companies	36	63	+27
G2: Liquid Gas Group	15	16	+1
G3: NIPG Group	12	19	+7
G4: Urbanex Group	38	41	+3
G5: Kinrei	17	24	+7
G6: OGIS Research Institute Group	11	24	+13
G7: Osaka Gas Chemicals Group	2	14	+12
G8: OG Capital Group	44	62	+18
SVA (Unit: 100 million yen)	103	326	+223
G1	105	277	+172
Osaka Gas non-consolidated	118	270	+152
G1-affiliated companies	-13	7	+20
G2: Liquid Gas Group	2	2	±0
G3: NIPG Group	1	5	+4
G4: Urbanex Group	-9	10	+19
G5: Kinrei	13	10	-3
G6: OGIS Research Institute Group	-7	2	+9
G7: Osaka Gas Chemicals Group	-3	2	+5
G8: OG Capital Group	1	18	+17

* The G&PI Group and Harman Group are included among G1-affiliated companies.