

Management Plan for FY2006 ending March 2006

March 31, 2005
Osaka Gas Co., Ltd.

Osaka Gas Co., Ltd. (President: Hirofumi SHIBANO) has formulated its FY2006 management plan and five-year gas supply plan covering the period from FY2006 to FY2010.

1. Basic policy of management plan for FY2006

FY2006 being the final year of the three-year, mid-term management plan *Innovation Centennial*, we are committed to attaining the plan's end goals. October 2005 also marks the centenary of the establishment of Osaka Gas. Following the Group business vision of pursuing "value-creating management for the next century" that was adopted in January, therefore, we will focus on implementing the following measures based on the idea of raising value for all stakeholders --- shareholders, society and employees --- through fair and transparent business activities that put maximization of customer value first.

(1) In-depth improvement of capacity to meet customer needs

Starting in April 2004, gas market liberalization was expanded to include customers whose annual gas consumption is at least 500,000m³ (46MJ). At the same time, competition among different energy sources in the residential market has been continuously intensifying. Under these conditions, we will develop business solutions from the customer's standpoint and further expand the market share of gas in order to make ourselves the customer's first choice.

(2) Reinforcement of the group's collective strength

In order to maximize the Osaka Gas Group's collective strength, current core companies will be reorganized into energy-related companies and non-energy related companies. The value of Group companies will be raised by realizing greater synergies with the energy business among energy-related companies, and aggressively expanding the scale of business among non-energy related companies. Selection and concentration will be stepped up and growth businesses further expanded in order to increase the Group's corporate value.

(3) Steady expansion of the electricity business

Independent power producer (IPP) business, which is already underway, will be maintained and expanded. At the same time, we will push steadily ahead with business plans for the tentatively named Senboku Natural Gas Power Plant (construction plans for which were finalized in 2004) and solidify our position in the electricity business.

2. Management plan for FY2006

(1) Profit plan

Our consolidated and non-consolidated goals for FY2006 are, respectively, ¥1.5 trillion and ¥751 billion in sales, ¥100 billion and ¥80 billion in ordinary profit, and ¥59 billion and ¥49.5 billion in net income, which we aim to achieve by expanding Group companies' sales and reducing costs.

	Consolidated (116 companies)	Non-consolidated
Operating revenues	¥1,005.0 billion	¥751.0 billion
Operating profit	¥104.0 billion	¥80.5 billion
Ordinary profit	¥100.0 billion	¥80.0 billion
Net income	¥59.0 billion	¥49.5 billion
Shareholder's value added (SVA)	¥35.0 billion	¥29.6 billion
Earnings per share (EPS)	¥26.4	¥22.2
Return on equity (ROE)	10.8%	10.9%
Return on assets (ROA)	4.6%	4.7%
Free cash flow	¥55.2 billion	¥54.1 billion

* Details of targets other than profit plans for FY2006 will be published at the time of the announcement of the financial results for FY2005.

(2) Gas sales volume

Estimating the average sales per household at 34.2m³/month and assuming that the total number of our customers will increase, we aim at an annual gas sales volume of 2.327 billion m³.

Regarding sales to non-residential customers, we plan to achieve an annual sales volume of 5.59 billion m³ by actively exploring new demand. Consequently, we expect our total sales volume to reach 8.252 billion m³.

No. of new construction works	131,000 households
No. of customers (year end)	6,759,000 households

FY2006 gas sales volume	
Residential	2.327 billion m ³
Total non-residential	5.590 billion m ³
Commercial	1.058 billion m ³
Industrial	3.938 billion m ³
Public and medical	594 million m ³
Subtotal	7.916 billion m ³
Wholesale	336 million m ³
Total	8.252 billion m ³
Sales volume per household	34.2m ³ /month

*Sales volume is indicated in units of 45MJ/m³. Figures are rounded off in each category.

(3) Capital expenditure plan

The FY2006 plan includes mainly facilities and equipment renewal, with no major new investment in manufacturing facilities and equipment. As for distribution facilities, an investment of ¥39.6 billion is planned primarily for the construction of trunk lines such as the Shiga Line (scheduled for completion in FY2007); the installation of main branch and service pipelines to cope with new customers; and the extension and improvement of pipe networks, including the replacement and repair of aged pipes. For administrative facilities and equipment, ¥5.8 billion will be invested in experimental and research facilities as well as administrative systems. As for facilities and equipment for incidental business projects, a ¥20.7 billion investment is planned for the construction of the Senboku Natural Gas Power Plant (tentative name). Consolidated subsidiaries are expected to invest mainly in the electricity and real estate businesses and the acquisition of leased assets.

We will try to control the actual amount of capital expenditure by, for example, reviewing construction periods and specifications, developing new and improved technologies, and devising additional cost reduction measures such as expanded use of competitive purchasing.

Breakdown of major categories of capital expenditure for FY2006

*Figures are rounded off in each category.

	Investment amount	Remarks
Production	¥5.3 billion	
Distribution	¥39.6 billion	34 km of trunk line, 567 km of pipeline for demand expansion, 282 km of replacement pipeline, etc.
Administration	¥5.8 billion	Experimental and research facilities, administrative systems, etc.
Incidental business facilities	¥20.7 billion	Senboku Natural Gas Power Plant (tentative name)
Total	¥71.3 billion	
Consolidated	¥106.1 billion	Electric power, real estate, leased assets, etc.

3. Supply plan from FY2006 through FY2010

(1) Gas demand prospects

Gas demand in and after FY2006 is expected to increase mainly in the non-residential market, following the spread of use of gas cogeneration systems and gas-powered air conditioners, to amount to 8.894 billion m³ in FY2010, growing by an average annual rate of 2.1% during this five-year period.

(Units: million m³, %)

	FY2005 (estimated actual amount)	FY2006	FY2007	FY2008	FY2009	FY2010	FY2005-10 average annual growth rate
Residential	▲2.6 2,243	3.7 2,327	0.8 2,344	0.6 2,359	0.6 2,373	0.6 2,387	1.2
Total non-residential	3.6 5,471	2.2 5,590	3.0 5,758	1.2 5,826	1.7 5,924	2.3 6,059	2.1
Commercial	6.6 1,051	0.7 1,058	2.3 1,082	1.9 1,103	2.4 1,130	2.0 1,152	1.9
Industrial	2.8 3,839	2.6 3,938	3.1 4,060	0.7 4,088	1.2 4,136	2.2 4,227	1.9
Public and medical	4.0 582	2.0 594	3.6 615	3.2 635	3.8 659	3.3 680	3.2
Subtotal	1.7 7,714	2.6 7,916	2.3 8,102	1.0 8,185	1.4 8,297	1.8 8,446	1.8
Wholesale	66.1 303	11.0 336	15.0 386	8.6 420	5.2 441	1.7 449	8.2
Total	3.2 8,017	2.9 8,252	2.9 8,488	1.4 8,605	1.6 8,739	1.8 8,894	2.1
Sales volume per household	▲3.3 33.2	3.1 34.2	0.2 34.3	0.2 34.4	0.2 34.4	0.3 34.5	0.8

Note: The figure in the upper left-hand corner of each box indicates the growth rate (%) from the previous year. Gas volume is indicated in units of 45 MJ/m³, which differs from the reported value (46 MJ/m³). Figures are rounded off in each category.

The number of new construction works in our service area, estimated based on the number of housing construction works nationwide and in the Kinki region, is expected to change as indicated below. As a result, the number of customers (in terms of the number of meters installed) is expected to reach 6,955,000 at the end of FY2010.

(Unit: 1,000 works)

	FY2005 (estimated actual amount)	FY2006	FY2007	FY2008	FY2009	FY2010
No. of new construction works	128	131	129	127	125	123
No. of customers (year end)	0.9 6,697	0.9 6,759	0.8 6,816	0.8 6,868	0.7 6,915	0.6 6,955

Note: Figures in the upper left-hand corner indicate the growth rate (%) from the previous year.

(2) Feedstock purchase plan

We will work to ensure the stable purchase and proper supply of LNG and LPG in response to demand increases. In FY2010, LNG purchases are expected to reach 7,759,000 tons, and LPG purchases to reach 84,000 tons.

(Unit: 1,000 tons)

	FY2005 (estimated actual amount)	FY2006	FY2007	FY2008	FY2009	FY2010
LNG purchases	6,579	6,682	7,039	7,172	7,217	7,759
LPG purchases	56	78	80	81	83	84

(3) Capital expenditure plan

Cumulative investment from FY2006 through FY2010 under the FY2006 supply plan is expected to come to ¥292.5 billion.

During the period of this plan, we will continue investing in distribution facilities, including the Shiga Line currently under construction, and in incidental business facilities and equipment such as the power generator facilities and equipment planned for the Senboku Terminal.

*Figures are rounded off in each category. (Unit: 100 million)

	FY2005 (estimated actual amount)	FY2006	FY2007	FY2008	FY2009	FY2010	FY2006-10 total
Production	26	53	40	18	35	26	172
Distribution	392	396	386	321	336	320	1,760
Administration	33	58	37	34	21	23	173
Incidental business facilities	8	207	140	179	164	130	820
Total	459	713	604	553	556	499	2,925