

FY2010.3 Business Plan of the Osaka Gas Group

**March 2009
Osaka Gas Co., Ltd.**

1. Challenges for the Entire Osaka Gas Group

(1) Take the first firm step toward realizing the long-term vision.

- Enhancement of the domestic energy businesses
(Boosting marketing activities, stabilizing energy supply, improving safety level, etc.)
- Development of the power businesses
(Commencement of operation of the Semboku Natural Gas Power Plant)
- Advancement of the international energy businesses
- Enhancement and development of environment and non-energy businesses

(2) Adapt to the challenging market conditions created by the sluggish economy.

<Impacts on business activities of the Group>

- Decrease in demand for non-residential-use energy
(Decrease in sales of city gas, LPG, and industrial gas)
- Deteriorated condition of the real estate market
- Decrease in demand for advanced materials (materials for mobile phones, etc.)
- Slowdown in IT investment

2. Gas Sales Volume Plan for FY2010.3

- Regarding gas for residential use, the effects of our demand creation activities and increase in the number of customers are taken into account.
- Regarding gas for non-residential use, while the effects of our demand creation activities are taken into account, the impact of declining operating rates of customers facilities caused by the sluggish economy is expected to become stronger.

45MJ/m ³		FY10.3 plan	FY09.3 forecasted	Change	Change (%)
Number of customers (thousand)		6,999	6,944	+55	+0.8%
Newly built houses (thousand)		97	112	-15	---
Gas sales per household (m ³ /month)		33.3	32.7	+0.6	---
Residential use		2,324	2,272	+52	+2.3 %
	Commercial use	948	972	-24	-2.4 %
	Public/ medical use	591	605	-14	-2.4 %
	Industrial use	3,696	4,208	-512	-12.2 %
	Non-residential use total	5,235	5,785	-550	-9.5 %
Wholesale		427	443	-16	-3.5 %
	(Including non-regulated)	(4,386)	(4,908)	(-522)	-10.6%
	Non-consolidated total (million m ³)	7,987	8,500	-513	-6.0%
Consolidated gas sales total		8,020	8,535	-515	-6.1 %

3. Income and Expenditure Plan for FY2010.3

- Sales are expected to decrease from the previous fiscal year. Factors behind this include: decrease in gas sales prices due to lower raw material costs; decrease in gas sales volume caused by the sluggish economy; and the transfer of the wholesale division of Nissho Petroleum Gas Corporation, which is to be implemented in association with the reorganization of LPG businesses.
- It is anticipated that operating profit, ordinary profit and net income will increase from the previous fiscal year, since the gas gross margin is expected to improve by about 45 billion yen. This amount is likely to more than offset the impacts of the sluggish economy and the increased expenditures for priority measures to be taken forward realizing the long-term vision.

	Consolidated basis			Non-consolidated basis		
	FY10.3 plan (100 million yen)	Change (%)	FY09.3 forecasted (100 million yen)	FY10.3 plan (100 million yen)	Change (%)	FY09.3 forecasted (100 million yen)
Revenues	10,915	-18.2	13,350	8,220	-16.5	9,850
Operating Profit	820	+57.7	520	540	+100.0	270
Ordinary Profit	720	+39.8	515	550	+103.7	270
Net Income	430	+53.6	280	350	+105.9	170
SVA	85	---	---	70	---	---

ROE	6.9%	---	---	7.0%	---	---
ROA	2.9%	---	---	3.0%	---	---

The percentage changes are based on comparison with the FY09.3 forecasted released on January 30.

*Assumed crude oil price and exchange rate for FY2010.3 are US\$55/bbl (All Japan CIF price) and ¥95/US\$, respectively.

[Assumed crude oil price and exchange rate for the FY09.3 forecasted were US\$93/bbl (All Japan CIF price) and ¥101/US\$, respectively.]

4. Domestic Energy Businesses

(1) Residential market

Providing more environmentally friendly, comfortable, and safe lifestyles

- In addition to the high-efficiency water heater “Eco-Jozu” and the gas engine cogeneration system “ECOWILL”, the residential fuel cell system “Ene-Farm” will be commercially launched.
- Expanding the use of safety and security services (alarm system, home security, etc.).

(2) Non-residential market

Offering optimal energy conservation and multi-energy solutions

- Creating demand through high value-added solutions such as engineering-conservation solutions, in the fields of heating, air-conditioning, cogeneration, and in small non-residential sectors.
- Expanding the energy service provider businesses
 (Offering high value-added services such as: energy finance plus O & M; IT monitoring; and utility management service)

(3) LPG businesses

- Demonstrating the effects of the reorganization of the wholesale businesses; and streamlining the retail businesses

4. Domestic Energy Businesses

(4) Stable supply and establishment of network

- Diversification of LNG supply sources for adapting to short-term gas demand fluctuations and for mid- to long-term stability in procurement
- Implementing refreshment of facilities at Semboku LNG Terminal
- **Establishing a wide-area natural gas supply system**
 - Steady progress of construction of the Mie-Shiga Line and the Amagasaki Line
 - Advancement of the Himeji-Okayama Line Construction Plan

(5) Improvement of safety levels

- Steady implementation of upgrading of gray cast iron pipes (pipes designated as “measures required”), and **improvement of the safety level of gas pipelines** through earthquake countermeasures
- Promotion of a shift to safer residential gas equipment, and improvement of customers’ safety through **free rental of CO sensors** to commercial kitchens and other facilities.

(6) Technology development and utilization of IT

- **Cost reduction for residential fuel cells (PEFC) and development of SOFC**
- Contribution towards a low carbon society (initiatives to achieve recyclable energies)
- Using IT to improve the quality of customer services (marketing support activities)

5. Power Businesses

Expanding the power businesses through the commencement of operation of the Semboku Natural Gas Power Plant.

- With the commencement of Unit 1 and 2 in April and May and Unit 3 and 4 in October and November, Osaka Gas Group's **electric power supply capacity (inside and outside Japan) will be expanded to approximately 3,000 MW.**

[Power Businesses of the Osaka Gas Group (inside and outside Japan)]

	FY09.3 forecasted	FY10.3 plan
Electric power supply capacity (MW)	1,900	3,000
Revenue size (100 million yen)	490	620

Schedule of commencement of operation of the Semboku Natural Gas Power Plant

April and May 2009: Unit 1 and 2 (277MW x 2)

October and November 2009: Unit 3 and 4 (277.5MW x 2)

Total: 1,109MW

6. International Energy Businesses

Promotion of activities aimed at acquiring new projects

- Advancement of existing LNG development projects
- Acquisition of upstream interests and promotion of investments in LNG terminals, IPP, pipeline projects, LDC, etc.
- Boosting of activities aimed at forming a trading business scheme
- Launch of a Company-operated LNG ship (No. 6) and engagement in transportation businesses

<Examples of key developments in the international energy businesses in recent years >

Upstream interests	Acquisition of a stake in Idemitsu Snorre Oil Development Co., Ltd. (in 2005, Norway)
LNG ship	LNG BARKA launched (in 2008)
LNG terminal	Acquisition of interest in Freeport LNG Receiving Terminal (in 2008, the U.S.)
IPP (power generation businesses)	Acquisition of the entire interests in Fort Point Power LLC (presently OGPA) (in 2005, the U.S.)
Pipeline project, etc.	Acquisition of interest in EII (in 2008, Australia)

7. Environment and Non-Energy Businesses

(1) Urban development businesses

- Seeing the challenging market environment as an opportunity, we will **acquire high-quality properties**.
- Development of properties of Kyoto Research Park (KRP)

(2) Information businesses

- Enhancing the businesses by **taking advantage of the Group's comprehensive strength (OGIS Research Institute, Sakura Information Systems, etc.)**
- Increasing order inflows in the strong sectors such as finance and manufacturing

(3) Advanced material businesses

- **Boosting production of molded heat insulation materials for photovoltaic cells**

(4) New businesses, life service and outsourcing businesses

- Establishing a business model for **environment businesses**

8. Investment Plan for FY2010.3

To firmly establish the pillars of three businesses sectors upheld in the long-term vision, we plan to make more investments than in FY2009.3 forecasted.

[Consolidated basis]

(Unit: 100 million yen)

		Amount of investment	(Of the total) Capital investment
	Domestic energy businesses	525	525
	Environment and non-energy businesses	45	45
	Upgrading existing businesses	570	570
	Domestic energy businesses	190	160
	International energy businesses	670	100
	Environment and non-energy businesses	300	200
	New investments	1,160	460
	Total investments	1,730 (+57.3%)	1,030 (-0.1%)
(Reference)	Capital investment on a non-consolidated basis included in the above figure		625 (+1.3%)

Figures in parentheses are percentage changes based on comparison with the FY2009.3 forecasted.

Reference

B/S Plan for FY2010.3

[Consolidated]	FY10.3 plan	FY09.3 forecasted	Change (%)
Total assets (100 million yen)	15,202	14,658	+544
Shareholders' equity (100 million yen)	6,331	6,059	+272
Interest-bearing debt (100 million yen)	6,509	5,836	+673
Capital expenditure (100 million yen)	1,030	1,033	-3
Depreciation Costs (100 million yen)	988	846	+142
Free cash flow (100 million yen)	702	354	+347
Number of employees	19,379	19,018	+361

The FY2009.3 forecasted above are the latest figures as of now. (These figures differ from those stated in the forecast released on January 30.

The number of employees excludes the seconded to other organizations, but includes part-time workers.

FCF = Cash flow in business operation (operating profit after tax + depreciation costs and other non-cash expenses) - investment for upgrading existing businesses

Summary of the Energy Business's Three Segments

(excluding non-consolidated)

Simple total of figures from consolidated subsidiaries. Numbers at upper left of cells are period-over-period changes.

100 million yen	Revenues		Net income		About the FY10.3 plan
	FY09.3 forecasted	FY10.3 plan	FY09.3 forecasted	FY10.3 plan	
Direct under Osaka Gas business unit	1,655	+221 1,876	60	+1 61	Increase in revenues due to the commencement of operation of the Semboku Natural Gas Power Plant
Liquid Gas Group	400	-59 341	10	-9 1	Decrease in revenues and profits due to decreased sales of industrial gas and cold energy, as well as decreased sales prices of LNG and LPG
NIPG Group	1,286	-801 485	8	-3 5	Significant drop in revenues due to the transfer of the wholesale division

Energy Business's Three Segments are: the "gas"; the "LPG, electricity and other energies"; and the "gas appliances and house-pipe installation".

NIPG: Nissho Petroleum Gas

Summary of the Non-Energy Business's Two Segments

Simple total of figures from consolidated subsidiaries. Numbers at upper left of cells are period-over-period changes.

100 million yen	Revenues		Net income		About the FY10.3 plan
	FY09.3 forecasted	FY10.3 plan	FY09.3 forecasted	FY10.3 plan	
Urbanex Group	342	+11 353	37	-10 27	Although revenues are expected to increase due to increase in newly rented properties, profits are expected to decrease due to drop in gross margin rates for the condominium business.
OGIS-RI Group	588	+1 589	25	+1 26	Although there will be some impact from the sluggish economy, the effort to expand orders in our strong sectors is expected to keep both revenues and profits at the same level as the previous fiscal year.
Osaka Gas Chemicals Group	321	-7 314	13	-5 8	Decrease in revenues and profits due to decreased sales of fine materials
OG Capital, etc.	755	+1 756	30	+2 32	Both revenues and profits are expected to be about the same as the previous fiscal year.

Non-energy business's two segments are: the "real estate" and "others".

Risk Factors Affecting the FY2010.3 Plan

- Atmospheric and water temperatures
 - A 1 degree Celsius change in atmospheric and water temperatures will impact the residential gas sales volume: approx. a 5% increase/decrease in spring and autumn, approx. a 6% in summer, and approx. a 4% in winter.
- Crude oil price
 - LNG price is linked to crude oil price. A \$1/bbl change in crude oil price will have an effect of: approx. 2.2 billion yen on annual feedstock costs, and approx. 600 million yen on annual gross profit.
- Foreign exchange rate
 - LNG price is affected by the fluctuation of the US dollar/Japanese yen exchange rate. A 1 yen fluctuation in the US dollar/Japanese yen exchange rate will have an effect of: approx. 2 billion yen on annual feedstock costs; and approx. 400 million yen on annual gross profit.
- Materials Costs
 - Although the materials cost adjustment system allows us to reflect changes in materials costs in gas rates in the medium and long terms but an increase in materials costs is likely to affect the business results due to a time lag in reflecting cost fluctuations, and depending on the composition of materials suppliers.
 - Adjustment of materials costs may be required as a result of contract renewal or price negotiation with LNG suppliers.
- Interest Rate
 - A 1% change in the interest rate will have an effect of approx. 800 million yen on annual consolidated non-operating expenses.

Disclaimer

Certain statements contained herein are forward looking statements, strategy and plans, which reflect our judgment based on information at the time of publication. Actual results may differ materially from those discussed in such statements. Among those factors that could cause actual results to differ materially are: the economic trend in Japan, sharp fluctuations in exchange rate and oil prices and extraordinary weather conditions.