

Osaka Gas Group's Business Plan for FY2009.3

March 31, 2008
Osaka Gas Co., Ltd.

1. Basic Policies in Business Plan

The Osaka Gas Group will make every effort to meet the following important challenges in FY2009.3:

- (1) Seeking perfection in rebuilding trust and improving quality
- (2) Strengthening the basis of city gas business
- (3) Seeking the evolution of multi-energy business
- (4) Achieving the maximum by enhancing group power
- (5) Developing human resources and pursuing technological excellence

(1) Seeking perfection in rebuilding trust and improving quality

For rebuilding trust and improving corporate quality, we will *seek perfection in everything* and strive to attain *consistency in our actions*, which should always originate from our respect for the customers' standpoint.

To consolidate society's trust in us, we will ensure compliance by adhering to the following three basic principles:

- (i) Being aware of all relevant laws and regulations;
- (ii) Building a culture and mechanism for compliance; and
- (iii) Reinforcing control and monitoring.

We deeply regret that there was some injustice last year in grant-aided projects for natural gas cogeneration systems, and we intend to rebuild trust by strictly implementing the following five prevention measures:

- Strengthening the mechanism for cross-checking;
- Strengthening the system for internal audit;
- Stricter penalties for noncompliance and encouraging contact with the Compliance Consultation Desk; and
- Ensuring that *compliance is considered in the assessment of group and individual performance*, and appointing mainly members from outside to the Corporate Ethics Board.

These efforts simultaneously aim at improving the quality of our business and increasing the Osaka Gas Group brand value.

(2) Strengthening the basis of city gas business

(I) Responding to higher energy prices

As energy prices record historic highs, all our group companies are committed to making maximum efforts to secure profits. We ensure security in LNG procurement by diversifying supply sources and developing new supply sources, as a guarantee for the stable supply of city gas. As crude oil prices continue to rise, LNG prices also tend to rise. With additional efficiency in inventory control and LNG base operation, we will strive to minimize raw material purchasing cost.

(II) Pushing ahead with the residential sector marketing strategy to remain an attractive choice for customers

In the residential sector, we will continue to offer gas appliances and services for an *intelligent lifestyle with gas*, trying to meet diversified customer needs including environmental performance, economy, comfort, convenience, safety and security. With cooking lessons and an invitation to DILIPA (Osaka Gas showroom) and other activities, we will provide opportunities for customers to experience the superiority of city gas.

(III) Establishing a strong framework for energy businesses

In the commercial/industrial sector, we will focus on developing proposals that maximize the customer's benefits such as energy-saving options, which combine the environmental excellence and economy of city gas with superb engineering, and IT-based management services, helping our customers attain optimum use of energy. In addition, we will continue to propose customer-first solutions with advanced tools such as Suzuchu (kitchen cooling system) and High Power Excel (cogenerating gas engine air conditioning system with heat pump).

(IV) Strengthening the basis of the city gas business

We will steadily build core infrastructure such as the Mie-Shiga Line and Amagasaki Line, as we seek to optimize our pipeline networks.

Moreover, we will enhance the quality of safety and security by *strengthening mid-term efforts for the safety of production facilities and pipelines* and by *steady implementation of safety measures for appliances*.

(3) Seeking the evolution of multi-energy business

(I) Complete readiness for full-scale launching of electric power business

Toward the scheduled opening of the Semboku Natural Gas Power Plant in April 2009, we will progress with the construction project while giving the highest priority to safety, and establish the optimum organization for plant operation to maximize performance once the operation is commenced.

(II) Strengthening investments for growth in energy-related sectors

Our mid-term plan “Design2008” defines our strategy for investing in energy-related sectors to ensure sustainable growth. Pursuing this strategy, we will strengthen our connection with domestic and international partners to seek and realize opportunities for excellent investments for growth, namely, investment projects that promise solid returns and help us to acquire know-how and information on multi-energy business.

(4) Achieving the maximum by enhancing group power

Each group company is committed to attaining maximum synergy with the energy business and increasing the cash flow from outside the group.

The Liquid Gas Group and the Nissho Petroleum Gas Group (LPG business group) will consolidate their business strategies to maximize profits in the entire value chain of the LPG business from the upstream end to the downstream end.

The Urbanex Group (real estate business group) will consolidate their profit basis with the rental apartment business while expanding the condominium business.

The Osaka Gas Information System Research Institute (OGIS-RI) Group will steadily expand their business around model-based development. The Osaka Gas Information System Research Institute (OGIS-RI) will build a partnership with Sakura Information Systems, Co., Ltd., a new member to our group, by such means as cooperating in systems development and sharing of business know-how, seeking to raise service quality.

The Osaka Gas Chemicals Group (advanced material business group) will expand their business around the well-performing fine materials business and carbon fiber business.

The OG Capital Group will respond appropriately to changes in different markets in which our group companies operate by focusing on selected businesses.

(5) Developing human resources and pursuing technological excellence

(I) Reinforcement of human resource development

Each business unit will consolidate its *human resource development system* for long-term maintenance of expertise in the field. In addition, we will take measures such as expanding the re-employment system.

(II) Pioneering into the promising future with powerful technologies and products

In the area of product development, we will promptly introduce competitive appliances and systems into both the residential and commercial/industrial markets, while steadily developing fuel cell systems for the residential sector. Furthermore, we will pursue excellence in power generation technologies, particularly as we deal with the technical challenges towards the smooth opening of the Semboku Natural Gas Power Plant.

2. Profit Plan

For FY2009.3, based on the gas sales plan (listed below) and the group company business plan, we expect revenues of 1,373 billion yen (consolidated) and 984 billion yen (non-consolidated); ordinary profits of 70 billion yen (consolidated) and 46.5 billion yen (non-consolidated); and net income of 40.5 billion yen (consolidated) and 30 billion yen (non-consolidated).

	Consolidated	Non-consolidated
Revenues	1,373 billion yen	984 billion yen
Operating income	70.0 billion yen	44.5 billion yen
Ordinary profits	70.0 billion yen	46.5 billion yen
Net income	40.5 billion yen	30.0 billion yen
Shareholder Value Added (SVA)	8.0 billion yen	3.0 billion yen
Earnings per Share (EPS)	18.8 yen	13.9 yen
Return on Equity (ROE)	6.1%	5.6%
Return on Assets (ROA)	2.5%	2.4%
Free cash flow	15.6 billion yen	13.0 billion yen

3. Gas Sales Plan

For FY2009.3, we expect gas sales of 8,944 million m³ (1.1% growth from the previous fiscal year). In the residential sector, we expect sales of 2,346 million m³, assuming 33.8 m³/month as the average sales per contract and taking into account anticipated growth in the number of contracts. In the commercial/industrial sector, we expect sales of 6,120 million m³, anticipating capturing the demand from new customers and additional demand from increased business activities of existing customers.

* Sales volume assumes 45 MJ/m³. Fractions are rounded off in each category.

FY2009.3 Plan	
Average sales per residential contract	33.8 m ³ /month
Number of new contracts	128,000
Number of contracts (FY end)	6,932,000
Sales in the residential sector	2,346 million m ³
Sales in the commercial/industrial sector	6,120 million m ³
Commercial	996 million m ³
Industrial	4,503 million m ³
Institutional (public, medical, etc.)	621 million m ³
Subtotal	8,465 million m ³
Sales to other gas utilities	479 million m ³
Total	8,944 million m ³

4. Capital Investment Plan

For FY2009.3, we plan capital investments of 115.6 billion yen (consolidated) and 678 billion yen (non-consolidated).

As to investments for production facilities, we plan no major investment for new production facilities in this fiscal year, and so the investments are mainly for the renewal of existing facilities. As to our investments for distribution facilities, we plan to invest 41.7 billion yen mainly for the expansion and maintenance of pipeline networks. Such projects include the construction of distribution-end main, branch and supply lines to make us available to new customers, the replacement and repair of aged gas pipes, and the construction of transportation pipelines such as the Mie-Shiga Line. As

to our investments for business facilities, we plan to invest 5.1 billion yen for test and research facilities, business systems equipment, and so on. As to our capital investments for related business, we plan to invest 18.2 billion yen for projects such as the construction of the Semboku Natural Gas Power Plant. Our group companies plan capital investments for projects such as the building of LNG tankers and the acquisition of real estate.

When implementing such capital investments, we will try to control the amount of investment by pursuing cost-saving efforts such as the review of project schedules and specifications, technical development, and the further pursuit of competitive purchasing.

Overview of FY2009.3 Capital Investment Plan

* Fractions are eliminated in each category.

	Investment	Remarks
Production facilities	2.7 billion yen	
Distribution facilities	41.7 billion yen	639 km of distribution-end main and branch lines; replacement and repair for 257 km of existing lines
Business facilities	5.1 billion yen	Test and research facilities, business systems equipment, etc.
Capital investment for related business	18.2 billion yen	Semboku Natural Gas Power Plant, etc.
Non-consolidated	67.8 billion yen	
Consolidated	115.6 billion yen	Inclusive of LNG tanker construction, real estate acquisition, etc.

5. FY2009.3–2013.3 Supply Plan

(1) Outlook on gas demand

In FY2009.3 and subsequent years, the demand for gas is expected to increase, driven mainly by growth in the commercial/industrial sector, in which we anticipate new customers, and the growth in demand from increased business activities of existing customers. As a result, our gas sales in FY2013.3 are expected to amount to 9,221 million m³. The mean annual growth rate over these five fiscal years is expected to be 0.8%.

(Units: sales volume in million m³, and annual growth rate in percentage)

	FY2008.3 (forecast)	FY2009.3	FY2010.3	FY2011.3	FY2012.3	FY2013.3	Mean annual growth (FY2008–13)
Residential	0.6 2,316	1.3 2,346	0.4 2,356	0.4 2,366	0.3 2,374	0.3 2,380	0.5
Commercial/ Industrial	1.0 6,075	0.7 6,120	0.6 6,154	0.8 6,201	1.1 6,269	1.4 6,360	0.9
Commercial	-1.8 1,017	-2.0 996	0.1 997	0.1 998	0.1 999	0.1 1,000	-0.3
Industrial	1.9 4,436	1.5 4,503	0.7 4,535	1.0 4,579	1.4 4,645	1.9 4,733	1.3
Institutional (public, medical, etc.)	-0.8 623	-0.3 621	0.2 622	0.2 624	0.2 625	0.2 627	0.1
Subtotal	0.8 8,392	0.9 8,465	0.5 8,510	0.7 8,567	0.9 8,643	1.1 8,740	0.8
Sales to other gas utilities	9.6 457	4.9 479	0.1 480	0.1 480	0.1 481	0.1 481	1.0
Total	1.3 8,848	1.1 8,944	0.5 8,990	0.6 9,047	0.8 9,124	1.1 9,221	0.8
Average sales per residential contract	0.1 33.5	0.7 33.8	0.0 33.8	0.0 33.8	0.0 33.8	0.0 33.8	0.1

Note: Each top-left figure represents growth (%) from the previous fiscal year. Sales volume assumes 45 MJ/m³, which differs from the official value of 46 MJ/m³. Fractions are rounded off in each category.

The anticipated number of new contracts in our service area is estimated based on the following outlook on the number of new housing projects in Japan and in the Kansai area alone.

According to our estimation, the number of our customer contracts (number of gas meters) will amount to about 7.12 million by the end of FY2013.3.

(Unit: Number of households)

	FY2008.3 (forecast)	FY2009.3	FY2010.3	FY2011.3	FY2012.3	FY2013.3
New construction projects	123	128	123	125	125	125
Number of contracts (FY end)	0.8 6,876	0.8 6,932	0.7 6,983	0.7 7,030	0.6 7,075	0.6 7,118

Note: Each top-left value represents growth (%) from the previous fiscal year.

(2) Feedstock purchasing plan

To secure adequate supply in the face of growing demand, we strive to maintain stable purchases of LNG and LPG. Our purchase volume in FY2013.3 is expected to be 7,785,000 tons for LNG and 85,000 tons for LPG.

(Unit: thousand tons)

	FY2008.3 (forecast)	FY2009.3	FY2010.3	FY2011.3	FY2012.3	FY2013.3
LNG purchase	7,385	7,466	7,548	7,684	7,665	7,785
LPG purchase	53	67	81	54	84	85

(3) Capital investment plan

According to our estimation, the total of our capital investments in five years from FY2009.3 to FY2013.3 will amount to 243.4 billion yen. These investments are mainly for distribution facilities (such as the construction of the Mie-Shiga Line and Amagasaki Line, and the replacement and repair of aged gas pipes) and for the building of facilities for related business (such as the construction of power generation facilities in the Semboku Terminal).

* Fractions are eliminated in each category. (Unit: 100 million yen)

	FY2008.3 (forecast)	FY2009.3	FY2010.3	FY2011.3	FY2012.3	FY2013.3	FY2009–13 total
Production facilities	23	27	39	38	33	28	168
Distribution facilities	374	417	388	383	342	338	1,870
Business facilities	46	51	17	20	16	16	123
Capital investment for related business	143	182	85	1	1	1	272
Total	588	678	531	443	395	385	2,434

Major Pipeline Projects

Line name	Total distance	Section	Project period	Purpose
Mie-Shiga Line	Approx. 60 km (*)	Taga Town (Shiga) – Yokkaichi City (Mie)	FY2006.3–FY2011.3	Improving the stability of supply through our pipeline networks
Amagasaki Line	Approx. 7 km	Konohana Ward (Osaka City) – Amagasaki City	FY2008.3–FY2011.3	Increasing supply capability in Osaka-Kobe area

* Osaka Gas is responsible for the construction of a section of about 20 km between Taga Town (Shiga Prefecture) and Inabe City (Mie Prefecture).

Capital Investment for Related Business

Facility name	Location	Project period	Power output
Semboku Natural Gas Power Plant, etc.	Semboku Terminal	FY2007.3–FY2010.3	1,109 thousand kW