

Field of Dreams 2020

Long-term Vision and Medium-term Business Plans

March 2009
Osaka Gas Co., Ltd.

[Notes] "FY XX" means fiscal year starting at April, 20XX. (Ex.) FY08= Starting at April, 2008, ending at March, 2009



· In order to realize the “Value Creation Management” which is laid out in our Group Management Principles, in 1999 the Osaka Gas Group formulated a long-term plan, “2010 Vision.” We have now entered the third phase of this long-term plan, and are currently pursuing “Design 2008,” a medium-term plan.

· Despite major changes in our business environment, including soaring oil prices and adverse economic developments, we have been able to implement a series of initiatives as scheduled, including business expansion and enhancement of management efficiency.

· We have worked out “Field of Dreams 2020,” which consists of a long-term vision that looks ahead to the year 2020 and the five-year medium-term business plans covering from fiscal year 2010.3 to fiscal year 2014.3 that aim at realizing the long-term vision.

2. Long-term social and economic trends

- ◆ Greater commitment to global environmental protection
- ◆ Advances in environmental and energy saving technologies
- ◆ Environmental and security concerns heighten natural gas' role
- ◆ Rising energy prices and increasing market volatility
- ◆ Demographic changes and lower economic growth in Japan
- ◆ Globalization of business activities and economies
- ◆ Intensifying competition in energy market
- ◆ Rising social responsibilities of corporate enterprises

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· Some of the major trends in the long-term business environment that we believe will continue to accelerate into 2020 include: greater commitment to global environmental protection, advances in environmental and energy saving technologies, environmental and security concerns heighten natural gas' role, and rising energy prices and increasing market volatility.

Osaka Gas Group is determined

...to achieve sustainable growth both at home and overseas in order to provide its customers with comfortable lifestyles friendly to the environment and solutions in their businesses.

We will continuously strive to explore our potentials utilizing our versatile and rich business foundations, human resources, and technical expertise, nurtured through natural gas and energy business over the past century.

(1) Evolution into global energy and environment business group

- ◆ further strengthen its core multi-energy business in home market
- ◆ seek growth of energy business along energy value chain at home and abroad
- ◆ contribute to customers' lives with comfort and business prosperity, and further, to reduce impacts on global environment through advanced energy solution and stable energy supply including renewables
- ◆ providing solutions in non-energy fields in and beyond our home market

(2) Implement management practices to become a corporate group of choice

- ◆ providing high quality products and services while ensuring safety and through fair and transparent business practice, increasing value for all its stakeholders; customers, shareholders, society, and employees

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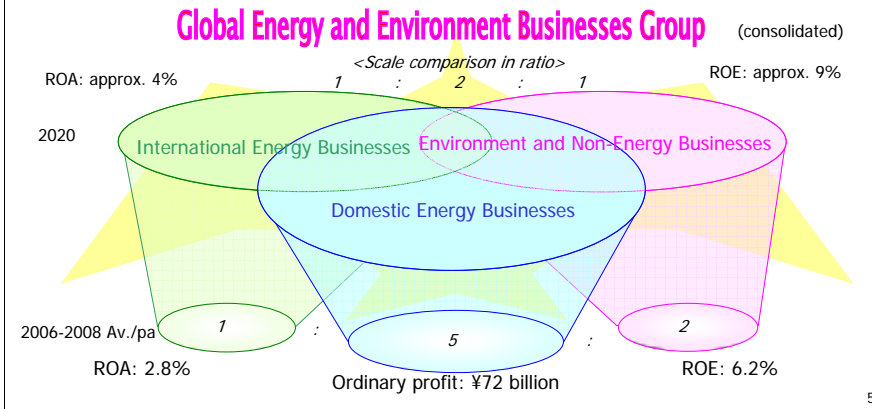
· The Osaka Gas Group is determined to achieve sustainable growth both at home and overseas in order to provide Its customers with comfortable lifestyles friendly to the environment and solutions in their businesses. We will continuously strive to explore our potentials utilizing our versatile and rich business foundations, human resources, and technical expertise, nurtured through natural gas and energy business over the past century.

· We seek to evolve into global energy and environment business group and to implement management practices to become a corporate group of choice.

Osaka Gas Group in 2020

Global Energy and Environment Businesses Group with solid foundations making progress in the fields of;

- Domestic energy businesses
- International energy businesses along energy value chain
- Environment and non-energy businesses



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· We aim to be a global energy and environmental businesses group with solid foundations making progress in the field of, “domestic energy businesses,” “international energy businesses along energy value chain,” and “environment and non-energy businesses.”

· The domestic energy businesses will remain as the largest cash cow for the Group.

· Meanwhile, we will achieve high growth in the international energy businesses and environment and non-energy businesses. Our goal is to increase the combined earnings of these two businesses to a level which matches that of the domestic energy businesses alone.

· To this end, we will work on the qualitative and quantitative improvement of our business so that we can increase ROA to around 4% and ROE to around 9% on a consolidated basis over the long term.

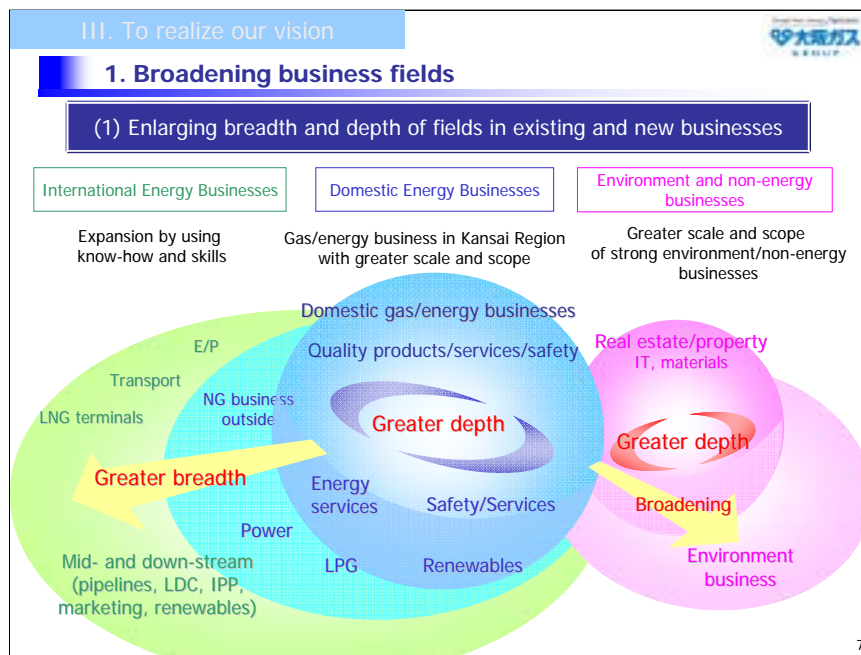
What we intend do to achieve our vision in 2020:
shape of Osaka Gas Group to come

1. Broadening business fields

2. Fortifying solid business foundations

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· In order to realize our vision, the Osaka Gas Group will work on the “broadening business fields” and “fortifying solid business foundations.”



· By “broadening business fields,” we mean enlarging breadth and depth of fields in existing and new businesses.

· In the domestic energy businesses, we will continue to provide quality products, services, and maintenance, offer value-added in the form of energy-saving and security, pursue a multi-energy supply strategy including electricity, LPG, and new energies, and expand our services and multi-energy supply to a greater area while exploring our mainstay gas business in the Kansai region.

· In the international energy businesses, we will seek opportunities globally both in the upstream sector (resource development, etc.) and in the mid- and downstream sectors (trading, pipeline, gas supply, and power business at LNG receiving terminals and other facilities).

· In the environment and non-energy businesses, we will maximize and leverage our proven strengths in urban development, information, advanced materials, and other businesses, while at the same time starting up and developing environment businesses.

· By broadening this way in every direction to increase both breadth and depth of our businesses, we will seek to ensure the robust development of the entire Osaka Gas Group.

1. Broadening business fields

(2) ¥1.5 trillion investments for solidifying three business field

Total of **¥1.5 trillion** investment 2009 – 2020
 [¥700 billion 2009 – 2013]

Upgrading existing businesses: ¥700 billion [¥300 billion]



Investments for incubation and expansion: ¥800 billion [¥400 billion]

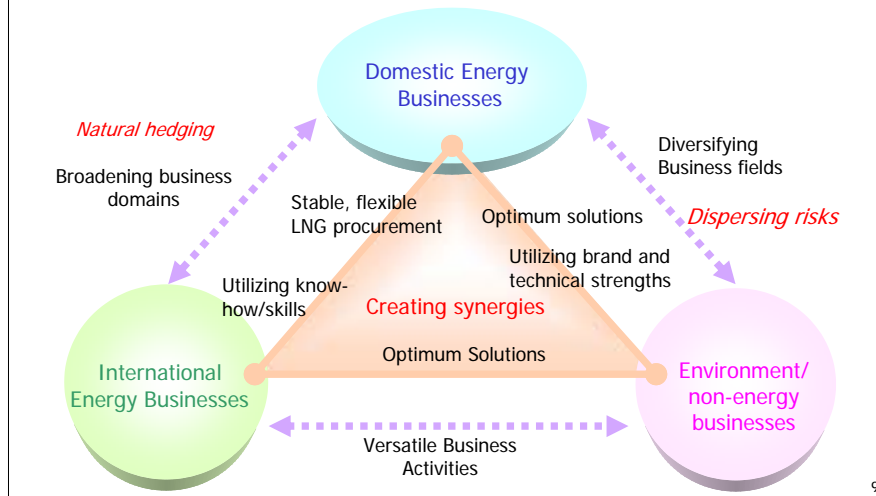


· We are planning a total of 1.5 trillion yen in investments over the twelve years up until March 2021.

· To break this amount down, 700 billion yen will be spent for the development of manufacturing and supply facilities over the long term and qualitative improvement of existing businesses for stable supply and a higher level of safety, and 800 billion yen will be set aside for the expansion of new businesses both at home and abroad.

2. Fortifying solid business foundations

(3) Maximizing group potential by creating synergies and dispersing risks



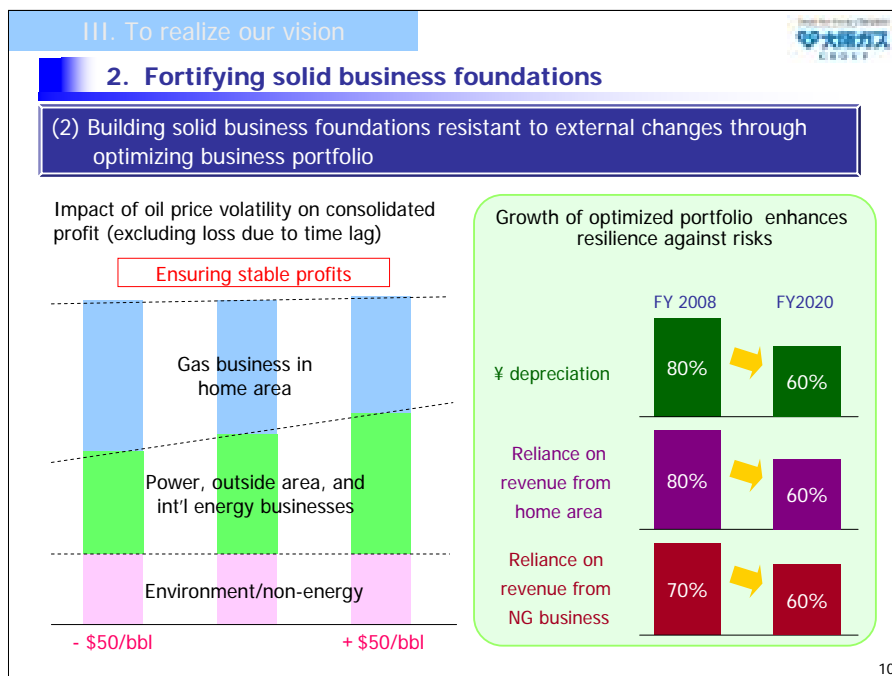
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· Through the combination of these three businesses, we expect to create synergies and disperse risks.

· For example, going upstream in the LNG business will not only boost our earnings, but also increase the stability and flexibility of our LNG supply. It will also serve as a natural hedge against fluctuations in oil prices and foreign exchange rates.

· Non-energy businesses, such as urban development, information, and advanced materials, are expected to expand our earnings through efficient use of our assets, technology, and know-how. The growth of these businesses will help to push up the ratio of our non-energy businesses.

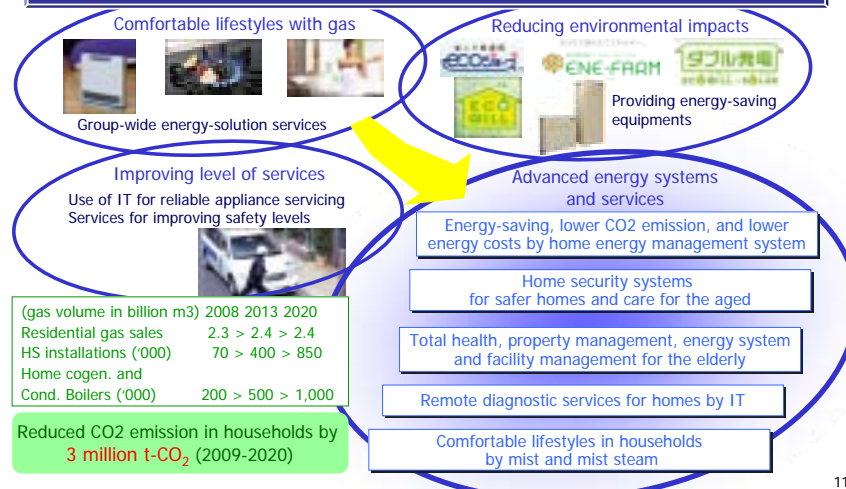
· With each business growing as they benefit from the synergies which they create, our business risks will be spread out, allowing us to maximize the collective strength of the Group.



- The graph on the left shows how our earnings vulnerability to oil price fluctuations can be reduced when the tri-business setup has been established.
- If we successfully expand our upstream business, we can expect a stable profit flow even when oil prices fluctuate sharply.
- Meanwhile, the global expansion of business areas and the spread of multi-energy supply and environment and non-energy businesses will, for example, reduce risks associated with low yen, decrease our business's dependence on the Kansai region, and lower the weight of the natural gas business, thereby reducing the impact that specific risk factors will have on our financial balance.
- By establishing the three mainstay businesses to create an optimal business portfolio, we will build up a resilient business structure capable of responding flexibly to changes in our operating environment.

1. Directions of domestic energy businesses – (1) residential sector

Advanced energy systems and services contributing to customers' higher level of comfort friendly to the environment



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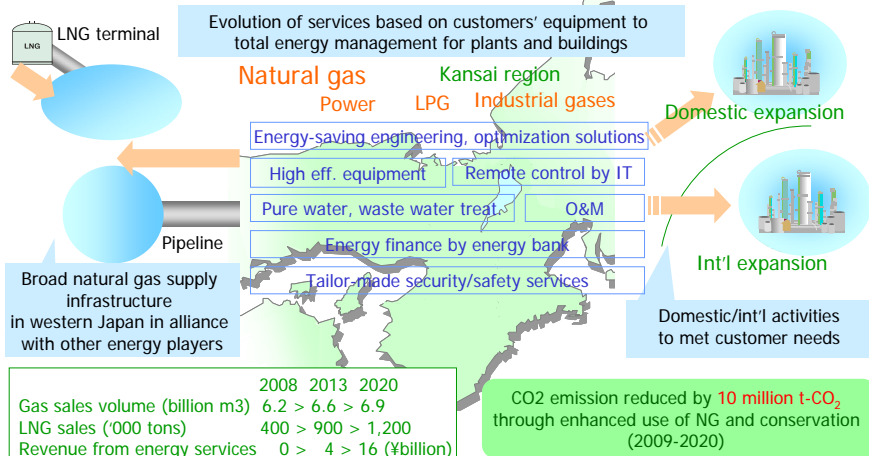
· In the residential sector, we will assist customers in reducing their CO₂ emissions by encouraging the spread of systems which reduce environmental impacts, including cogeneration systems (Ene-Farm, etc.) and “double” power generation systems that incorporate photovoltaic system technology as well.

· In an attempt to improve level of services, we will proactively use information technology for reliable appliance servicing and offer safety and security services, including the Internet-based home security service I-rusu / Kurupiko.

· In addition, we will utilize our resources in the natural gas business and introduce advanced energy systems and services. Among such systems and services are integrated housing services, which include a home energy management system with enhanced eco-friendliness and home security systems for the aged, remote diagnostic services for homes, and mist and mist steam generators for comfortable lifestyles.

Domestic energy services(2) commercial and industrial sectors

Explore growth opportunities as energy services provider through enhanced value of its services; evolution of business model based on energy-saving technologies to utility management, energy bank, and safety services



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· In the commercial and industrial sectors, we will further develop our engineering for energy-saving, etc., which is our greatest strength. While supplying multiple energy sources, such as natural gas, power, LPG, and industrial gases, we will enhance value of services such as Internet-based remote monitoring of energy equipment and utility management which includes water treatment, in the hopes of exploring growth opportunities as an energy service provider.

· Through alliances with other energy players in each region, we will broad natural gas supply infrastructure and, by utilizing their supply infrastructures, offer a broad range of high-value-added services both at home and abroad.

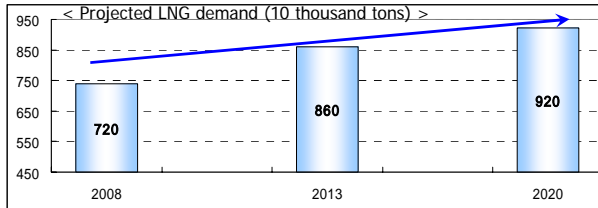
· By enhancing use of eco-friendly natural gas and conservation, we aim to reduce our customers' CO₂ emissions by a total of 10 million tons.

1. Domestic energy businesses (3) stable natural gas supply

Purchasing price-competitive LNG and building LNG and natural gas supply infrastructure for stable supply of gas to customers

[LNG purchasing]

Diversify sources
Increased participation in projects with equity holding
Flexible LNG purchasing through trading

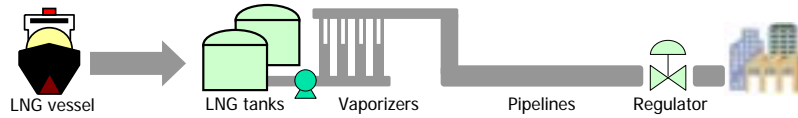


[LNG receiving]

Increased LNG handling capacity (storage tanks, tankers)
Refurbishment for increased reliability

[Gas supply infrastructure]

Network expansions (Mie-Shiga and Himeji-Okayama) for broader and reliably supply

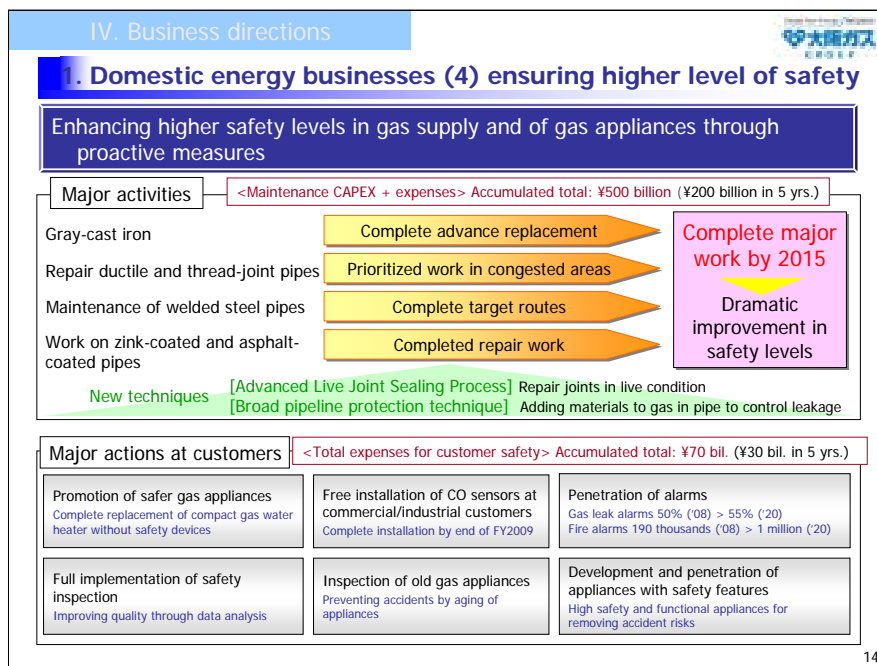


CAPEX for LNG facilities
Total: ¥90 billion (¥30 billion in 5 yrs.)

CAPEX for pipelines
Total: ¥300 billion (¥150 in 5 yrs.)

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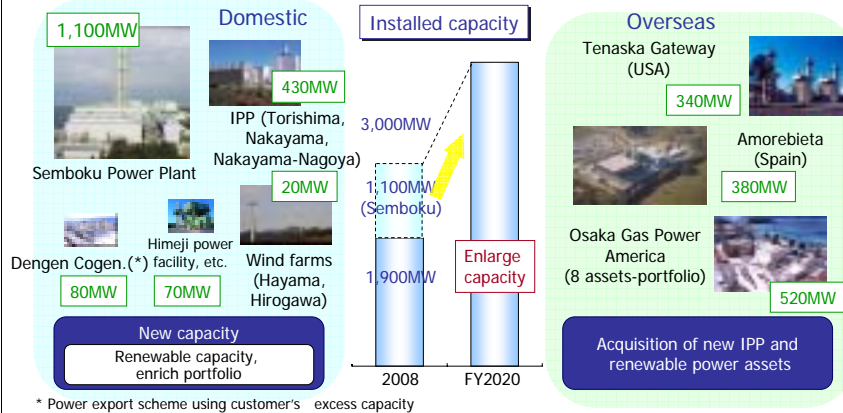
- In order to ensure stable supply over the long term, we are taking every possible action.
- For procurement of LNG, based on a long-term demand forecast, we will increase the number of suppliers and LNG-related projects which we are involved in, so that we can procure LNG in both a stable and competitive manner.
- On the LNG receiving side, we will increase LNG handling capacities in the future and build facilities capable of accommodating larger LNG carriers, while at the same time refurbishing production facilities in a systematic manner.
- On the gas supply infrastructure side, we are expanding our supply infrastructures and building pipeline networks for stable supply. In addition to the Mie-Shiga Line, we are considering the construction of a gas pipeline from Himeji to Okayama.



- We are undertaking a series of programs designed to provide a reliable and safe supply of gas and other energy services.
- To assure the safety of pipelines, we will focus on the repair of gray- cast iron pipes and complete such work by the end of fiscal 2015, ahead of the original schedule. In so doing, we will actively utilize new technologies to proceed with the work effectively.
- Concerning safety assurance at customers, we will accelerate the ongoing program to promote of safer gas appliances. At the same time, we will make assiduous efforts to eradicate accidents by penetration of alarms, reinforcing safety monitoring activities, and further pursuing the safe and secure function of gas appliances.

2. Power business

Building power business at home and abroad as a second core business after natural gas. Further development of power business through new capacity development and restructuring of generation portfolio

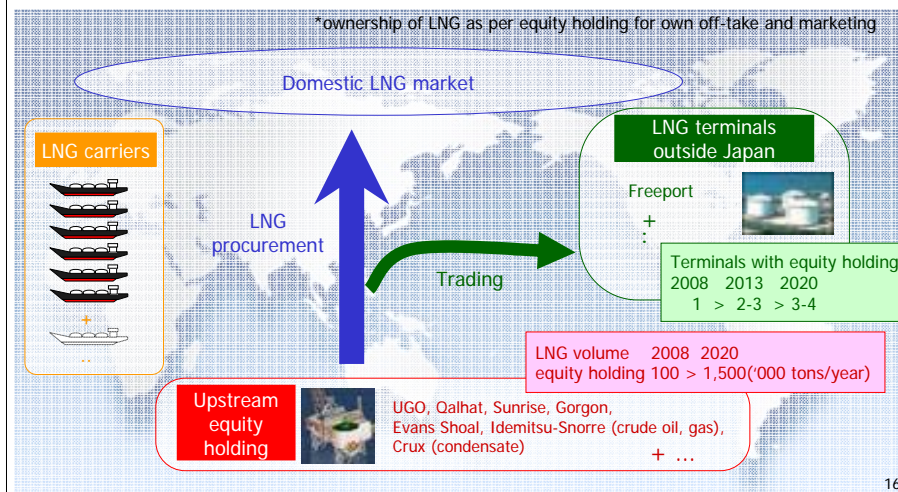


* Power export scheme using customer's excess capacity

· This April will see the start of operations at the Semboku Power Plant, which will raise our power capacity to approximately 3,000 megawatts including both Japan and overseas. Our goal for the power business is to make it another cash cow along with the gas business by further increasing capacity and reviewing the portfolio of this business.

3. International energy businesses (1) Upstream, energy trading

Equity participation up to about 15% of LNG supply and seek LNG trading opportunities through equity-lifting (*)



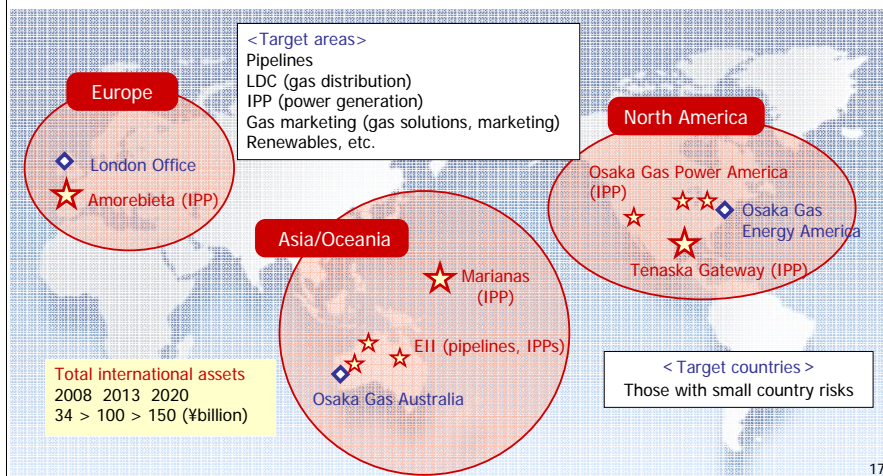
· On the upstream and energy trading side of the international energy businesses, the Osaka Gas Group has already gained a stake in seven different upstream interests. Going forward, we will develop existing upstream operations and acquire new ones to increase the volume of LNG that we are involved in, thereby ensuring a stable and competitive supply of LNG.

· Our goal is to hold around 15% of upstream interests out of the total LNG transactions in the world by 2020.

· Also, through the ownership of LNG as per equity holding for own off-take and marketing, we will develop the energy trading business by possessing overseas LNG terminals and vessels, in order for us to acquire more interests and achieve flexible LNG procurement in response to the ups and downs of domestic demands.

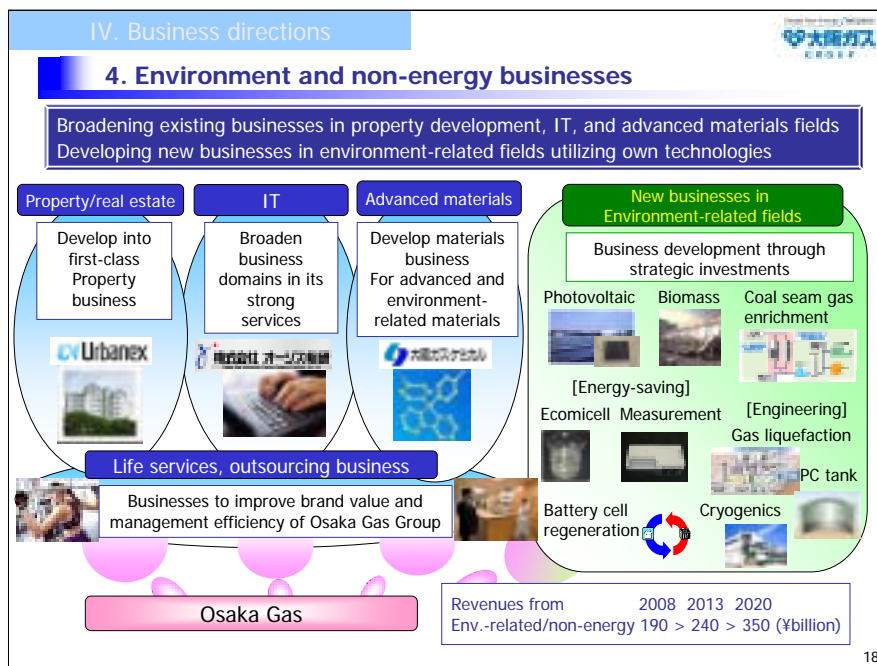
3. International energy businesses (2) Mid- and down-stream

Seeking global opportunities for achieving stable revenue flow using human resources and know-how of the group



· In the mid- and down-stream fields, we will expand the pipeline and gas distribution businesses and IPPs (Independent Power Producers), etc. on the premise that stable earnings can be expected.

· We have already been involved in several IPPs and pipeline projects. We will broaden our portfolio primarily in countries with a limited country risk in Europe, North America, Asia, and Oceania as we utilize the human resources and know-how of the Group.



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· The environment and non-energy businesses has grown to become a 190 billion-yen business.

· In areas where we have already established a presence, including urban development, information, and advanced materials, we will draw upon our strengths to expand businesses.

· At the same time, we will pursue opportunities presented by the environment and energy-saving business in the areas of photovoltaic power generation, biomass, and environmental engineering by applying our proprietary technologies and know-how and making strategic investments.

· While offering advanced products and help to reduce stress on the global environment, we hope to double the size of this business by the end of March 2021.

1. Technological Development and Strategic Use of IT

In order to “broaden business fields” and “fortify solid business foundations” promoting technological development and utilizing IT

Key Technological Developments

[Residential appliances]

- Enhance performance of fuel cells
- Advanced home energy management systems
- Mist / steam generation technology for enhanced product value



Household SOFC cogeneration system



Offshore natural gas field liquefaction plant

[Stable supply, safety]

- Supply of substitute natural gas from coals
- New construction methods for greater safety
- Resource development engineering

[For a low-carbon society]

- Utilization of photovoltaic power, solar heat, and biomass
- Hydrogen production

[Advanced business]

- Advanced fine materials, electrode materials [Advanced materials]
- Deepen “model base development” [Information]

Prompt, efficient technological development through **open innovation**

Key IT Applications

[Closer ties with customers]

- My Page
- Online communications with customers
- Eneflex Service
- Real-time equipment monitoring, automatic energy saving operations

[Productivity enhancement]

- Service science
- Enhance productivity and create new services through analysis and behavior improvement based on ergonomics and environmental psychology, etc.
- Develop IT tools and office environment
- Change working styles

Service science

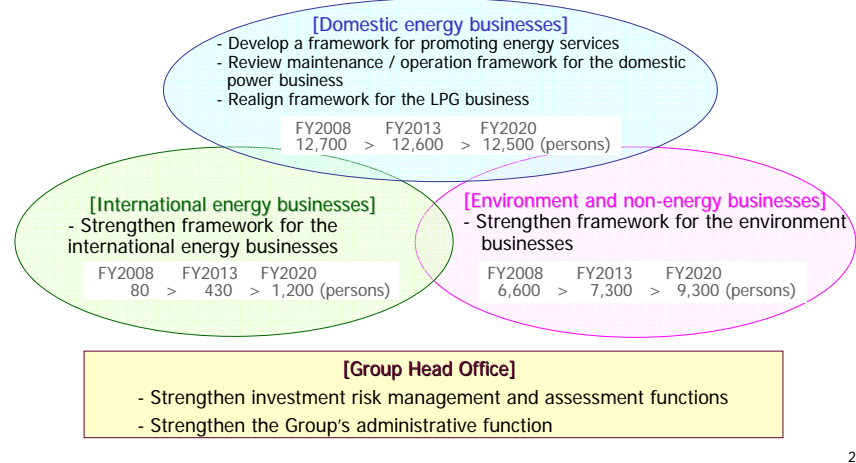


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- We will dedicate ourselves to development of the technologies which underlie our business and strategic use of information technology.
- Our technological development priorities will be: enhanced competitiveness of residential energy-saving systems such as fuel cells, higher energy-saving performance of commercial and industrial appliances, substitute natural gas production engineering, new construction methods and technology that will raise the level of safety and reduce costs, and technology for realizing a low carbon society such as renewable energy and hydrogen utilization.
- We will develop these technologies both promptly and efficiently by way of “open innovation,” through which our proprietary technologies and third-party knowledge will be integrated.
- In addition, we will strive to improve various aspects of our operations and our productivity through the “service science” method, which is based on ergonomics and environmental psychology.

2. Streamlining the Group Organizational Structure

Reengineering the Group structure to make ours a lean and mean organization while pursuing higher productivity



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· In order to make this “Field of Dreams 2020” a reality, we will reorganize our group structure.

· In each business field, we will establish an optimal organizational setup, while at the same time strengthening inter-divisional coordination within the Head Office.

· As our businesses grows, we expect that our headcount will increase as well. We will, however, make ours a lean and mean organization by reviewing the personnel system, stimulating personnel exchange within the Group, and improving labor productivity through active use of information technology.

Long-term management goals for the Osaka Gas Group

(1) Broadening business fields

Establish the three core businesses of “domestic energy businesses,” “international energy businesses,” and “environment and non-energy businesses” by proactively making growth-oriented investments.

Our goal is to match the earnings of the gas business in home area to those of other businesses by around FY2013.

(2) Contribution to the environment

Actively reduce stress on the global environment through the spread of eco-friendly natural gas; provision of efficient equipment, systems (fuel cells, cogeneration systems, etc.), and energy-saving programs; and development of renewable energy.

(3) Enhancement of corporate and business quality

Fulfill a high level of CSR as an excellent company which renders services to people's lifestyles, businesses, and communities, while more than meeting growing social expectations (level of commitment, disclosure)

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· We will put everything we have into achieving our four long-term management goals, namely, “broaden business fields,” “contribution to the environment,” “enhancement of corporate and business quality,” and “increased corporate value.”

· First of all, we aim to “broaden business fields” by establishing the three core businesses: “domestic energy businesses,” “international energy businesses,” and “environment and non-energy businesses.”

· We will help to reduce environmental impact through our dedication to the environmental business, including the spread of natural gas, offering of efficient equipment and systems and energy-saving programs, and development of renewable energy.

· As for “enhancement of corporate and business quality,” we will more than meet the growing social expectations of us as we fulfill a high level of CSR as an excellent company which renders services to people’s lifestyles, businesses, and communities.

Long-term management goals for the Osaka Gas Group

(4) Increased corporate value

1. Improve asset and capital efficiency

Make constant efforts to increase our profit margins with the long term goal of approx. 4% ROA and 9% ROE on a consolidated basis.

FY2013 goal: approx. 3.5% ROA and 8% ROE on a consolidated basis

* ROA = Net income divided by total assets
ROE = Net income divided by shareholders' equity

2. Return to shareholders

While maintaining stable dividend payment, decisions will be made by taking everything into account, including current performance, future management plans, other means to reward shareholders, etc.

Target payout ratio: 30% or more on a consolidated basis (within the bounds of Osaka Gas's [parent] distributable surplus, excluding short-term earnings change factors).

(We may repurchase our own shares flexibly when we believe that our financial condition and cash flow situation allow us to do so after making investments in the future growth of the business.)

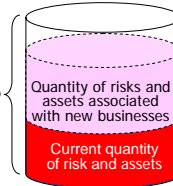
Quantitative risk management

Aggressively invest in businesses within the permissible quantity of risk so as to maximize returns

3. Maintain financial soundness

Permissible quantity of risk for the entire Group

We will conduct quantitative risk management, while seeking to maintain a "shareholder's equity ratio of 40% or over" and a "ratio of interest-bearing debt to equity of approximately 1" over the mid- and long-term.



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· Regarding how we will go about improving our asset and capital efficiency, we will make constant efforts to increase our profit margins with the long-term goal of approximately 4% ROA and 9% ROE on a consolidated basis.

· While remaining committed to stable dividend payment, we will change our target payout ratio from “20% or over on a non-consolidated basis” to “30% or over on a consolidated basis,” so that we can give the fruits of our growth back to our shareholders. With regard to share buybacks, we will adhere to our conventional policy, namely, that we will repurchase our own shares flexibly when we believe that our financial condition and cash flow situation allow us to do so after making investments in the future growth of the business.

· In order to maintain financial soundness, we will conduct quantitative risk management, while seeking to maintain a “shareholder’s equity ratio of 40% or over” and a “ratio of interest-bearing debt to equity of approximately 1” over the mid- and long-term.

· As a part of “quantitative risk management,” we will set a permissible quantity of risk for the entire Group and invest in business opportunities within that quota. We will continue to make major investments in opportunities around the world and seek to maximize their returns, but at the same time we will strengthen our investment risk management so that we can control the balance between such returns and risks.

Field of Dreams

Osaka Gas: A corporate group making dreams come true for individuals

Global business fields that expand indefinitely

Contribute to the global environment

We will constantly explore new business fields to continue moving ahead while growing together with our employees.

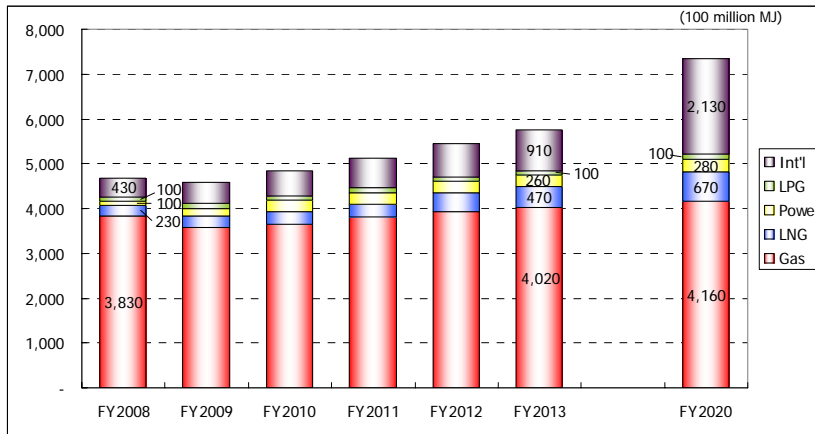
Offer comfortable lifestyle and business solutions

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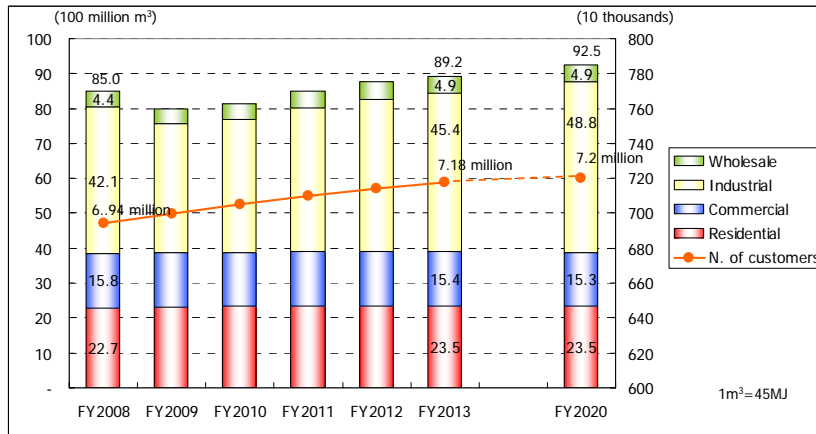
· The Osaka Gas Group will continue to take up challenges in a variety of fields both in and outside of Japan. In so doing, we will grow together with our employees and, as we strive to achieve this Vision and Management Plan, we hope to contribute to the global environment and the comfortable lifestyle and business development of our valued customers.

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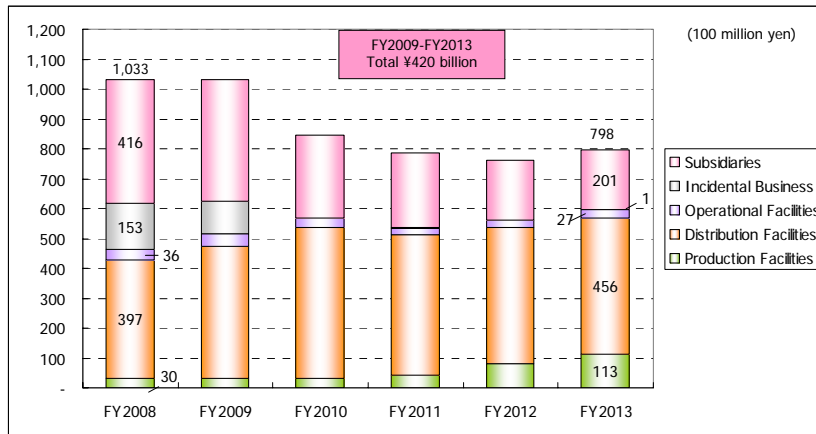
1. Forecast of Energy Transaction Volume



2. Forecast of Gas Sales Volume and No. of Customers (Non-consolidated)



3. Capital Expenditure (FY2009 – FY2013)

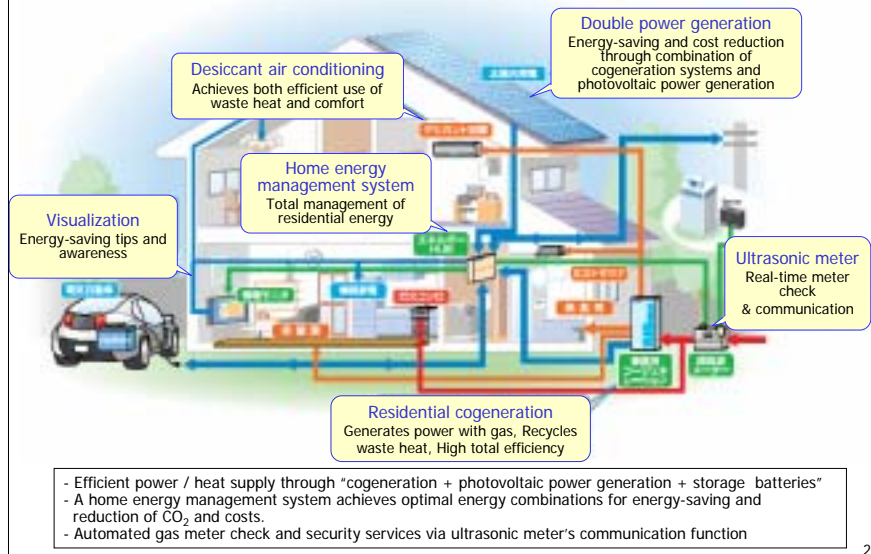


4. Total Operating Revenues and Assets

Units: yen	FY2008/E	FY2013/E	FY2020/E
Domestic energy businesses	1,320 billion	1,490 billion	1,630 billion
International energy businesses	10 billion	70 billion	220 billion
Environment and non-energy businesses	195 billion	240 billion	350 billion
Consolidated adjustment etc.	-190 billion	-200 billion	-200 billion
Consolidated operating revenues	1,335 billion	1,600 billion	2,000 billion
Consolidated total assets	1,600 billion	1,850 billion	2,100 billion

*The above figures are based on an oil price assumption of \$100/bb and a forex assumption of ¥100/US\$ (reference values).

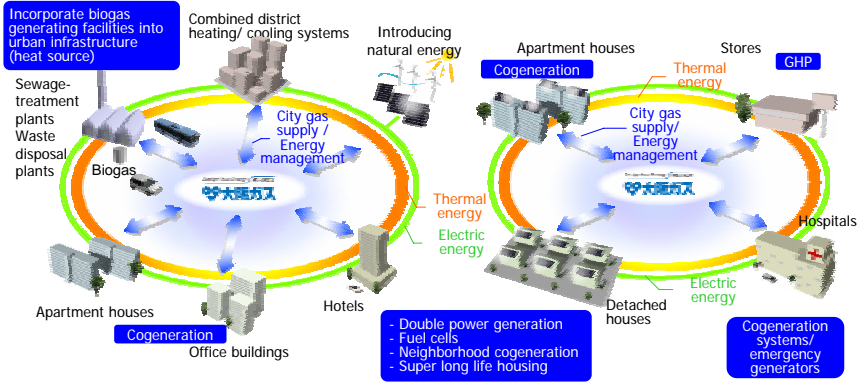
5. Technological Developments – (1) Residential Energy Supply Systems of the Future



5. Technological Development – (2) Urban Energy Supply System of the Future

Supporting "compact cities" and multiple use of land in metropolitan areas
(Efficient use of urban waste heat, incorporating energy facilities into urban development projects)

Support revitalization of housing complexes ("New Towns")
(Networking energy facilities of housing complexes)



Form a heat / electricity energy network through combination with renewable energy technologies such as cogeneration, photovoltaic generation, wind power, and biomass. Through the integrated application of the network, achieve optimal energy management friendly to the environment of the entire city, and then spread this area-wide service to other areas.

5. Technological Development – (3) Product Development

<Residential appliances>

[Improving performance of ENE-FARM]

- Reduce delivery prices for full-scale spread
- Enhance durability for lower maintenance costs

[Launch highly efficient and advanced Solid Oxide Fuel Cells (SOFCs)]

- Lower costs and increase durability for commercial launch
- Increase efficiency and reduce sizes for greater diffusion in the condo / small business markets

[Utilize steam generation technology]

- Offer value-added through unique use of gas-generated steam (ovens, dishwashers, rice cookers, heaters, steam guns, etc.)

<Commercial / industrial appliances>

[Higher efficiency A/Cs, cogeneration systems, and boilers]

- “Super high efficiency GHP” with a built-in freezer which directs an engine’s waste heat to supercool refrigerants (jointly developed by three gas companies)

- “High efficiency gas engines” using Homogeneous Charge Compression Ignition (HCCI) technology (jointly developed by four gas companies)

- Pursuing energy-saving performance: energy saving gas boilers, etc.

[Advanced commercial kitchens]

- Expand the *Suzuchu* lines
- Improve functionality of gas ranges (design, cooking performance, etc.)

**5. Technological Development
(4) Stable Supply and Safety, Low-carbon Society, Advanced Business**


<Stable supply, safety>

[Supply substitute natural gas (SNG)]
 - Technology to produce SNG from low grade coals, etc. as a risk hedge against short supply or rising prices of LNG

[Resource development engineering]
 - Enhance liquefaction technology through participation in the Sunrise PJ, and improve engineering capabilities for the "coalbed methane gas field" and the "offshore natural gas field liquefaction plant"

[New construction methods]
 - Raise safety level via the advanced live joint seal method (reinforcing the inside of pipeline joints)

[Battery-operated alarms, ultrasonic meters]
 - Raise level of safety and services by introducing a battery-operated alarm with an energy-saving sensor and a compact ultrasonic meter capable of instantly measuring flow rate

Ultrasonic meter 


<Contribute to a low-carbon society>

[Strategic use of photovoltaic power generation, solar thermal conversion, and biomass]
 - Incorporate these technologies into energy systems, start up new businesses

[Produce synthetic gases through the A-ATG process]
 - Make efficient use of associated gases combusted for disposal when producing crude oils

[Concentration of coal mine methane]
 - Collect / concentrate coal mine methane discharged into the atmosphere when digging coals and put it to efficient use

[Hydrogen production]
 - Using catalyst technology, produce hydrogen out of city gas with a compact facility (HYSERVE system)


 Hydrogen production

<Advanced business>

[Osaka Gas Chemicals]
 - Advanced fine materials for LCD / lens markets (better workability, etc.)
 - Electrode materials technology which reduces storage battery costs

[Osaka Gas Information System Research Institute]
 - Promote "100-year architecture," which optimally integrates "model base development (system visualization technology)" with system reuse technology

Thank You!

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.