

The background features a large, stylized eye with a blue iris and a black pupil. The eye is set against a purple and blue grid pattern. Several numbers are scattered across the image: '97' in the top left, '999' on the left side, '2000' on the right side, '06' on the bottom left, and '998' at the bottom. A white rectangular box is centered over the pupil of the eye.

Strategy

Implementing Strategies
in Our Energy Business
to Respond to Deregulation

Responding to customer needs by offering an optimal combination of gas and peripheral services—Osaka Gas has made steady progress to the present toward achieving this goal in its energy business. Customer needs in the future are likely to become even more diverse and sophisticated, while ongoing deregulation is expected to trigger full-fledged competition in the energy sector. The gas market will witness an emergence of new participants, making it paramount that we establish competitive advantages in a comprehensive range of areas, including both price and non-price



areas, thereby making the “Osaka Gas” brand the first choice of customers for gas.

On a different front, the opening of the electricity market will spawn significant new business opportunities. Highly attuned to such opportunities, Osaka Gas intends to vigorously enter this market as it works to secure and sell electricity to also make the “Osaka Gas” brand appealing to users in the electricity market.

Besides its lineup of gas products, including natural gas, LPG, and industrial gas, Osaka Gas will launch a full-scale drive to supply electric power. This approach is central to Osaka Gas’s quest to become the choice of customers by meeting users’ every energy need through an optimal mix of one-stop energy-supply services.

Ongoing Deregulation

Regulatory reforms in the gas and electric power industries have been steadily implemented following a legal revision in March 1995. Plans call for these markets to undergo further liberalization beginning in 2003, paving the way for the market entry of new participants and spurring more intense price competition.

Osaka Gas believes that these ongoing regulatory reforms will create new business opportunities. In response, we will strengthen our gas business while entering the electric power business and developing the energy business on a nationwide basis.

Positioning the “Osaka Gas” Brand as the Customers’ First Choice

Strengthening Our Gas Business

Osaka Gas revised its rate structure in March 2002 to respond to expected mounting price competition. Aiming to provide customers with advantageously priced gas, Osaka Gas focused its rate revision on lowering rate levels in sectors where it fiercely competes with electric power and on diversifying rate options in accordance with the type of usage. Concurrently, we bolstered our competitiveness in non-price-related areas by further raising our comprehensive proposal and maintenance service capabilities derived from our operational know-how in product development, utilization technologies, and application development.



IPP facility in The Torishima Energy Center

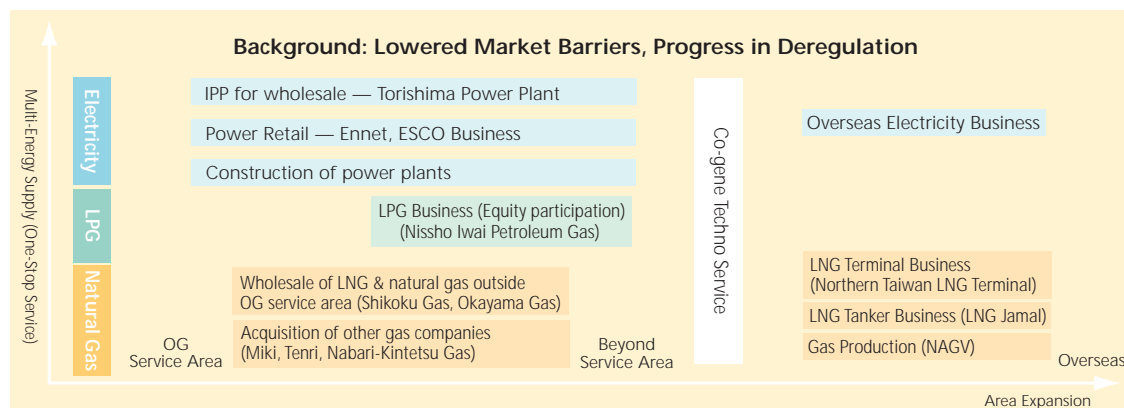


An LPG replenishing facility (Nissho Iwai Petroleum Gas Group)

Deregulation in the Electricity and Gas Industries

		Phase 1 (1995–)	Phase 2 (2000–)	Phase 3 (Anticipated: 2003–)
Entry restrictions	Gas	Liberalization for customers using over 2 million m ³ per annum	Expansion of liberalization to include customers using over 1 million m ³ per annum	Further expansion of scope of liberalization
	Electricity	Introduction of IPPs and restricted power supply business	Liberalization of special high-voltage (over 2,000kW and 20,000V)	Spin-off and/or separate accounting for network operations
Transmission	Gas/Electricity	Allowing third party access to transmission lines	Establishing connecting rules	Facilitation of third-party use of LNG terminals Possibility of the formation of electricity wholesaling market
Rate regulations	Gas/Electricity	Introduction of yardstick system and fuel-cost adjustment system	From approval to notification (price reductions), diversification of billing options	

Basic Strategies of Energy Business Multi-Energy Supply (One-Stop Service) in Japan and Overseas



Note: NAGV: Northern Australia Gas Venture

Developing Our Energy Business on a Nationwide Basis

In our LPG business, our Liquid Gas Group (G2), which is centered on Liquid Gas Co., Ltd., has focused on supplying industrial gases and fuel gases to the present. In September 2000 the Nissho Iwai Petroleum Gas Group (G3) became part of the Osaka Gas Group, which has significantly strengthened our LPG wholesaling and retailing businesses and allowed us to create an energy supply structure that extends beyond the supply of natural gas.

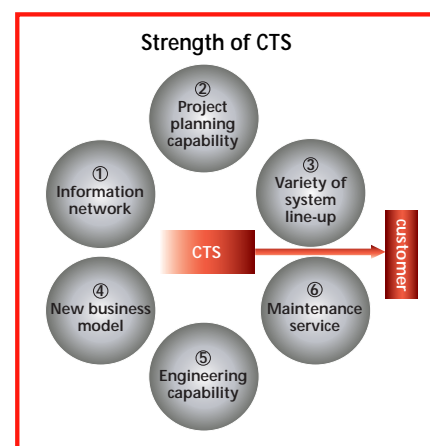
Underscoring the depth of its commitment to meeting society's demand for energy that is more environment-friendly and efficient, Osaka Gas has devoted great effort to researching and promoting the increased use of cogeneration systems, which simultaneously supply electric power and heat. Tapping the plethora of know-how gained from the sale and maintenance of cogeneration systems, Osaka Gas established Cogeneration Technology Service Co., Ltd. (CTS) in June 2001. This company offers integrated services covering areas ranging from preliminary studies for introducing cogeneration systems to operation and maintenance of these systems. Osaka Gas plans to develop its cogeneration systems business through Cogeneration Technology Service.



Press meeting announcing the establishment of a new subsidiary, Ennet Corporation



The Torishima Energy Center



Strength of CTS

Expanding Our Electric Power Wholesale and Retail Businesses

Cogeneration systems allow on-site power generation at the source of demand and furnish such benefits as enabling the use of waste heat. On the other hand, centralized power generation permits economies of scale through the aggregation of demand and the use of large-scale power facilities. The Osaka Gas Group has also launched full-scale entry into the electric power business to meet demand in sectors for large-scale demand, where regulations on entry have been loosened due to reforms of the system. Specifically, we are wholesaling electric power to Ennet Corporation, established as a joint venture with NTT Facilities, Inc., and Tokyo Gas Co., Ltd. Ennet began supplying electric power in April 2001 and is currently supplying electricity in the Kansai region to the Osaka Prefectural and Hyogo Prefectural government offices as well as to office buildings. Ennet is using its own generating facilities to supply electric power and in the future plans to sell excess power procured from large-scale electric power users. Regarding the electricity wholesaling business, we built the Torishima Energy Center in Osaka, an IPP facility with a 150MW generator that started supplying electricity to Kansai Electric Power Co., Inc. in April 2002. This marks the first time that a gas company has entered the IPP business.

To expand our electric power business, in 2002 we commenced a business feasibility study on the construction of our own 1GW power plant that will commence operation in fiscal 2009.