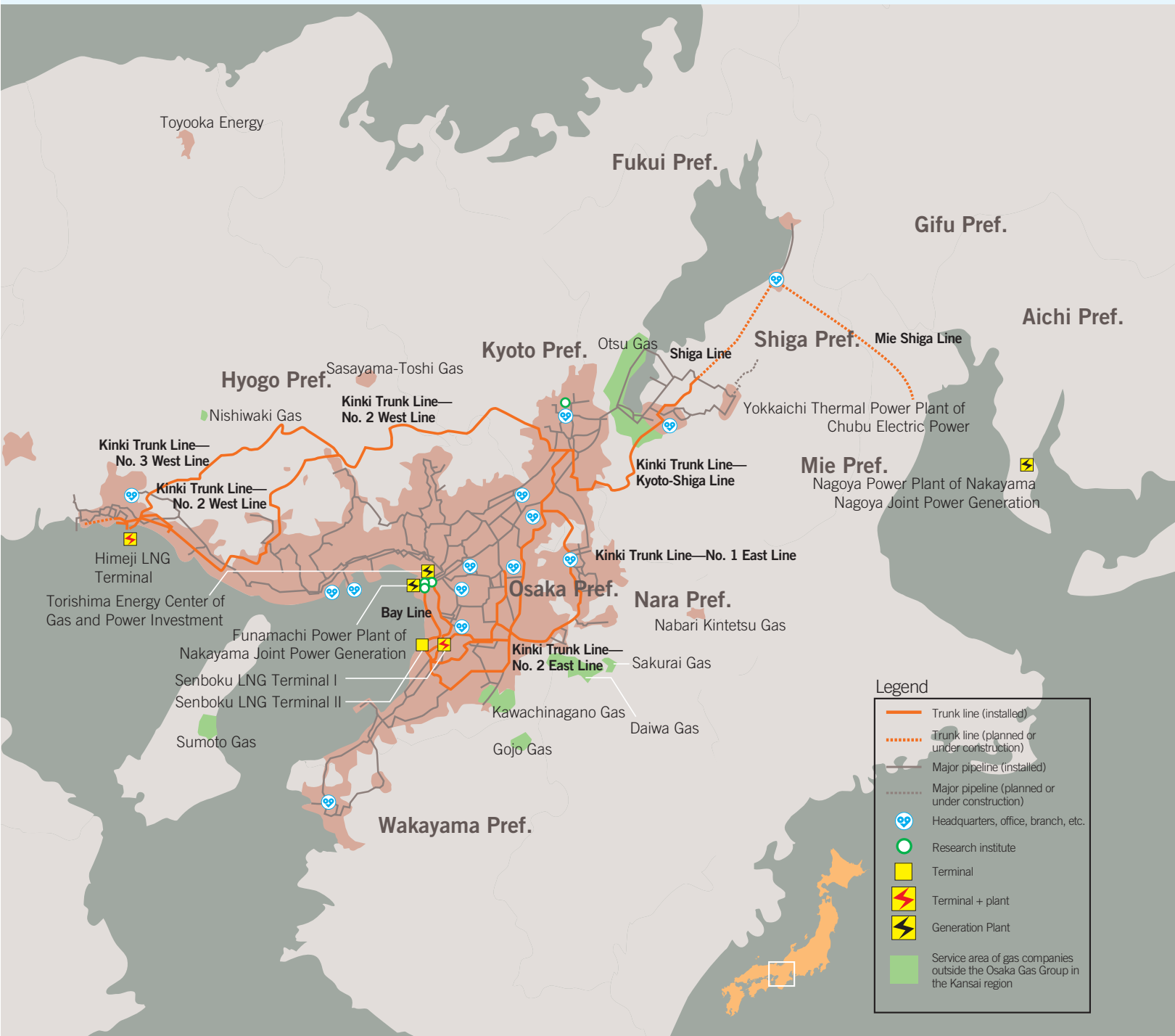


1 Natural Gas Segment



Service Area

With an annual natural gas sales volume of 8.4 billion cubic meters, Osaka Gas generates approximately 30% of the total sales volume of natural gas in Japan. The Company's primary source of natural gas is imported LNG. Osaka Gas supplies natural gas to 6.7 million customers, representing approximately

25% of the nation's total. Steadily expanding its service area, the Company currently supplies natural gas to customers residing in 75 cities and 31 towns in six prefectures of the Kansai region spread over approximately 3,220 square kilometers with natural gas pipelines extending about 56,500 kilometers as of March 31, 2006.

Characteristics of the Japanese Gas Industry

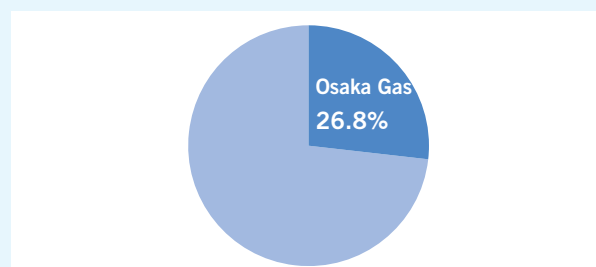
- Although more than 200 gas companies exist in Japan, the market is dominated by a few major gas suppliers, such as Osaka Gas, which accounts for approximately 30% of total gas sales volume.
- The industry's supply of LNG, the primary source of natural gas, is almost completely dependent upon imports.
- In contrast to other countries, Japan does not have any gas pipelines interlinked nationally or internationally.
- The natural gas business is carried out in an integrated manner, from procurement and import to transmission, storage, distribution, downstream gas supply and marketing.

Special Qualities of Natural Gas

Compared to other fossil fuels, natural gas has a much smaller impact on the environment. In addition, natural gas reserves are more abundant than those of crude oil and, unlike crude oil, are not concentrated in specific geographical locations.

Because of these advantages, demand for natural gas is expected to increase in the future as the preferred fuel for the 21st century. The Osaka Gas Group chiefly handles energy resources that are friendlier to the environment, giving it an edge in business development. This trend has grown increasingly stronger along with the heightened public awareness created by the ratification of the Kyoto Protocol.

Share of Total Domestic Gas Sales



Sales volume from April 2005 to March 2006

Source: The Japan Gas Association Web site

Reserve/Production Ratios for Natural Gas and Oil



Source: Oil and Gas Journal, December 2003 and March 2004

Emissions of Combustion Products From Fossil Fuels (Coal = 100)

	CO ₂	SO _x	NO _x
Coal	100	100	100
Oil	80	68	71
Natural gas	57	0	20~37

Source: Report relating to field tests on technology for measuring air pollution caused by thermal power plants (March 1990, The Institute of Applied Energy); IEA (International Energy Agency) Natural Gas Prospects (1986)

Deregulation Timeline in the Electric Power and Natural Gas Sectors

Past and Future Developments							
	Electric Power Sector			Natural Gas Sector			Main Facilities Targeted
	Scope of Liberalization	Share of national sales volume	Main points	Scope of Liberalization	Share of national sales volume	Main points	
1996	—	—	Introduction of IPP and fuel cost adjustment system	2 million m ³ or more per year	36%	Introduction of third party access to pipelines and fuel cost adjustment system	Large factories and office buildings
2000	More than 2MW	26%	Creation of retail power generation and supply business	1 million m ³ or more per year	40%	Third party access to pipelines made mandatory (major four companies only)	
April 2004	More than 0.5MW	40%	Abolishment of zone-based transmission tariff (pancake pricing)	500 thousand m ³ or more per year	44%	Third party access to pipelines made fully mandatory	Large commercial facilities, hotels, etc.
April 2005	More than 0.05MW	63%	Creation of wholesale electric power market				Small and medium-sized factories, hospitals, business hotels, supermarkets, etc.
April 2007				100 thousand m ³ or more per year	50%		

Source: *Denki Shimbun's* "Description of Electric Power Liberalization and New Systems" and 2002 Urban Thermal Energy Committee materials.

1 Natural Gas Segment

Being able to use energy as effectively as possible is important for the environment and the economy. We will maintain our competitive edge against other types of energy by providing optimal mixed energy solutions tailored to individual customers.



Residential Gas Marketing

The Osaka Gas Group develops products from the customer's point of view that are environmentally friendly, economical, and can provide customers with a more comfortable and convenient lifestyle by using gas. We are dedicated to promoting the further popularization and use of such products as the residential gas cogeneration system ECOWILL, a separate bathroom heater-drier system with a mist sauna that enables people to do beauty treatments right at home, and gas stoves that can be used to cook almost anything.

As a revolutionary new product that generates electricity while supplying hot water and heating, ECOWILL controls overall lighting and heating costs. Its efficiency and ease of use has earned it high marks from customers. During the fiscal year under review, sales reached 10,600 units for a cumulative total of 21,400 units over three fiscal years.

Featuring a mist sauna attached to a bathroom heater-drier system, the MIST KAWACK sauna equipment turns the bathroom into a sauna by nebulizing hot water into a fine mist. The product has been well received in the market since we launched it in April 2004 in response to the heightened interest in health and beauty in recent years. Sales in fiscal 2006 totaled 31,400 units, up 235% from the previous fiscal year.

We expanded our range of glass-top built-in gas stoves, which are popular for their design and ease of cleaning. The extended lineup provides a variety of models to meet different customer needs. Following its introduction in October 2004, sales have been robust for the Class-S Premier, a superior quality gas stove that boasts improved safety, design, and usability. In March 2006, we again increased the safety of products in our lineup, launching products featuring sensors on all burners to prevent overheating of deep-frying oil in the Class-S built-in series as well as in cooktops.

Among other efforts to comprehensively meet the needs of customers, Osaka Gas collaborated with a subsidiary to introduce I-rusu, an Internet-based home security service.



Backed by technological know-how, Osaka Gas' energy consulting capability is one of its greatest strengths. That capability encourages customers to bring their problems to us, after which we provide an optimal combination of products and systems developed to solve their specific problem.

Non-residential Gas Marketing

Natural gas plays a crucial role as a principal energy source for a wide variety of industries, including steel, metals, chemicals, and machinery. Demand for natural gas is increasing as it compares favorably to other primary energies in terms of energy conservation, space conservation, and cleanliness. Osaka Gas promotes detailed solution-based marketing activities based on a firm grasp of customer needs and strong technologies.

In industry, natural gas is increasingly used in cooling processes and clean rooms as well as its traditional use as thermal energy for furnaces and boilers. Able to generate both heat and electricity simultaneously, cogeneration systems realize substantial energy savings in factory operations, and their utilization is increasing as needs grow for distributed power sources in society.

Gas sales to the commercial, public and medical sectors are increasing primarily because of the use of gas air conditioners and cogeneration systems. Gas absorption air-conditioning systems have become the dominant technology for air-conditioning in large buildings, while gas heat pump air-conditioning systems

are becoming increasingly popular in small and medium-sized buildings because they offer the convenience of individual climate control. As a result of their popularity, gas heat pump air-conditioning systems are contributing to increased demand for natural gas.

In April 2006, we introduced High Power Excel, an industrial-use gas heat pump air conditioner that can generate electricity while cooling and heating air and supply it to the building. Cogeneration systems are popular with large- and small-scale customers, ranging from major commercial facilities to hospitals, hotels, and retail stores. Our Gene-Light Series of compact cogeneration systems for small and medium-sized office buildings and shops has been very popular since its launch in fiscal 1999. To date, more than 1,800 customers have installed the Gene-Light Series.

Among other products, we are increasing our marketing of commercial-use kitchen air-conditioning systems using the product name Suzuchu. These systems can substantially cut the heat generated in kitchens in restaurants or other commercial outlets to provide cool working conditions.



The High Power Excel gas heat pump air conditioner for industrial use performs electricity generation and air-conditioning simultaneously.



The Gene-Light Series of compact cogeneration systems for small and medium-sized office buildings and shops has been well received.

1 Natural Gas Segment

Cogeneration Systems

Installed on the customer's premises, cogeneration systems recover heat emitted from power generation and use it for air-conditioning and thermal applications. Energy usage efficiency improves up to approximately the 70%–80% level with the use of cogeneration systems, as exhaust heat can be effectively utilized, and there is minimal transmission loss because electricity is generated on-site.

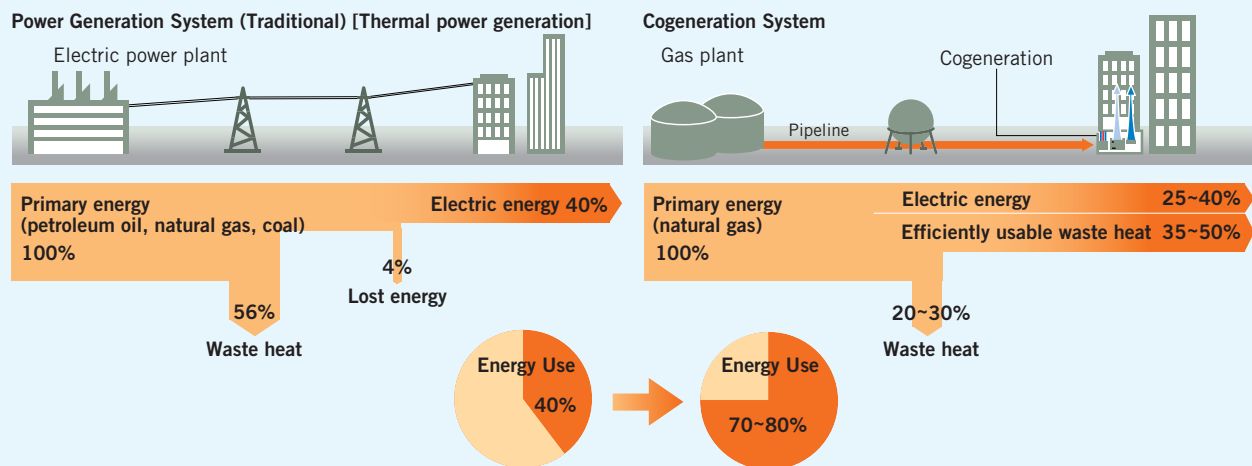
Strengths of Osaka Gas Cogeneration Systems

- (1) We have developed a highly efficient power generation system. Compared with the average efficiency of approximately 40% at existing thermal power plants, our advanced cogeneration systems achieve power generation efficiency of around 43%. As a result, there are an increasing number of customers enjoying the cost benefits of introducing Osaka Gas cogeneration systems.
- (2) Our maintenance system, which includes the remote monitoring system Echo Line, leads the industry in service and maintenance quality.

- (3) We offer a variety of financing schemes enabling us to meet such diverse customer needs as avoiding ownership of capital assets or requiring preset rate fluctuations for changes in fuel costs.
- (4) For franchise chain owners with stores located outside our service area, we meet customer needs through our subsidiary Cogeneration Technology Service Co., Ltd., which is in charge of cogeneration operations outside our service area.
- (5) In addition to supplying natural gas as a fuel, Osaka Gas also provides a wide variety of cogeneration systems, including engines that use biogas as fuel and agricultural systems that supply CO₂ to plants.

Based on these strengths, the Osaka Gas Group has delivered cogeneration systems with a total generation capacity of approximately 1,800 MW.

General View of Natural Gas Cogeneration



Note: Power generation efficiency is calculated using fiscal 1998 results (LHV standard).

Source: The Japan Gas Association, "Gas Cogeneration Systems"

We are not only positioned in natural gas upstream operations, we are also actively pursuing LNG trading and transportation, and natural resource development businesses based on new concepts.

LNG Procurement, Natural Gas Development and Transport Business

In procuring natural gas, Osaka Gas tries to maintain price competitiveness in the energy business by reviewing the price structure for existing contracts and shifting to new contracts that are relatively inexpensive. In addition, the Company is branching out to LNG transportation and resource development businesses to expand its business upstream in the natural gas value chain.

The main function of the transportation business is to increase the transparency of transportation costs and reduce them by owning, through Osaka Gas International Transport, LNG carriers for the transportation of LNG purchased under an FOB contract. The business also aims to earn revenues by utilizing spare capacity of an LNG vessel that typically exists at the start-up period of the LNG contract to transport LNG for other companies. The main targets of these policies are primarily transportation contracts for LNG from the Western Australia Expansion Project as well as from the Qalhat LNG project.

Our main areas of activity in the natural resource development business are our existing participation in development of offshore

natural gas fields in Northern Australia, our investment in a gas-producing field in Indonesia, and our investment in Idemitsu Snorre Oil Development Co., Ltd., which owns an interest in a North Sea oil field.

We are expanding the energy resource development business by focusing on the following three business categories: participation throughout LNG projects from the early stages; participation in projects as an LNG purchaser and minority shareholder (including participation in only liquefaction projects); and acquisition of interests in oil and gas fields with limited commercialization risk because they are already in production or about to be developed.



A North Sea oilfield drilling platform
(Photo: Idemitsu Snorre Oil Development Co., Ltd.)

Note: Procurement of gas for supply purposes is included in the natural gas segment, while energy resource development and LNG transport are included in the LPG, Electricity, and Other Energies segment.

World's major nations with natural gas reserves and suppliers to Osaka Gas

