

2 LPG, Electricity and Other Energies Segment



The Cottage Grove Cogeneration Plant, in which Osaka Gas Power America, LLC. (formerly Fort Point Power LLC) holds an equity interest

The falling barriers to market entry between energy sectors in Japan provide Osaka Gas with an opportunity to expand its energy business. The Osaka Gas Group remains proactive in turning challenges resulting from deregulation into business opportunities based on its strategy of shifting to multi-energy supplier services and geographically expanding operations.

Positioning Osaka Gas in the Electricity Sector

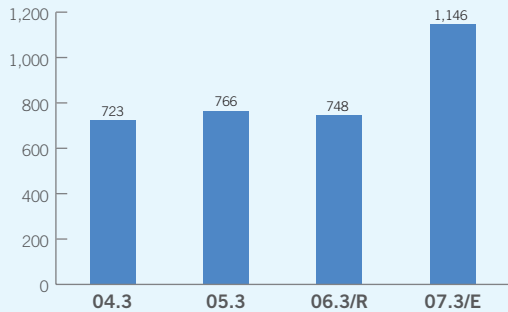
The electric power sector is an area where the Osaka Gas Group can leverage strengths in the natural gas business, such as upstream infrastructure, solution-based marketing capabilities, and customer networks. Viewing deregulation in the electric power sector as a business opportunity, the Osaka Gas Group is making inroads into the electricity business based on the following strengths.

Our three IPPs have a total electric power generation capacity of 450 megawatts for wholesale supply to electric power utilities. Based on long-term contracts, we expect these three power plants to provide a stable source of revenues of approximately ¥18 billion annually. In fiscal 2005, we acquired IPPs in Texas, in the United States, and in Spain. We also purchased a U.S. holding company for a portfolio of nine IPPs. The total new capacity arising from these three investments is approximately 1,200 megawatts.

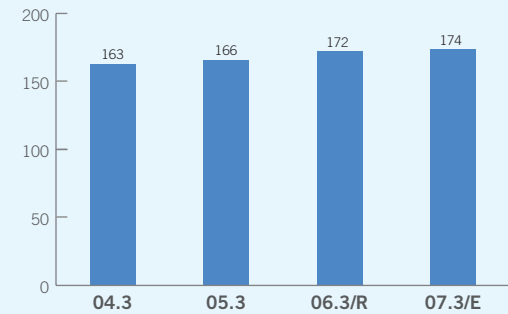
The electric power plant to be constructed at our Senboku facilities will have a capacity of 1,100 megawatts. We plan to build the plant inside our LNG receiving terminals, making efficient use of existing land and natural gas facilities. We will minimize power generation costs by using state-of-the-art combined cycle gas turbines.

Targeting customers that already use gas cogeneration systems, we will market one-stop energy solutions for both electricity and gas.

LPG Sales Volumes
(1,000 tons)



Number of LPG Retail Customers
(Thousands)



LPG Business

Our LPG business is operated by the Liquid Gas Group, comprising Liquid Gas Co., Ltd., and 11 other companies, and the Nissho Petroleum Gas Group, made up of Nissho Petroleum Gas Corporation and 16 other companies. LPG sales volume increased 53% year on year to 1,146 thousand tons in fiscal 2006, as the number of retail customers rose by 6,000 to 172,000.

We will target further growth in sales volume and in the number of retail customers in fiscal 2007 by selling strategic equipment, such as ECOWILL and floor heating systems, and by acquiring sales outlets. Another of our goals is to increase the overall profits of the group by reducing the cost of sales. We achieve lower costs by streamlining logistics and distribution systems and engaging in bulk purchases of LPG as necessary.

In August 2005, we concluded a capital alliance with ITOCHU Corporation for the import and domestic sales of LPG. As a result of share transfers made under the agreement, the composition of the ownership of Nissho Petroleum Gas is now Osaka Gas, 52.5%; ITOCHU, 25.0%; and Sojitz Corporation, 22.5%. ITOCHU and Nissho Petroleum Gas are also looking at possible tie-ups to integrate their import and wholesale functions.

LPG Business Network

- Nissho Petroleum Gas Group
- Liquid Gas Group

