

Financial Section

Osaka Gas Co., Ltd.

Seven-year Summary

FINANCIAL DATA	Millions of Yen						
	1995	1996	1997	1998	1999	2000	2001
For the Year:							
Operating revenues	¥ 711,560	¥ 770,756	¥ 837,869	¥ 853,598	¥ 831,367	¥ 849,225	¥ 951,927
Costs and expenses	664,648	719,951	782,753	790,503	764,991	786,501	877,872
Operating income	46,912	50,805	55,116	63,095	66,376	62,724	74,055
Other income (expenses)	(57,078)	(16,832)	(15,402)	(17,424)	(13,538)	(16,781)	(14,210)
Income (loss) before income taxes	(10,166)	33,973	39,714	45,671	52,838	45,943	59,845
Income taxes	(1,059)	19,314	22,664	23,656	31,097	24,069	28,090
Net income	(9,124)	14,603	16,893	21,775	21,614	27,345	36,097
At Year-End:							
Total current assets	237,373	296,867	285,599	237,635	224,445	195,047	222,613
Investments and other assets	110,445	113,114	106,982	121,983	123,658	171,540	223,335
Property, plant and equipment, at cost	789,463	791,813	804,388	818,840	826,918	842,770	850,091
Intangibles	3,762	2,501	2,759	2,923	3,331	10,158	14,932
Total assets	1,141,043	1,204,295	1,199,728	1,181,381	1,178,352	1,219,515	1,310,976
Total current liabilities	292,765	360,347	339,625	336,137	300,917	287,099	263,502
Total non-current liabilities	487,864	481,501	487,210	461,816	495,012	499,953	565,771
Total shareholders' equity	360,414	362,447	372,893	381,954	380,847	428,523	475,020
Total interest-bearing debt	493,904	503,409	486,704	471,742	476,923	491,012	510,179
Number of consolidated companies	15	15	20	20	20	25	35

Per Share Data (Yen):

Net income (loss)	¥ (3.61)	¥ 5.78	¥ 6.68	¥ 8.61	¥ 8.56	¥ 10.94	¥ 14.72
Shareholders' equity	142.56	143.36	147.50	151.08	152.31	172.95	195.52

KEY RATIOS

Equity ratio (%)	31.59	30.10	31.08	32.33	32.32	35.14	36.23
Debt ratio (%)	43.29	38.28	40.57	39.93	40.47	40.27	38.15
Interest coverage ratio (Times)	2.41	3.11	3.73	5.35	6.76	7.61	9.82
Return on average total assets (%)	(0.80)	1.25	1.41	1.83	1.83	2.28	2.85
Return of average shareholders' equity (%)	(2.53)	4.00	4.59	5.77	5.67	6.76	7.99

Overview of Operations

Group Companies

The Osaka Gas Group consists of 35 consolidated subsidiaries. Areas of activity include gas and gas by-products, pipeline installation, gas appliances, real estate leasing, foodstuffs and restaurant operation.

Segments

1. Gas and By-Products

Osaka Gas manufactures, supplies and sells gas. Heating and cooling resources produced as by-products of the gas production process are sold to a subsidiary, Liquid Gas.

2. Pipeline Installation

Osaka Gas undertakes house gas piping work at customers' expense. A subsidiary, Kinki Piping, carries out house piping work orders for Osaka Gas.

3. Gas Appliance

A subsidiary, Harman, manufactures gas appliances, which are sold wholesale to Osaka Gas. Osaka Gas sells gas appliances directly. It also sells appliances wholesale through its service chain.

4. Rental Real Estate

Subsidiaries, including Urbanex, lease real estate to Osaka Gas and other companies. They also provide management services.

5. Foods and Restaurants

Subsidiaries, including Kinrei (OTC Code 2661) and OG Royal, manufacture and sell frozen foods and operate restaurant chains and other food service businesses.

6. Other Business

Osaka Gas and other group companies are involved in the supply of heat. A subsidiary, Liquid Gas, wholesales and retails LNG and also operates a cryogenic pulverizing business using LNG cold purchased from Osaka Gas. LNG cold is also sold to other subsidiaries, including Cold Air

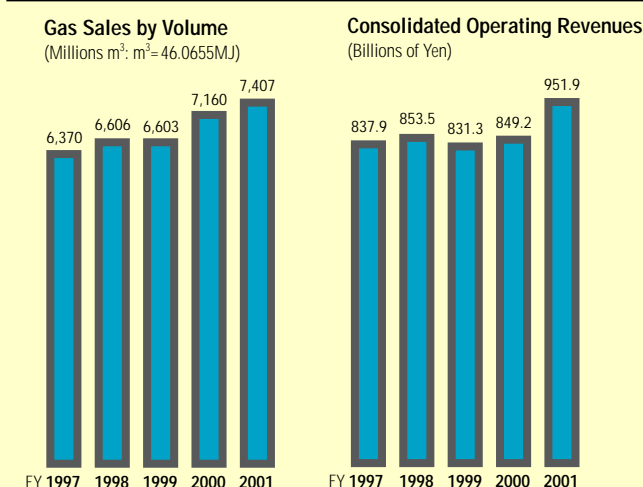
Products and Cryo Air. Cold Air Products and Cryo Air use these resources to produce and sell industrial gases.

Nissho Iwai Petroleum Gas, an Osaka Gas subsidiary, is involved in the wholesaling and retailing of LPG. Because Osaka Gas acquired shares in Nissho Iwai Petroleum Gas in September 2000, it is only included in the consolidation for the balance sheet and the income statements for the second half of the fiscal year. OGIS Research Institute, also an Osaka Gas subsidiary, provides computer-based information processing services to Osaka Gas.

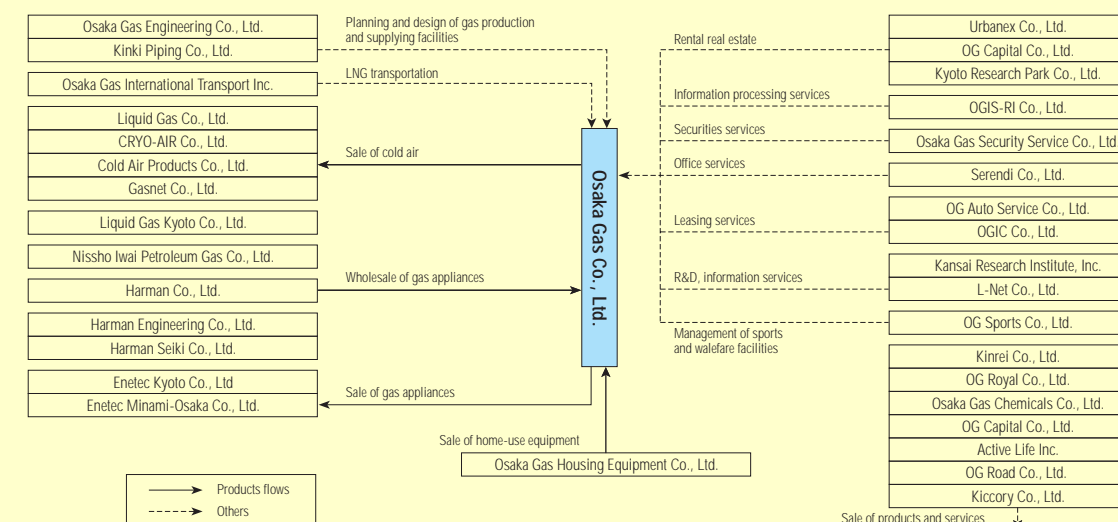
Another subsidiary, Osaka Gas Chemical, manufactures and sells carbon and related products. It also sells coke and chemicals.

Financial services for the Group are provided by OG Finance, also an Osaka Gas subsidiary.

There are also subsidiaries involved in engineering, contract research, housing equipment sales, security and fire prevention services, sports businesses, silver businesses, home center operation, information services and various other areas.



Business Outline of Osaka Gas Group



Overview of Activities in Fiscal Year 2000

Operating Revenues expanded by ¥102.7 billion to ¥951.9 billion. The growth reflects a volume increase in gas sales, higher adjustment of gas unit prices under the fuel-cost adjustment system. Another factor was an increase in the number of consolidated subsidiaries, from 25 in the previous business year to 35 in the current year. The cost of sales rose because of higher crude oil prices, but the size of the increase was

reduced by ongoing efforts to minimize supply and sales expenses and general and administrative expenses.

As a result, total expenses were ¥91.3 billion higher at ¥877.8 billion. Operating income increased by ¥11.3 billion to ¥74 billion. After adjustment for other income and expenses, income before income taxes amounted to ¥63.8 billion, an increase of ¥18.2 billion. Net income was ¥8.7 billion higher than the previous year's result at ¥36 billion.

	Revenues and expenses	Changes		Non-consolidated result (b)	(a)/(b)
		Increase/decrease	Ratio(%)		
Operating revenues	9,519	+1,027	+12.1%	7,541	1.26
Cost of sales	5,014	+891	+21.6%	3,680	1.36
Selling, general and administrative expenses	3,763	+21	+0.6%	3,267	1.15
Operating income	740	+113	+18.1%	593	1.25
Ordinary income	638	+182	+40.0%	539	1.18
Net income	360	+87	+32.0%	329	1.09
Return on equity (ROE)	8.0%				
Return on assets (ROA)	2.9%				

Segment Overview

1. Gas and By-Products

An analysis of gas sales shows the number of customers increased by 96,000 to 6,401,000. In the residential sector, average monthly household usage remained at the previous year's level of 34.5 cubic meters per household, but total sales were 1.4% higher at 2,244 million cubic meters. Contributing factors include marketing efforts and an increase in customer numbers.

Non-residential gas sales rose by 4.2% to 5,040 million cubic meters. This reflects the development of new demand through marketing efforts, as well as increased sales of gas for air conditioning because of high summer temperatures. Sales of industrial gas exceeded the previous year's level by 3.7%, while commercial sales were 3.4% higher. Sales of gas for public sector and medical use increased by 9.8%.

	2001 (A)	2000 (B)	(A)-(B)	(A)/(B)	
Numbers of customers	Residential use	6,092 thousands	6,001 thousands	91 thousands	101.5%
	Non-residential use	309	304	5	101.5%
	Total	6,401	6,305	96	101.5%
Monthly gas sales volume per customers	Residential use	34.5m ³ / month	34.5m ³ / month	+0m ³ / month	100.0%
	Overall average	107.0	104.9	2.1m ³ / month	102.0%
Gas sales by volume	Residential use	2,244 millions m ³	2,213millions m ³	31 millions m ³	101.4%
	Non-residential use	5,040	4,838	201	104.2%
	Industrial use	3,656	3,526	129	103.7%
	Commercial use	913	883	30	103.4%
	Public & Medical use	471	429	42	109.8%
	Whole sale	124	109	15	114.0%
	Total	7,407	7,160	248	103.5%

	2001 (A)	2000 (B)	(A)-(B)
Average annual temperature (°C)	17.3	17.1	+0.2

Total gas sales were 3.5% higher at 7,407 million cubic meters.

This steady volume growth in gas sales, together with an increase in unit prices under the fuel-cost adjustment system, enabled Osaka Gas to boost its revenues by 10.6% to ¥55.7 billion over the previous year's level to ¥582.0 billion. Though the cost of sales was higher due to rising crude oil prices, cost-cutting efforts in all areas of activity were reflected in operating income, which increased by ¥8 billion, or 7.1%, to ¥121.8 billion.

2. House Pipe Installation

Revenues in this area declined by ¥300 million, or 0.9%, to ¥37.5 billion. Reasons for the reduced result include a fall in the number of new houses. Expenses were minimized through cost-cutting efforts affecting all activities. As a result, operating income increased by ¥1.3 billion, or 490% to ¥1.5 billion.

3. Gas Appliances

Revenues followed a healthy trend, led by air conditioners, and there was an increase of ¥6.3 billion, or 5.3%, to ¥125.8 billion. A concerted drive to reduce expenses was reflected in a ¥1.6 billion increase in operating income, which amounted to ¥1.4 billion, compared with a ¥2 billion operating loss in the previous year.

4. Rental Real Estate

It was a successful year for the real estate leasing business. Revenues increased by ¥2.3 billion, or 12.5%, over the previous year's figure to ¥20.7 billion. Expenses were held in check, and operating income was ¥700 million, or 18.4%, higher at ¥4.5 billion.

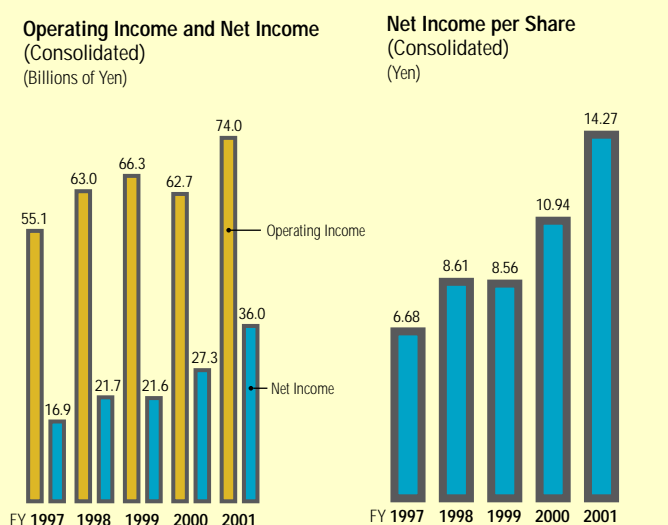
5. Foods and Restaurants

There was a steady rise in restaurant chain revenues, which increased by ¥1 billion, or 3.2%, to ¥34.4 billion. Expenses also increased because of factors that included the opening of new outlets. However, every effort was made to minimize expenses, with the result that operating income rose by ¥300 million, or 19.7%, to ¥1.9 billion.

6. Others

The addition of new consolidated subsidiaries, including Nissho Iwai Petroleum Gas, to the Group was reflected in revenue growth of ¥38.3 billion, or 30.1%, to ¥165.8 billion. However, expenses also rose, and operating income remained close to the previous year's level with a 0.7% increase to ¥15.6 billion.

	Gas and By-products	Pipeline installation	Gas appliances	Rental real estate	Foods and restaurant	Other business	Elimination and corporate	Consolidated
Operating revenues	+10.6%	-0.9%	+5.3%	+12.5%	+3.2%	+30.1%		+12.1%
	582.0	37.5	125.8	20.7	34.4	165.8	(14.6)	951.9
Operating income	+7.1%	+490%	—	+18.4%	+19.7%	+0.7%		+18.1%
	121.8	1.5	1.4	4.5	1.9	15.6	(73.0)	74.0





Financial Overview

	Total assets (Billions of Yen)	Total liabilities (Billions of Yen)	Shareholders' equity (Billions of Yen)	Equity ratio (%)	Shareholders' equity per share (Yen)
Consolidated (A)	1310.9 (+7.5%)	829.2 (+5.4%)	475.0 (+10.9%)	36.2 (+3.1%)	195.52 (+13.1%)
Non-consolidated (B)	1067.1 (+5.3%)	649.1 (+3.4%)	418.0 (+8.5%)	39.2 (+3.2%)	172.06 (+10.6%)
(A)/(B)	1.23	1.28	1.14	—	—

() changes from previous year

Total assets increased by 7.5% to ¥1,310.9 billion. The main source of growth was the full introduction of accounting standards for financial products, starting from the year under review. Other factors include the introduction of market value accounting for investment securities one year ahead of schedule, and an increase in the number of consolidated subsidiaries due to share acquisitions.

Total liabilities expanded by 5.4% to ¥829.2 billion. The main reason for this was an increase in interest-bearing debt, primarily because of investment in new businesses. Total capital rose by 10.9% to ¥475 billion. Reasons for this increase include valuation adjustments on other securities.

Overview of Cash Flow Position

(Billions of Yen)

	2001	2000	Increase/Decrease
Cash Flows from Operating Activities	-140.9	91.0	49.9
Cash Flows from Investing Activities	-109.0	-1,035	-5.5
Cash Flows from Financing Activities	-27.0	-16.9	-10.0
Net Increase (Decrease) in Cash and Cash Equivalents	4.9	-29.4	+34.3
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	0.9	4.5	-3.5
Cash and Cash Equivalents at End of Year	28.6	22.7	+5.9
Interest-bearing Debt at End of Year	510.1	491.0	+19.1

Cash flows from operating activities increased by ¥49.9 billion to a net inflow of ¥140.9 billion. Reasons for the increase include a rise in net income before adjustment for taxes, etc., and higher depreciation.

Cash flows relating to investment activities increased by ¥5.5 billion to a net outflow of ¥109 billion. Contributing factors included increased investment in subsidiaries and associated companies, including Osaka Gas Australia and Nissho Iwai Petroleum Gas.

Interest-bearing debt at the end of the period under review amounted to ¥510.1 billion, an increase of ¥19.1 billion in the form of

bond issues and borrowing. The higher figure reflects expenditure of ¥27 billion in the form of cash flows relating to financing activities. This resulted from the acquisition and retirement of Osaka Gas shares amounting to ¥14.6 billion as a way of returning profits to shareholders.

As a result, cash and cash equivalents increased by ¥4.9 billion during the period under review. The inclusion of items relating to new consolidated companies brings total cash and cash equivalents at the end of the accounting period to ¥28.6 billion.

To the Shareholders and the Board of Directors,
Osaka Gas Co., Ltd.;

We have audited the accompanying consolidated balance sheets of Osaka Gas Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2000, and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Osaka Gas Co., Ltd. and subsidiaries as of March 31, 2000 and 2001, and the consolidated results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraphs.

As explained in Note 2 in the year ended March 31, 2001, Osaka Gas Co., Ltd. and subsidiaries prospectively adopted new Japanese accounting standards for employees' retirement benefits, financial instruments and translation of foreign currencies.

As explained in Note 2 in the year ended March 31, 2000, Osaka Gas Co., Ltd. and subsidiaries prospectively adopted new Japanese accounting standards for consolidation and equity method accounting, income taxes and software costs.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Osaka, Japan
June 28, 2001

(A Member Firm of Andersen Worldwide SC)

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan.

Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Consolidated Balance Sheet

Osaka Gas Co., Ltd.
March 31, 2000 and 2001

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	2001	2001
Current Assets:			
Cash and time deposits	¥ 16,624	¥ 29,120	\$ 235,028
Receivables:			
Trade notes and accounts	94,228	111,002	895,900
Allowance for doubtful receivables	(728)	(907)	(7,321)
	93,500	110,095	888,579
Inventories	33,486	39,100	315,577
Deferred tax assets	7,775	11,378	91,832
Other current assets	43,662	32,920	265,699
Total current assets	195,047	222,613	1,796,715
Investments and Other Assets:			
Investment securities			
Unconsolidated subsidiaries and affiliated companies	19,052	33,854	273,236
Other	70,938	120,198	970,121
Long-term loans receivable (Note 12)	14,024	15,626	126,118
Deferred tax assets	34,373	19,687	158,894
Other investments and other assets	33,503	36,517	294,730
Allowance for doubtful receivables	(350)	(2,547)	(20,557)
	171,540	223,335	1,802,542
Property, Plant and Equipment, at Cost:			
Production facilities	465,417	491,148	3,964,068
Distribution facilities	1,238,933	1,316,439	10,625,012
Service and maintenance facilities	171,151	170,191	1,373,616
Other	289,850	326,619	2,636,150
Construction in progress	114,667	58,521	472,324
	2,280,018	2,362,918	19,071,170
Less accumulated depreciation	1,437,248	1,512,827	12,210,064
	842,770	850,091	6,861,106
Intangibles	10,158	14,932	120,517
Deferred assets	—	5	40
	¥1,219,515	¥1,310,976	\$10,580,920

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	2001	2001
Current Liabilities:			
Short-term loans	¥ 47,362	¥ 43,080	\$ 347,700
Long-term debt due within one year (Note 5)	24,460	23,599	190,468
Trade notes and accounts payable	37,291	48,103	388,240
Accrued income and enterprise taxes	23,787	25,261	203,882
Other current liabilities	154,199	123,459	996,441
Total current liabilities	287,099	263,502	2,126,731
Long-term Debt Due after One Year (Note 5)	384,189	443,500	3,579,500
Employees' Retirement Benefits	96,706	—	—
Employees' Severance and Retirement Benefits	—	101,279	817,425
Reserve for Repairs of Gas Holders	1,957	1,957	15,795
Other Non-current Liabilities	17,101	19,035	153,632
Minority Interests	3,940	6,683	53,939
Contingent Liabilities (Note 7)			
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized—3,901,401 thousand shares in 2001 and 3,949,598 thousand shares in 2000			
Issued—2,429,564 thousand shares in 2001 and 2,477,761 thousand shares in 2000 (Note 6)	132,167	132,167	1,066,723
Capital surplus (Note 6)	19,482	19,482	157,240
Retained earnings	276,883	288,140	2,325,585
Net unrealized gains on securities (Note 2 (3))	—	35,254	284,536
Treasury stock, at cost	(9)	(23)	(186)
Total shareholders' equity	428,523	475,020	3,833,898
	¥1,219,515	¥1,310,976	\$10,580,920

Consolidated Statements of Shareholders' Equity

Osaka Gas Co., Ltd.

Years ended March 31, 2000 and 2001

	Shares of Common Stock Issued (Thousands)	Millions of Yen				
		Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Securities	Treasury Stock, at Cost
Balance at March 31, 1999	2,500,463	¥132,167	¥19,482	¥229,217	¥ —	¥(19)
Net income				27,345		
Cash dividends (including interim dividends)				(12,502)		
Bonuses to directors				(68)		
Common stock purchased and retired	(22,702)			(4,923)		
Cumulative effect of adopting deferred income tax accounting				36,571		
Increase due to newly consolidated subsidiaries				1,243		
Decrease in treasury stock, net						10
Balance at March 31, 2000	2,477,761	¥132,167	¥19,482	¥276,883	¥ —	¥ (9)
Net income				36,097		
Adoption of new accounting standard for financial instruments					35,254	
Cash dividends (including interim dividends)				(12,349)		
Bonuses to directors				(66)		
Common stock purchased and retired	(48,197)			(14,629)		
Increase due to newly consolidated subsidiaries				2,204		
Increase in treasury stock, net						(14)
Balance at March 31, 2001	2,429,564	¥132,167	¥19,482	¥288,140	¥35,254	¥(23)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Securities	Treasury Stock, at Cost
Balance at March 31, 2000	\$1,066,723	\$157,240	\$2,234,730	\$ —	\$ (73)
Net income			291,340		
Adoption of new accounting standard for financial instruments				284,536	
Cash dividends (including interim dividends)			(99,669)		
Bonuses to directors			(533)		
Common stock purchased and retired			(118,071)		
Increase due to newly consolidated subsidiaries			17,788		
Increase in treasury stock, net					(113)
Balance at March 31, 2001	\$1,066,723	\$157,240	\$2,325,585	\$284,536	\$(186)

See accompanying notes.

Consolidated Statements of Income

Osaka Gas Co., Ltd.

Years ended March 31, 2000 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	2001	2001
Operating Revenues (Note 13)	¥849,225	¥951,927	\$7,683,027
Costs and Expenses (Note 13):			
Costs	412,302	501,490	4,047,538
Selling, general and administrative expenses	374,199	376,382	3,037,789
	786,501	877,872	7,085,327
Operating Income (Note 13)	62,724	74,055	597,700
Other Income (Expenses):			
Interest and dividend income	1,787	2,201	17,764
Interest expenses	(8,320)	(7,605)	(61,380)
Gain on sale of investments	92	1,917	15,472
Effect of change of accounting for employees' retirement benefits for prior periods (Note 2 (11))	—	(2,729)	(22,026)
Loss on write-down of investment securities	(3,987)	(1,058)	(8,539)
Loss on write-down of investment securities in unconsolidated subsidiaries and affiliates	(1,852)	(4,402)	(35,529)
Gain (loss) on sale of property, plant and equipment, net	492	(685)	(5,529)
Other, net	(4,993)	(1,849)	(14,923)
	(16,781)	(14,210)	(114,690)
Income before Income Taxes	45,943	59,845	483,010
Income Taxes:			
Current	24,069	28,090	226,715
Deferred	(5,429)	(4,792)	(38,677)
Minority Interests	42	(450)	(3,632)
Net Income	¥ 27,345	¥ 36,097	\$ 291,340
Net Income per Share	¥ 10.94	¥ 14.72	\$ 0.119

See accompanying notes.

Consolidated Statements of Cash Flows

Osaka Gas Co., Ltd.

Years ended March 31, 2000 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	2001	2001
Cash Flows from Operating Activities:			
Income before income taxes	¥ 45,943	¥ 59,845	\$ 483,010
Adjustments to reconcile net income before income taxes to net cash provided by operating activities:			
Depreciation	80,842	92,461	746,255
Increase (decrease) in employees' retirement benefits	2,491	(6,394)	(51,606)
Interest and dividend income	(1,787)	(2,201)	(17,764)
Interest expense	8,320	7,605	61,380
Loss on write-down of investment securities	3,987	1,058	8,539
Loss on write-down of investments in unconsolidated subsidiaries and affiliates	1,852	4,402	35,529
Loss on disposal of property, plant and equipment	2,923	3,431	27,692
Decrease (increase) in receivables	3,463	(5,417)	(43,721)
Decrease (increase) in inventories	1,130	(3,754)	(30,299)
Increase (decrease) in payables	(10,907)	1,780	14,366
Increase (decrease) in accrued expenses	(964)	8,584	69,282
Other	(7,530)	12,383	99,943
	83,820	113,938	919,596
Interest and dividends received	1,782	2,178	17,579
Interest paid	(9,151)	(7,427)	(59,943)
Income and enterprise taxes paid	(31,330)	(27,552)	(222,373)
Net cash provided by operating activities	91,064	140,982	1,137,869
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment	(89,705)	(93,085)	(751,291)
Purchase of intangibles	(3,036)	(2,188)	(17,659)
Purchase of investment securities	(2,270)	(1,999)	(16,134)
Proceeds from sale of investment securities	281	13,268	107,086
Purchase of investments in subsidiaries and affiliates	(816)	(21,212)	(171,203)
Payments for acquisitions of newly consolidated subsidiaries	—	(5,062)	(40,856)
Other	(7,979)	1,230	9,928
Net cash used in investing activities	(103,525)	(109,048)	(880,129)
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term loans	14,423	(19,100)	(154,157)
Net increase (decrease) in commercial paper	4,000	(35,000)	(282,486)
Proceeds from long-term debt	35,775	54,381	438,910
Repayment of long-term debt	(44,826)	(17,561)	(141,735)
Proceeds from issuance of bonds	29,988	29,994	242,082
Repayment of bonds	(38,907)	(13,666)	(110,299)
Proceeds from issuance of stock by a subsidiary	—	924	7,458
Common stock retired	(4,923)	(14,629)	(118,071)
Cash dividends paid	(12,502)	(12,283)	(99,136)
Cash dividends paid to minority shareholders	(36)	(61)	(492)
Other	12	(15)	(121)
Net cash used in financing activities	(16,996)	(27,016)	(218,047)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(15)	(2)	(16)
Net Increase (Decrease) in Cash and Cash Equivalents	(29,472)	4,916	39,677
Cash and Cash Equivalents at Beginning of Year	47,737	22,775	183,818
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	4,510	985	7,950
Cash and Cash Equivalents at End of Year	¥ 22,775	¥ 28,676	\$ 231,445
Supplemental Disclosures of Cash Flow Information:			
Cash and Cash Equivalents			
Cash and time deposits in the balance sheet	¥ 16,624	¥ 29,120	\$ 235,028
Time deposits with maturities over three months	(476)	(444)	(3,583)
Securities purchased under resale agreements	6,627	—	—
Cash and Cash Equivalents at End of Year	¥ 22,775	¥ 28,676	\$ 231,445

See accompanying notes.

Notes to Consolidated Financial Statements

Osaka Gas Co., Ltd.

March 31, 2000 and 2001

1. Basis of presenting consolidated financial statements

Osaka Gas Co., Ltd. (the "Company") and its consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Gas Utility Law and related regulations, the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. Statements of shareholders' equity for 2001 and 2000 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

(1) Consolidation

The Company prepared the consolidated financial statements for the year ended March 31, 2000 and 2001 in accordance with the revised accounting principles for consolidated financial statements effective from the year ended March 31, 2000.

The consolidated financial statements include the accounts of the Company and its thirty five (twenty five in 2000) significant subsidiaries. Consolidation of the remaining subsidiaries would have no material effect on the accompanying consolidated financial statements. Intercompany transactions and accounts have been eliminated.

The difference between the cost of investments and equity in their net assets at dates of acquisition of consolidated companies is charged or credited to income within twenty years. If the difference isn't significant, it is charged or credited to income in the first year of consolidation.

Investments in unconsolidated subsidiaries and affiliates are not accounted for by the equity method, because they are insignificant.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

(2) Consolidated Statements of Cash Flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(3) Securities

Prior to April 1, 2000, marketable equity securities of the Company and its consolidated subsidiaries (the "Companies") were primarily stated at the lower of moving-average cost or market value. Other securities were primarily stated at moving-average cost.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

In accordance with the new accounting standard, at April 1, 2000, the Companies examined the intent of holding each security and classified those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

At the March 31, 2001, the Companies have securities of the category (c) and (d) only.

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by unconsolidated subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by subsidiaries and affiliated companies is not readily available, such securities should be written down to net asset value in the event net asset value declines significantly. Unrealized losses on these securities are reported in the income statement.

As a result of adopting the new accounting standard for financial instruments, with respect to securities, income before income taxes increased by ¥1,903 million (\$15,359 thousand). The adoption increased securities and investment securities by ¥56,654 million (\$457,256 thousand), and unrealized gains on securities, net of income taxes, (included in shareholders' equity) by ¥35,254 million (\$284,536 thousand).

Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, trading securities as well as held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets. The reclassification had no significant effect.

(4) Derivatives and hedge accounting

Derivatives are stated at market value. See Note 2.(17).

(5) Allowance for doubtful receivables

In the year ended March 31, 2000, the allowance for doubtful accounts was

determined by the Company and certain consolidated subsidiaries by adding the uncollectable amounts individually estimated for doubtful receivables to a maximum amount permitted for tax purposes, which is calculated collectively.

Effective April 1, 2000, the Companies adopted the new accounting standard for financial instruments and provided the allowance for doubtful accounts principally at an amount computed based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts based on the analysis of certain individual receivables. The effect of adopting the new accounting standard was immaterial.

(6) Inventories

Finished goods and merchandise are valued at weighted-average cost, except certain goods of consolidated subsidiaries which are valued at first-in, first-out cost or the most recent purchase price methods. Raw materials and supplies are primarily valued at moving average cost.

(7) Property, plant and equipment

Depreciation is provided on the declining-balance method (the straight-line method by certain consolidated subsidiaries) over estimated useful lives. However, the Company and consolidated subsidiaries depreciate buildings acquired on or after April 1, 1998 on the straight-line method.

Repair and maintenance expenditures, excluding gas holders, are charged to income when incurred and major improvements are capitalized.

Certain capital gains arising from beneficiaries' contributions or expropriations of property, deferral of which is permitted for tax purposes, are offset against the acquisition cost of property purchased. Cumulative capital gains offset against the acquisition cost of property, plant and equipment at March 31, 2000 and 2001 were ¥266,392 million and ¥265,449 million (\$2,142,446 thousand), respectively.

(8) Software costs

In accordance with the provisional rule of the JICPA's Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs, etc." (the "Report"), the Company and its consolidated subsidiaries accounts for internal use software which was included in other assets in the same manner in 2000 and 2001 as in 1999. Pursuant to the Report, however, the Company and its consolidated subsidiaries included software in intangible assets in 2000 and 2001 and depreciated it using the straight-line method over estimated useful lives.

(9) Research and development expenses

The Companies charges research and development expenses to selling, general and administrative expenses and manufacturing costs as incurred. Research and development expenses amounted to ¥18,441 million and ¥16,484 million (\$133,043 thousand) for the years ended March 31, 2000 and 2001.

(10) Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax.

Effective April 1, 1999, the Companies adopted the accounting standard, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Companies provided income taxes at the amounts currently payable in prior years.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at 1st April, 1999 is reflected as an adjustment to the retained earnings brought forward from the previous year.

(11) Employees' severance and retirement benefits

The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

At March 31, 2000, the liability for lump-sum payments of the Company was stated at the present value (as of March 31, 2000 this was 74%) of the amount which would be required if all eligible employees voluntarily retired as of the balance sheet date. The present value was decided based on the length of future service estimated for individual employees. Past service costs were charged to income at the time of amendment or actuarial reevaluation of the pension plan. The liability for lump-sum payments of certain consolidated subsidiaries was stated, at 40% of the amount which would be required if all eligible employees voluntarily retired as of the balance sheet date. Certain consolidated subsidiaries recognized pension expense when, and to the extent payments were made to the pension plans.

Effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provided for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for employees' retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥2,729 million (\$22,026 thousand), which was recognized as an expense during the year. Prior service costs are recognized in expenses when they arise, and actuarial gains and losses are recognized in expenses over ten years commencing with the following period.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥458 million (\$3,697 thousand), and income before income taxes decreased by ¥458 million (\$3,697 thousand) compared with what would have been recorded under the previous accounting standard.

(12) Bonuses

The Companies follow the general Japanese practice of paying bonuses to employees in June and December. Accrued bonus liabilities at the balance sheet date are calculated based upon management's estimate of annual amounts thereof and included in accrued expenses. Bonuses to directors, which are subject to approval at the general meeting of shareholders, are accounted for as an appropriation of retained earnings.

(13) Reserve for repairs of gas holders

The Company provides for future repairs to gas holders by estimating future expenditures and charging to income in equal annual amounts. The difference between the actual expenditure and the amount provided is charged to income in the year the repair is completed.

(14) Bond and note issue expenses

Bond and note issue expenses are charged to expense when incurred.

(15) Accounting for leases

Finance leases which do not transfer ownership are accounted for in the same manner as operating leases under Japanese GAAP.

(16) Translation of foreign currencies

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payable denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Companies adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and

payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

The effect on the consolidated income statement of adopting the Revised Accounting Standard was immaterial.

(17) Derivative transactions and hedge accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts and currency swap contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and currency swap contracts and hedged items are accounted for in the following manner:

If a forward foreign exchange contract or a currency swap contract are executed to hedge an existing foreign currency receivable or payable, the difference, if any, between the Japanese yen amount of the hedged foreign

currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in income statement in the period which includes the inception date.

If a forward foreign exchange contract or a currency swap contract are executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(18) Net income per share

The computations of net income per share of common stock shown on the consolidated statements of income are based on the weighted average number of shares outstanding during each fiscal year.

The diluted net income per share of common stock for the years ended March 31, 2000 and 2001 is not shown since there were no outstanding convertible bonds or other common stock equivalents.

3. Additional Information

(1) Financial instruments

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the new Japanese accounting standard "Accounting Standards for Financial Instruments" (Opinion Concerning the Establishment of Accounting Standard for Financial Instruments issued by the Business Accounting Deliberation Council on January 22, 1999). The adoption increased income before income taxes by ¥1,337 million (\$10,791 thousand).

(2) Effect of bank holiday on March 31, 2001

As financial institutions in Japan were closed on March 31, 2001, amounts that would normally be settled on March 31, 2001 were collected or paid on the following business day, April 2, 2001. The effects of the settlements on April 2 instead of March 31 included the following:

Cash and cash equivalents:

Increased ¥2,426 million (\$19,580 thousand)

Trade notes and accounts receivable:

Increased ¥1,677 million (\$13,535 thousand)

Trade notes and accounts payable:

Increased ¥4,103 million (\$33,115 thousand)

4. Securities

(1) The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of March 31, 2001:

(a) Available-for-sale securities:

Securities with available fair values (book values) that exceed acquisition cost :

	Millions of Yen			Thousands of U.S. Dollars
	Acquisition cost	Book value	Difference	Difference
Equity securities	¥28,432	¥89,126	¥60,694	¥489,863
Bonds	120	125	5	40
Total	¥28,552	¥89,251	¥60,699	¥489,903

Securities with available fair values (book values) that do not exceed acquisition cost :

	Millions of Yen			Thousands of U.S. Dollars
	Acquisition cost	Book value	Difference	Difference
Equity securities	¥15,402	¥12,566	¥(2,836)	¥(22,889)
Bonds	10,008	8,798	(1,210)	(9,766)
Total	¥25,410	¥21,364	¥(4,046)	¥(32,655)

(2) The following table summarizes book values of securities with no available fair values as of March 31, 2001:

	Available-for-sale securities:	
	Millions of Yen	Thousands of U.S. Dollars
Non-listed (non quoted) equity securities	¥9,686	\$78,176

(3) Maturities of available-for-sale securities with maturities are as follows:

	Millions of Yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Total
Governmental bonds and municipal bonds	¥ —	¥18	¥ —	¥ 18
Bonds	104	—	8,790	8,894
Others	—	11	—	11

	Thousands of U.S. Dollars			
	Within one year	Over one year but within five years	Over five years but within ten years	Total
Governmental bonds and municipal bonds	\$ —	\$145	\$ —	\$ 145
Bonds	839	—	70,944	71,783
Others	—	89	—	89

(4) Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥13,268 million (\$107,086 thousand) and the related gains and losses amounted to ¥1,917 million (\$15,472 thousand) and ¥41 million (\$331 thousand), respectively.

(5) Market values and book values of quoted securities included in marketable securities and investments at March 31, 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2000		2000	
	Book value	Market value	Book value	Market value
Marketable securities	¥ 4	¥ 15	\$ 38	\$ 141
Investments	42,000	112,576	395,666	1,060,537
	¥42,004	¥112,591	\$395,704	\$1,060,678

5. Long-term debt

Long-term debt at March 31, 2000 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Loans principally from banks and insurance companies, principally at 0.536%—6.400%, maturing serially through 2034	¥164,641	¥206,071	\$1,663,204
5.875% notes payable in Euroyen due 2012	10,000	10,000	80,710
2.95% notes payable due 2005	50,000	50,000	403,552
3.4% notes payable due 2017	20,000	17,000	137,207
7.125% bonds payable in U.S. dollars due 2007	48,960	48,960	395,157
2.9% notes payable due 2018	30,000	30,000	242,131
1.35% notes payable due 2001	10,000	—	—
1.47% notes payable due 2008	30,000	30,000	242,131
1.25% notes payable due 2002	10,000	10,000	80,710
LIBOR+0.36% bonds payable in U.S. dollars due 2003	4,848	4,848	39,128
1.95% notes payable due 2009	20,000	20,000	161,421
0.75% notes payable due 2003	10,000	10,000	80,710
5.1% notes payable due 2000	200	—	—
1.23% notes payable due 2005	—	20,000	161,421
2.06% notes payable due 2007	—	220	1,776
0.675% notes payable due 2004	—	10,000	80,710
	408,649	467,099	3,769,968
Less amounts due within one year	24,460	23,599	190,468
	¥384,189	¥443,500	\$3,579,500

In the year ended March 31, 1998, the Company entered into debt assumption agreements with banks for 6.10% notes payable due 2003 (¥29,000 million).

In the year ended March 31, 1999, the Company entered into debt assumption agreements with banks for 5.45% notes payable due 2004 (¥20,000 million).

In the year ended March 31, 2000, the Company entered into debt assumption agreements with banks for 8.125% bonds payable in Sterling

pounds due 2003 (¥14,895 million) and loans from banks (¥19,156 million).

However, the Company remains contingently liable on the amounts assumed by the banks.

Assets pledged as collateral mainly for accounts payable, short-term loans and long-term debt of ¥21,931 and ¥22,518 million (\$181,743 thousand) at March 31, 2000 and 2001, respectively were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Property, plant and equipment	¥41,967	¥50,296	\$405,940
Investments in securities	117	132	1,066
	¥42,084	¥50,428	\$407,006

The annual maturities of long-term debt are as follows at March 31, 2001:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2002	¥ 23,599	\$ 190,468
2003	28,865	232,970
2004	37,672	304,052
2005	24,912	201,065
2006	82,733	667,740
2007 and thereafter	269,318	2,173,673
Total	¥467,099	\$3,769,968

6. Shareholders' equity

(1) Capital surplus

The Commercial Code of Japan provides that the entire issue price of shares must be credited to common stock, provided that, by resolution of the Board of Directors up to one-half of such issue price may be credited to capital surplus so long as the amount accounted for as common stock is equal to at least the aggregate par value of the shares issued.

(2) Common Stock

During the year ended March 31, 2000 the Company purchased and retired 27,702,000 shares of common stock. As a result the authorized share capital of Company was reduced to 3,949,598,000 shares.

During the year ended March 31, 2001 the Company purchased and retired 48,197,000 shares of common stock. As a result the authorized share capital of the Company was reduced to 3,901,401,000 shares.

(3) Dividends

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan.

7. Contingent liabilities

At March 31, 2000 and 2001, the Companies were contingently liable as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
As guarantor of indebtedness of:			
Subsidiaries and affiliates	¥ 261	¥ 2,411	\$ 19,459
Employees	13,480	8,545	68,967
Others	6,123	5,245	42,333
Debt assumption agreements	105,454	83,051	670,306
	¥125,318	¥99,252	\$801,065

8. Finance leases

Information for non-capitalized finance leases for office equipment at March 31, 2000 and 2001 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
As lessee (non-capitalized)			
Original lease obligations (including finance charges)	¥6,527	¥6,529	\$52,695
Payments remaining:			
Payments due within one year	¥1,371	¥1,211	\$ 9,774
Payments due over one year	1,785	1,612	13,011
Total	¥3,156	¥2,823	\$22,785

Lease payments for such leases for the years ended March 31, 2000 and 2001 were ¥1,792 million and ¥1,624 million (\$13,107 thousand), respectively.

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
As lessor			
Original cost	¥13,483	¥11,614	\$93,737
Less accumulated depreciation	7,993	7,761	62,639
Total	¥ 5,490	¥ 3,853	\$31,098
Receipts remaining:			
Receipts due within one year	¥ 3,573	¥ 2,000	\$16,142
Receipts due over one year	5,151	3,672	29,637
Total	¥ 8,724	¥ 5,672	\$45,779

Lease receipts under such leases for the years ended March 31, 2000 and 2001 were ¥4,412 million and ¥3,404 million (\$27,474 thousand), respectively.

9. Derivative transactions

The Companies use forward foreign currency contracts, currency swaps and interest rate swaps as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates with respect to foreign currency payables from the purchase of materials and foreign currency bonds and loans payable, and interest rate increases with respect to borrowings and bonds within the amounts of such borrowings or foreign currency payables.

Forward foreign currency and currency swap contracts and interest rate swap contracts are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

The derivative transactions are executed and managed by the Companies' Finance Departments in accordance with the established policies and within the specified limit on the amounts of derivative transactions allowed.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:	Hedged items:
Interest rate swap contracts	Interest on bonds and loans
Currency swap contracts	Foreign currency bonds and loans payable
Forward foreign exchange contracts and currency options	Foreign currency future purchase transaction

The Companies evaluate hedge effectiveness by recognizing the association of hedging instruments and hedged items.

The following table summarizes market value information as of March 31, 2001 of derivative transactions for which hedge accounting has not been applied:

March 31, 2001	Millions of Yen			
	Notional amount	Over one year	Market value	Recognized gains or losses
Items not traded on exchanges				
Interest rate swaps:				
Pay variable, receive fixed	¥6,797	¥6,797	¥132	¥132
Pay fixed, receive variable	2,060	1,950	(47)	(47)
Total	¥8,857	¥8,747	¥ 85	¥ 85

March 31, 2001	Thousands of U.S. Dollars			
	Notional amount	Over one year	Market value	Recognized gains or losses
Items not traded on exchanges				
Interest rate swaps:				
Pay variable, receive fixed	\$54,859	\$54,859	\$1,065	\$1,065
Pay fixed, receive variable	16,626	15,738	(379)	(379)
Total	\$71,485	\$70,597	\$ 686	\$ 686

10. Employees' severance and pension benefits

As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on amounts obtained by actuarial calculations.

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥273,628	\$2,208,458
Prepaid pension expenses	123	993
Less unrecognized actuarial differences	(17,813)	(143,769)
Less fair value of pension assets	(154,659)	(1,248,257)
Liability for severance and retirement benefits	¥101,279	\$ 817,425

Included in the consolidated statement of income for the year ended March 31, 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen	Thousands of U.S. Dollars
Service costs – benefits earned during the year	¥10,534	\$ 85,020
Interest cost on projected benefit obligation	7,210	58,192
Expected return on plan assets	(6,352)	(51,267)
Net transition obligation	2,729	22,026
Severance and retirement benefit expenses	¥14,121	\$113,971

The discount rate and the rate of expected return on plan assets used by the Company are 2.7 % and 4.0 %, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to

each service year using the estimated number of total service years. Past service costs are recognized as incurred and actuarial gains/losses are recognized as an expense in equal amounts over 10 years.

11. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 36.2% in case of the Company for the years ended March 31, 2000 and 2001, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rates for financial statement purposes for the years ended March 31, 2000 and 2001:

	2000	2001
Statutory tax rate	36.2%	36.2%
Statutory tax rate difference between the Company and certain subsidiaries	1.3	0.6
Non-deductible expenses	1.6	0.7
Per capita inhabitant tax	0.4	0.4
Other	1.1	1.0
Effective tax rate	40.6%	38.9%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2000 and 2001 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Deferred tax assets:			
Retirement benefits	¥23,309	¥22,691	\$183,140
Excess depreciation	6,980	9,713	78,394
Unrealized gains	3,271	3,979	32,115
Enterprise taxes	2,789	3,092	24,956
Other	8,782	14,476	116,835
Total deferred tax assets	45,131	53,951	435,440
Valuation allowance	(250)	(237)	(1,913)
Net deferred tax assets	44,881	53,714	433,527
Deferred tax liabilities:			
Special reserve for tax purposes	(1,726)	(5,139)	(41,477)
Deferred gains on real properties	(1,124)	(1,094)	(8,830)
Net unrealized gains on securities	—	(21,322)	(172,090)
Other	—	(1,343)	(10,839)
Total deferred tax liabilities	(2,850)	(28,898)	(233,236)
Net deferred tax assets	¥42,031	¥24,816	\$200,291

Net deferred tax assets are reflected in the consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Current assets	¥7,775	¥11,378	\$91,832
Investments and other assets	34,373	19,687	158,894
Other current liabilities	—	78	629
Other non-current liabilities	(117)	6,171	49,806

12. Related party transactions

Long-term loans receivable at March 31, 2000 and 2001 include a loan to an unconsolidated subsidiary of ¥13,600 million (\$109,766 thousand).

13. Segment information

The Companies' primary business activities include (1) Gas and By-products, (2) Pipeline Installation (3) Gas Appliance (4) Rental Real Estate (5) Foods and Restaurants and (6) Other Businesses.

	Millions of Yen							Elimination and Corporate	Consolidated
	Gas and By-products	Pipeline Installation	Gas Appliances	Rental Real Estate	Foods and Restaurant	Other Business	—		
For 2000									
Operating revenues									
Outside customers	¥526,056	¥37,947	¥119,346	¥ 5,945	¥33,100	¥126,831	¥ —	¥ 849,225	
Inside group	255	—	155	12,463	308	694	(13,875)	—	
	526,311	37,947	119,501	18,408	33,408	127,525	(13,875)	849,225	
Cost and expenses	412,505	37,676	119,756	14,587	31,756	111,969	58,252	786,501	
Operating income	¥113,806	¥ 271	¥ (255)	¥ 3,821	¥ 1,652	¥ 15,556	¥ (72,127)	¥ 62,724	
Identifiable assets	¥702,131	¥11,455	¥ 60,208	¥95,677	¥21,050	¥139,919	¥189,075	¥1,219,515	
Depreciation	59,257	54	1,580	5,819	1,147	9,324	3,661	80,842	
Capital expenditure	65,497	34	1,621	2,040	561	15,988	8,211	93,952	
For 2001									
Operating revenues									
Outside customers	¥581,756	¥37,589	¥125,737	¥ 7,680	¥34,205	¥164,960	¥ —	¥ 951,927	
Inside group	268	—	110	13,035	279	918	(14,610)	—	
	582,024	37,589	125,847	20,715	34,484	165,878	(14,610)	951,927	
Cost and expenses	460,155	35,994	124,409	16,192	32,505	150,214	58,403	877,872	
Operating income	¥121,869	¥ 1,595	¥ 1,438	¥ 4,523	¥ 1,979	¥ 15,664	¥ (73,013)	¥ 74,055	
Identifiable assets	¥686,932	¥11,525	¥ 64,000	¥99,041	¥22,269	¥201,929	¥225,280	¥1,310,976	
Depreciation	67,072	58	1,436	5,718	1,041	13,774	3,362	92,461	
Capital expenditure	62,484	0	1,221	7,178	1,508	16,525	2,318	91,234	
For 2001									
Operating revenues									
Outside customers	\$4,695,367	\$303,382	\$1,014,826	\$ 61,985	\$276,069	\$1,331,398	\$ —	\$ 7,683,027	
Inside group	2,163	—	888	105,206	2,252	7,409	(117,918)	—	
	4,697,530	303,382	1,015,714	167,191	278,321	1,338,807	(117,918)	7,683,027	
Cost and expenses	3,713,922	290,509	1,004,108	130,686	262,348	1,212,382	471,372	7,085,327	
Operating income	\$ 983,608	\$ 12,873	\$ 11,606	\$ 36,505	\$ 15,973	\$ 126,425	\$ (589,290)	\$ 597,700	
Identifiable assets	\$5,544,245	\$ 93,019	\$ 516,546	\$799,362	\$179,734	\$1,629,774	\$1,818,240	\$10,580,920	
Depreciation	541,340	468	11,590	46,150	8,402	111,170	27,135	746,255	
Capital expenditure	504,310	—	9,855	57,934	12,171	133,374	18,708	736,352	

Corporate operating costs are mainly comprised of expenses of administration departments. Corporate assets include cash and time deposits, securities and assets of administration departments.

In accordance with the new accounting standard for employees' retirement benefits, the Company changed the accounting policy of providing for employees' retirement benefits.

As a result of this change, in the gas and by-products sales segment operating income increased ¥1,605 million (\$12,954 thousand); in the pipeline installation segment operating income increased ¥48 million (\$387 thousand); in the gas appliance segment operating income increased ¥237 million (\$1,913 thousand); in the rental real estate segment operating income increased ¥19 million (\$153 thousand); in the foods and restaurant segment operating income increased ¥1 million (\$8 thousand); in the other business segment operating income increased ¥123 million (\$993 thousand); and in the elimination and corporate column operating income increased ¥238 million (\$1,921 thousand).

In accordance with the new accounting standard for financial instruments, the Company changed the accounting policy of evaluating securities. As a result of this change, in the gas appliances segment identifiable assets (securities and investments securities) increased ¥44 million (\$355 thousand); in the rental real estate segment identifiable assets (securities and investment securities) increased ¥398 million (\$3,212 thousand); in the foods and restaurant segment operating income identifiable assets (securities and investments securities) increased ¥67 million (\$541 thousand); in the other business segment identifiable assets (securities and investments securities) increased ¥14,316 million (\$115,545 thousand); and in the elimination and corporate column identifiable assets (securities and investments securities) increased ¥41,828 million (\$337,595 thousand).

Geographic segment information is not shown due to the Company having no overseas consolidated subsidiaries. Information for overseas sales is not disclosed due to overseas sales being not material compared to consolidated net sales.

14. Subsequent event

At the ordinary shareholders' meeting of the Company held on June 28, 2001, year end dividends of ¥2.5 per share for a total of ¥6,074 million (\$49,023 thousand) were approved.