

## FINANCIAL SECTION

### SIX-YEAR SUMMARY

OSAKA GAS CO., LTD. and consolidated subsidiaries

Millions of Yen

FINANCIAL DATA	1997	1998	1999	2000	2001	2002
<b>For the Year:</b>						
Operating revenues	¥ 837,869	¥ 853,598	¥ 831,366	¥ 849,225	¥ 951,926	¥ <b>973,565</b>
Costs and expenses	782,753	790,503	764,991	786,501	877,872	<b>876,888</b>
Operating income	55,116	63,095	66,376	62,724	74,055	<b>96,676</b>
Other expenses	(15,402)	(17,424)	(13,538)	(16,781)	(14,210)	<b>(31,313)</b>
Income before income taxes	39,714	45,671	52,838	45,943	59,845	<b>65,364</b>
Income taxes	22,664	23,656	31,097	24,069	28,090	<b>33,491</b>
Net income	16,893	21,775	21,614	27,345	36,097	<b>39,418</b>
<b>At Year-End:</b>						
Total current assets	285,599	237,635	224,445	195,047	222,613	<b>193,972</b>
Investments and other assets	106,982	121,983	123,658	171,540	223,335	<b>197,486</b>
Property, plant and equipment, at cost	804,388	818,840	826,918	842,770	850,091	<b>837,628</b>
Intangibles	2,759	2,923	3,331	10,158	14,932	<b>14,435</b>
Total assets	1,199,728	1,181,380	1,178,352	1,219,514	1,310,976	<b>1,243,520</b>
Total current liabilities	339,625	336,137	300,917	287,099	263,502	<b>254,375</b>
Total non-current liabilities	486,136	461,815	495,012	499,952	565,770	<b>513,300</b>
Total shareholders' equity	372,893	381,954	380,846	428,523	475,019	<b>468,706</b>
Total interest-bearing debt	486,704	471,741	476,922	491,011	510,179	<b>465,015</b>
Number of consolidated companies	20	20	20	25	35	<b>43</b>
<b>Per Share Data (Yen):</b>						
Net income	¥ 6.68	¥ 8.61	¥ 8.56	¥ 10.94	¥ 14.72	¥ <b>16.33</b>
Shareholders' equity	147.50	151.08	152.31	172.95	195.52	<b>197.85</b>
<b>KEY RATIOS</b>						
Equity ratio (%)	31.1	32.3	32.3	35.1	36.2	<b>37.7</b>
Debt ratio (%)	40.6	39.9	40.5	40.3	38.9	<b>37.4</b>
Interest coverage ratio (Times)	3.7	5.4	6.8	7.6	9.8	<b>13.2</b>
Return on average total assets (%)	1.4	1.8	1.8	2.3	2.9	<b>3.1</b>
Return on average shareholders' equity (%)	4.6	5.8	5.7	6.8	8.0	<b>8.4</b>

# OVERVIEW OF OPERATIONS

## Group Companies

The Osaka Gas Group consists of 43 consolidated subsidiaries. The Group's business activities encompass such fields as gas supply and gas by-products, pipeline installation, gas appliances, LPG and industrial gases, real estate leasing, food-stuffs, and restaurant operation.

## Segments

### 1. Gas and By-Products

Osaka Gas imports and supplies natural gas. Cryogenic energy derived from LNG (LNG cold) is sold to a subsidiary, Liquid Gas Co., Ltd.

### 2. Pipeline Installation

Osaka Gas undertakes gas piping work for houses. A subsidiary, Kinki Piping Co., Ltd., carries out house piping work orders for Osaka Gas.

### 3. Gas Appliances

Osaka Gas sells gas appliances directly. It also engages in the wholesale of appliances through its service chain. During the fiscal year, the former Harman Co., Ltd., which engaged in the manufacture and sale of gas appliances, split its operations into three companies: the new Harman Co., Ltd., Harman Planning Co., Ltd., and Harman Pro Co., Ltd. In October 2001, the majority of shares in Harman Pro Co., Ltd. was sold to a company outside the Osaka Gas Group, and therefore Harman Pro Co., Ltd. is no longer a consolidated subsidiary. In addition, Harman Planning Co., Ltd., which engages in the management of real estate and others, is now accounted for under the Real Estate segment.

### 4. LPG and Industrial Gas (From fiscal 2002 these operations were separated from the Other Business segment)

A subsidiary, Liquid Gas Co., Ltd., wholesales and retails LNG as well as sells industrial gas and operates a cryogenic pulverizing business using LNG cold purchased from Osaka Gas. LNG cold is also sold to other subsidiaries, including Cold Air Products Co., Ltd. and CRYO-AIR Co., Ltd. Cold Air Products Co., Ltd. and CRYO-AIR Co., Ltd. use these resources to produce and sell industrial gases. Nissho Iwai Petroleum Gas Co., Ltd., an Osaka Gas subsidiary, and six other companies are involved in the import, wholesaling, and retailing of LPG.

### 5. Rental Real Estate

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

### 6. Foods and Restaurants

Subsidiaries, including Kinrei Co., Ltd. (OTC Code 2661) and OG Royal Co., Ltd., manufacture and sell frozen foods and operate restaurant chains and other food service businesses. In April 2002, a portion of shares in OG Royal were sold to a company outside the Osaka Gas Group and therefore OG Royal will no longer be accounted for as a consolidated subsidiary from fiscal 2003.

### 7. Other Business

Osaka Gas and Gas and Power Investment Co., Ltd. are involved in the district heating and cooling business.

OGIS Research Institute Co., Ltd., also an Osaka Gas subsidiary, provides computer-based information processing services to Osaka Gas. Another subsidiary, Osaka Gas Chemicals Co., Ltd., manufactures and sells carbon and related products. This company also sells coke and chemicals. Financial services for the Group are provided by OG Capital Co., Ltd., also an Osaka Gas subsidiary. There are also subsidiaries involved in engineering, contract research, housing equipment sales, security and fire prevention services, sports businesses, businesses for the elderly, information services and various other areas. In May 2002, all shares in Kiccory Co., Ltd. were sold to an outside company and therefore Kiccory Co., Ltd. is no longer part of the Osaka Gas Group from fiscal 2003. Also, in April 2002 Harman Seiki Co., Ltd. was dissolved.

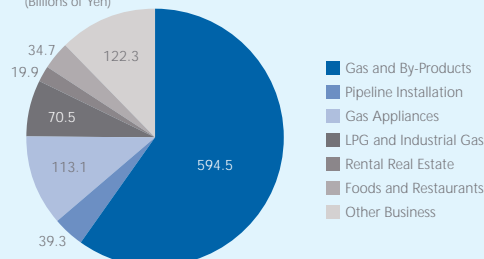
The Osaka Gas Group carries out its operations through the G10 structure, under which its businesses are divided among ten groups, with G1–G5 involved in energy businesses and G6–G10 engaged in non-energy businesses. Consolidated subsidiaries and segments under the G10 structure are shown below.

## Consolidated subsidiaries and segment

Segment	Consolidated Subsidiary	G10 Category	
Pipeline installation	Kinki Piping Co., Ltd.	G1	
Gas appliances	Harman Co., Ltd.	G5	
LPG and industrial gas	Gasnet Co., Ltd., CRYO-AIR Co., Ltd., Cold Air Products Co., Ltd., Liquid Gas Co., Ltd., Liquid Gas Kyoto Co., Ltd.	G2	
	Ehime Nissho Propane Co., Ltd., Kochi Nissho Propane Co., Ltd. Nissho Iwai Petroleum Gas Co., Ltd. Nissho Iwai Gas Energy Co., Ltd., Nissho Iwai Gas Co., Ltd., Nissho Gas Sales Co., Ltd., Nissho Propane Sekiyu Co., Ltd.	G3	
Rental real estate	Harman Planning Co., Ltd.	G5	
	Urbanex, Inc., Kyoto Research Park Co., Ltd.	G6	
	OG Capital Co., Ltd.	G10	
Foods and restaurants	OG Royal Co., Ltd., Kinrei Co., Ltd.	G7	
Other business	Enetech Kyoto Co., Ltd., Enetech Minami-Osaka Co., Ltd., Osaka Gas International Transport Inc., OG Road Co., Ltd.	G1	
	Gas and Power Co., Ltd., Gas and Power Investment Co., Ltd.	G4	
	Harman Engineering Co., Ltd., Harman Seiki Co., Ltd.	G5	
	Serendi Co., Ltd.	G6	
	OGIS Research Institute Co., Ltd.	G8	
	Osaka Gas Chemicals Co., Ltd.	G9	
	Osaka Gas Engineering Co., Ltd., Osaka Gas Housing Equipment Co., Ltd., Osaka Gas Security Service Co., Ltd., OG Auto Service Co., Ltd., Active Life Co., Ltd., L-Net Co., Ltd., OG Capital Co., Ltd., OG Sports Co., Ltd., OGIC Co., Ltd., Kansai Research Institute, Inc., Kiccory Co., Ltd., Kansai Business Information Inc., Unitika Life Co., Ltd.	G10	

## Share of Sales by Business Segment

(Billions of Yen)

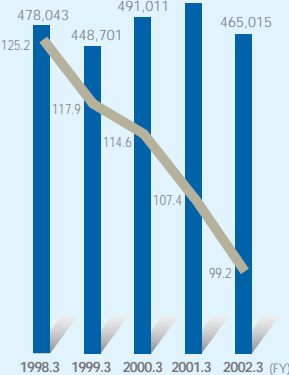


Note: Segment sales figures include inter-segment sales or transfers.

## Interest Bearing-Debt and Debt Equity Ratio

(Millions of Yen)

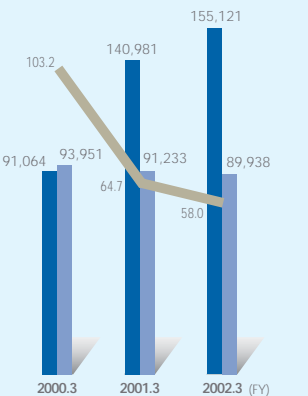
(%)



## Cash Flow and Capital Investment

(Millions of Yen)

(%)



Note: Debt Equity Ratio = Interest-Bearing Debt / Total shareholders' equity

## Overview of Activities in Fiscal 2002

Despite a decline in the volume of gas sales, operating revenues expanded by ¥21.6 billion to ¥973.5 billion. This increase was due to higher adjustment of gas unit prices under the fuel-cost adjustment system as well as a rise in the number of consolidated subsidiaries, from 35 in the previous business year to 43 in the year under review. Regarding costs and expenses, the Company held the cost of sales as well as selling, general and administrative expenses to approximately the same level

as in the previous fiscal year. As a result, operating income increased ¥22.6 billion, to ¥96.6 billion. In other expenses, the Company recorded a loss on write-down of investment securities as well as loss on debt assumption accompanying defeasance on corporate bonds. As a result, net income rose ¥3.3 billion from the previous year, to ¥39.4 billion.

(Billions of Yen)

Consolidated (a)	Compared with previous year		Non-consolidated (b)	(a) / (b)	
	Change	Percentage (%)			
Sales	973.5	+21.6	+2.3%	751.0	1.30
Cost of sales	500.5	-0.9	-0.2%	346.7	1.44
Supply and Selling, general and administrative expenses	376.3	-0.0	-0.0%	322.5	1.17
Operating income	96.6	+22.6	+30.5%	81.7	1.18
Net income	39.4	+3.3	+9.2%	37.6	1.05
Return on Equity (ROE)	8.4%				
Return on Assets (ROA)	3.1%				
Shareholder's Value Added (SVA)	13.1 billion				

## Segment Overview

### 1. Gas and By-Products

Regarding gas sales, although the number of customers increased by 83,000 to 6,484,000, average monthly household usage in the residential sector declined 3.6% from the previous year's level, to 33.3 cubic meters per household, owing to such factors as higher winter temperatures. Therefore, total volume of sales in the residential sector shrank 2.2%, to 2,194 million cubic meters.

In non-residential gas sales, although commercial sales were up 3.2% and public sector and medical use sales rose 4.6%, sales of industrial gas declined 3.0% from the previous year's level. As a result, non-residential gas sales declined by 1.1%, to 4,982 million cubic meters.

Reflecting the previous factors, total gas sales declined 1.3%, to 7,309 million cubic meters.

Regarding revenues and expenses in Gas and By-Products, despite a decline in the volume of gas sales caused by such factors as high winter temperatures and the sluggish economy, an upward adjustment in unit prices under the fuel-cost adjustment system enabled Osaka Gas to achieve a ¥12.5 billion, or 2.2%, increase over the previous year's level, to ¥594.5 billion. On the other hand, a decline in raw material costs accompanying the decrease in sales volume, coupled with continued cost-cutting efforts, resulted in a ¥17.4 billion, or 14.3%, increase in operating income, to ¥139.3 billion.

		2002/3 A	2001/3 B	A-B	A/B
Number of customer (Number of meters installed) (Thousands)	Residential use	6,172	6,092	80	101.3%
	Non-residential use	312	309	3	101.1%
	Total	6,484	6,401	83	101.3%
Monthly gas sales volume per customer (m <sup>3</sup> /Month)	Residential use	33.3	34.5	-1.2	96.4%
	Overall average	104.0	107.0	-3.0	97.2%
Gas sales volume (Million m <sup>3</sup> )	Residential use	2,194	2,244	-50	97.8%
	Non-residential use	4,982	5,040	-57	98.9%
	Industrial use	3,547	3,656	-108	97.0%
	Commercial use	943	913	29	103.2%
	Public & Medical use	492	471	22	104.6%
	Wholesale	132	124	9	106.9%
	Total	7,309	7,407	-98	98.7%

	2002/3 A	2001/3 B	A-B
Average annual temperature (°C)	17.5	17.3	0.2

## 2. Pipeline Installation

Revenues in this sector increased by ¥1.7 billion, or 4.7%, to ¥39.3 billion. Although the number of new houses declined, an increase in the number of large-scale installations supported this gain. Efforts to reduce costs in all areas led to a ¥900 million, or 61.4%, jump in operating income to ¥2.5 billion.

## 3. Gas Appliances

Revenues fell ¥12.7 billion, or 10.1%, to ¥113.1 billion, due to such factors as a decline in sales of appliances for air conditioners, which had been robust in the previous fiscal year. Operating income amounted to ¥800 million, down ¥600 million, or 43.5%, from the previous year.

## 4. LPG and Industrial Gas (Separated from the Other Business segment beginning in the fiscal year under review)

Despite the cultivation of new demand in the LPG sector, demand for industrial gas declined because of the sluggish economy. As a result, revenues in this sector amounted to ¥70.5 billion and operating income was ¥1.2 billion.

## 5. Rental Real Estate

Revenues declined ¥700 million, or 3.7%, from the previous year's figure to ¥19.9 billion. Operating income declined ¥80 million, or 1.9%, to ¥4.4 billion.

## 6. Foods and Restaurants

Revenues, mainly from restaurant chains and frozen foods, edged up 0.8%, to ¥34.7 billion. However, operating income declined ¥100 million, or 6.9%, to ¥1.8 billion, due to a rise in expenses accompanying an increase in new outlets.

## 7. Other Business

Despite an increase in new consolidated subsidiaries, LPG and Industrial Gas operations were separated from this segment, which resulted in a ¥43.5 billion, or 26.2%, decrease in operating revenues from the previous fiscal year, to ¥122.3 billion. Operating income was down ¥400 million, or ¥2.8%, to ¥15.2 billion.

(Billions of Yen/Upper figures show changes from the previous year)

	Gas and By-Products	Pipeline Installation	Gas Appliances	LPG and Industrial Gas	Rental Real Estate	Foods and Restaurant	Other Business	Elimination and Corporate	Consolidated
Operating revenues	+2.2%	+4.7%	-10.1%	—	-3.7%	+0.8%	-26.2%		+2.3%
	594.5	39.3	113.1	70.5	19.9	34.7	122.3	(21.0)	973.5
Operating income	+14.3%	+61.4%	-43.5%	—	-1.9%	-6.9%	-2.8%		+30.5%
	139.3	2.5	0.8	1.2	4.4	1.8	15.2	(68.7)	96.6

### Overview of Cash Flow Position

Cash flows from operating activities increased ¥14.1 billion to ¥155.1 billion. This rise was due to higher gas sales as well as an increase in operating income resulting from efforts to restrain selling, general and administrative expenses.

Cash flows from investing activities decreased ¥20.5 billion to a net outflow of ¥88.5 billion, reflecting a decline in capital investment and new investment projects.

On the other hand, cash flows for financing activities increased ¥55.8 million, to

¥82.8 billion, reflecting the reduction in interest-bearing debt aimed at strengthening the Company's financial structure as well as the retirement of treasury stock.

As a result, cash and cash equivalents at the end of the year decreased ¥15.8 billion from the amount at the beginning of the period, to ¥12.8 billion.

(Billions of yen)

	2002	2001	Increase/Decrease
Cash Flows from Operating Activities	155.1	140.9	+14.1
Cash Flows from Investing Activities	-88.5	-109.0	+20.5
Cash Flows from Financing Activities	-82.8	-27.0	-55.8
Net Decrease in Cash and Cash Equivalents	-16.2	4.9	-21.2
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	0.4	0.9	-0.5
Cash and Cash Equivalents at End of Year	12.8	28.6	-15.8
Interest-Bearing Debt at End of Year	465.0	510.1	-45.1
Free Cash Flow <sup>(*)</sup>	70.6	40.5	+30.1

<sup>(\*)</sup> Free cash flow=cash flows from operating activities-capital investment

### An Overview of Capital Investment

During the fiscal year, Osaka Gas took a highly selective approach to making capital investments in each business segment. As a result, capital investment amounted to ¥89.9 billion, approximately the same level as in the previous fiscal year.

In Gas and By-Products, construction of manufacturing facilities is progressing at the No. 8 LNG storage facility at the Himeji Terminal. In supply facilities, pipeline increased 456km, for a total 44,291km at the end of the fiscal year. In large-

scale supply facilities, work continued on the Keiji Line that will ensure stable supplies and secure new demand in the Shiga region. Turning to segments other than Gas and By-Products, Osaka Gas made capital investments to acquire business-use equipment in its rental real estate segment and completed electric power generating facilities at the Torishima Energy Center that is owned by Gas and Power Co., Ltd. Investments were also made in other areas.

(Billions of Yen/Upper figures show changes from the previous year)

Gas and By-Products	Pipeline Installation	Gas Appliances	LPG and Industrial Gas	Rental Real Estate	Foods and Restaurants	Other Business	Elimination and Corporate	Consolidated
-19.2%	—	-61.4%	—	+67.8%	-9.4%	-33.5%	+449.4%	-1.4%
50.5	0	0.4	1.8	12.0	1.3	10.9	12.7	89.9

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

OSAKA GAS CO., LTD.  
March 31, 2001 and 2002

# Asahi & Co

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, 2001 and 2002, 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, 2001 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan (Note 1) 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.

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 27, 2002



# CONSOLIDATED BALANCE SHEETS

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES

As of March 31, 2001 and 2002

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002
<b>Current Assets:</b>			
Cash and time deposits	¥ 29,120	¥ 12,892	\$ 96,750
Receivables:			
Trade notes and accounts	111,002	105,580	792,345
Allowance for doubtful receivables	(907)	(764)	(5,733)
	110,095	104,816	786,612
Inventories	39,100	32,289	242,319
Deferred tax assets	11,378	11,778	88,390
Other current assets	32,920	32,197	241,629
Total current assets	222,613	193,972	1,455,700
<b>Investments and Other Assets:</b>			
Investments in securities			
Unconsolidated subsidiaries and affiliated companies	33,854	32,565	244,390
Other	120,198	95,786	718,844
Deferred tax assets	19,687	35,484	266,296
Other investments and other assets	52,143	36,123	271,092
Allowance for doubtful receivables	(2,547)	(2,472)	(18,551)
	223,335	197,486	1,482,071
<b>Property, Plant and Equipment, at Cost:</b>			
Production facilities	491,148	476,541	3,576,292
Distribution facilities	1,316,439	1,343,679	10,083,895
Service and maintenance facilities	170,191	181,820	1,364,503
Other	326,619	312,867	2,347,970
Construction in progress	58,521	66,807	501,366
	2,362,918	2,381,714	17,874,026
Less accumulated depreciation	1,512,827	1,544,086	11,587,887
	850,091	837,628	6,286,139
<b>Intangibles and Deferred Assets</b>	14,937	14,435	108,330
	¥ 1,310,976	¥ 1,243,521	\$ 9,332,240

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002
<b>Current Liabilities:</b>			
Short-term loans	¥ 43,080	¥ 31,426	\$ 235,843
Long-term debt due within one year (Note 5)	23,599	29,582	222,004
Trade notes and accounts payable	48,103	39,717	298,064
Accrued income and enterprise taxes	25,261	30,976	232,465
Other current liabilities	123,459	122,674	920,630
Total current liabilities	263,502	254,375	1,909,006
<b>Long-term Debt Due after One Year (Note 5)</b>	443,500	389,007	2,919,377
<b>Employees' Severance and Retirement Benefits</b>	101,279	98,549	739,580
<b>Reserve for Repairs of Gas Holders</b>	1,957	1,602	12,022
<b>Other Non-current Liabilities</b>	19,035	24,143	181,186
<b>Minority Interests</b>	6,683	7,139	53,576
<b>Contingent Liabilities (Note 7)</b>			
<b>Shareholders' Equity:</b>			
Common stock			
Authorized — 3,840,849 thousand shares in 2002 and 3,901,401 thousand shares in 2001			
Issued — 2,369,012 thousand shares in 2002 and 2,429,564 thousand shares in 2001 (Note 6)	132,167	132,167	991,872
Capital surplus (Note 6)	19,482	19,482	146,206
Retained earnings	288,140	296,338	2,223,925
Net unrealized gains on securities (Note 2 (3))	35,254	20,729	155,565
Treasury stock, at cost	(23)	(10)	(75)
Total shareholders' equity	475,020	468,706	3,517,493
	¥ 1,310,976	¥ 1,243,521	\$ 9,332,240

# CONSOLIDATED STATEMENTS OF INCOME

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES

For the years ended March 31, 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002
Operating Revenues (Note 14)	¥ 951,927	¥ 973,565	\$ 7,306,304
Costs and expenses (Note 14):			
Cost of sales	501,490	500,586	3,756,743
Selling, general and administrative expenses	376,382	376,302	2,824,030
	877,872	876,888	6,580,773
Operating Income (Note 14)	74,055	96,677	725,531
Other income (expenses):			
Interest and dividend income	2,201	1,639	12,300
Interest expense	(7,605)	(7,339)	(55,077)
Gain on sale of investments	1,917	445	3,340
Loss on debt assumption	(466)	(3,316)	(24,885)
Effect of change of accounting for employees' retirement benefits for prior periods (Note 2 (11))	(2,729)	—	—
Loss on write-down of investment securities	(1,058)	(7,266)	(54,529)
Loss on write-down of investments in unconsolidated subsidiaries and affiliates	(4,402)	(319)	(2,394)
Gain (loss) on sale of property, plant and equipment, net	(685)	495	3,715
Loss on cancellation of construction plan (Note 11)	—	(10,382)	(77,914)
Other, net	(1,383)	(5,270)	(39,550)
	(14,210)	(31,313)	(234,994)
Income before income taxes	59,845	65,364	490,537
Income taxes:			
— Current	28,090	33,491	251,340
— Deferred	(4,792)	(7,719)	(57,929)
Minority interests	(450)	(174)	(1,306)
Net income	¥ 36,097	¥ 39,418	\$ 295,820

	Yen		U.S. Dollars (Note 1)
	2001	2002	2002
Net income per share	¥14.72	¥16.33	\$0.123

See accompanying notes.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES

For the years ended March 31, 2001 and 2002

	Shares of Common Stock Issued (Thousands)	Millions of Yen				
		Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gains on Securities	Treasury Stock, at Cost
Balance at March 31, 2000	2,477,761	¥132,167	¥19,482	¥ 276,883	¥ —	¥ (9)
Net income				36,097		
Adoption of 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)
Net income				39,418		
Decrease in net unrealized gains on securities					(14,525)	
Cash dividends (including interim dividends)				(13,363)		
Bonuses to directors				(70)		
Common stock purchased and retired	(60,552)			(18,513)		
Increase due to newly consolidated subsidiaries				697		
Increase due to a subsidiary excluded from consolidation				29		
Decrease in treasury stock, net						13
Balance at March 31, 2002	<b>2,369,012</b>	<b>¥132,167</b>	<b>¥19,482</b>	<b>¥ 296,338</b>	<b>¥20,729</b>	<b>¥(10)</b>

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gains on Securities	Treasury Stock, at Cost
Balance at March 31, 2001	\$991,872	\$146,206	\$ 2,162,402	\$264,570	\$(173)
Net income			<b>295,820</b>		
Decrease in net unrealized gains on securities				<b>(109,005)</b>	
Cash dividends (including interim dividends)			<b>(100,285)</b>		
Bonuses to directors			<b>(525)</b>		
Common stock purchased and retired			<b>(138,934)</b>		
Increase due to newly consolidated subsidiaries			<b>5,230</b>		
Increase due to a subsidiary excluded from consolidation			<b>217</b>		
Decrease in treasury stock, net					<b>98</b>
Balance at March 31, 2002	<b>\$991,872</b>	<b>\$146,206</b>	<b>\$ 2,223,925</b>	<b>\$155,565</b>	<b>\$ (75)</b>

See accompanying notes

# CONSOLIDATED STATEMENTS OF CASH FLOWS

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES

For the years ended March 31, 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes	¥ 59,845	¥ 65,364	\$ 490,537
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation	92,461	88,793	666,364
Decrease in employees' retirement benefits	(6,394)	(2,333)	(17,508)
Interest and dividend income	(2,201)	(1,639)	(12,300)
Interest expense	7,605	7,339	55,077
Loss on debt assumption	466	3,316	24,885
Loss on write-down of investment securities	1,058	7,266	54,529
Loss on write-down of investments in unconsolidated subsidiaries and affiliates	4,402	319	2,394
Loss on disposal of property, plant and equipment	3,431	4,044	30,349
Loss on cancellation of construction plan	—	10,382	77,914
Decrease (increase) in receivables	(5,417)	7,100	53,283
Decrease (increase) in inventories	(3,754)	4,113	30,867
Increase (decrease) in payables	1,780	(6,527)	(48,983)
Increase (decrease) in accrued expenses	8,584	(8,230)	(61,764)
Other	11,917	9,938	74,582
	113,938	123,881	929,689
Interest and dividends received	2,178	1,642	12,322
Interest paid	(7,427)	(7,692)	(57,726)
Income and enterprise taxes paid	(27,552)	(28,074)	(210,687)
Net cash provided by operating activities	140,982	155,121	1,164,135
<b>Cash Flows from Investing Activities:</b>			
Purchase of property, plant and equipment	(93,085)	(82,620)	(620,037)
Purchase of intangibles	(2,188)	(1,803)	(13,531)
Proceeds from sale of investment securities	13,268	727	5,456
Purchase of investments in subsidiaries and affiliates	(21,212)	(5,071)	(38,056)
Proceeds from sale of subsidiaries and affiliates	1,474	3,070	23,039
Decrease on purchase of business	—	(3,005)	(22,551)
Other	(7,305)	155	1,163
Net cash used in investing activities	(109,048)	(88,547)	(664,517)
<b>Cash Flows from Financing Activities:</b>			
Decrease in short-term loans	(19,100)	(5,833)	(43,775)
Net increase (decrease) in commercial paper	(35,000)	15,000	112,570
Proceeds from long-term debt	54,381	20,669	155,114
Repayment of long-term debt	(17,561)	(31,140)	(233,696)
Proceeds from issuance of bonds	29,994	—	—
Repayment of bonds	(13,666)	(49,616)	(372,353)
Common stock retired	(14,629)	(18,522)	(139,002)
Cash dividends paid	(12,283)	(13,355)	(100,225)
Cash dividends paid to minority shareholders	(61)	(94)	(705)
Other	909	23	173
Net cash used in financing activities	(27,016)	(82,868)	(621,899)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	(2)	6	45
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	4,916	(16,288)	(122,236)
<b>Cash and Cash Equivalents at Beginning of Year</b>	22,775	28,676	215,204
<b>Cash and Cash Equivalents of Newly Consolidated Subsidiaries</b>	985	449	3,370
<b>Cash and Cash Equivalents at End of Year</b>	¥ 28,676	¥ 12,837	\$ 96,338
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Cash and Cash Equivalents:			
Cash and time deposits in the balance sheets	¥ 29,120	¥ 12,892	\$ 96,750
Time deposits with maturities over three months	(444)	(55)	(412)
Cash and Cash Equivalents at End of Year	¥ 28,676	¥ 12,837	\$ 96,338

See accompanying notes.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OSAKA GAS CO., LTD. AND ITS SUBSIDIARIES

For the years ended March 31, 2001 and 2002

## 1. Basis of presenting consolidated financial statements

Osaka Gas Co., Ltd. (the "Company") and its consolidated subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Gas Utility Law and related regulations, the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of state-

ments of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying financial statements.

The translation of the Japanese yen amounts into US dollars is included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2002, which was ¥133.25 to US \$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

Companies which are owned 40% or more and substantially controlled by the Parent are considered subsidiaries and included in the consolidation.

The consolidated financial statements include the accounts of the Company and its 43 (35 in 2001) 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 20 years. If the difference is not 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. 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 March 31, 2001 and 2002, the Companies have securities of categories (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 statements.

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 for the year ended March 31, 2001. The adoption increased securities and investment securities by ¥56,654 million, and unrealized gains on securities, net of income taxes, (included in shareholders' equity) by ¥35,254 million at March 31, 2001.

### (4) Derivatives and hedge accounting

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

### (5) Allowance for doubtful receivables

The Company and its consolidated subsidiaries (the "Companies") 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.

### (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, 2001 and 2002 were ¥265,449 million and ¥267,191 million (\$2,005,186 thousand), respectively.

### (8) Software costs

The Company and its consolidated subsidiaries include software in intangible assets and depreciate it using the straight-line method over estimated useful lives.

### (9) Research and development expenses

The Companies charge research and development expenses to selling, general and administrative expenses and manufacturing costs as incurred. Research and development expenses amounted to ¥16,484 million and ¥15,047 million (\$112,923 thousand) for the years ended March 31, 2001 and 2002, respectively.

### (10) Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitants'

taxes and enterprise tax.

The Companies have 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.

#### (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. 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 and 2002 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, 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, and income before income taxes decreased by ¥458 million 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

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 payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Companies adopted the revised accounting standard for foreign currency translation. Under the revised accounting standard, long-term receivables and payables denominated in foreign currencies, which were previously translated at historical rate, are translated into Japanese yen at the year-end rate.

The effect on the consolidated income statement for the year ended March 31, 2001 of adopting the Revised Accounting Standard was immaterial.

#### (17) Derivative transactions and hedge accounting

The accounting standard for financial instruments, effective for 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 currency exchange contracts and currency swap contracts are used as hedges and meet certain hedging criteria, forward foreign currency exchange contracts and currency swap contracts and hedged items are accounted for in the following manner:

If a forward foreign currency 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 currency 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 currency 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, 2001 and 2002 is not shown since there were no outstanding convertible bonds or other common stock equivalents.

### 3. Additional information

#### (1) Effect of bank holidays on March 31, 2001 and 2002

As financial institutions in Japan were closed on March 31, 2001 and 2002, amounts that would normally be settled on March 31, 2001 and 2002 were collected or paid on the following business days, April 2, 2001 and April 1, 2002. The effects of the settlements on April 2 and April 1 instead of March 31 included the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Cash and cash equivalents:			
Increased (decreased)	¥2,426	¥(329)	\$(2,469)
Trade notes and accounts receivable:			
Increased	1,677	726	5,448
Trade notes and accounts payable:			
Increased	4,103	397	2,979

## 4. Securities

(1) The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of March 31, 2001 and 2002:

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
<b>For 2001:</b>				
Equity securities	¥28,432	¥89,126	¥60,694	
Bonds	120	125	5	
<b>Total</b>	<b>¥28,552</b>	<b>¥89,251</b>	<b>¥60,699</b>	
<b>For 2002:</b>				
Equity securities	<b>¥26,775</b>	<b>¥64,861</b>	<b>¥38,086</b>	<b>\$285,824</b>
Bonds	<b>28</b>	<b>29</b>	<b>1</b>	<b>7</b>
<b>Total</b>	<b>¥26,803</b>	<b>¥64,890</b>	<b>¥38,087</b>	<b>\$285,831</b>

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
<b>For 2001:</b>				
Equity securities	¥15,402	¥12,566	¥(2,836)	
Bonds	10,008	8,798	(1,210)	
<b>Total</b>	<b>¥25,410</b>	<b>¥21,364</b>	<b>¥(4,046)</b>	
<b>For 2002:</b>				
Equity securities	<b>¥12,627</b>	<b>¥11,356</b>	<b>¥(1,271)</b>	<b>\$ (9,538)</b>
Bonds	<b>10,000</b>	<b>7,522</b>	<b>(2,478)</b>	<b>(18,597)</b>
<b>Total</b>	<b>¥22,627</b>	<b>¥18,878</b>	<b>¥(3,749)</b>	<b>\$(28,135)</b>

(2) The following table summarizes book values of securities with no available fair values as of March 31, 2001 and 2002:

## 5. Long-term debt

Long-term debt at March 31, 2001 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Loans principally from banks and insurance companies, principally at 0.536%-6.400%, maturing serially through 2034	¥206,071	<b>¥203,861</b>	<b>\$1,529,914</b>
5.875% notes payable in Euroyen due 2012	10,000	<b>10,000</b>	<b>75,047</b>
2.95% notes payable due 2005	50,000	<b>15,000</b>	<b>112,570</b>
3.4% notes payable due 2017	17,000	<b>15,700</b>	<b>117,823</b>
7.125% bonds payable in U.S. dollars due 2007	48,960	<b>48,960</b>	<b>367,429</b>
2.9% notes payable due 2018	30,000	<b>30,000</b>	<b>225,141</b>
1.47% notes payable due 2008	30,000	<b>30,000</b>	<b>225,141</b>
1.25% notes payable due 2002	10,000	—	—
LIBOR+0.36% bonds payable in U.S. dollars due 2003	4,848	<b>4,848</b>	<b>36,383</b>

Available-for-sale securities:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Non-listed (non quoted) equity securities	¥9,686	<b>¥12,029</b>	<b>\$90,274</b>

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

	Millions of Yen			Total
	Within one year	Over one year but within five years	Over five years but within ten years	
<b>For 2001:</b>				
Governmental bonds and municipal bonds	¥ —	¥18	¥ —	¥ 18
Bonds	104	—	8,790	8,894
Others	—	11	—	11
	¥104	¥29	¥8,790	¥8,923
<b>For 2002:</b>				
Governmental bonds and municipal bonds	¥ 11	¥18	¥ —	¥ 29
Bonds	—	—	7,522	7,522
	¥ 11	¥18	¥7,522	¥7,551

	Thousands of U.S. Dollars			Total
	Within one year	Over one year but within five years	Over five years but within ten years	
<b>For 2002:</b>				
Governmental bonds and municipal bonds	\$83	\$135	\$ —	\$ 218
Bonds	—	—	56,450	56,450
	\$83	\$135	\$56,450	\$56,668

(4) Total sales of available-for-sale securities sold in the years ended March 31, 2001 and 2002 amounted to ¥13,268 million and ¥728 million (\$5,463 thousand) and the related gains and losses amounted to ¥1,917 million and ¥445 million (\$3,340 thousand) and ¥41 million and ¥135 million (\$1,013 thousand), respectively.

1.95% notes payable due 2009	20,000	<b>20,000</b>	<b>150,094</b>
0.75% notes payable due 2003	10,000	<b>10,000</b>	<b>75,047</b>
1.23% notes payable due 2005	20,000	<b>20,000</b>	<b>150,094</b>
2.06% notes payable due 2007	220	<b>220</b>	<b>1,651</b>
0.675% notes payable due 2004	10,000	<b>10,000</b>	<b>75,047</b>
	467,099	<b>418,589</b>	<b>3,141,381</b>
Less amounts due within one year	23,599	<b>29,582</b>	<b>222,004</b>
	¥443,500	<b>¥389,007</b>	<b>\$2,919,377</b>

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 (¥16,761 million) due through the year ended March 31, 2010.

In the year ended March 31, 2002, the Company entered into debt assumption agreements with banks for 2.95% notes payable due 2005 (¥33,900 million) and loans from banks (¥9,675 million) due through the year ended March 31, 2010.

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 totaling ¥22,518 and ¥20,145 million (\$151,182 thousand) at March 31, 2001 and 2002, respectively, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Property, plant and equipment	¥50,296	¥48,733	\$365,726
Investments in securities	132	22	165
	¥50,428	¥48,755	\$365,891

## 6. Shareholders' equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as capital surplus.

Effective October 1, 2001, the Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and capital surplus equals 25% of common stock. The legal reserve and capital surplus may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and capital surplus remains equal to or exceeds 25% of common stock, they are available for dividends by resolution of the

The annual maturities of long-term debt are as follows at March 31, 2002:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2003	¥ 29,582	\$ 222,004
2004	39,800	298,687
2005	26,348	197,733
2006	48,395	363,189
2007	58,554	439,430
2008 and thereafter	215,910	1,620,338
<b>Total</b>	<b>¥418,589</b>	<b>\$3,141,381</b>

## 7. Contingent liabilities

At March 31, 2001 and 2002, the Companies were contingently liable as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
As guarantor of indebtedness of:			
Subsidiaries and affiliates	¥ 2,411	¥ 2,825	\$ 21,200
Employees	8,545	301	2,259
Others	5,245	4,367	32,773
Debt assumption agreements	83,051	125,302	940,353
	¥99,252	¥132,795	\$996,585

## 8. Finance leases

Information for non-capitalized finance leases for office equipment at March 31, 2001 and 2002 is as follows:

As lessee (non-capitalized)

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Original lease obligations (including finance charges)	¥6,529	¥5,726	\$42,972
Payments remaining:			
Payments due within one year	¥1,211	¥1,074	\$ 8,060
Payments due over one year	1,612	1,497	11,235
<b>Total</b>	<b>¥2,823</b>	<b>¥2,571</b>	<b>\$19,295</b>

Lease payments for such leases for the years ended March 31, 2001 and 2002 were ¥1,624 million and ¥1,374 million (\$10,311 thousand), respectively.

As lessor

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Original cost	¥11,614	¥10,358	\$77,734
Less accumulated depreciation	7,761	6,142	46,094
<b>Total</b>	<b>¥ 3,853</b>	<b>¥ 4,216</b>	<b>\$31,640</b>
Receipts remaining			
Receipts due within one year	¥ 2,000	¥ 2,195	\$16,473
Receipts due over one year	3,672	3,968	29,778
<b>Total</b>	<b>¥ 5,672</b>	<b>¥ 6,163</b>	<b>\$46,251</b>

Lease receipts under such leases for the years ended March 31, 2001 and 2002 were ¥3,404 million and ¥2,730 million (\$20,488 thousand), respectively.

## 9. Derivative transactions

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

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

The Companies' 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:

Hedged items:	Hedging instruments:
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 transactions
Material price swap contracts and options	Purchase cost of materials

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 and 2002 of derivative transactions for which hedge accounting has not been applied:

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

### For 2002:

Items not traded on exchanges	Interest rate swaps:			
	Pay variable, receive fixed	¥2,107	¥2,107	¥ 95
	Pay fixed, receive variable	2,669	2,419	(79)
	<b>Total</b>	<b>¥4,776</b>	<b>¥4,526</b>	<b>¥ 16</b>

		Thousands of U.S. Dollars			
Type	Notional amount	Over one year	Market value	Recognized gains or losses	
<b>For 2002:</b>					
Items not traded on exchanges	Interest rate swaps:				
	Pay variable, receive fixed	\$15,812	\$15,812	\$ 713	
	Pay fixed, receive variable	20,030	18,154	(593)	
	<b>Total</b>	<b>\$35,842</b>	<b>\$33,966</b>	<b>\$ 120</b>	

## 10. Employees' severance and pension benefits

The Companies have adopted the 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 liabilities for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2001 and 2002 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Projected benefit obligation	¥ 273,628	¥ 275,917	\$ 2,070,672
Prepaid pension expenses	123	151	1,133
Less unrecognized actuarial differences	(17,813)	(23,194)	(174,064)
Less fair value of pension assets	(154,659)	(154,325)	(1,158,161)
Liability for severance and retirement benefits	¥ 101,279	¥ 98,549	\$ 739,580

Included in the consolidated statements of income for the years ended March 31, 2001 and 2002 are severance and retirement benefit expenses comprising the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Service costs —			
benefits earned during the year	¥ 10,534	¥ 10,911	\$ 81,884
Interest cost on projected benefit obligation	7,210	7,233	54,282
Expected return on plan assets	(6,352)	(4,129)	(30,987)
Net transition obligation	2,729	—	—
Actuarial gains and losses	—	1,770	13,283
Prior service costs	—	615	4,615
Severance and retirement benefit expenses	¥ 14,121	¥ 16,400	\$ 123,077

The discount rate and the rate of expected return on plan assets used by the Company are 2.7% and 4.0% in the year ended March 31, 2001 and 2.7% and 2.7% in the year ended March 31, 2002, 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. Loss on cancellation of construction plan

Loss on cancellation of construction plan resulted from cancellation of plans to construct the Tsuruga LNG terminal.

## 12. 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 the case of the Company for the years ended March 31, 2001 and 2002.

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, 2001 and 2002:

	2001	2002
Statutory tax rate	36.2%	<b>36.2%</b>
Statutory tax rate difference between the Company and certain subsidiaries	0.6	<b>0.9</b>
Non-deductible expenses	0.7	<b>0.4</b>
Per capita inhabitants' tax	0.4	<b>0.3</b>
Other	1.0	<b>1.6</b>
Effective tax rate	38.9%	<b>39.4%</b>

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2001 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Deferred tax assets:			
Retirement benefits	¥ 22,691	<b>¥ 23,172</b>	<b>\$ 173,899</b>
Excess depreciation	9,713	<b>7,847</b>	<b>58,889</b>
Unrealized gains	3,979	<b>3,155</b>	<b>23,677</b>
Enterprise taxes	3,092	<b>2,923</b>	<b>21,936</b>
Other	14,476	<b>23,515</b>	<b>176,473</b>
Total deferred tax assets	53,951	<b>60,612</b>	<b>454,874</b>
Valuation allowance	( 237 )	<b>( 823 )</b>	<b>( 6,176 )</b>
Net deferred tax assets	53,714	<b>59,789</b>	<b>448,698</b>

## 13. Related party transactions

Long-term loans receivable at March 31, 2001 include a loan to an unconsolidated subsidiary of ¥13,600 million.

## 14. Segment information

The Company's primary business activities include (1) Gas and By-Product Sales, (2) Pipeline Installation Sales (3) Gas Appliance Sales (4) LPG and Industrial Gas (5) Rental Real Estate (6) Foods and Restaurants and (7) Other Business. The LPG and Industrial Gas segment became more significant as consolidated subsidiaries increased and they are newly presented separately from the Other Business seg-

Deferred tax liabilities:			
Special reserve for tax purposes	(5,139)	<b>(5,134)</b>	<b>(38,529)</b>
Deferred gains on real properties	(1,094)	<b>(158)</b>	<b>(1,186)</b>
Net unrealized gains on securities	(21,322)	<b>(13,682)</b>	<b>(102,679)</b>
Other	(1,343)	<b>(1,242)</b>	<b>(9,321)</b>

Total deferred tax liabilities	(28,898)	<b>(20,216)</b>	<b>(151,715)</b>
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Net deferred tax assets	¥ 24,816	<b>¥ 39,573</b>	<b>\$ 296,983</b>
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Net deferred tax assets are reflected in the consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Current assets	¥ 11,378	<b>¥ 11,778</b>	<b>\$ 88,390</b>
Investments and other assets	19,687	<b>35,484</b>	<b>266,296</b>
Other current liabilities	(78)	<b>(89)</b>	<b>(668)</b>
Other non-current liabilities	(6,171)	<b>(7,600)</b>	<b>(57,036)</b>

ment from the year ended March 31, 2001. Revenues, operating income, identifiable assets, depreciation and capital expenditure of the LPG and Industrial Gas segment for the year ended March 31, 2001 were ¥46,495 million, ¥1,529 million, ¥58,326 million, ¥1,488 million and ¥1,879 million, respectively.

A summary of segment information is as follows:

For 2001	Millions of Yen							
	Gas and By-Products	Pipeline Installation	Gas Appliances	Rental Real Estate	Foods and Restaurants	Other Business	Elimination and Corporate	Consolidated
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
Costs 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 2002	Millions of Yen								
	Gas and By-Products	Pipeline Installation	Gas Appliances	LPG and Industrial Gas	Rental Real Estate	Foods and Restaurants	Other Business	Elimination and Corporate	Consolidated
Operating revenues									
Outside customers	¥591,877	¥39,354	¥113,024	¥67,036	¥ 7,068	¥34,511	¥120,695	¥ —	¥ 973,565
Inside group	2,702	—	86	3,476	12,872	237	1,682	(21,055)	—
	594,579	39,354	113,110	70,512	19,940	34,748	122,377	(21,055)	973,565
Costs and expenses	455,263	36,781	112,298	69,307	15,505	32,907	107,146	47,681	876,888
Operating income	¥139,316	¥ 2,573	¥ 812	¥ 1,205	¥ 4,435	¥ 1,841	¥ 15,231	¥ (68,736)	¥ 96,677
Identifiable assets	¥677,663	¥10,430	¥ 42,481	¥45,932	¥108,666	¥23,341	¥189,722	¥145,285	¥1,243,520
Depreciation	63,260	52	629	2,768	5,524	1,016	12,318	3,226	88,793
Capital expenditure	50,500	37	471	1,814	12,048	1,368	10,982	12,719	89,939

For 2002	Thousands of U.S. Dollars								
	Gas and By-Products	Pipeline Installation	Gas Appliances	LPG and Industrial Gas	Rental Real Estate	Foods and Restaurants	Other Business	Elimination and Corporate	Consolidated
Operating revenues									
Outside customers	\$4,441,854	\$295,340	\$848,210	\$503,084	\$ 53,043	\$258,994	\$ 905,779	\$ —	\$7,306,304
Inside group	20,277	—	646	26,086	96,600	1,779	12,623	(158,011)	—
	4,462,131	295,340	848,856	529,170	149,643	260,773	918,402	(158,001)	7,306,304
Costs and expenses	3,416,608	276,030	842,762	520,127	116,360	246,957	804,098	357,831	6,580,773
Operating income	\$1,045,523	\$ 19,310	\$ 6,094	\$ 9,043	\$ 33,283	\$ 13,816	\$ 114,304	\$ (515,842)	\$ 725,531
Identifiable assets	\$5,085,651	\$ 78,274	\$318,807	\$344,705	\$815,505	\$175,167	\$1,423,805	\$1,090,319	\$9,332,233
Depreciation	474,747	390	4,720	20,773	41,456	7,625	92,443	24,210	666,364
Capital expenditure	378,987	278	3,535	13,613	90,417	10,266	82,416	95,452	674,964

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

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.

## 15. Subsequent event

(1) At the ordinary shareholders' meeting of the Company held on June 28, 2002, year-end dividends of ¥3.0 per share for a total of ¥7,107 million (\$53,336 thousand) were approved.

(2) A consolidated subsidiary, (Urbanex Inc.) sold Kobe Gas Building and Ogasta Plaza to a Morgan Stanley group company on June 7, 2002 in an effort to reduce assets. The loss arising from this sale is ¥10,400 million and will be recognized in the fiscal year ending March 31, 2003.

(3) With a resolution at the Board of Directors meeting held at May 20, 2002, the Company issued bonds on June 21, 2002. Detailed information is as follows:

Issuing date: June 21, 2002  
 Face amount: ¥20,000 million  
 Issued price: ¥19,998 million  
 Interest: 1.46% annual  
 Due date: June 20, 2012  
 Security: None  
 Use of funds: Equipment funds and investment funds