Notes to Consolidated Financial Statements

Notes to Non-consolidated Financial Statements

The 194th Fiscal Year（From April 1, 2011, to March 31, 2012）

Osaka Gas Co., Ltd.

Notes to Consolidated Financial Statements (April 1, 2011, to March 31, 2012)

1. Notes to Significant Matters Forming the Basis of Preparation of These Consolidated Financial Statements

(1) Scope of consolidation

Number of consolidated subsidiaries: 133

(Names of principal consolidated subsidiaries)
Osaka Gas Chemicals Co., Ltd., Urbanex Co., Ltd., OGIS-RI Co., Ltd., and Liquid Gas Co., Ltd.

(2) Application of the equity method

Number of equity method affiliates: 9

(Names of principal equity method affiliates)
Idemitsu Snorre Oil Development Co., Ltd., and Bizkaia Energia, S.L.

(Names of principal affiliates not subject to the equity method)
The affiliates not subject to the equity method include primarily ENNET Corporation.
The equity method is not applied to these affiliates because they do not have a material impact on net income or losses or retained earnings, etc. and are not material as a whole.

(3) Accounting standards

(i) Basis and methodology for the valuation of significant assets

a. Investment securities:

Bonds held to maturity:	Stated at amortized cost
Other investment securities:	
Securities for which it is practical to determine fair value:	Stated at fair value based on the market price, etc., on the closing day. (Unrealized holding gains and losses are accounted for as a component of net assets; cost of sales is determined primarily using the

	moving-average method.)
Securities for which it is not practical to determine fair value:	Primarily stated at cost based on the moving-average method
b. Inventories:	Primarily stated at cost based on the moving-average method; inventories held for trading recorded on the balance sheet are depreciated to write down the carrying amount based on depreciation of profitability.
c. Derivatives:	Stated at fair value

(ii) Depreciation method of significant depreciable assets

a. Tangible fixed assets (excluding leased assets) are depreciated primarily using the declining-balance method. However, the straight-line method has been used for buildings (excluding structures attached to buildings) acquired after April 1, 1998.

b. Intangible fixed assets (excluding leased assets) are depreciated primarily using the straight-line method. For internal-use software, the straight-line method based on the term available for use within the Company has been applied.

c. Leased assets resulting from non-ownership-transfer finance leases are depreciated using the straight-line method over the useful life equal to the lease terms assuming no residual value.

(iii) Basis for recording significant reserves

a. Allowance for bad debts
To provide for the bad debts loss of accounts receivable, loans receivable, etc., an estimated uncollectible amount is provided which is based on an amount calculated based on the default ratio in the past for general receivables and the individual collectability for certain receivables including receivables with default possibility (*Kashidaore Kenen Saiken*).

b. Reserve for retirement benefits

For the purposes of employee retirement benefits, an amount is provided based on the estimate of the retirement benefits obligation and pension assets at the end of the consolidated fiscal year.

c. Reserve for gasholder repair

To provide for the necessary expenditure for periodical repairs of spherical gas holders, an estimated amount for the next scheduled repair is provided based on the actual expenditure for the previous repair, which is proportionally allotted for the period up to such next scheduled repair.

d. Reserve for safety actions

To provide for the necessary expenditure to ensure the safety of gas business, an estimated amount of the expenditure necessary for promoting replacements with safety-enhanced models, for strengthening inspections and ensuring wide awareness as well as for countermeasure works on aged gas pipelines is provided.

e. Allowance for investment loss

To provide for any losses on the operations of associated companies, an amount of expected future losses has been provided as reserve.

(iv) Other significant matters for the preparation of these consolidated financial statements

Consumption taxes and other taxes are calculated using the net-of-tax method.

2. Notes to the Consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities

(i) Assets pledged as collateral

Tangible fixed assets	¥33,700 million
Investments and other assets	¥10,813 million
Others	¥7,212 million
Total	¥51,726 million

(ii) Secured liabilities ¥19,026 million

(2) Accumulated depreciation of Tangible fixed assets:

¥2,225,239 million

(3) Guarantee liabilities, etc.

Guarantee liabilities:	¥4,941 million
Contingent liabilities in respect of debt assumption agreements with respect to bonds:	¥39,000 million

3. Notes to Land revaluation excess

Commercial land of certain consolidated subsidiaries has been revalued in accordance with the Law Concerning the Revaluation of Land (Law No. 34 of March 31, 1998). Any difference resulting from the revaluation is included in net assets as land revaluation excess. The revaluation is made by making reasonable adjustments to the valuation by road rating which is provided for in Article 2, item 4 of the Enforcement Order of the Law Concerning the Revaluation of Land (Cabinet Order No. 119 of March 31, 1998).

Differences between the fair value at the end of this consolidated fiscal year and its book value after revaluation in respect of revaluated lands ¥(1,365) million

4. Notes to Financial Instruments

(1) Matters concerning the status of financial instruments

It is the Group's policy to raise its operating funds through borrowings from financial institutions and the issuance of bonds and to conduct fund management through a conservative financial portfolio which limit exposure to losses. Also we comply with our accounting manual, etc., to diminish risks on counterpart credit risk against the note and trade accounts receivable. In derivative transactions, we use interest swap for adjusting the ratio between fixed and floating interest rates and fixing the interest level for bonds and borrowings, exchange forward contracts and currency option contracts for reducing fluctuation of cash flow due to exchange fluctuation, swap and option of crude oil price, etc. for reducing fluctuation of cash flow due to change in crude oil price, etc, and weather derivatives for reducing movement of cash flow due to temperature variability. We do not invest in speculative transactions.

(2) Matters concerning fair value etc. of financial instruments

Amounts recorded in the consolidated balance sheet, fair values and the difference between such amount and value at the end of this fiscal year are as follows. Financial instruments for which it is extremely difficult to determine the fair value are not included in the table below (see Note 2).

(Yen in millions)

	Amount recorded on the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	107,239	107,239	—
(2) Notes and trade accounts receivable	159,472	159,472	—
(3) Short-term investment securities and investment in securities	76,931	76,931	—
Total Assets	343,642	343,642	—
(1) Notes and trade accounts payable	46,978	46,978	—
(2) Short-term loans payable	48,104	48,104	—
(3) Bonds[1]	279,551	294,421	14,869
(4) Long-term loans payable[1]	212,080	224,420	12,339
Total Liabilities	586,715	613,925	27,209
Derivative transaction[2]	5,407	5,407	—

[1] Includes those due within one year.

[2] Receivables and payables incurred by derivative transactions are shown in net amount.

Notes: 1. Matters concerning calculation method for fair value of financial instruments, and matters concerning securities and derivatives

Assets

(i) Cash and deposits, and (ii) Notes and trade accounts receivable

As these items are settled within a short term, the fair value is approximately equal to the book value and therefore the book value is listed for these items.

(iii) Short-term investment securities and investment in securities

Fair values of shares are prices quoted by stock exchanges.

The fair values of bonds are prices quoted by securities exchanges or prices presented by financial institutions.

Liabilities

(i) Notes and trade accounts payable and (ii) Short-term loans payable

As these items are settled within a short term, the fair value is approximately equal to the book value and therefore the book value is listed for these items.

(iii) Bonds

The fair value of a bond issued by the Company and some of its consolidated subsidiaries is based on its market price (if any), or on its present value which is the total amount of its principal and interest, discounted by the interest rate derived by taking into consideration the remaining term and credit risk.

(iv) Long-term loans payable

The fair value of long-term loans payable with fixed interest rate is calculated by discounting the sum of the principal and interest with the interest rate of new borrowings for the same amount. The fair value of long-term loans payable with floating interest rate is its book value as such fair value is considered to be approximately equal to the book value.

<u>Derivatives</u>

As of March 31, 2012, there were no derivative transactions for which hedge accounting is not applied.

The fair value of derivative transactions for which the hedge accounting method is applied is the price quoted by the counterpart financial institutions, except for derivatives for which special exception of interest swap is applied. The fair value of derivative for which special exception for interest swap is applied is included in the fair value of long-term borrowings as it is treated as part of such long-term borrowings which is hedged.

2. Shares of affiliates and unlisted shares (amount recorded on the consolidated balance sheet: ¥82,817 million) are not included in "(iii) Short-term investment securities and investment in securities" as they have no market price and their future cash flows cannot be estimated and therefore it is recognized as being very difficult to obtain fair value.

5. Notes to Leased Properties, etc.

(1) Matters concerning the status of leased properties

The Company and some of its consolidated subsidiaries own office buildings for lease (including land) in Osaka Prefecture and other areas.

(2) Matters concerning fair value of leased properties

(Yen in millions)

Amount recorded on the consolidated balance sheet	Fair value
108,371	159,358

Notes: 1. The amount recorded on the consolidated balance sheet is the amount which deducts the accumulated depreciation amount and accumulated impairment loss amount from the acquisition cost.

2. The fair value at the end of this consolidated fiscal year is the amount (including the amount adjusted by using the index etc.) based mainly on the method

prescribed by the “Real Estate Appraisal Standard” and other similar methods.

6. Notes to the Consolidated Statement of Changes in Net Assets

(1) Number of shares issued and outstanding as of the consolidated fiscal year end

2,083,400,000 common shares

(2) Dividends

(i) Amount of payment of dividends

a. At the Annual Meeting of Shareholders held on June 29, 2011, the following were resolved with March 31, 2011, as a record date.

Dividends of common shares

(a)	Total amount of dividends	¥8,329 million
(b)	Dividend per share	¥4.00
(c)	Effective date for dividends	June 30, 2011

b. At the meeting of the Board of Directors held on October 28, 2011, the following were resolved with September 30, 2011, as a record date.

Dividends of common shares

(a)	Total amount of dividends	¥8,329 million
(b)	Dividend per share	¥4.00
(c)	Effective date for dividends	November 30, 2011

(ii) From the dividends for which the record date falls within this consolidated fiscal year, the following are dividends of which the effective date falls within the next consolidated fiscal year.

At the Annual Meeting of Shareholders to be held on June 28, 2012, the following is proposed with March 31, 2012, as a record date. Dividends are to be appropriated from retained earnings.

Dividends of common shares

(a)	Total amount of dividends	¥8,329 million
(b)	Dividend per share	¥4.00
(c)	Effective date for dividends	June 29, 2012

7. Notes to Per Share Information

(1)	Net asset amount per share	¥328.77
(2)	Net income per share:	¥21.71

8. Other Notes

Application of the "Accounting Standard for Accounting Changes and Error Corrections"
Beginning with the accounting changes and error corrections that were made after April 1, 2011, the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) have been applied.

Notes to Non-consolidated Financial Statements (April 1, 2011, to March 31, 2012)

1. Notes to Matters in respect of Significant Accounting Policies

(1) Basis and methodology for the valuation of assets

(i) Valuation of investment securities:

Bonds held to maturity:	Stated at amortized cost
Shares of subsidiaries and affiliated companies:	Stated at cost based on the moving-average method
Other investment securities:	
Securities for which it is practical to determine fair value:	Stated at fair value based on the market price, etc. on the closing day (Unrealized holding gains and losses are accounted for as a component of net assets; cost of sales is determined using the moving-average method.)
Securities for which it is not practical to determine fair value:	Stated at cost based on the moving-average method

(ii) Inventories are valued as follows; provided, however that inventories held for trading recorded on the balance sheet are depreciated to write down the carrying amount based on depreciation of profitability:

Products:	Stated at cost based on the weighted-average method
Raw materials:	Stated at cost based on the moving-average method
Supplies:	Stated at cost based on the moving-average method

(iii) Derivatives are stated at fair value.

(2) Depreciation method of fixed assets

(i) Tangible fixed assets (excluding leased assets) are depreciated using the declining-balance method. However, the straight-line method has been used for buildings (excluding structures attached to buildings) acquired after April 1, 1998.

(ii) Intangible fixed assets (excluding leased assets) are depreciated using the straight-line method. For internal-use software, the straight-line method based on the term available for use within the Company has been applied.

(iii) Leased assets resulting from non-ownership-transfer finance leases are depreciated using the straight-line method over the useful life equal to the lease terms assuming no residual value.

(3) Basis for recording reserves

(i) As for the allowance for bad debts, to provide for the bad debts loss of accounts receivable, loans receivable, etc., an estimated uncollectible amount is provided which is based on an amount calculated based on the default ratio in the past for general receivables and the individual collectability for certain receivables including receivables with default possibility (*Kashidaore Kenen Saiken*).

(ii) As for the reserve for retirement benefits, for the purposes of employee retirement benefits, an amount is provided based on the estimate of the retirement benefits obligation and pension assets at the end of the fiscal year.

(iii) As for the reserve for gasholder repair, to provide for the necessary expenditure for periodical repairs of spherical gas holders, an estimated amount for the next scheduled repair is provided based on the actual expenditure for the previous repair, which is proportionally allotted for the period up to such next scheduled repair.

(iv) As for the reserve for safety actions, to provide for the necessary expenditure to ensure the safety of gas business, an estimated amount of the expenditure necessary for promoting replacements with safety-enhanced models, for strengthening inspections and ensuring wide awareness as well as for countermeasure works on aged pipelines is provided.

(v) As for allowance for investment loss, an amount of expected future losses has been provided as reserve to provide for any losses on the operations of associated companies.

(4) Other significant matters for the preparation of these non-consolidated financial statements

Consumption taxes and other taxes are calculated using the net-of-tax method.

2. Notes to the Non-consolidated Balance Sheet

(1) Accumulated depreciation of tangible fixed assets and accumulated depreciation of intangible fixed assets

Accumulated depreciation of tangible fixed assets:	¥1,943,243 million
Accumulated depreciation of intangible fixed assets:	¥3,604 million

(2) Guarantee liabilities, etc.

Guarantee liabilities:	¥40,946 million
Contingent liabilities in respect of debt assumption agreements with respect to bonds:	¥39,000 million

3. Notes to the Non-consolidated Income Statement

Amount of business from operational transactions with associated companies:

Sales to associated companies:	¥73,187 million
Amount of purchases from associated companies:	¥130,859 million

Amount of business from non-operational transactions with associated companies:

¥17,955 million

4. Notes to the Non-consolidated Statement of Changes in Net Assets

Number of treasury shares at the end of the fiscal year: 1,146,823 common shares

5. Notes to Tax Effect Accounting

(1) The main factors for the deferred tax assets are excess depreciation of depreciable assets, excess depreciation of deferred assets and accrued enterprise taxes.

(2) The main factors for the deferred tax liabilities are prepaid severance and retirement benefit expenses, reserve required under the Special Taxation Measures Law, and net unrealized holding gains on other securities.

6. Notes to Transactions with Related Parties

Company Name	Holding Ratio of Voting Rights	Relationship	Substance of Transaction	Transaction Amount (Yen in millions)	Item	Outstanding amount as at the year-end (Yen in millions)
Osaka Gas Australia Pty. Ltd.	100% direct holding	Subsidiary	Underwriting of increase in capital stock (Note 1)	12,742	—	—

Conditions of transaction and decision policy for conditions of transaction, etc.

Note 1. The Company underwrote 153,403,448 shares of stock of Osaka Gas Australia Pty. Ltd. through a rights offering.

7. Notes to Per Share Information

(1) Net asset amount per share: ¥261.51

(2) Net income per share: ¥12.35

8. Other Notes

Application of the "Accounting Standard for Accounting Changes and Error Corrections"

Beginning with the accounting changes and error corrections that were made after April 1, 2011, the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) have been applied.