Notes to Consolidated Financial Statements

Notes to Non-Consolidated Financial Statements

The 196th Fiscal Year (From April 1, 2013 to March 31, 2014)

Osaka Gas Co., Ltd.

Notes to Consolidated Financial Statements (April 1, 2013 to March 31, 2014)

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

(1) Scope of consolidation

Number of consolidated subsidiaries: 150

(Names of principal consolidated subsidiaries)
Osaka Gas Chemicals Co., Ltd., OSAKA GAS URBAN DEVELOPMENT Co., Ltd., OGIS-RI Co., Ltd., and Liquid Gas Co., Ltd.

(2) Application of the equity method

Number of equity method associates: 12

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

(Names of principal associates not subject to the equity method)
The associates not subject to the equity method include primarily ENNET Corporation.
The equity method is not applied to these associates 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 policies

(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 and amortization method of significant depreciable assets

a. Property, plant and equipment (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 assets (excluding leased assets) are amortized primarily using the straight-line method. For internal-use software, the straight-line method based on the term available for use within Osaka Gas Co., Ltd. ("the Company") and each subsidiary has been applied.

c. Leased assets resulting from non-ownership-transfer finance leases are depreciated or amortized 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 doubtful accounts

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. Provision for gas holder repairs

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.

c. Provision for safety measures

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.

d. Allowance for investment loss

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

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

a. Basis for recording Net defined benefit liability

For the purposes of employee retirement benefits, based on the estimate of the retirement benefits obligation at the end of this consolidated fiscal year, an amount obtained by deducting plan assets from retirement benefit obligations is provided.

b. Method and period of goodwill amortization

Goodwill is evenly amortized over a period not exceeding 20 years and as long as the effect of goodwill is recognizable. However, if the amount of goodwill is immaterial, it is entirely charged to income or losses when incurred.

c. Accounting for consumption taxes and other taxes

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

2. Changes in Accounting Policies

"Application of the Accounting Standard for Retirement Benefits, etc."

"The Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, dated May 17, 2012, hereinafter the "Accounting Standard") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, dated May 17, 2012, hereinafter the "Guidance") have been applied effective from the end of this fiscal year, except for the provisions of Item 35 of the Accounting Standard and Item 67 of the Guidance. According to this change in accounting policies regarding retirement benefits, an amount obtained by deducting the amount of plan assets from retirement benefit obligations is recognized as Net defined benefit liability or Net defined benefit asset, which includes unrecognized actuarial difference and unrecognized past service costs.
For the application of the Accounting Standard and the Guidance, we follow the transitional treatment provided for in Item 37 of the Accounting Standard. Accordingly, the effect of said change is reflected in Remeasurements of defined benefit plans under Accumulated other comprehensive income.
As a result, as at the end of this fiscal year, Net defined benefit asset of ¥29,414 million and Net defined benefit liability of ¥15,325 million were reported and there was a decrease of ¥6,100 million in Accumulated other comprehensive income. Net assets per share decreased by 2.93 yen.

3. Notes to the Consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities

(i) Assets pledged as collateral

Property, plant and equipment	¥81,109 million
Investments and other assets	¥12,267 million
Others	¥32,680 million
Total	¥126,057 million

(ii) Secured liabilities ¥38,817 million

(2) Accumulated depreciation of property, plant and equipment:

¥2,366,175 million

(3) Guarantee liabilities, etc.

Guarantee liabilities:	¥19,130 million
Contingent liabilities in respect of debt assumption agreements with respect to bonds:	¥29,000 million

4. Notes to Revaluation Reserve for Land

Commercial land of certain consolidated subsidiaries has been revaluated in accordance with the Act on Revaluation of Land (Law No. 34 of March 31, 1998) and the Amendment to Act on Revaluation of Land (Law No. 19 of March 31, 2001). Any difference (excluding any amount associated with tax effect accounting) resulting from the revaluation, is included in net assets as revaluation reserve for land. 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 ¥(937) million

5. 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).

(Millions of Yen)

	Amount recorded on the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	75,258	75,258	—
(2) Notes and accounts receivable-trade	192,277	192,277	—
(3) Securities and investment securities	94,760	94,760	—
Total Assets	362,296	362,296	—

(1) Notes and accounts payable-trade	60,358	60,358	—
(2) Short-term loans payable	46,756	46,756	—
(3) Bonds payable[1]	263,708	278,634	14,925
(4) Long-term loans payable[1]	261,628	272,829	11,201
Total Liabilities	632,452	658,579	26,127
Derivative transaction[2]	8,038	8,038	—

[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

(1) Cash and deposits, and (2) Notes and accounts receivable-trade

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.

(3) Securities and investment 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

(1) Notes and accounts payable-trade and (2) 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.

(3) Bonds payable

The fair value of bonds payable issued by the Company and certain 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.

(4) 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.

Derivatives

The fair value of derivative transactions is primarily based on the price quoted by the counterpart financial institutions. The fair value of derivatives 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 associates and unlisted shares (amount recorded on the consolidated balance sheet: ¥118,597 million) are not included in "(3) Securities and investment 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.

6. 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

(Millions of Yen)

Amount recorded on the consolidated balance sheet	Fair value
106,027	161,943

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.

7. Notes to the Consolidated Statement of Changes in Equity

(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 27, 2013, the following were resolved with March 31, 2013, as a record date.

Dividends of common shares

(a)	Total amount of dividends	¥9,369 million
(b)	Dividend per share	¥4.50
(c)	Effective date for dividends	June 28, 2013

b. At the meeting of the Board of Directors held on October 29, 2013, the following were resolved with September 30, 2013 as a record date.

Dividends of common shares

(a)	Total amount of dividends	¥9,368 million
(b)	Dividend per share	¥4.50
(c)	Effective date for dividends	November 29, 2013

(ii) Dividends of which the record date falls within this consolidated fiscal year and of which the effective date falls within the next consolidated fiscal year

At the Annual Meeting of Shareholders to be held on June 27, 2014, the following is proposed with March 31, 2014 as a record date. Dividends are to be appropriated from retained earnings.

Dividends of common shares

(a)	Total amount of dividends	¥9,365 million
(b)	Dividend per share	¥4.50
(c)	Effective date for dividends	June 30, 2014

8. Notes to Per Share Information

(1)	Net assets per share:	¥383.90
(2)	Net income per share:	¥20.04

9. Other Notes

To help enhance the competitiveness and earnings of the Group businesses, Osaka Gas Chemicals Co., Ltd., a consolidated subsidiary of the Company, acquired all the shares of Jacobi Carbons AB, a manufacturer and distributor of activated carbon, on January 7, 2014. The cost of this acquisition was ¥40,505 million, and the amount of goodwill recognized was ¥21,009 million.

Notes to Non-Consolidated Financial Statements (April 1, 2013 to March 31, 2014)

1. Notes to Matters in respect of Significant Accounting Policies

(1) Basis and methodology for the valuation of assets

(i) Valuation of securities:

Bonds held to maturity:	Stated at amortized cost
Shares of subsidiaries and associates:	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:

Finished goods:	Stated at cost based on the total-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 and amortization method of noncurrent assets

(i) Property, plant and equipment (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 assets (excluding leased assets) are amortized using the straight-line method. For internal-use software, the straight-line method based on the term available for use within Osaka Gas Co., Ltd. ("the Company") has been applied.

(iii) Leased assets resulting from non-ownership-transfer finance leases are depreciated or amortized 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 doubtful accounts, 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 provision 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 provision for gas holder repairs, 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 provision for safety measures, 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.

(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 subsidiaries and associates.

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

(i) The method of accounting for unrecognized actuarial difference concerning retirement benefits on a non-consolidated basis is different from that on a consolidated basis.

(ii) 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 property, plant and equipment and accumulated amortization of intangible assets

Accumulated depreciation of property, plant and equipment:	¥2,026,579 million
Accumulated amortization of intangible assets:	¥1,169 million

(2) Guarantee liabilities, etc.

Guarantee liabilities:	¥81,465 million
Contingent liabilities in respect of debt assumption agreements with respect to bonds:	¥29,000 million

3. Notes to the Non-Consolidated Statement of income

Amount of business from operational transactions with subsidiaries and associates:

Sales to subsidiaries and associates:	¥86,603 million
Amount of purchases from subsidiaries and associates:	¥139,636 million

Amount of business from non-operational transactions with subsidiaries and associates:

¥21,517 million

4. Notes to the Non-Consolidated Statement of Changes in Equity

Number of treasury stock at the end of the fiscal year: 2,214,444 common shares

5. Notes to Tax Effect Accounting

(1) The main factors for the deferred tax assets are loss on valuation of securities, excess depreciation of depreciable assets and excess depreciation of deferred assets.

(2) The main factors for the deferred tax liabilities are prepaid severance and retirement benefit expenses, valuation difference on available-for-sale securities and reserve required under the Special Taxation Measures Law.

6. Notes to Transactions with Related Parties

Company Name	Holding Ratio of Voting Rights	Relationship	Substance of Transaction	Transaction Amount (Millions of Yen)	Item	Outstanding amount as at the year-end (Millions of Yen)
Osaka Gas Energy America Corporation	100% direct holding	Subsidiary	Subscription for allocation of new shares (Note 1)	28,363	—	—
Osaka Gas Chemicals Co., Ltd.	100% direct holding	Subsidiary	Subscription for allocation of new shares (Note 2)	20,462	—	—
Osaka Gas Gorgon Pty. Ltd.	100% indirect holding	Subsidiary	Debt guarantee (Note 3)	31,050	—	—

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

(Note 1) The Company subscribed for an allocation of new shares to a shareholder conducted by Osaka Gas Energy America Corporation.

(Note 2) The Company subscribed for an allocation of new shares to a shareholder conducted by Osaka Gas Chemicals Co., Ltd.

(Note 3) The Company provided a guarantee for the long-term loans payable of Osaka Gas Gorgon Pty. Ltd. to Japan Bank for International Cooperation, etc.

7. Notes to Per Share Information

(1)	Net assets per share:	¥278.70
(2)	Net income per share:	¥11.98