Consolidated Statement of Changes in Equity

Notes to Consolidated Financial Statements

Non-Consolidated Statement of Changes in Equity

Notes to Non-Consolidated Financial Statements

The 200th Fiscal Year (From April 1, 2017 to March 31, 2018)

OSAKA GAS CO., LTD.

Consolidated Statement of Changes in Equity (April 1, 2017 to March 31, 2018)

(Millions of Yen)

	Shareholders' equity					Accumulated other comprehensive income							
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	**Non-controlling interests**	**Total net assets**
Balance at beginning of current period	**132,166**	**19,319**	**752,872**	**(1,492)**	**902,865**	**51,678**	**(9,500)**	**(737)**	**17,993**	**(393)**	**59,040**	**29,965**	**991,870**
Changes of items during period													
Dividends of surplus			(20,794)		(20,794)								(20,794)
Profit attributable to owners of parent			37,724		37,724								37,724
Purchase of treasury shares				(175)	(175)								(175)
Disposal of treasury shares		0		5	5								5
Changes in ownership interest of subsidiaries arising from transactions with non-controlling shareholders		(97)			(97)								(97)
Net changes of items other than shareholders' equity						5,298	1,849	—	1,536	12,316	21,001	(735)	20,265
Total changes of items during period	**—**	**(96)**	**16,929**	**(170)**	**16,662**	**5,298**	**1,849**	**—**	**1,536**	**12,316**	**21,001**	**(735)**	**36,928**
Balance at end of current period	**132,166**	**19,222**	**769,801**	**(1,663)**	**919,527**	**56,977**	**(7,650)**	**(737)**	**19,530**	**11,922**	**80,042**	**29,229**	**1,028,799**

Notes to Consolidated Financial Statements (April 1, 2017 to March 31, 2018)

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

(1) Scope of consolidation

Number of consolidated subsidiaries: 138

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

(2) Application of the equity method

Number of equity method associates: 19

(Names of principal equity method associates)
Idemitsu Snorre Oil Development Co., Ltd. and Sumisho Osaka Gas Water UK, Ltd.

(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 profit or loss, 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 valuation 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 facilities attached to buildings) acquired on or after April 1, 1998, and for facilities attached to buildings and structures acquired on or after April 1, 2016.

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 allowances

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.

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 the widespread use of safety-enhanced models, for strengthening inspections and ensuring wide awareness as well as for countermeasure works on aged gas pipelines is provided.

d. Provision 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.

e. Provision for equipment warranties

To provide for the payment of any service costs under warranty after the sale of appliances, an estimated amount of such costs is provided.

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

a. Accounting for retirement benefits

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

i Method of attributing projected retirement benefits to periods of service

In calculating retirement benefit obligations, the benefit formula basis is mainly applied to attribute projected retirement benefits to periods of service until the end of this consolidated fiscal year.

ii Amortization of actuarial gains and losses and past service costs

Past service costs are expensed mainly in the consolidated fiscal year when such costs are incurred.
Actuarial gains and losses are amortized on a straight-line basis mainly over a period of 10 years beginning from the next consolidated fiscal year after occurrence.

b. Accounting for consumption taxes and other taxes

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	
	Property, plant and equipment	¥125,761 million
	Investments and other assets	¥75,810 million
	Others	¥12,296 million
	Total	¥213,867 million
(ii)	Secured liabilities	¥35,097 million

In addition to above, loans receivable, etc., of ¥10,004 million which are offset as a result of consolidation are pledged as collateral.

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

¥2,600,246 million

(3) Guarantee liabilities, etc.

Guarantee liabilities:	¥28,485 million
Contingent liabilities in respect of debt assumption agreements with respect to bonds:	¥20,000 million

3. 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).

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 consolidated 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	171,529	171,529	—
(2) Notes and accounts receivable - trade	190,445	190,445	—
(3) Securities and investment securities	103,915	103,915	—
Total Assets	465,890	465,890	—
(1) Notes and accounts payable - trade	58,542	58,542	—
(2) Short-term loans payable	22,179	22,179	—
(3) Bonds payable[1]	194,984	207,641	12,656
(4) Long-term loans payable[1]	279,560	290,749	11,188

Total Liabilities	555,266	579,112	23,845
Derivative transaction[2]	(2,948)	(2,948)	—

[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. Therefore, the book value is listed as the fair value 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. Therefore, the book value is listed as the fair value for these items.

(3) Bonds payable

The fair value of bonds payable issued by the Company is based on their market prices.

(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 because the 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 are hedged.

2. Shares of associates and unlisted shares (amount recorded on the consolidated balance sheet: ¥219,296 million) are not included in "(3) Securities and investment securities" as they have no market price and their future cash flows cannot be estimated. 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

(Millions of Yen)

Amount recorded on the consolidated balance sheet	Fair value
115,788	184,086

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 Equity

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

416,680,000 common shares

(2) Dividends

(i) Amount of payment of dividends

a. At the Annual Meeting of Shareholders held on June 29, 2017, the following were resolved with March 31, 2017, as a record date.

Dividends of common shares

(a)	Total amount of dividends	¥10,398 million
(b)	Dividend per share	¥5.00
(c)	Effective date for dividends	June 30, 2017

b. At the meeting of the Board of Directors held on October 26, 2017, the following were resolved with September 30, 2017, as a record date.

Dividends of common shares

(a)	Total amount of dividends	¥10,396 million
(b)	Dividend per share	¥5.00
(c)	Effective date for dividends	November 30, 2017

Note: Because the record date is September 30, 2017, the above dividend per share does not reflect the reverse stock split as of October 1, 2017.

(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 28, 2018, the following will be proposed with March 31, 2018, as a record date. Dividends are to be appropriated from retained earnings.

Dividends of common shares

(a)	Total amount of dividends	¥10,396 million
(b)	Dividend per share	¥25.00
(c)	Effective date for dividends	June 29, 2018

7. Notes to Per Share Information

(1) Net assets per share: ¥2,403.68

(2) Earnings per share: ¥90.71

Note: Effective October 1, 2017, the Company conducted a reverse stock split by consolidating five shares of its common stock into one share. The net assets per share and the earnings per share were calculated on the assumption that the reverse stock split was conducted at the beginning of the fiscal year under review.

Non-Consolidated Statement of Changes in Equity (April 1, 2017 to March 31, 2018)

(Millions of Yen)

	Shareholders' equity													Valuation and translation adjustments			
		Capital surplus			Retained earnings												
						Other retained earnings											
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for reduction entry of specified replaced properties	Reserve for overseas investment loss	Reserve for adjustment of cost fluctuations	General reserve	Retained earnings brought forward	Total retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	**Total net assets**
Balance at beginning of current period	**132,166**	**19,482**	**11**	**19,493**	**33,041**	**241**	**20,756**	**89,000**	**62,000**	**347,575**	**552,615**	**(1,492)**	**702,783**	**36,570**	**(3,472)**	**33,098**	**735,881**
Changes of items during period																	
Provision of reserve for overseas investment loss							247			(247)	—		—				—
Reversal of reserve for overseas investment loss							(2,632)			2,632	—		—				—
Dividends of surplus										(20,794)	(20,794)		(20,794)				(20,794)
Profit										44,028	44,028		44,028				44,028
Purchase of treasury shares												(175)	(175)				(175)
Disposal of treasury shares			0	0								5	5				5
Net changes of items other than shareholders' equity														4,710	2,713	7,424	7,424
Total changes of items during period	**—**	**—**	**0**	**0**	**—**	**—**	**(2,385)**	**—**	**—**	**25,619**	**23,233**	**(170)**	**23,063**	**4,710**	**2,713**	**7,424**	**30,487**
Balance at end of current period	**132,166**	**19,482**	**11**	**19,493**	**33,041**	**241**	**18,370**	**89,000**	**62,000**	**373,195**	**575,849**	**(1,663)**	**725,846**	**41,280**	**(758)**	**40,522**	**766,368**

Notes to Non-Consolidated Financial Statements (April 1, 2017 to March 31, 2018)

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 valuation 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 non-current 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 facilities attached to buildings) acquired on or after April 1, 1998 and for facilities attached to buildings and structures acquired on or after April 1, 2016.

(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.

(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.

a. Method of attributing projected retirement benefits to periods of service

In calculating retirement benefit obligations, the benefit formula basis is applied to attribute projected retirement benefits to periods of service until the end of this fiscal year.

b. Amortization of actuarial gains and losses and past service costs

Past service costs are expensed in the period when such costs are incurred.
Actuarial gains and losses are amortized on a straight-line basis over a period of 10 years beginning from the next fiscal year of occurrence.

(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 the widespread use of 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 the provision 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.

(vi) With regard to provision for equipment warranties, to provide for the payment of any service costs under warranty after the sale of appliances, an estimated amount of such costs is provided.

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

(i) The method of accounting for unrecognized actuarial differences and unrecognized past service costs 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) Assets pledged as collateral

Investments and other assets:	¥2,151 million

(2) Accumulated depreciation of property, plant and equipment and accumulated amortization of intangible assets

Accumulated depreciation of property, plant and equipment:	¥2,198,409 million
Accumulated amortization of intangible assets:	¥5,603 million

(3) Guarantee liabilities, etc.

Guarantee liabilities:	¥82,773 million
Contingent liabilities in respect of debt assumption agreements with respect to bonds:	¥20,000 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:	¥90,413 million
Amount of purchases from subsidiaries and associates:	¥178,826 million

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

¥24,088 million

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

Number of treasury stock at the end of the fiscal year: 830,077 common shares

5. Notes to Tax Effect Accounting

(1) The main factors for the deferred tax assets are loss on valuation of securities, provision for equipment warranties and provision for safety measures.

(2) The main factors for the deferred tax liabilities are valuation difference on available-for-sale securities, prepaid severance and retirement benefit expenses and reserves 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 Gorgon Pty. Ltd.	100% indirect holding	Subsidiary	Debt guarantee	30,801	—	—

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

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: ¥1,842.90

(2) Earnings per share: ¥105.87

Note: Effective October 1, 2017, the Company conducted a reverse stock split by consolidating five shares of its common stock into one share. The net assets per share and the earnings per share were calculated on the assumption that the reverse stock split was conducted at the beginning of the fiscal year under review.

8. Other Notes

“Revision of the Gas Business Accounting Rules”

Because the Ordinance of the Ministry of Economy, Trade and Industry (METI) for Partial Revision of the Gas Business Accounting Rules (METI Ordinance No. 18, March 28, 2017) became effective on April 1, 2017 and revised the Gas Business Accounting Rules, the Company prepared its balance sheet, etc., in accordance with the revised Gas Business Accounting Rules.