

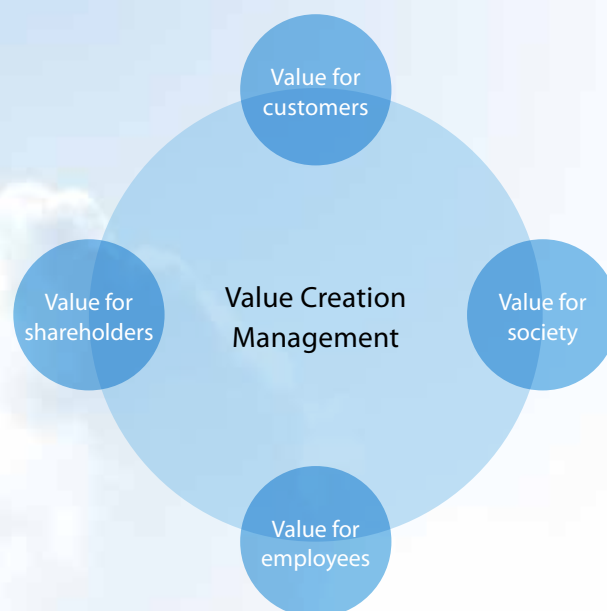


# OSAKA GAS GROUP ANNUAL REPORT 2014



## Management Principle

Giving top priority to maximizing value for customers, the Osaka Gas Group pursues its management principle, Value Creation Management, to enhance value for all stakeholders, including shareholders, society, and employees through fair and transparent business activities.



## Contents

<b>1</b>	Special Feature OUR POTENTIAL
<b>8</b>	Message from Top Management
<b>10</b>	An Interview with the President
<b>16</b>	Consolidated Financial Highlights
<b>18</b>	Osaka Gas Group's New Medium-Term Business Plan "Catalyze Our Dreams"
<b>20</b>	Domestic and International Energy Businesses
20 ▶	Strengthening the Natural Gas Value Chain
22 ▶	Characteristics of Natural Gas
23 ▶	Characteristics of Gas Business in Japan
24 ▶	Domestic Energy Businesses
33 ▶	International Energy Businesses
<b>36</b>	Life & Business Solutions (Non-Energy Business)
<b>40</b>	Technological Development
<b>42</b>	Intellectual Property Activities
<b>43</b>	Corporate Governance
<b>46</b>	CSR
<b>48</b>	Osaka Gas Group Organization
<b>49</b>	Financial Section
<b>80</b>	Major Consolidated Subsidiaries
<b>81</b>	Company Data



### Note on Heating Value

Unless otherwise stated, gas sales volume is shown at the unit value of 45MJ/m<sup>3</sup>.

### Forward-Looking Statements

Statements contained in this annual report with respect to the Osaka Gas Group's plans, strategies, and beliefs that are not historical facts are forward-looking statements about the future performance of the Osaka Gas Group which are based on management's assumptions and beliefs in light of the information currently available to it. These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the Osaka Gas Group's actual results, performance, or achievements to differ materially from the expectations expressed herein.

For over a century, the Osaka Gas Group has continued to provide the Kansai region with a reliable supply of gas. At the same time, we have built up a variety of business foundations by boldly taking up the challenge of entering peripheral domains.

In this introductory special feature of our 2014 annual report, we paint a picture of the Group as well as efforts to accelerate the pace of growth. As we move forward, we will endeavor to consistently enhance our corporate value.

## A Quantitative Look at the Osaka Gas Group



Gas Sales Volume (Consolidated)

**8.6** billion m<sup>3</sup>  
(2014.3)



Consolidated Ordinary Income

**¥106.0** billion

**Profit Composition** Gas business: Approx. 30%  
Fields outside the gas business: Approx. 70%  
(2014.3)

## OUR POTENTIAL



Power Generation Capacity

Approx. **3.0** GW  
(As of the end of May 2014)



LNG Procurement

Approx. **8** million tons  
(2014.3)

## Gas Sales Volume (Consolidated)

**8.6** billion m<sup>3</sup>  
(2014.3)

## Realizing Sustainable Growth in the Domestic Gas Business

As a gas supplier that boasts an extensive scale of operations in Japan, the Osaka Gas Group has witnessed dramatic gas sales volume growth in the Kansai region. Currently, the Group supplies city gas to over 7.1 million households and is working to address the increasingly diverse needs of its customers.

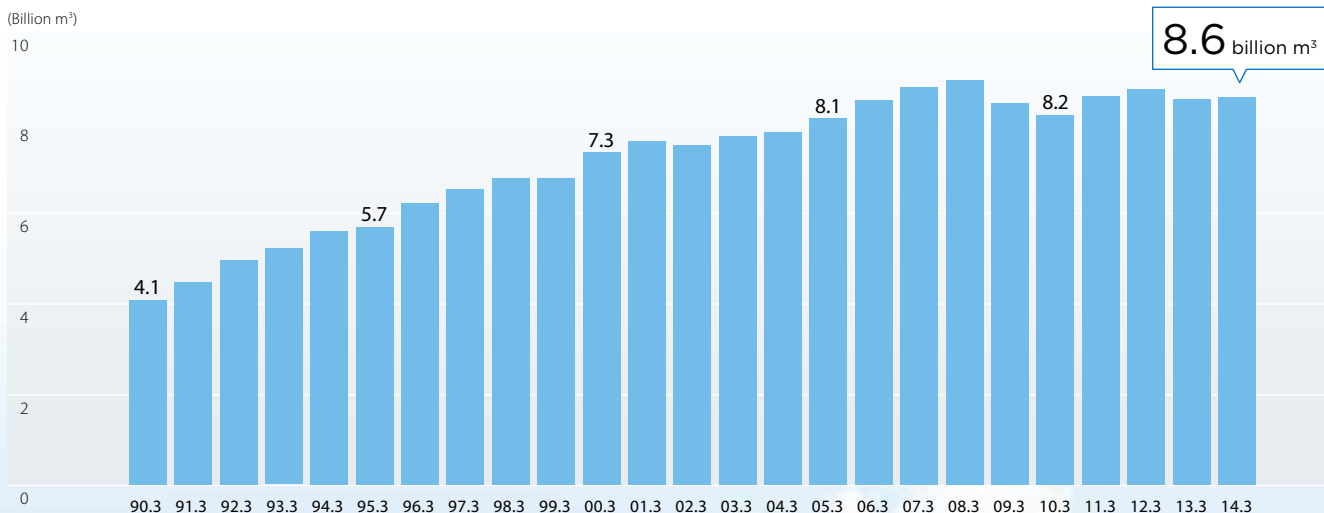
Total Pipeline Length (Consolidated)

Approx. **61,300** km

Number of Meters Installed (Consolidated)

Approx. **7.16** million

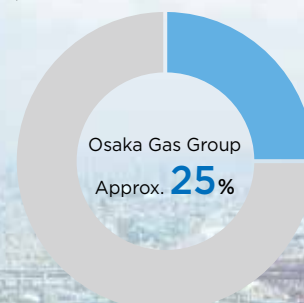
## Trends in Domestic Gas Sales Volume of the Osaka Gas Group



## The Osaka Gas Group's Share of Gas Sales in Japan

The Osaka Gas Group held around 25% of the total city gas sales volume in Japan for the fiscal year ended March 31, 2014.

Share of Gas Sales Volume in Japan  
(2014.3)





# OUR POTENTIAL

## Stimulating New Demand

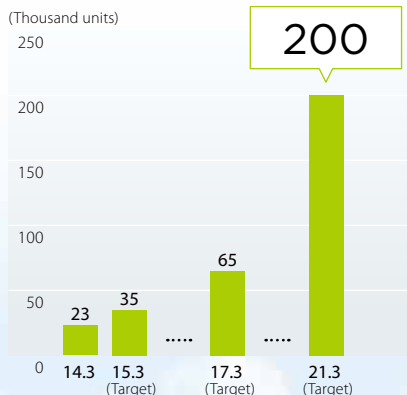
The Himeji-Okayama gas pipeline that links Himeji City, Hyogo Prefecture with Okayama City, Okayama Prefecture was completed in March 2014. The Osaka Gas Group will work diligently to stimulate natural gas demand focusing mainly on industrial use.



The Osaka Gas Group will expand the use of natural gas by focusing mainly on gas cogeneration systems that generate electric power using city gas as a fuel and recover the exhaust heat emitted during generation to power water heaters as well as heating and air conditioning systems.

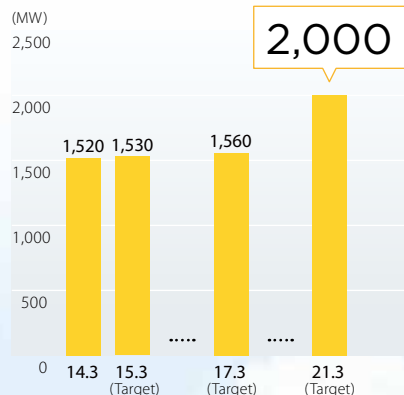
### Fuel Cell Cogeneration System for Residential Use: ENE-FARM

Cumulative Number of Units Sold



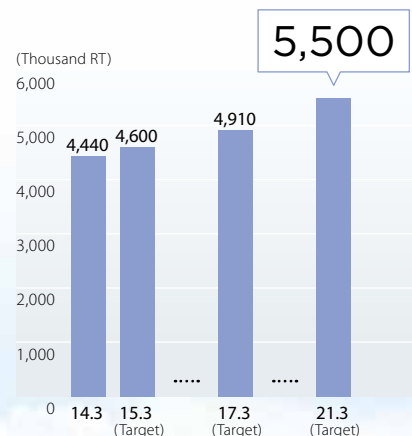
### Cogeneration Systems in Non-Residential Fields

Cumulated Installed Capacity Sold



### Gas Air Conditioning Systems

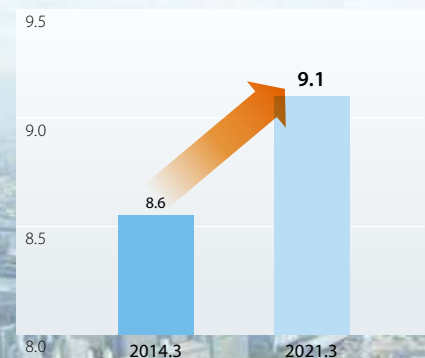
Cumulative Shipment Basis



## Demand for Natural Gas Fueling Expectations of Stable and Sustained Growth

Taking into consideration its environmental friendliness and stable supply compared with other energy sources, including oil and coal, the demand for natural gas is expected to expand.

The Osaka Gas Group's Outlook for Gas Demand (Billion m<sup>3</sup>)



## Consolidated Ordinary Income

# ¥106.0 billion

(2014.3)

**Profit Composition**

Gas business: Approx. 30%  
Fields outside the gas business: Approx. 70%

## Boldly Expanding Business Domains

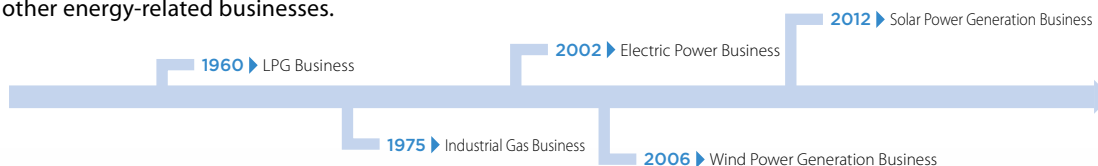
Utilizing the know-how and technologies gained through its city gas operations, the Osaka Gas Group is aggressively expanding its activities into areas outside the gas business domain.

### Domestic Energy Businesses

Extending beyond the supply of city gas, the Osaka Gas Group is expanding its business domain into other energy-related businesses.

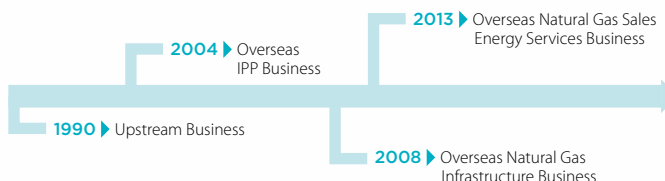


1905 ▶ Foundation / commenced gas operations



### International Energy Businesses

Making the most of the know-how gained through its LNG procurement activities, the Osaka Gas Group is developing its overseas business.



### Life & Business Solutions (Non-Energy Business)

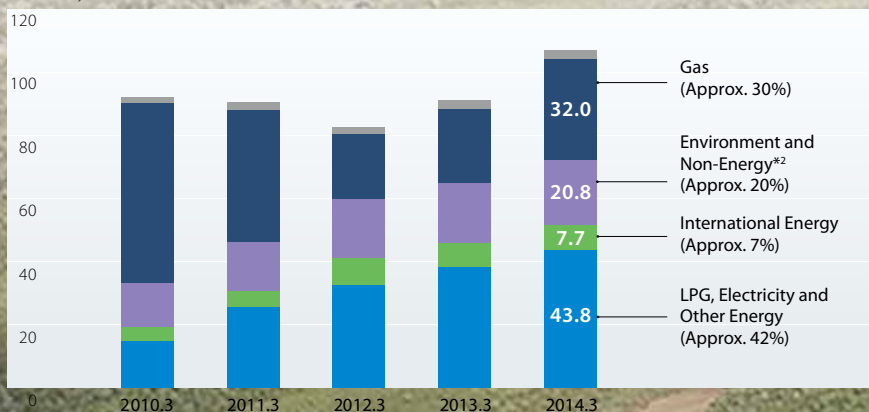
Using the technological capabilities and know-how nurtured through the gas business, the Osaka Gas Group is expanding its business activities.



## Trends in Segment Income\*1

Today, activities outside the gas business are providing a stable stream of income and account for more than half of the Group's total earnings.

(Billions of yen)



Data in parentheses indicates the composition of profits by segment.

\*1 Segment Income = Operating income + Equity in earnings of affiliates

\*2 Following a review of segment details, the name of the segment has been changed to the life & business solutions (non-energy business) segment effective from the fiscal year ending March 31, 2015.

# OUR POTENTIAL

## Investments Aimed at Increased Growth

The Osaka Gas Group is looking to secure further growth in its domestic energy, international energy as well as life & business solutions (non-energy business) and to develop a robust business portfolio by undertaking new investments.

### Major investment projects from the fiscal year ended March 31, 2010


- Domestic Energy Businesses
- International Energy Businesses
- Life & Business Solutions (Non-Energy Business)



**Production scheduled to commence around 2015**  
Participation in the Gorgon Project in Australia



**Jan. 2014**  
Participation in an energy services business in Thailand



**Oct. 2013**  
Participation in a water supply business in the United Kingdom



**Operations scheduled to commence around 2016**  
Construction of a coal-fired thermal power plant in Nagoya



**Jan. 2014**  
Acquisition of Jacobi Carbons AB, an activated carbon manufacturer / distributor headquartered in Sweden



**Commenced operations in Feb. 2013**  
Participation in the Aurora Solar Power Generation Project in Canada



**Commenced operations in Oct. 2011**  
Participation in the Shuweihaat S2 IWPP project in the United Arab Emirates



**May 2010**  
Participation in the Sagunto LNG Terminal business in Spain



**Production scheduled to commence around 2017**  
Participation in the Ichthys Project in Australia



**Operations scheduled to commence around 2018**  
Scheduled participation in the Freeport LNG Terminal Project in the United States

Photograph courtesy of Freeport LNG Development, L.P.



**Production scheduled to commence around 2015**  
Participation in a condensate / gas development project in Papua New Guinea



**Aug. 2013**  
Participation in a natural gas retail business for industrial customers in Singapore



**Oct. 2012**  
Acquisition of wind power plants (Saga Prefecture, Yamaguchi Prefecture)



**Apr. 2009**  
Launch of commercial operations at the Senboku Natural Gas Power Plant

2009

2010

2011

2012

2013

2014

2015

2016

2017



## Power Generation Capacity

Approx. **3.0** GW **OUR POTENTIAL**

(As of the end of May 2014)

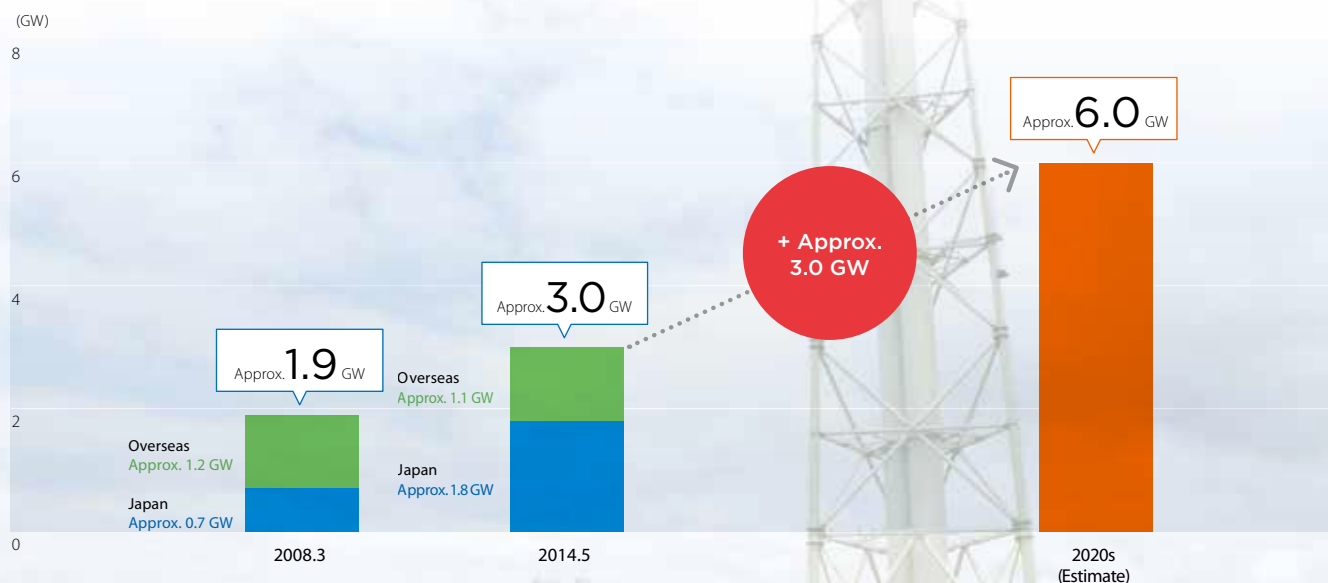
## Actively Strengthening the Electric Power Business

The Osaka Gas Group is actively engaged in electric power operations focusing mainly on natural gas power generation. These activities are conducted both in Japan and overseas.

At the moment, the Group boasts a total generation capacity of approximately 1.8 GW in Japan. Of this total, the Senboku Natural Gas Power Plant accounts for around 1.1 GW. Overseas, we are also pursuing participation in IPPs and other projects with our stake coming to an additional 1.05 GW.

Looking ahead, we will continue to pursue nationwide opportunities with the plan to expand the scope of our power generation capacity to 6.0 GW by the 2020s.

### Power Generation Capacity Trends and Targets





## LNG Procurement

Approx. **8** million tons  
(2014.3)

# OUR POTENTIAL

## Diversifying Sources of Supply

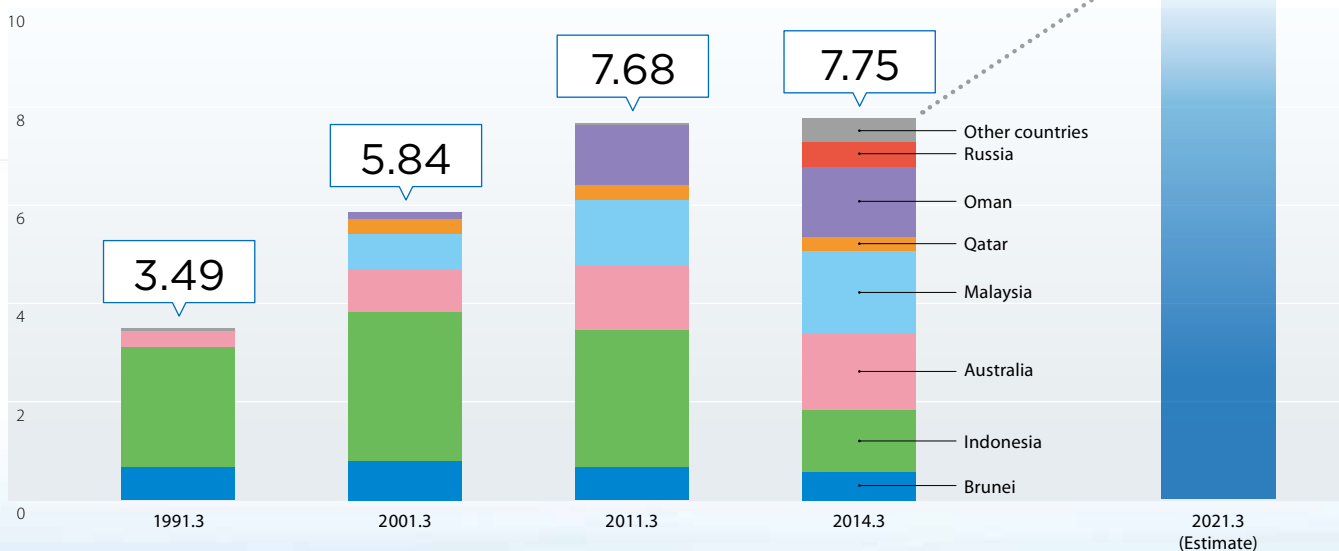
Since first importing LNG in 1972, the Osaka Gas Group has witnessed an increase in demand. Today, the Group's procurement volume has expanded to around 8 million tons.

In order to ensure the stable supply of city gas, we have concluded long-term agreements with producers in seven countries. Moving forward, the Group is working actively to diversify its sources of supply.

Plans are already in place to procure additional requirements from new projects in Papua New Guinea and Australia. Looking further into the future, we will take steps to procure shale gas as a new natural resource. The Osaka Gas Group is projecting an increase in the volume of LNG it handles to 11 million tons by the fiscal year ending March 31, 2021.

## LNG Procurement Volume

(Million tons)



Amid expectations that the global demand for LNG will continue to increase, we will maintain our focus on procuring stable and competitive supplies of LNG.



## Message from Top Management



To our shareholders and stakeholders,

In looking at the global energy market, a number of external factors can be identified that may potentially affect the activities of the Osaka Gas Group. They include the proposed restructuring of the electricity and gas industries in Japan, and a tide of changes in the global energy market brought about by the shale gas revolution. As a leading energy supplier in Japan, we are particularly concerned about the energy market reform in this country that may create significant changes in the landscape of the domestic energy business both in terms of challenges and opportunities.

Against the backdrop of these major changes in the operating environment, Osaka Gas is prepared to respond positively to fulfill its responsibilities as an energy supplier. In more specific terms, we will focus more than ever on providing our customers with a stable and economical supply of natural gas, an important energy source that should be expanded according to the New Basic Energy Plan for Japan recently formulated by the government. To capitalize on the broadened scope of natural gas in Japan, our core gas supply business should be combined with the solutions businesses within the Group, which would, in turn, encourage us to evolve into a comprehensive group of energy companies.

In March this year, we formulated a new medium-term management plan for the three-year period from the fiscal year ending March 31, 2015 to the fiscal year ending March 31, 2017. The plan, called “Catalyze Our Dreams,” envisions the growth and expansion of the

# COMMITMENT

- We will fulfill our responsibility as an energy supplier.
- We will transform ourselves into a comprehensive energy business operator that addresses the wide-ranging needs of customers and society.
- We will work to maximize stakeholder value.

Osaka Gas Group towards a comprehensive energy company that focuses on the growth of its electricity, international energy, and materials and solutions businesses. I trust that our achievements will fortify our managerial foundation and ensure our position in the competitive market environment.

Looking over the horizons of both domestic and international markets, there exist a variety of risks that could affect our activities. We should remain alert to these risks and be prepared to respond positively to the challenges that may emerge. Both the management and employees of the Osaka Gas Group will exert themselves to achieve the goals set forth in 'Catalyze Our Dreams' so that we maximize the value of the Group for our shareholders and all other stakeholders.

Thank you for your continued support and encouragement.

July 2014



Hiroshi Ozaki  
President

## An Interview with the President



## Creativity and Challenge

Hiroshi Ozaki

President  
Osaka Gas Co., Ltd.



Please give us your assessment of the first phase of your “Field of Dreams 2020” long-term management vision, which extends from the fiscal year ended March 31, 2010 to the fiscal year ended March 31, 2014. ▶▶ p. 11

What were the performance highlights for the fiscal year ended March 31, 2014? ▶▶ p. 12

Please tell us the thinking incorporated into your new medium-term business plan. ▶▶ p. 12

Based on the changes in the energy business environment, please tell us about your outlook for the gas business. ▶▶ p. 12

Please tell us about your efforts to maintain the stability of supply as well as energy security. ▶▶ p. 13

Please tell us about your electric power business efforts. ▶▶ p. 13

Please tell us about the status of your efforts outside the energy field. ▶▶ p. 14

Please tell us about your efforts toward the streamlining of assets held. ▶▶ p. 14

Please tell us about the decision-making process behind the U.S. Pearsall project, for which you recorded an impairment loss. ▶▶ p. 15

Please give us your thoughts on returning profits to shareholders and provide details of the Company’s capital policies for the future. ▶▶ p. 15





Please give us your assessment of the first phase of your “Field of Dreams 2020” long-term management vision, which extends from the fiscal year ended March 31, 2010 to the fiscal year ended March 31, 2014.

## Amid unexpected changes in our operating environment, we made steady progress in each business.

We announced our “Field of Dreams 2020” long-term management vision in March 2009 and made progress in business activities designed to realize the vision of the Group in the five years up to the fiscal year under review. During those five years, events occurred that had a profound impact on the business environment in which Osaka Gas operates. Those events included the Great East Japan Earthquake, reviews of the electricity and gas industry regulatory reforms, and the shale gas revolution. Even with these unexpected changes in operating conditions, I believe that we were correct in maintaining a multifaceted approach, covering international businesses and the electric power business.

In our domestic energy businesses, we opened the Mie-Shiga and Himeji-Okayama gas pipelines and worked to expand the use of natural gas, including the promotion of such gas facilities as gas cogeneration systems as well as gas heating and cooling systems. We are also working to balance power supply through the stable operation of power plants and are making decisions on the development of new power generation capacity.

In our international energy businesses, we made progress by acquiring upstream interests and realized the start of downstream business in Southeast Asia. In the U.S.-based Freeport LNG project, we are making steady headway toward the start of shale gas export shipments in 2018.

In our environment and non-energy businesses, we achieved steady growth in existing businesses, acquired the activated carbon manufacturer / distributor Jacobi Carbons AB, which is headquartered in Sweden, and acquired a share in a water supply business in the United Kingdom.

My assessment would be that we made steady progress in activities toward future growth in each of these businesses.

### Achievements during the First Phase of “Field of Dreams 2020” (from the fiscal year ended March 31, 2010 to the fiscal year ended March 31, 2014)

#### Domestic Energy Businesses

- Stable operation of the power generation business, including Senboku Natural Gas Power Plant
- Extension of trunk lines (opening of Mie-Shiga and Himeji-Okayama gas pipelines)
- Launch of the ENE-FARM residential fuel cell cogeneration system (cumulative number of units sold exceeds 23,000)

#### International Energy Businesses

- Participation in upstream development projects in Australia/Pacific region (Gorgon and Ichthys LNG projects in Australia, condensate/gas development project in Papua New Guinea)
- Made the decision to participate in the U.S.-based Freeport natural gas liquefaction project
- Launch of a natural gas marketing business and an energy service business in Singapore and Thailand

#### Environment and Non-Energy Businesses

- Acquisition of Jacobi Carbons AB (an activated carbon manufacturer / distributor headquartered in Sweden)
- Increased holding of blue-chip properties in the real estate business
- Capacity expansion of wind and solar power generation in Japan and overseas
- Acquisition of shares in a water supply business in the United Kingdom



What were the performance highlights for the fiscal year ended March 31, 2014?

### We achieved a record high in terms of ordinary income and reported a solid performance.

The fiscal year ended March 31, 2014, was one in which you could sense that the economy was recovering.

While incurring a time-lag loss\* of ¥20.5 billion in the gas business, we recorded a record-high ordinary income of ¥106.0 billion.

In terms of performance, external factors had a significant effect. These factors included the upswing in demand in the lead-up to the consumption tax rate hike and the tight power supply and demand conditions brought about by the suspension of operations at nuclear power stations. As a result of accurately anticipating the economic upturn and making business advances, we were able to record solid performances in each of our businesses, including record-high Group company profits of ¥36.8 billion.

In contrast, and impacted by an extraordinary loss, net income for the period was held to ¥41.7 billion. As a result, we were unfortunately unable to achieve the ROA and ROE targets identified under "Field of Dreams 2020" for the fiscal year ended March 31, 2014.

\* In the gas business, the Fuel Cost Adjustment System causes a time lag before changes in LNG prices are reflected in gas unit prices, which results in subsequent time lag-related gains or losses.

Performance (Consolidated)	2013.3	2014.3	Field of Dreams 2020 2014.3 (Targets)
Net sales (billions of yen)	1,380.0	<b>1,512.5</b>	—
Operating income (billions of yen)	84.7	<b>99.3</b>	—
Ordinary income (billions of yen)	90.1	<b>106.0</b>	—
Net income (billions of yen)	52.4	<b>41.7</b>	—
Profit / loss on Fuel Cost Adjustment System (billions of yen)	(20.7)	<b>(20.5)</b>	—
ROA	3.4%	<b>2.6%</b>	<b>3.5%</b>
ROE	7.3%	<b>5.4%</b>	<b>8.0%</b>



Please tell us the thinking incorporated into your new medium-term business plan.

### Our goal is to grow and evolve into a world-class energy company.

In March 2014, we announced "Catalyze Our Dreams," the three-year medium-term business plan that forms the second phase of "Field of Dreams 2020." "Catalyze" carries with it the meaning of "catalyst" or to bring about change. "Catalyze Our Dreams" incorporates thoughts of trying to turn our dreams into reality, as a catalyst for elements in the execution of this plan. Electricity and gas industry regulatory reforms are being planned, and the world is changing in more ways than we can imagine. Furthermore, we will change our thoughts and actions as well as our business content, as we strive to grow from being an energy company in the Kansai region of Japan and evolve into a world-class energy company.



Based on the changes in the energy business environment, please tell us about your outlook for the gas business.

### We will create innovative services and evolve into a comprehensive energy business.

Following on from an assessment of the electricity industry, specific consideration is being given toward the full liberalization of the retail market in the gas industry. A number of companies are looking into various activities including the expansion of electric power sources and the provision of new services. As the details of electric and gas industry reforms become more specific, I believe that these trends will become increasingly active.

We are continuing to work on reducing costs, which includes the lowering of LNG procurement prices, and are responding to various types of customer needs by offering combined services of gas and power supply as well as energy solutions. Through these means, we will realize our evolution into a comprehensive energy business. Moving forward, we will work to acquire the necessary capabilities to stay ahead of the competition.



Please tell us about your efforts to maintain the stability of supply as well as energy security.

**We are working to further strengthen facilities, such as the expansion and enhancement of our pipeline network, and to build LNG tanks.**

For natural gas to continue playing a role as a principal energy source, I believe it to be of absolute necessity that we realize higher energy security. To this end, it is vital that we build a robust production and supply network and ensure that customers use energy safely.

In January 2014, we opened the Mie-Shiga gas pipeline that we built in cooperation with Chubu Electric Power Co., Inc. With this joint initiative, we can now receive gas from Chubu Electric while greatly improving the stability of gas supplies. We are currently making progress in building facilities from a long-term perspective, including the building of LNG tanks at our Senboku LNG terminal, the renewal of aging equipment, and are targeting the further strengthening of facilities. We also plan to move ahead with earthquake and tsunami countermeasures, such as building disaster prevention blocks along coastlines.

#### Strengthening of Production and Supply Bases

Expansion of production/supply capacity and the promotion of operations and maintenance with the next generation in mind

- Construction of the No. 5 tank at Senboku LNG Terminal 1
- Upgrade/expansion of trunk line network

#### Upgrading of Security and Disaster Protection

Promoting disaster prevention measures, such as coastal disaster prevention blocks, and maintaining and enhancing emergency responsiveness

##### Target Number of Days to Service Resumption\*

Nankai Trough earthquake (Lv1 tsunami): Two weeks

\* Lightly damaged regions only

##### Safety and Anti-Disaster Measures

- Measures to increase earthquake resistance of gas pipelines
- Round-the-clock emergency response



Please tell us about your electric power business efforts.

**We are promoting the expansion of power generation capacity owned and are targeting a combined total capacity in Japan and overseas of 6.0 GW in the 2020s.**

We have positioned the electric power business as our second core business and have been working to expand the scale of power generation capacity owned. We currently own around 1.8 GW in Japan, made up of IPPs, the Senboku Natural Gas Power Plant, wind power plants, and solar power plants. Outside Japan, we currently own around 1.1 GW of power generation capacity, and are targeting a combined total capacity in Japan and abroad of around the 6.0 GW scale in the 2020s. More specifically, we will acquire small- and large-scale power capacities centered in Japan, and are looking to expand our power generation capacity, in advance of the full liberalization of the electric power retail sales market. To expand the gas and electric power value chain, we will not only acquire middle peak-type natural gas-fired thermal power, but also coal-fired thermal power as a base load power source. We would also like to improve the stability of supply and raise our competitiveness through a supply portfolio that has a number of different sources, including renewable energy and procurement from other companies.



Please tell us about the status of your efforts outside the energy field.

### **Making full use of technology and business know-how nurtured through the energy business, we will expand our business into growth markets.**

---

The fiscal year ended March 31, 2014, was a year in which we made progress in our efforts toward proactively expanding our business in fields outside energy.

In our material solutions business, we became the world's third largest activated carbon company in terms of net sales by acquiring Jacobi Carbons AB, a company headquartered in Sweden. Going forward, we will leverage our mutual strengths and would like to steadily proceed with integration to take advantage of synergies at an early stage. This will help us to further enhance results from this acquisition.

As a first step linked to the possibility of future asset business expansion, we also acquired shares in a water supply business in the United Kingdom.

We will make full use of the technologies and know-how nurtured through the energy business to develop businesses that have different characteristics. I believe that in doing so, we will disperse risk, increase synergy effects, raise business value, and build a solid business portfolio.

In the years ahead, we would like to raise the value of our existing businesses and expand into growth markets in the fields of IT solutions, real estate, and life service businesses, with the material solutions business taking the lead in large-scale M&As.



Please tell us about your efforts toward the streamlining of assets held.

### **Assessing overall balance, business strategies, and the consistency of performance of assets held, we will move ahead using a process of selection and concentration.**

---

While advancing investments in priority fields, we are moving ahead with the streamlining of assets and working on the optimization of held assets. In May 2014, we completed the sale of our ownership interest in the Amorebieta power generation plant in Spain. The power plant was adjudged to have fulfilled its specific role, which was to ensure stable earnings and to serve as a means for building up experience in power plant operations.

Not limited to overseas investment projects, we will also replace assets held by moving from the conventional to the appropriate. In the past, we had the example of selling our listed restaurant and food business subsidiary Kinrei Corporation and conveniently replacing assets with income properties.

More specifically, we are aiming for value-added business growth in the assets that we hold. However, from the perspective of achieving higher growth, we will be appropriately making assessments based on the overall balance of assets held and consistency with our business strategy.





Please tell us about the decision-making process behind the U.S. Pearsall project, for which you recorded an impairment loss.

### **While decisions were made based on a proper process, we still faced technical difficulties.**

In December 2013, we posted an extraordinary loss from the U.S. Pearsall Shale Gas and Liquids Development Project. For this project, we had undertaken a painstaking analysis based on test drilling and the status of surrounding projects, coupled with the opinions of several technical consultants, and had made the decision to invest after an appropriate internal process. However, we were confronted by technical difficulties in drilling that far exceeded our original analysis. Finding ourselves in the situation where we were not going to obtain the expected volume of production, we came to the decision that no further drilling would be conducted for the immediate future.

This came as a result of being confronted by risks inherent in unconventional gas development projects. Going forward, we will not change our policy of engaging in project expansion that is in line with upstream businesses of strategic significance, including stable and competitive LNG procurement as well as increased profits. With regard to upstream projects in North America, I would like us to draw on the experience gained and knowledge acquired from the Pearsall project to take ongoing risk into consideration and carefully select projects while examining participation in new projects.

When examining investment opportunities, we will consider the amount of risk for the Company as a whole and then make decisions about the scale of investment and on whether to participate. In order to prevent the Company from taking on investment risks that exceed its financial capacity, we will base our investment decisions on an assessment of various considerations. One key consideration is whether financial deterioration due to such factors as extraordinary losses fall within a predetermined range in the event of a major loss owing to the unexpected and rapid change in circumstances.



Please give us your thoughts on returning profits to shareholders and provide details of the Company's capital policies for the future.

### **While maintaining a highly sound financial position, we will move forward with investments in growth businesses and work to maximize our corporate value.**

It is thought that uncertainty surrounding Japanese energy businesses will increase following the implementation of electricity and gas industry regulatory reforms. Under these circumstances, I believe it is necessary for us to increase capital and maintain a highly sound financial position to move our businesses forward in a sustained manner and to carry out investments. Based on this approach, we have revised our D/E ratio, our sound financial position target, from the 1.0 times level to a 0.7 times level, and our shareholders' equity ratio from more than 40% to more than 50% under our "Catalyze Our Dreams" medium-term business plan.

With regard to shareholder returns, we have set an ongoing consolidated payout ratio target of 30% or more. Currently, I believe we are still in an investment phase. We anticipate profit contributions from upstream projects currently under development will commence during the three-year period of the medium-term business plan. In accordance with the Osaka Gas Group's increase in profits, I would like to pass on this growth to our shareholders by increasing the dividend amount. In addition, we would like to acquire treasury stock in a flexible manner after taking into consideration comprehensive factors including investment and financial conditions.

Financial Soundness Indicator Targets		Shareholder Returns Target
D/E ratio	Net worth / Total assets	Payout ratio
About <b>0.7</b>	<b>50</b> % or higher	<b>30</b> % or higher
<b>0.7</b>	<b>50</b>	<b>30</b>

# Consolidated Financial Highlights

Osaka Gas Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	2013.3	2014.3	2014.3
<b>Financial Data</b>			
Net sales	¥1,380,060	<b>¥1,512,581</b>	<b>\$14,696,667</b> <b>1</b>
Operating income	84,773	<b>99,381</b>	<b>965,614</b> <b>2</b>
Income before income taxes and minority interests	84,630	<b>81,874</b>	<b>795,511</b>
Net income	52,467	<b>41,725</b>	<b>405,411</b> <b>3</b>
Capital expenditure	112,987	<b>124,146</b>	<b>1,206,237</b> <b>4</b>
Depreciation and amortization	82,818	<b>83,806</b>	<b>814,282</b>
R&D expenses	10,875	<b>11,793</b>	<b>114,584</b>
Total assets	1,566,899	<b>1,668,317</b>	<b>16,209,842</b>
Equity	747,802	<b>798,964</b>	<b>7,762,961</b> <b>5</b>
Interest-bearing liabilities	540,199	<b>573,586</b>	<b>5,573,124</b>
Cash flows from operating activities	129,597	<b>154,225</b>	<b>1,498,493</b>
Cash flows from investing activities	(116,791)	<b>(175,591)</b>	<b>(1,706,092)</b>
Cash flows from financing activities	(27,897)	<b>4,163</b>	<b>40,448</b>
Number of shares issued and outstanding (thousands)	2,083,400	<b>2,083,400</b>	—
<b>Per Share Data</b> (yen and U.S. dollars)			
Earnings per share (EPS)	¥ 25.20	<b>¥ 20.04</b>	<b>\$ 0.194</b>
Book value per share (BPS)	359.16	<b>383.90</b>	<b>3.730</b>
Annual dividends	8.50	<b>9.00</b>	<b>0.087</b>
<b>Key Ratios</b>			
Net worth / Total assets	47.7%	<b>47.9%</b>	—
Debt equity ratio (times)	0.72	<b>0.72</b>	—
Interest coverage ratio (times)	15.4	<b>18.0</b>	—
Return on assets (ROA)	3.4%	<b>2.6%</b>	—
Return on equity (ROE)	7.3%	<b>5.4%</b>	—
<b>Gas sales volume</b> (million m <sup>3</sup> )	8,534	<b>8,554</b>	— <b>6</b>
<b>Number of meters installed</b> (thousands)	7,114	<b>7,164</b>	—
<b>Number of employees</b>	19,870	<b>21,250</b>	—

## Notes:

1. The translation of Japanese yen amounts into U.S. dollar amounts is based on the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S.\$1.0.

2. Debt equity ratio = Interest-bearing liabilities / Equity (as of the end of the fiscal years ended March 31)

3. Interest coverage ratio = Cash flows from operating activities / Interest expenses

4. Return on assets (ROA) = Net income / Total assets (average)

5. Return on equity (ROE) = Net income / Average equity

6. Figures in the financial data are rounded down.

**1 Net Sales**

Net sales increased compared with the previous period. This was largely attributable to the upswing in gas sales prices in line with higher LNG prices.

**2 Operating Income**

Operating income improved compared with the previous period. In addition to a decrease in operating expenses in the gas business, this improvement was mainly due to the increase in income from the Electric Power Business.

**3 Net Income**

Net income decreased compared with the previous period owing primarily to the recording of impairment losses in upstream businesses in the United States.

**4 Capital Expenditure**

Capital expenditure was up year on year. During the period under review, the Osaka Gas Group undertook investments in overseas upstream business as well as the construction of LNG carriers.

**5 Equity**

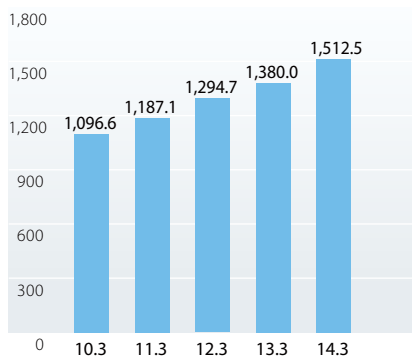
Equity climbed compared with the previous period. This largely reflected increases in retained earnings as well as foreign currency translation adjustments.

**6 Gas Sales Volume**

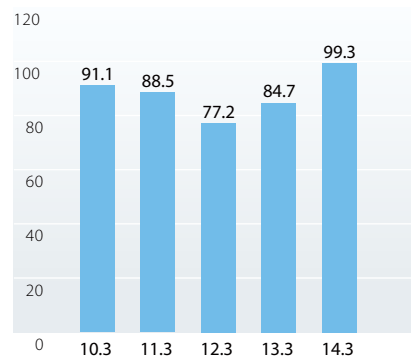
In overall terms, gas sales volumes were unchanged from the previous period. Gas sales volumes for residential use declined year on year due to the upward trend in air and water temperatures. In commercial, public and medical fields, gas sales volumes were stagnant. Gas sales volumes for industrial use, on the other hand, increased compared with the previous period on the back of such factors as successful effort to stimulate new demand.

**Net Sales**

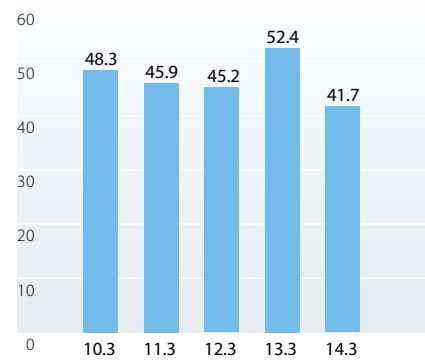
(Billions of yen)

**Operating Income**

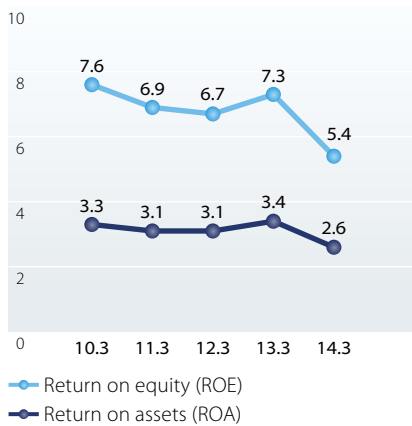
(Billions of yen)

**Net Income**

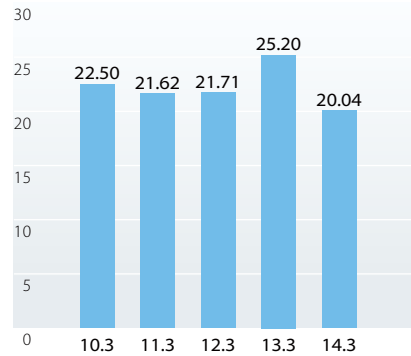
(Billions of yen)

**Return on Equity (ROE)  
Return on Assets (ROA)**

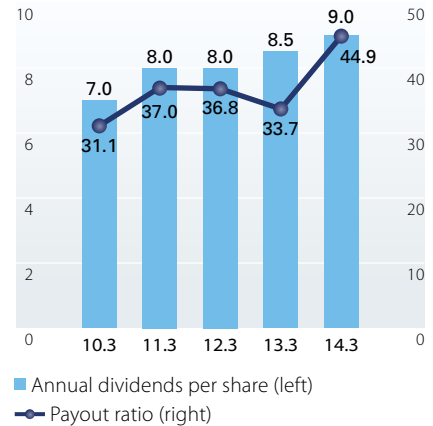
(%)

**Earnings per Share (EPS)**

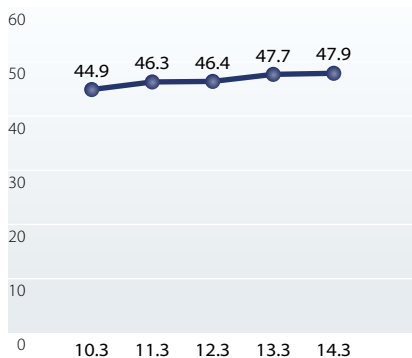
(yen)

**Annual Dividends per Share  
Payout Ratio**

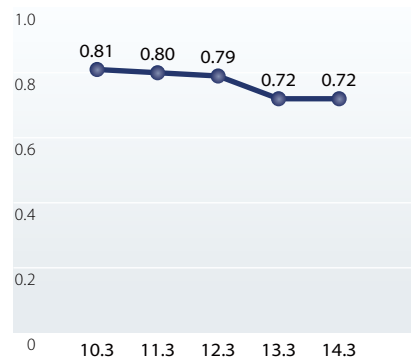
(yen)

**Net Worth / Total Assets**

(%)

**Debt Equity Ratio**

(Times)

**Credit Ratings**

(As of March 31, 2014)

Credit rating agency	Long-term bond	Domestic commercial paper
R&I	AA+	a-1+
Moody's	Aa3	—
Standard & Poor's	AA-	A-1+

## Osaka Gas Group's New Medium-Term Business Plan

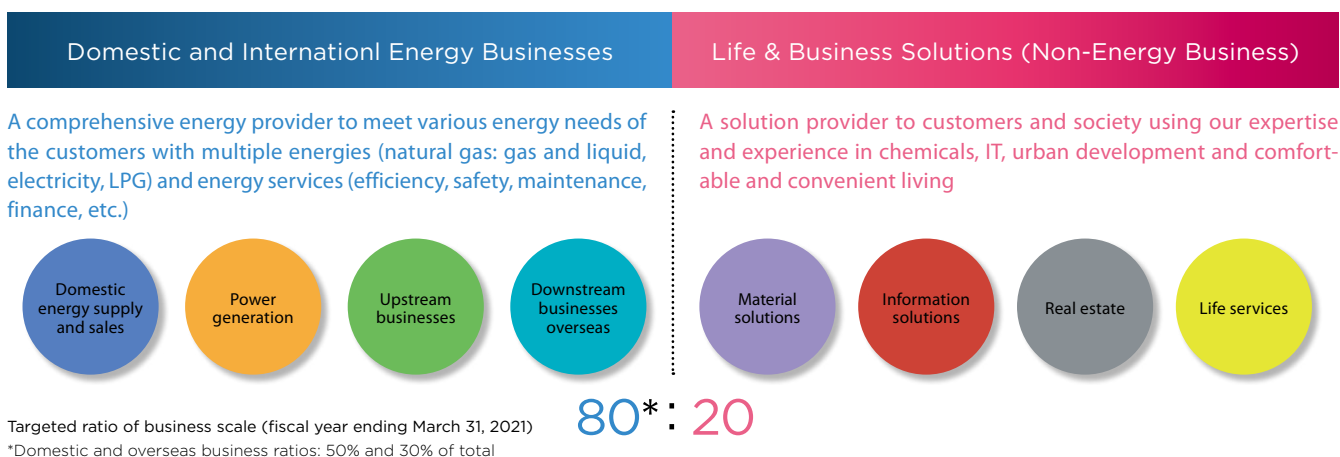
(From the fiscal year ending March 31, 2015 to the fiscal year ending March 31, 2017)

# Catalyze

In March 2014, following the five years of business activities based on the “Field of Dreams 2020” long-term management vision, the Osaka Gas Group created and announced the new medium-term business plan “**Catalyze Our Dreams.**” The new medium-term plan reflects changes in the business environment since 2009 while staying true to the Group’s long-term management vision. As the second phase of “Field of Dreams 2020,” the plan covers the period from the fiscal year ending March 31, 2015 to the fiscal year ending March 31, 2017.

### Vision of the Osaka Gas Group

Through its endeavors to enhance diverse businesses to world-class levels and actively expand business fields by leveraging the Group’s strengths, the Osaka Gas Group aims to enrich its customers’ lives and society.



### Concept of Catalyze Our Dreams

In the long-term management vision “Field of Dreams 2020,” the Osaka Gas Group aims to achieve

- ① Business field expansion    ② Solid business portfolio

Changes in operating environment of Osaka Gas Group:

Great East Japan Earthquake, electricity and gas regulatory reforms, shale gas revolution, etc.

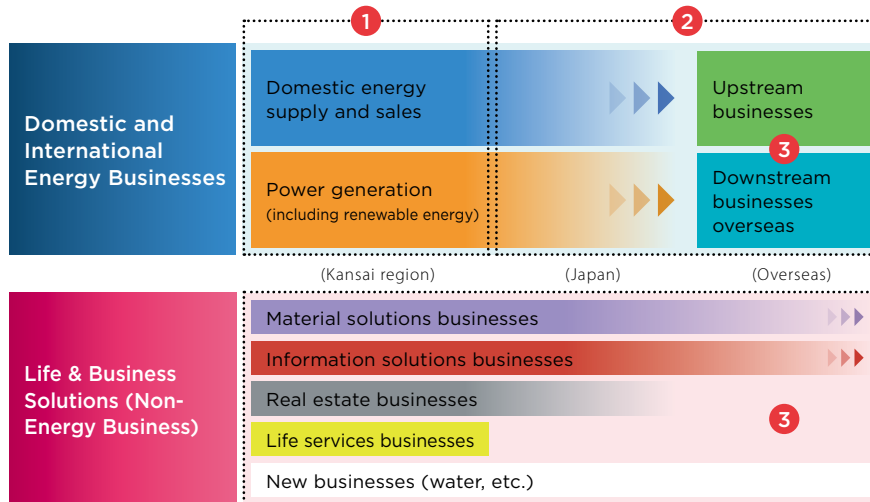
**The Vision still holds valid but the Osaka Gas Group must accelerate its efforts to realize the Vision and augment its abilities to defeat the competition.**

- Evolving into a comprehensive energy business in response to the proposed electricity and gas regulatory reforms
- Seeking opportunities in power generation, international energy business, and material solutions where our management resources expedite the growth of the Group



# Our Dreams

## Core Themes



### 1 Enhancement of the Energy Business in the Kansai region

Evolving its core energy business in the Kansai region into a comprehensive energy business able to address a diverse range of customer demands

### 2 Expansion of Service Areas in the Energy Business

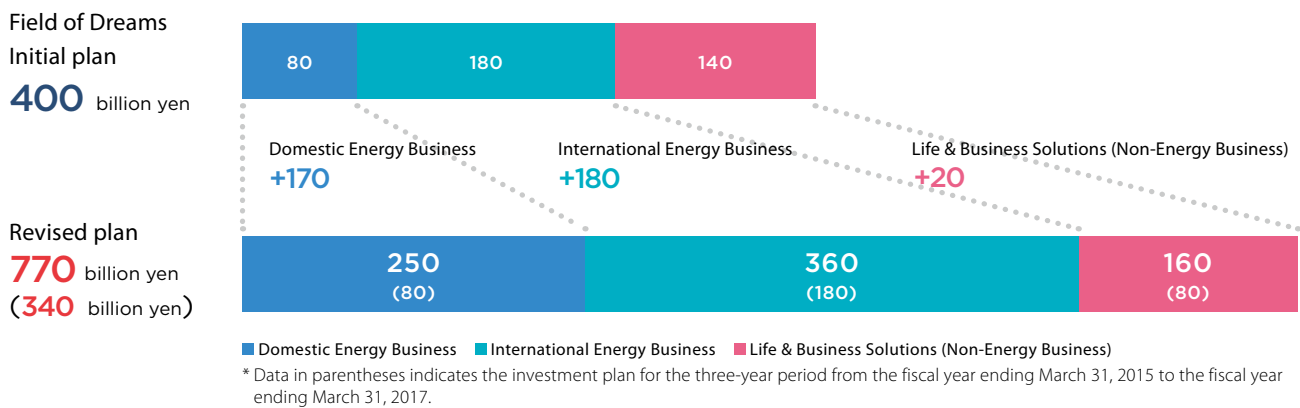
Expanding the scope of its energy business inside and outside Japan by leveraging its expertise

### 3 Creation of the Next Core Business

Expanding businesses in growth markets in the international energy business and the life & business solutions (non-energy business) by leveraging the strengths of the Osaka Gas Group

## Investment Plan

Investments for expansion, greenfield and M&A (2015.3-2021.3)



## Major Management Indicator Targets

		2017.3	2021.3
Profitability indicator	ROA	3.5%	4.5%
	ROE	8.0%	9.0%
Financial soundness indicator	D/E ratio	Approx. 0.7	
	Net worth / Total assets	50% or higher	
Shareholder returns	Payout ratio	30% or higher*	
	Share buybacks	Management intends to take a flexible approach while considering overall investments and financial position.	

\* Excluding factors that affect short-term profits

# Strengthening the Natural Gas Value Chain

Generally speaking, city gas suppliers in Japan conventionally engage in a wide range of downstream activities from gas production, supply, and the sale of gas.

The Osaka Gas Group paid attention to the natural gas value chain at an early stage. Extending beyond downstream activities, the Group actively develops upstream operations and looks to expand across all businesses from LNG procurement to the sale of city gas.

## Upstream Businesses



The Production and Liquefaction of Natural Gas and LNG Transportation

### Strengthening the Natural Gas Value Chain

#### The Business Domains of Certain

After the liquefaction processes, natural gas, a raw material used in the production of city gas, that has been produced overseas is imported into Japan as LNG.

Currently, the Group has concluded long-term agreements with natural gas suppliers in seven countries worldwide and is working to ensure stable LNG procurement.

In addition, every effort is being made to respond flexibly to changes in demand and other external factors, and to curtail transportation costs. For this reason, we are looking to put in place our own transportation fleet.



In order to ensure the stable procurement of competitively priced LNG, we are acquiring interests in gas fields. Accordingly, the Group participates in a host of overseas projects and is involved in resource development in its own right.



We own six LNG carriers. In addition to lowering the cost of LNG transportation, this initiative allows the Group to more flexibly respond at the time of a change in demand.

At the moment, the Group is constructing an additional two fuel-efficient LNG carriers.



By making the most of its accumulated know-how nurtured through its past business activities, the Osaka Gas Group is taking up the challenge of actively expanding into new business domains both in Japan and overseas. In this manner, the Group is working diligently to further strengthen the natural gas value chain.

## Downstream Businesses



\* Certain gas suppliers including, the Osaka Gas Group, are engaged in power generation business activities.

### The Business Domains of Conventional Gas Suppliers

#### Gas Suppliers, including the Osaka Gas Group

Imported LNG is stored in tanks and subjected to an evaporation process using the heat from seawater. Gas is then produced by adjusting the amount of heat.

The Group is producing gas at two LNG terminals in Senboku and Himeji and is endeavoring to ensure the stable supply of city gas.



The Group is constructing the world's largest aboveground LNG tank at its Senboku LNG terminal in order to meet the growing demand for natural gas.

Complementing these activities, the Group is also effectively using gas production facilities, constructing natural gas power plants, and working to develop and expand its electric power business.



Focusing mainly on the Kyoto, Osaka and Kobe area, we are developing a gas pipeline network that covers the Kansai region. By employing this network, the Group is ensuring the stable delivery of gas to customers.

At the same time, the Group is actively engaged in promoting disaster countermeasure particularly in connection with earthquakes and tsunamis.



Steps are being taken to upgrade and expand its pipeline as a part of efforts to cultivate new city gas demand. (The Himeji-Okayama gas pipeline opened in March 2014.)



The Group strives to put forward best-fit proposals that address a wide range of needs from the water heater, heating and cooling demands of households to the cooling, and heating requirements of plants and offices.



The Group is developing highly efficient appliances and putting forward proposals to promote the conservation of energy. These activities include the Group's efforts to advance gas cogeneration systems.



Drawing on its expertise across a wide range of areas including the conservation of energy consumption and the reduction of costs nurtured through its energy business activities in Japan, the Group is expanding its business in countries throughout Southeast Asia.

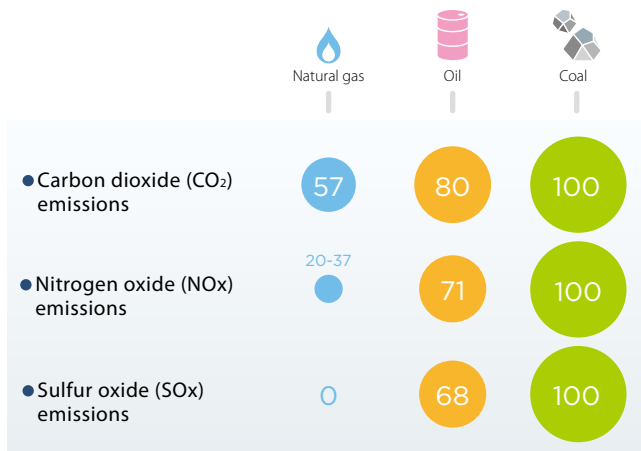


# Characteristics of Natural Gas

## Environmental Friendliness of Natural Gas

Natural gas, a fossil fuel like petroleum and coal, is an energy resource which contains methane as its principal component. A major advantage of natural gas over petroleum and coal is its low emissions of carbon dioxide (CO<sub>2</sub>), a cause of global warming. When it is burned, natural gas emits only limited amounts of nitrogen oxide (NO<sub>x</sub>), a contributing factor in air pollution, because of its low nitrogen content, and emits no sulfur oxide (SO<sub>x</sub>), a contributor to acid rain.

### Comparison of the amount of emissions with coal as 100

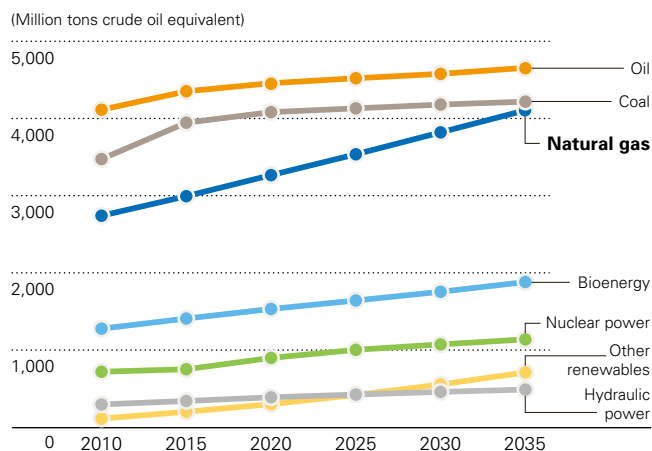


Sources: (CO<sub>2</sub> figures) The Institute of Applied Energy, "Report on Thermal Power Plant Atmospheric Impact Assessment Technology Demonstration Surveys" (March 1990) (SO<sub>x</sub> and NO<sub>x</sub> figures) International Energy Agency (IEA), "Natural Gas Prospects to 2010" (1986)

## Prospects of Natural Gas

Against a backdrop of increasing demand for energy in emerging countries, expanding use of unconventional natural gas and changing conditions in electricity supply and demand in Japan, natural gas has played an increasingly significant role. The International Energy Agency (IEA) projects that demand for natural gas will grow sharply through 2035 and account for around 25% of primary energy demand worldwide.

### Primary Energy Consumption Forecasts (Global)



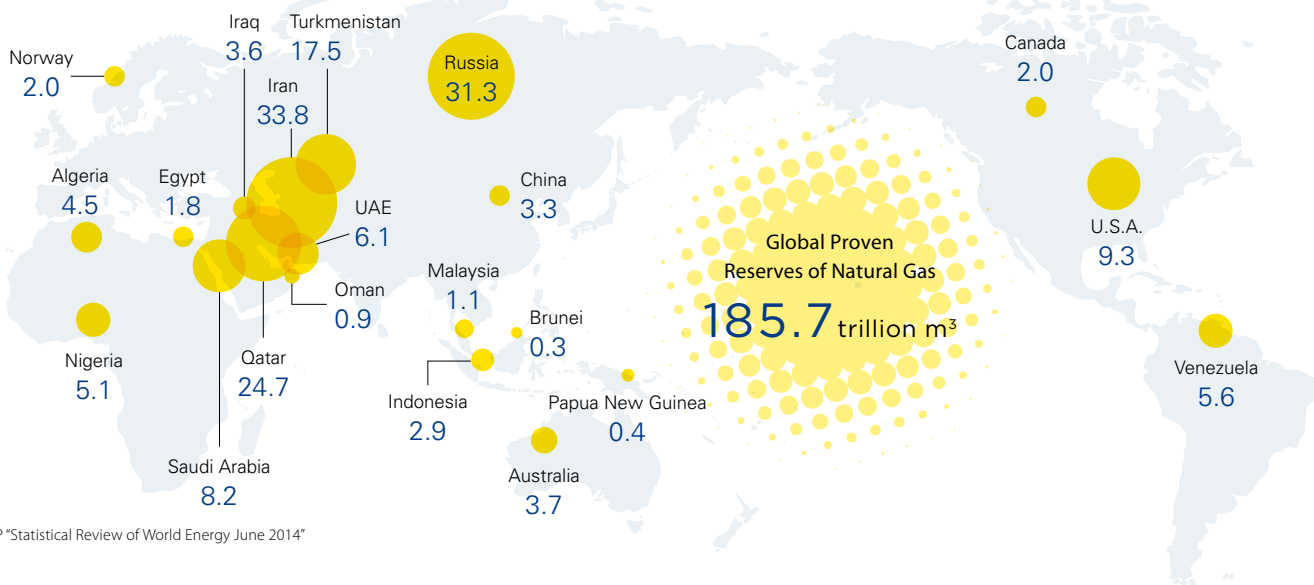
Sources: International Energy Agency (IEA), "New Policies Scenario Energy Demand, World Energy Outlook 2012" (2012)

## Supply Stability of Natural Gas

Abundant reserves of natural gas have been discovered around the world, making it likely that a stable supply of natural gas will be available to meet growing demand. Proven reserves of natural gas are sufficient to satisfy global demand for more than 50 years.

### Major Nations with Natural Gas Reserves

● Volume of natural gas proven reserves (Trillion m<sup>3</sup>)



Source: BP "Statistical Review of World Energy June 2014"



## Domestic and International Energy Businesses

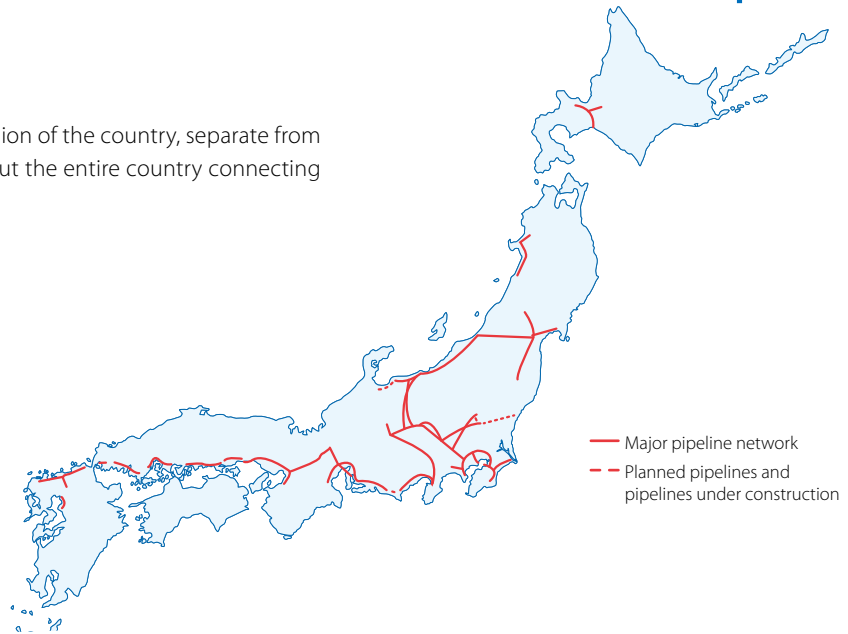
# Characteristics of Gas Business in Japan

## Gas Pipeline Network

Gas pipeline networks are developed in each region of the country, separate from each other, with no trunk line running throughout the entire country connecting local networks.



Pipeline open-cut construction work



## Transition to Liberalization of the Retail Gas Market

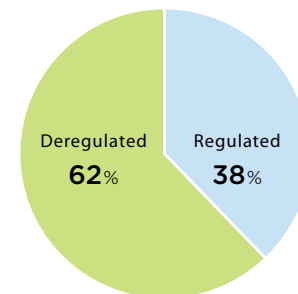
Liberalization of the retail gas sector began in 1995, and the scope of liberalization has expanded in phases since then. Currently, customers that have annual gas consumption contracts in excess of 100,000m<sup>3</sup> (46MJ/m<sup>3</sup>) fall within the scope of liberalization.

Moreover, debate has been advancing with regard to the full liberalization of the retail electricity and gas markets in accordance with changes in Japan's energy situation. The national government has decided to fully liberalize the electricity sector in 2016.

Annual contracted gas consumption volume

Annual contracted gas consumption volume	1995.3	1999.11	2004.4	2007.4
Large factories, etc.				Deregulated areas
2 million m <sup>3</sup> ... Large factories, and large commercial facilities, etc.		Retail liberalization of customers with annual consumption over 2 million m <sup>3</sup>		
1 million m <sup>3</sup> ... Medium-sized factories, hotels, etc.		Retail liberalization of customers with annual consumption over 1 million m <sup>3</sup>		
500,000 m <sup>3</sup> ... Small factories, no-frills hotels, etc.			Retail liberalization of customers with annual consumption over 500,000 m <sup>3</sup>	
100,000 m <sup>3</sup> ... Residential housing, small businesses, etc.	Regulated areas			Retail liberalization of customers with annual consumption over 100,000 m <sup>3</sup>

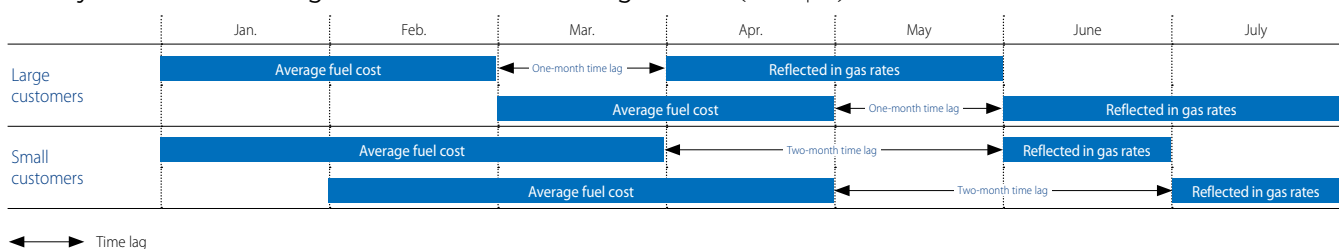
Market Deregulation (2014.3)



## Fuel Cost Adjustment System

The purchasing prices of LNG and LPG, both raw materials for the gas supplied to customers, fluctuate in accordance with movements in foreign currency exchange rates and the price of crude oil. This gas-rate-determining mechanism is referred to as the Fuel Cost Adjustment System. In addition to reflecting external factors in gas rates, this system is designed to clarify the results of efforts in enhancing operating efficiency in areas other than raw material costs. Due to its structure, it also causes a time lag before price fluctuations of raw materials are reflected in gas rates, which impacts performance on a single fiscal-year basis. However, these impacts are neutralized over the medium to long term.

This system reflects changes in resource costs into gas rates. (Example)



# Domestic Energy Businesses

- The Kansai Region Gas Business
- Broad-Area Energy Business
- LPG Businesses and Industrial Gas Businesses
- Residential Gas Sales
- Electric Power Business
- Procurement of Energy Resources
- Commercial and Industrial Gas Sales

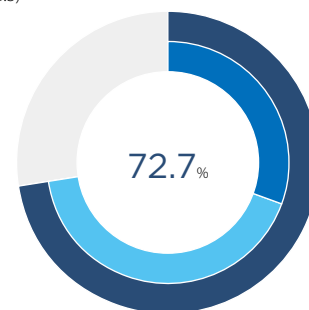
Positioning the supply of gas as its core business, Osaka Gas provides a diverse range of energy and energy-related services. The Company's domestic energy businesses extend over a wide range of areas including the Kansai region and encompass the gas business, broad-area energy business, LPG business, industrial gas business and electric power business.

In the fiscal year ended March 31, 2014, net sales from domestic energy businesses were ¥1,377.4 billion. Segment income came in at ¥75.9 billion accounting for around 73% of the Group's overall income.

Looking at operating conditions in the energy business, the environment is constantly in a state of flux. In addition to growing customer awareness toward energy conservation and the environment, operating conditions are being affected by a variety of factors including the price of raw materials hovering at a high level associated with the sharp rise in crude oil prices and weakening yen, and the decline in the population in the Kansai region.

Under these circumstances, the Osaka Gas Group will work diligently to address the increasingly diverse needs of customers by providing energy, mainly gas and electricity, and delivering packaged solutions that contribute to the efficient use of energy while enhancing energy security. Looking ahead, Osaka Gas will look to transform itself into a comprehensive energy business operator as a part of efforts to become the preferred choice of customers.

Segment Income\*  
(2014.3)

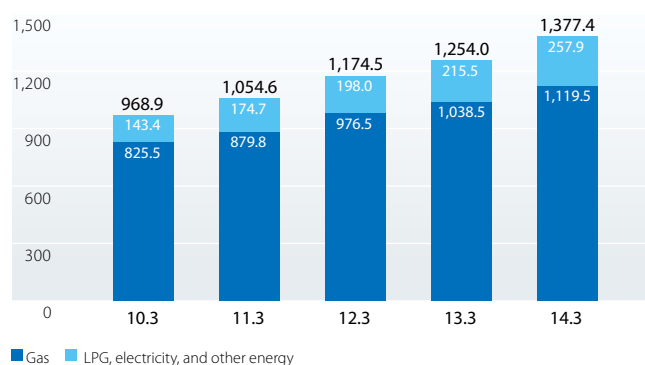


● Gas	30.7%
● LPG, electricity, and other energy	42.0%

\* Segment Income = Operating income + Equity in earnings of affiliates

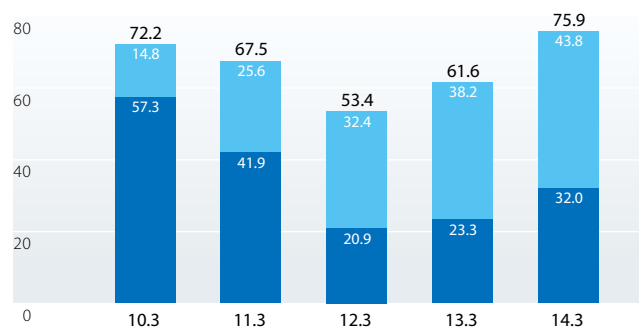
Net Sales

(Billions of yen)



Segment Income\*

(Billions of yen)



● Gas ● LPG, electricity, and other energy

\* Segment Income = Operating income + Equity in earnings of affiliates

## Domestic and International Energy Businesses

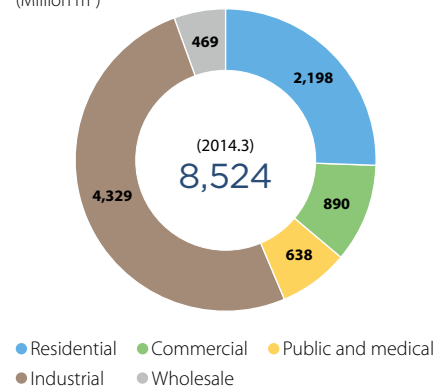
# The Kansai Region Gas Business

As a core pillar of the Osaka Gas Group's business, we provide comprehensive gas-related services to customers in the Kansai area, ranging from the production, supply and sale of gas through the installation of gas pipes to the sale of gas appliances.

## Overview of Gas Sales in the Fiscal Year under Review

In the fiscal year ended March 31, 2014, gas sales volume edged up 0.2% compared with the previous period, to 8,524 million m<sup>3</sup> for Osaka Gas on a non-consolidated basis. Sales volume of gas to industrial customers increased 2.5% year on year to 4,329 million m<sup>3</sup> on the back of successful efforts to capture new demand. Meanwhile sales volume of gas to residential customers declined 3.3% compared with the previous fiscal year, to 2,198 million m<sup>3</sup>. This largely reflected the trend toward higher atmospheric and water temperatures. Sales volume of gas for commercial use decreased 0.9% to 890 million m<sup>3</sup> while sales volume of gas for public and medical use edged down 0.6% to 638 million m<sup>3</sup>. This was primarily due to efforts to promote reductions in energy consumption by customers in the commercial, public and medical fields. On a wholesale basis, the volume of gas sold to other gas providers was 469 million m<sup>3</sup>. This was largely unchanged from the previous fiscal year.

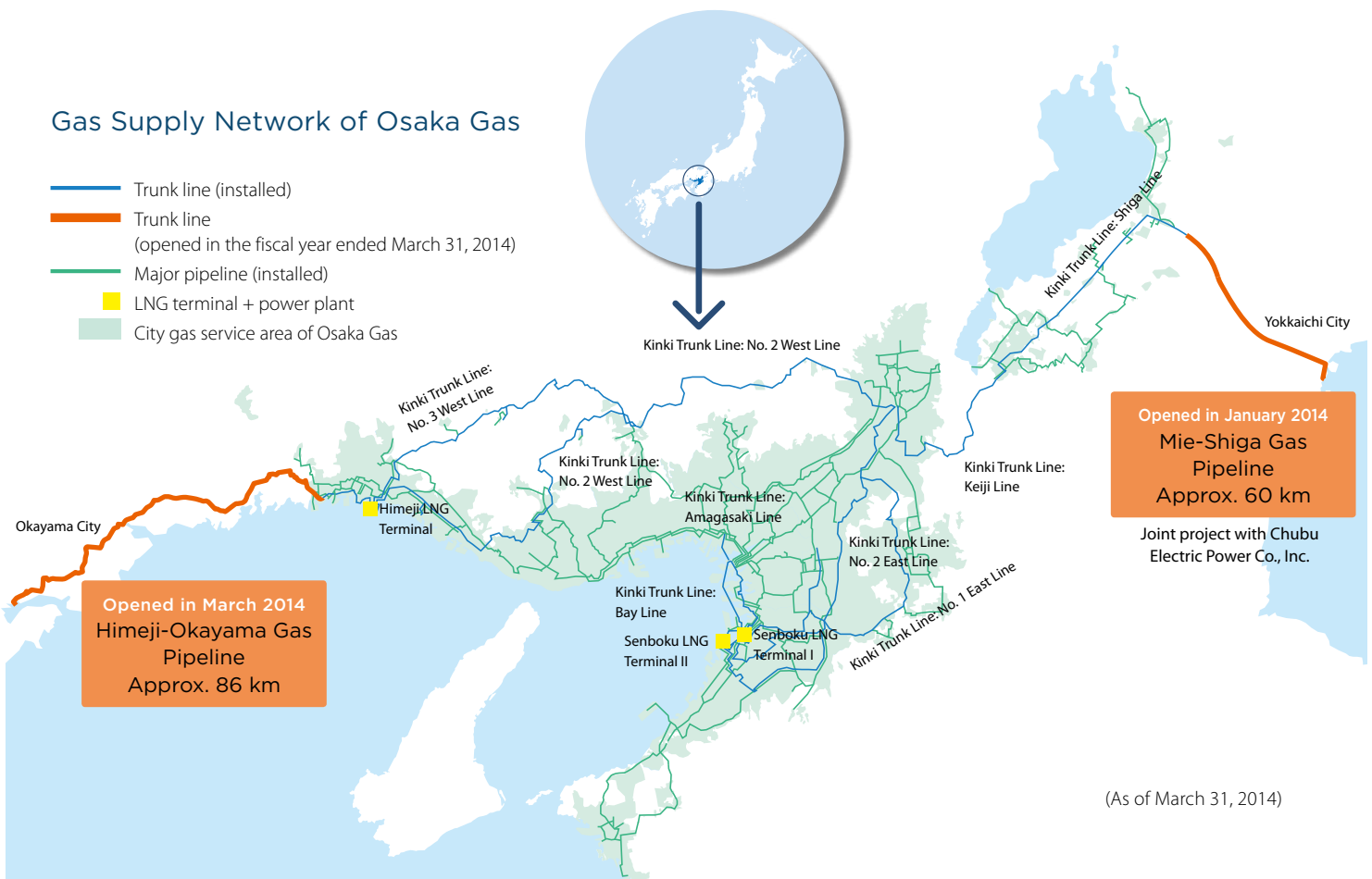
Gas Sales Volume by Use (Non-Consolidated)  
(Million m<sup>3</sup>)



## Mie-Shiga and Himeji-Okayama Gas Pipelines Openings

The Mie-Shiga gas pipeline opened in January 2014 with the aim of enhancing the stability of gas supply to customers within the Group's service area. In a bid to cultivate new demand, the Himeji-Okayama gas pipeline opened in March 2014. Through these initiatives, we are striving to build a structure that provides customers with the safe and convenient use of natural gas.

## Gas Supply Network of Osaka Gas



(As of March 31, 2014)

## Domestic and International Energy Businesses

## The Kansai Region Gas Business

## &gt; Residential Gas Sales

## Business Overview and Characteristics

In the residential sector, we provide homes with a stable and safe supply of gas and also sell various gas appliances with the aim of encouraging increased gas usage. Recently, in the Kansai region, populations have been declining, and natural gas has continued to face increased competition from rival energy sources. In this challenging environment, we are taking steps to contribute to the realization of a low-carbon society through the efficient use of energy and by targeting higher levels of energy security through the increased usage of distributed power generation systems. In these ways, we are working to expand gas demand in the residential sector.

## Initiatives Aimed at Promoting the Installation of the Residential Fuel Cell Cogeneration System “ENE-FARM”

Since the release of our residential gas engine cogeneration system “ECOWILL” in 2003, we have worked diligently to promote widespread use of distributed power generation in the residential sector. After launching our residential fuel cell cogeneration system “ENE-FARM” in 2009, we have been advancing optimal cogeneration system proposals that are designed to enhance customers’ lifestyles.

The installation of cogeneration systems is expected to expand applications of natural gas as it is used to generate power to address a portion of the electricity consumed by households as well as for heating water and spaces in homes while contributing to reductions in energy consumption as well as CO<sub>2</sub> emissions.

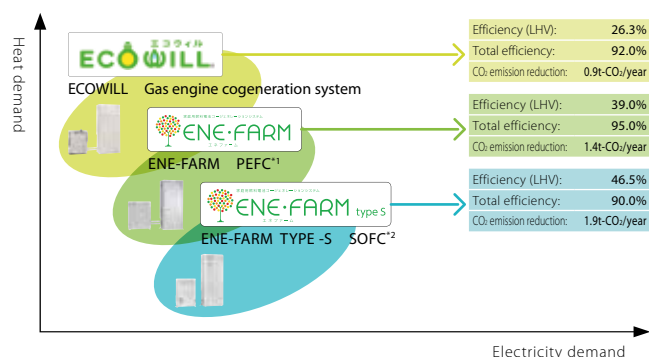
Interest toward distributed power generation systems has risen in recent years due to concerns over energy security. Against this backdrop, the Osaka Gas Group is promoting practical application of its ENE-FARM system, which continues to operate during power outages and is working to address the broad demands of customers.

In the fiscal year ended March 31, 2014, ENE-FARM sales exceeded 11,000 units\* bringing cumulative sales to a total of around 23,000 units. The Company is looking to achieve cumulative sales total of 200,000 units in the fiscal year ending March 31, 2021.

Moving forward, we will continue to develop innovative products and technologies that help to increase the efficiency, decrease the size and lower the price of products and systems. We will place considerable emphasis on encouraging widespread use of products while helping customers to realize more comfortable lifestyles, reducing environmental load and enhancing energy security.

\*Results for the 15-month period from January 2013 to March 2014.

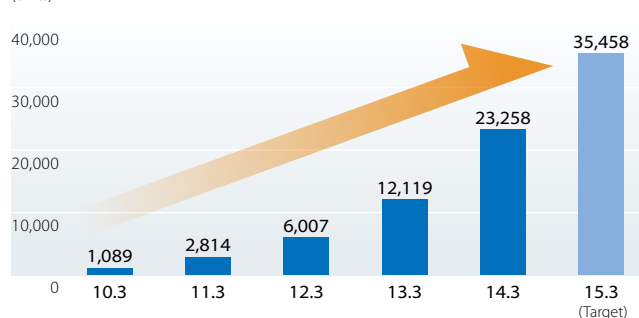
## Residential Cogeneration System Lineup



\*1 PEFC stands for polymer electrolyte fuel cell. It is a fuel cell that uses an ion-conducting polymeric membrane as an electrolyte.

\*2 SOFC stands for solid oxide fuel cell. It is a fuel cell that uses a ceramic electrolyte. In addition to delivering a higher generation efficiency than PEFCs, SOFCs help to realize more compact products.

## Trends in Cumulative Number of Units Sold (Units)



## Release of a New ENE-FARM Product that Balances the Needs for Enhanced Efficiency and Substantial Reductions in Costs

In April 2014, Osaka Gas released a new product in its ENE-FARM series that offers increased power generation and total overall efficiency compared with existing products. With the lowered cost of fuel cell stack materials used for power generation and simplified structure of fuel reformer that generate hydrogen from gas, we have substantially reduced costs. As a result, the Company has been able to lower the price of its polymer electrolyte fuel cell (PEFC)-type ENE-FARM system by ¥660,000 from the existing product's price level.

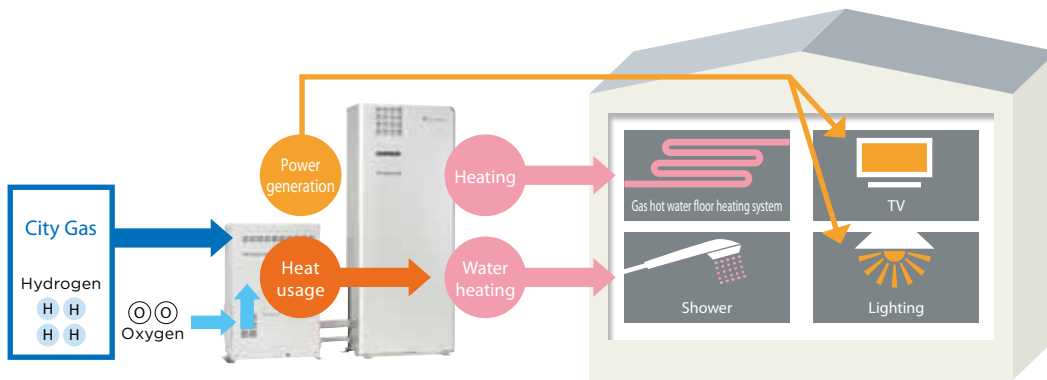
Osaka Gas has further bolstered its lineup with products that accommodate LPG. Through these and other means, the Company is working diligently to promote increasingly widespread use.





## ENE-FARM Power Generation Mechanism

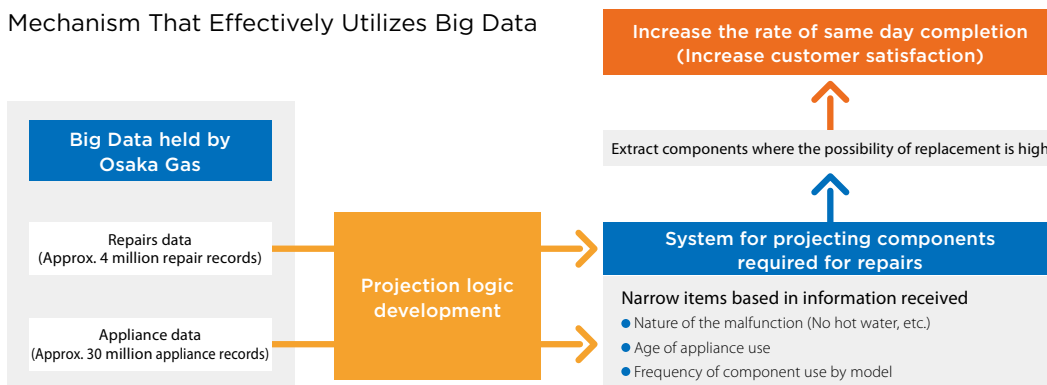
ENE-FARM is a system that generates electricity from hydrogen extracted from city gas and oxygen in the air.



## Strengthening Equipment Repair Services Using Big Data

Osaka Gas is working to reinforce its equipment repair services to improve customer satisfaction. As a new initiative, utilizing big data including records of maintenance and repairs, the Company is developing a system to estimate the components required at the time of gas appliance repair. At the time a gas appliance becomes inoperable, customers require that repairs be undertaken at a time of their convenience. Utilizing Big Data, Osaka Gas is better positioned to complete the necessary work on the same day as the customer's call thereby significantly enhancing customer satisfaction.

### Mechanism That Effectively Utilizes Big Data



## Promoting the Use of the Warranty Insurance Service “RAKU-TOKU”

In a bid to secure the continued support of customers, Osaka Gas is working diligently to develop new services.

By paying a set monthly fee, customers can have their gas water heaters and built-in stoves repaired for free. This service also includes periodic inspections free of charge. Moreover, the service is available even for customers using gas water heaters and built-in stoves made by other companies. In this manner, the Company is providing warranty services to a broad spectrum of customers over an extended period.

Since the service was launched in 2011, the number of contracts for this “RAKU-TOKU” service has grown to around 180 thousand (as of March 31, 2014).





## Domestic and International Energy Businesses

## The Kansai Region Gas Business

# >Commercial and Industrial Gas Sales

## Business Overview and Characteristics

In the commercial and industrial sectors including public and medical institutions, Osaka Gas supplies gas to its customers for such wide-ranging applications as gas cogeneration systems and gas air conditioning systems. Harnessing its engineering capabilities, where the Company's strengths lie, Osaka Gas strives to contribute to the enhanced efficiency of gas usage by customers by proposing business solutions that are tailored to the specific needs of each customer.

In line with the opening of the Himeji-Okayama gas pipeline in March 2014, we are taking steps to promote the use of natural gas by customers living in the area who are currently using other forms of energy.

## Cultivating Demand Along the Route of the New Himeji-Okayama Gas Pipeline

We estimate that the latent demand for natural gas along the Himeji-Okayama gas pipeline that links Himeji City, Hyogo Prefecture with Okayama City, Okayama Prefecture stands at around 400 to 500 million m<sup>3</sup>. We will aggressively put forward proposals to encourage potential customers along the line including large factories to use gas.

In addition, plans are in place to supply natural gas to the Aioi No. 1 and No. 3 power generation plants owned and operated by Kansai Electric Power Co., Inc., and which are scheduled for renewal from the fiscal year ending March 31, 2017. Each plant has a rated output of 375 MW.

## Expanding the Use of Gas Cogeneration and Air Conditioning Systems

Due to recent pressures on the demand and supply balance of electricity, the need for power supply security has become increasingly pronounced. This has in turn triggered a growing insistence on cutting consumption during the peak periods and curtailing the use of electric power in general. Against this backdrop, Osaka Gas is promoting cogeneration systems as a backup source of electric power and a stable source during periods of power outage and gas air conditioning systems as part of efforts to reduce the electric power consumption load.

The cumulative capacity of gas cogeneration systems stood at 1.5 GW as of March 31, 2014. This is helping to alleviate the imbalance between electric power supply and demand. Looking ahead, we will work diligently to expand the use of cogeneration systems to meet the cumulative capacity target of 2 GW in 2020.

With robust sales of gas air conditioning systems including gas heat pumps and natural chillers (absorption water cooling and heating units), cumulative capacity stands at 4.4 million refrigeration tons as of March 31, 2014. Osaka Gas is looking to lift this cumulative total to 5.5 million refrigeration tons in 2020.



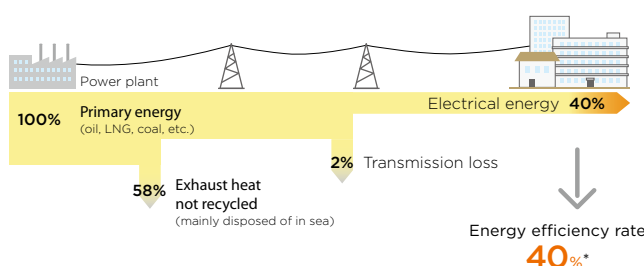
Gas Cogeneration System



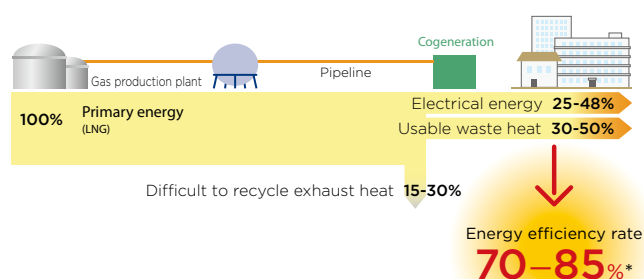
Gas Air Conditioning System

## Differences between Conventional Generation Systems and Cogeneration Systems

Power Generation System Using Conventional Methods\*



Cogeneration System



\*LHV standard thermal power plant thermal generation efficiency and integration loss is computed based on the operating results of nine electric utilities and power wholesale companies.

## Domestic and International Energy Businesses

# Broad-Area Energy Business

## Business Overview and Characteristics

In addition to supplying natural gas to customers within its service area, the Osaka Gas Group sells part of the LNG it procures to large-scale customers outside the Kansai region, and to other utilities, by transporting gas by truck or ship. Following LNG supply using large-scale LNG carriers to Nippon Gas Co., Ltd. and Okinawa Electric Power Company, Inc., the Group will begin providing LNG to Shizuoka Gas Co., Ltd. from the fiscal year ending March 31, 2015. Going forward, we will expand the volume of LNG we deal in with the aim of enhancing competitiveness from a resource procurement standpoint, and will continue to provide energy solutions that address the needs of customers while pursuing alliances with regional utilities.



# LPG Business and Industrial Gas Businesses

## Business Overview and Characteristics

The Osaka Gas Group's LPG business mainly serves customers outside its city gas service area by providing retail and wholesale supplies of LPG. The Group takes full advantage of its natural gas operating know-how as well as its nationwide sales network to enhance its competitiveness in LPG. At the same time, the Group is working to provide multi-energy services that combine gas and electricity for a wide range of applications from residential to industrial use.

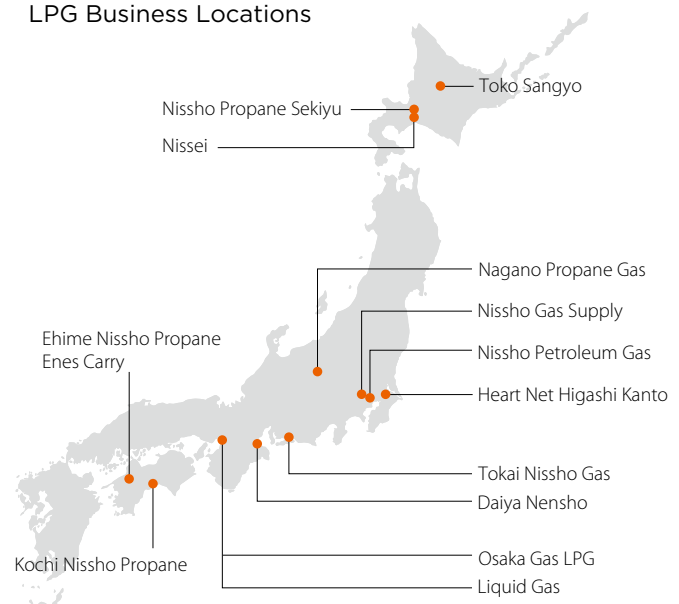
Moreover, in the industrial gas business, the Group utilizes cryogenic technologies to engage in such businesses as air separation as well as the manufacture and sale of liquefied carbon dioxide and dry ice. We are also expanding our business using proprietary low-temperature crushing technologies.



LPG business

Industrial gas business  
(low-temperature crushing technologies)

## LPG Business Locations



As of April 1, 2014

# Electric Power Business

## Business Overview and Characteristics

The electric power business is mainly conducted across two business domains: power generation and power marketing. Fully leveraging the Group's know-how nurtured through its gas operations, the electric power business is evolving into a second core business after gas. In its power generation activities, the Group relies heavily on the use of natural gas fired thermal power plants. At the same time, we are actively involved in renewable energy operations encompassing a wide range of areas including wind and solar power generation. In power marketing, we are working to build a well-balanced optimal marketing portfolio that combines wholesaling operations to electric power producers, ENNET Corporation, a joint venture between Osaka Gas and other companies, and Japan Electric Power Exchange (JEPX).

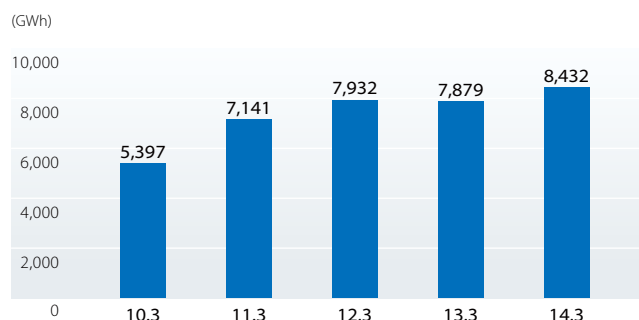
The total power generation capacity of our domestic power resources currently amounts to approximately 1.8 GW, with our flagship power plant being the Senboku Natural Gas Power Plant, which has a capacity of approximately 1.1 GW. Combining our domestic capacity with our overseas capacity, we boast a total power generation capacity of approximately 3.0 GW. Taking into consideration a variety of factors including continued liberalization of the electricity market, we are looking to double our capacity to 6.0 GW by the 2020s.

## Overview of the Fiscal Year under Review

In the fiscal year ended March 31, 2014, the Osaka Gas Group's electricity sales volume climbed 7% year-on-year to 8,432 GWh. This helped to partially alleviate the tight supply-and-demand situation across the nation.

While contributing to relieving the power supply shortage, the Osaka Gas Group will work to expand its electric power business.

## Electricity Sales Volume (Consolidated)



## Electricity Industry Reform

In response to incidents at a nuclear power station, and the subsequent electricity shortages, there has been much debate in Japan about expanding the scope of electricity interchange between power utilities and full liberalization of the retail electricity market.

Since 2013, a variety of topics have been earnestly discussed, including practical issues on administration and system design. In June 2014, revisions to the Electric Utilities Industry Law, which outlines the direction applicable to full liberalization, were ratified by Japan's Diet. Under these circumstances, Osaka Gas will take all necessary preparatory steps toward providing one-stop services of gas and electricity.

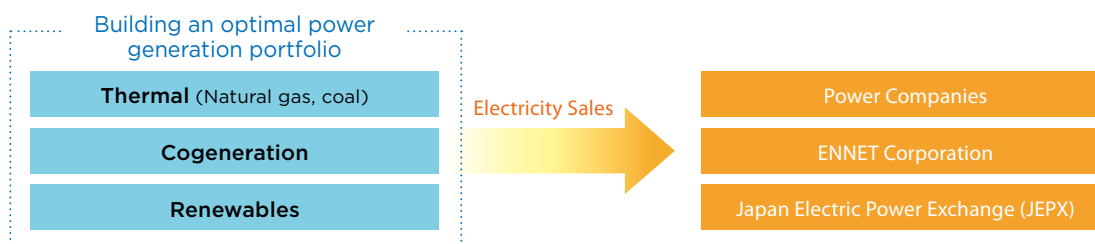
### Electricity industry reform policy

- 2015: Establishment of a regional electric power system operator agency
- 2016: Full liberalization of the retail sale of electricity
- To 2020: Legal separation of power generation and distribution

## Efforts to Expand the Electric Power Business

The Osaka Gas Group continues to closely monitor recent discussions surrounding energy policy as well as future trends in the demand and supply of electricity. Taking into consideration the dual needs to ensure the stable supply of electricity to customers and steady business growth, we are working to expand our total power generation capacity and are developing fresh sources of power on a nationwide scale.

In addition to natural gas-fired thermal power plants, which form a central component of the Group's power resources, we are engaging in coal fired power generation as well as renewable energy in an effort to build an optimal power source portfolio.



In March 2014, the Company decided to expand generation capacity by 110 MW with a coal-fired power station in Aichi Prefecture. Plans are in place to generate electricity by combining with biomass in a bid to reduce environmental load. Looking ahead, we will supplement our generation portfolio with coal-fired power stations as the base load power source while maintaining the central role of our natural gas-fired thermal power plants in order to be better positioned to address the increasingly diversified needs of customers.

## Expanding Electric Power Business Nationwide

The Osaka Gas Group will expand its electric power business nationwide with a focus on western Japan.

### Power sources currently owned by the Osaka Gas Group

- Thermal
- Renewable



Senboku Natural Gas Power Plant (Osaka Prefecture)

Expansion at the Nakayama Nagoya Joint Power Generation Plant (110MW level)  
Operations scheduled to commence in the fiscal year ending March 31, 2017



### Power Sources Owned by the Osaka Gas Group (As of May 2014)

Domestic power plant	Capacity
1 Torishima Energy Center (Natural gas)	150MW
2 Nakayama Joint Power Generation (Natural gas)	149MW
3 Nakayama Nagoya Joint Power Generation (Coal)	149MW
4 Himeji Power Plant (Natural gas)	55MW
5 Senboku Natural Gas Power Plant (Natural gas)	1,109MW
6 Hayama Wind Farm Power Plant (Renewable energy)	20MW
7 Hirogawa Myojin-yama Wind Power Plant (Renewable energy)	16MW
8 Yura Wind Power Plant (Renewable energy)	10MW
9 Hizen Wind Power Plant (Renewable energy)	30MW
10 Hirao Wind Power Plant (Renewable energy)	9MW
11 Nikki Mirai Solar Plant (Renewable energy)	27MW
Others	116MW
<b>Total</b>	<b>1,840MW</b>
<b>Company share of capacity: 1,819MW</b>	

In addition to the above, 1.1 GW (Group stake) is sourced abroad.  
Data in parentheses indicate the fuel used for power generation

## Initiatives Aimed at Expanding the Use of Renewable Energy

The Osaka Gas Group is actively engaged in solar and wind power generation projects in Japan and overseas. These initiatives reflect the Group's commitment to expanding the use of renewable energies that are easy on the global environment and helping to realize a low-carbon society.

The Osaka Gas Group maintains five wind power generation installations in the prefectures of Wakayama, Kochi, Yamaguchi, and Saga and six solar power generation plants in the prefectures of Osaka, Wakayama, Okayama, Mie, and Oita (as of May 31, 2014).



Hirogawa Myojin-yama Wind Power Plant  
(Wakayama Prefecture)



Torishima Solar Power Plant (Osaka Prefecture)

# Procurement of Energy Resources

## Business Overview and Characteristics

The gas supplied by the Osaka Gas Group to customers is made from LNG, which is imported entirely from overseas. Taking into consideration growing global demand, the Group's ability to secure stable and competitive supplies of LNG is a critical issue of business management.

Under these circumstances, the Osaka Gas Group is making every effort to lower the procurement cost of energy resources by diversifying its suppliers and, procuring new natural gas resources including shale gas as well as varying the terms and conditions of contracts, including the pricing mechanisms of LNG.

## Diversifying Sources of Supply

Currently, the Osaka Gas Group procures supplies of LNG under long-term agreements concluded with producers from the seven countries of Brunei, Indonesia, Malaysia, Australia, Qatar, Oman, and Russia.

Plans are also in place to begin procuring LNG from Papua New Guinea from the fiscal year ending March 31, 2015. Looking further into the future, we are pursuing opportunities to source supplies from the United States\*.

\*Please refer to "Investment in the Freeport LNG Project" on page 34.

## LNG Carrier Construction

In order to further stabilize the procurement of energy resources while reducing the costs of transportation, the Osaka Gas Group now has two new fuel-efficient LNG carriers under construction. The first carrier is scheduled to come into service during the fiscal year ending March 31, 2015, while the second carrier some time during the following fiscal year. Both carriers have been earmarked to service mainly new contracts of LNG from Australia and Papua New Guinea.

Each carrier also represents a new model that will incorporate an innovative steam turbine engine. Compared with existing vessels, these new models are expected to cut fuel expenditure by 20% while also addressing environmental concerns through reductions in emissions of CO<sub>2</sub> and sulfur oxide (SO<sub>x</sub>).

## Status of Energy Resource Procurement

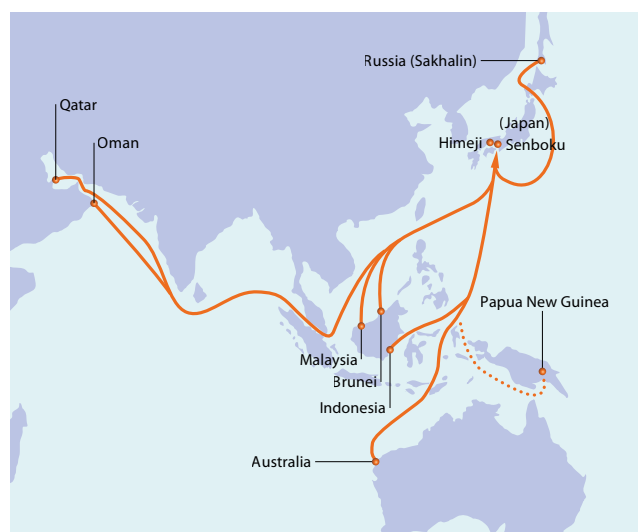


Image of the fuel efficient LNG carriers under construction

## Diversifying the Terms and Conditions of Agreements

LNG procurement prices in Japan are generally linked to the crude oil price. In recent years, the LNG price in Japan has continued to hover at a high level due mainly to the sharp increase in crude oil prices.

The Osaka Gas Group is striving to establish new pricing mechanisms in LNG procurement. As one example, the Group is aiming to introduce pricing mechanisms indexed to Henry Hub\* prices instead of crude oil prices to contracts of LNG from the United States. By diversifying pricing mechanisms in agreements, we are working to reduce the price of LNG.

\*The name given to a natural gas price index in the United States



## Domestic and International Energy Businesses

## International Energy Businesses

● Upstream Businesses ● Downstream Businesses



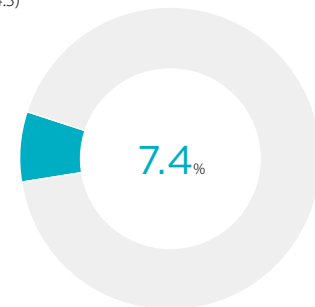
In the fiscal year ended March 31, 2014, net sales from international energy businesses amounted to ¥13.3 billion. Segment income came in at ¥7.7 billion, accounting for around 7% of the Group's total income.

As a supplier of energy, the Osaka Gas Group focused its attention on the natural gas value chain from an early stage. Comprehensive efforts have been directed toward expanding business activities from such upstream businesses as the production of natural gas overseas to downstream businesses including LNG terminal operations, the independent power producer (IPP) business, and the energy service business.

Moreover, the Group is taking steps to expand its trading businesses by leveraging its own fleet of LNG carriers.

## Segment Income\*

(2014.3)

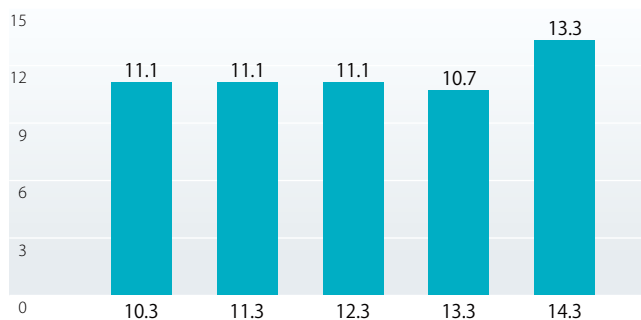


● International Energy Businesses

\* Segment Income = Operating income + Equity in earnings of affiliates

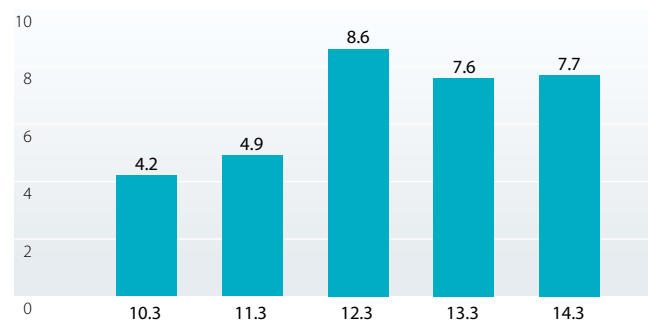
## Net Sales

(Billions of yen)



## Segment Income\*

(Billions of yen)



\* Segment Income = Operating income + Equity in earnings of affiliates

## Domestic and International Energy Businesses

# Upstream Businesses

## Business Overview and Characteristics

While contributing to raising profits of the Osaka Gas Group and accumulating valuable expertise and experience in the field of LNG procurement, the energy resource development business activities of Osaka Gas are helping to stabilize profits of the entire Group by serving as a natural hedge against fluctuations in crude oil prices and foreign currency exchange rates.

Looking ahead, we will cast a keen eye on new projects in which to participate and secure around 30% of essential future volumes of LNG while steadily advancing projects we have already decided to participate in.

## Investment in the Freeport LNG Project

In February 2014, Osaka Gas made the decision to take an equity stake in the Freeport LNG Project (Texas, U.S.) with Chubu Electric Power Co., Inc., as part of efforts to launch a natural gas liquefaction business.

At the Freeport LNG receiving terminal partly owned by Osaka Gas, plans are in place to construct a natural gas liquefaction facility. After obtaining construction authorization from the Federal Energy Regulatory Commission, steps will be taken to make a final investment decision and commence construction in the fiscal year ending March 31, 2015.

Under the equity participation agreement with Freeport LNG, Osaka Gas and Chubu Electric will respectively acquire 25% equity of the project company of the first train (4.4 million tons per annum), of which both companies have executed a liquefaction tolling agreement.

In addition to diversifying sources of supply and pricing indices, developing LNG imports without destination restrictions will help Osaka Gas achieve stable and competitive LNG supplies in the future.



Freeport LNG terminal (Houston, Texas, U.S.A.)  
Photograph courtesy of Freeport LNG Development, L.P.

# Downstream Businesses

## Business Overview and Characteristics

The Osaka Gas Group has actively participated in LNG terminal projects and IPP projects as part of its efforts to channel its know-how accumulated through the domestic energy business toward the development of business opportunities overseas and to secure a stable stream of earnings.

From the fiscal year ended March 31, 2014, the Group commenced the sale of natural gas while providing energy services in Southeast Asia. Through these activities, we are working to further broaden our business domains.

## Developing an Energy Service Business in Thailand

The Osaka Gas Group established a new company in Thailand and launched an energy service business in the industrial markets in Thailand from January 2014. This initiative will allow us to harness our engineering capabilities relating to the use of natural gas, and represents the second country in Southeast Asia after Singapore in which we are working to develop our business.

One of the strengths of the service business of Osaka Gas is demonstrated in our endeavor in Thailand, where customers will be able to install natural gas facilities by simply paying a fee that corresponds to the amount of energy used without any initial investment.

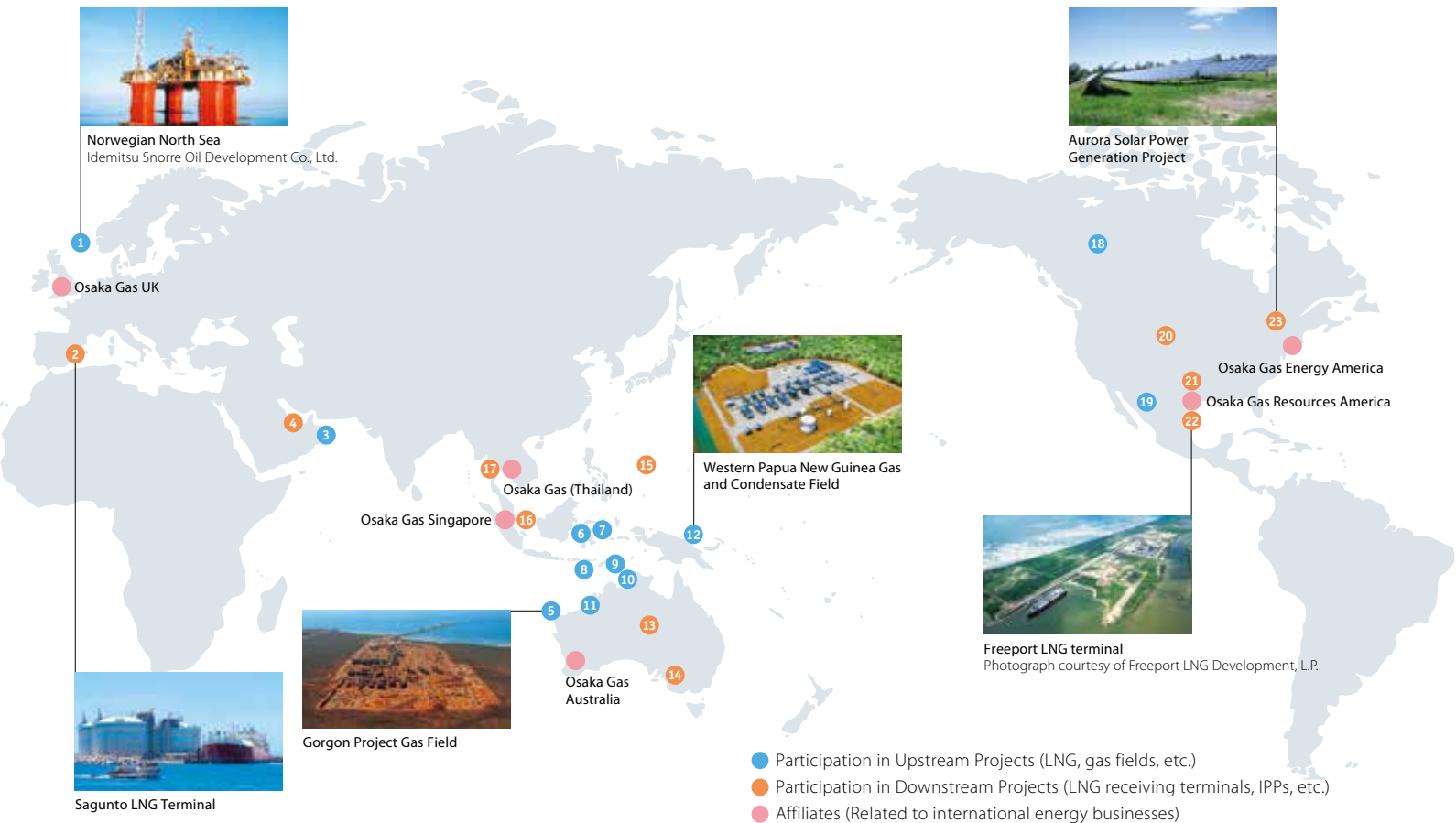
Depending on customers' energy conservation needs, the Osaka Gas Group will install natural gas facilities including boilers and furnaces and provide energy in a variety of forms including steam. By also providing a comprehensive service that encompasses energy use management and maintenance after the facility is installed, we are ensuring the stable supply of energy.

In Thailand, which is exhibiting considerable potential for ongoing economic growth, the Osaka Gas Group will provide services proposals mainly to Japanese companies operating locally. By promoting the shift from such energy sources as heavy fuel oils to natural gas, which is clean energy, we will contribute to energy conservation endeavors in Thailand.



Conducting activities in Thailand

## Investments in International Energy Businesses



### Participation in Upstream Projects (LNG, gas fields, etc.)

- 1** Norwegian North Sea (Idemitsu Snorre Oil Development Co., Ltd.)  
Stake since 2005: 2-5%
- 3** Qalhat LNG  
Stake since 2006: 3%  
Liquefaction capacity: 3.3 million tons/year
- 5** Gorgon Project Gas Field  
Stake since 2009: 1.25%  
Projected LNG output: 15 million tons/year (planned)  
(Start of production scheduled for 2015)
- 6** Universe Gas & Oil Company, Inc. (Sanga Sanga Gas Field)  
Stake since 1990: 1.5%
- 7** Japan CBM Limited (Sanga Sanga CBM)  
Stake since 2011: 1.8%
- 8** Crux Gas and Condensate Field  
Stake since 2007: 3%
- 9** Sunrise LNG Project  
Stake since 2000: 10%  
Projected LNG output: about 4 million tons/year (planned)
- 10** Evans Shoal Gas Field  
Stake since 2000: 10%
- 11** Ichthys LNG Project  
Stake since 2012: 1.2%  
Projected LNG output: 8.4 million tons/year (planned)  
(Start of production scheduled for 2016)
- 12** Western Papua New Guinea Gas and Condensate Field  
Stake since 2013: 10-20% (ratio depends on field)
- 13** Cordova Shale Gas Development Project  
Stake since 2011: 7.5%
- 14** Pearsall Shale Gas and Liquids Development Project  
Stake since 2012: 35%

### Participation in Downstream Projects (LNG receiving terminals, IPPs, etc.)

- 2** Sagunto LNG Terminal  
Ownership interest since 2010: 20%  
Vaporization capacity: 6.4 million tons/year
- 4** Shuweihat S2 IWPP  
Ownership interest since 2011: 10%  
(25% equity interest in the operation and maintenance company)  
Power generation capacity: 151 MW  
Freshwater processing capacity: 10 million gallons/day
- 15** EII (Energy Infrastructure Investments)  
Ownership interest since 2008: 30.2%  
Four pipelines, two gas-refining facilities, two power plants, two interconnected power lines  
Power generation capacity: 18 MW
- 16** Hallett 4 Wind Farm Project  
Ownership interest since 2009: 39.9%  
Power generation capacity: 53 MW
- 15** Marianas Energy IPP  
Ownership interest since 2005: 100%  
Power generation capacity: 87 MW
- 16** CITY-OG Gas Energy Services  
Stake since 2013: 49%  
Gas Retail Business
- 17** Osaka Gas Thailand  
Ownership interest since 2013  
Energy Services Business
- 20** Osaka Gas Power America  
Ownership interest since 2005: 8 IPP projects  
Power generation capacity\*: 359 MW  
\* Excludes 50% interest in 87 MW generation capacity of Marianas Energy IPP
- 21** Tenaska Gateway IPP  
Ownership interest since 2004: 40%  
Power generation capacity: 338 MW
- 22** Freeport LNG Terminal  
Ownership interest since 2008: 10%  
Vaporization capacity: 13 million tons/year
- 23** Aurora Solar Power Generation Project  
Ownership interest since 2012: 50%  
Power generation capacity: 51MW

\*In a bid to optimize its asset holdings, Osaka Gas sold all of its equity interest in a power generation plant located in Amorebieta-Etxano in Spain in May 2014.

# Life & Business Solutions (Non-Energy Business)

- Material Solutions Business
- Real Estate Business
- Information Solutions Business
- Life Services Business / New Business

Expanding business by leveraging technologies and know-how accumulated in gas business



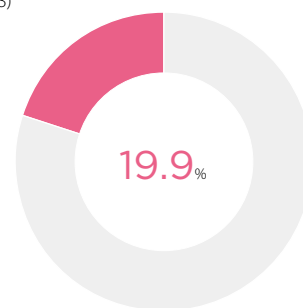
The Osaka Gas Group actively applies the technologies and know-how it has accumulated over more than 100 years in the gas business to other businesses, including the material solutions business, real estate business, and information solutions business.

The Osaka Gas Group efficiently manages its operations through the selection and concentration of business activities, while constantly paying close attention to the status of business.

In the fiscal year ended March 31, 2014, net sales totaled ¥199.6 billion. Segment income was ¥20.8 billion, making up around 20% of the total income of the Osaka Gas Group.

Life & business solutions (non-energy business) plays a major role underpinning the earnings foundation of the Osaka Gas Group, as a stable source of earnings despite rapidly changing conditions in society that affect the energy business, such as persistently high raw materials prices and greater awareness of energy conservation.

Segment Income\*<sup>1</sup>  
(2014.3)

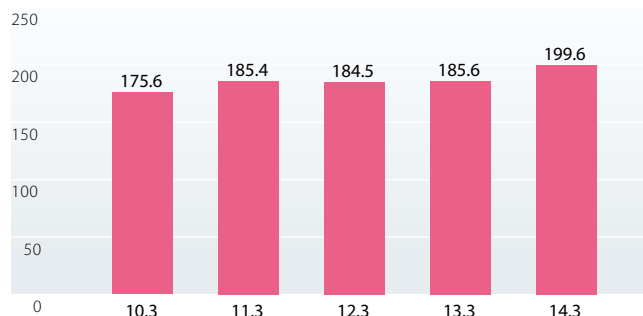


● Environment and Non-Energy\*<sup>2</sup>

\*<sup>1</sup> Segment Income = Operating income + Equity in earnings of affiliates

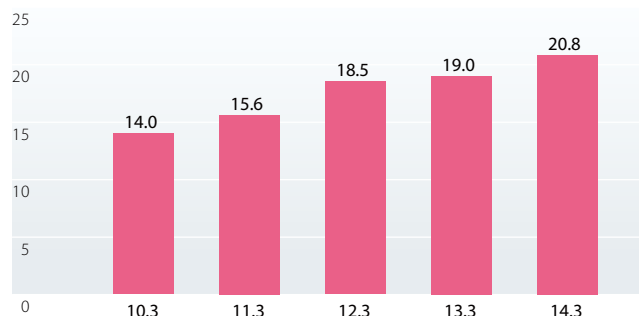
\*<sup>2</sup> Following a review of segment details, the name of the segment has been changed to the life & business solutions (non-energy business) segment effective from the fiscal year ending March 31, 2015.

Net Sales (Environment and Non-Energy\*)  
(Billions of yen)



\* Following a review of segment details, the name of the segment has been changed to the life & business solutions (non-energy business) segment effective from the fiscal year ending March 31, 2015.

Segment Income\*<sup>1</sup> (Environment and Non-Energy\*<sup>2</sup>)  
(Billions of yen)



\*<sup>1</sup> Segment Income = Operating income + Equity in earnings of affiliates

\*<sup>2</sup> Following a review of segment details, the name of the segment has been changed to the life & business solutions (non-energy business) segment effective from the fiscal year ending March 31, 2015.



## Life &amp; Business Solutions (Non-Energy Business)

# Material Solutions Business (Osaka Gas Chemicals Group)

## Business Overview and Characteristics

This business offers a wide range of products and develops high-value-added materials in the fields of carbon and chemistry, with core technologies comprising coal chemistry technologies accumulated from the production of coal gas at Osaka Gas and upstream technologies in pharmaceuticals at Japan EnviroChemicals, Ltd.

In the fine materials field, the Osaka Gas Group produces fluorene derivatives with excellent optical properties and outstanding heat resistance, and boasts the highest share of the world market for fluorene derivatives. These derivatives are used as materials in fabricating film materials for LCDs and resins for optical lenses used in mobile phones and other devices.

In the activated carbon field, we produce and market activated carbon for various applications, and residential products that use activated carbon such as water purifier cartridges and air purifying filters.

By reinforcing R&D and M&A activities, this business will look to boost the Osaka Gas Chemicals Group's net sales to ¥100 billion by the fiscal year ending March 31, 2021.

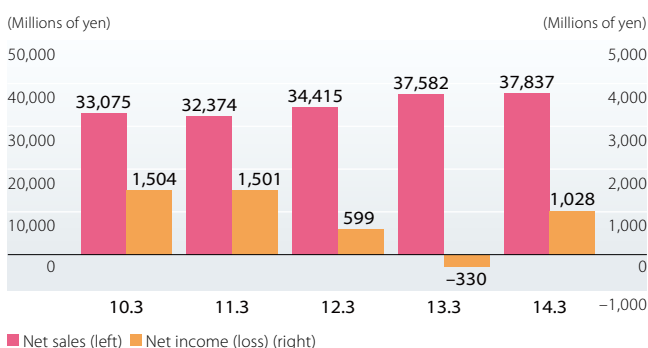
## Initiatives in the Fiscal Year under Review

In the fiscal year ended March 31, 2014, performance for the entire Osaka Gas Chemicals Group was better than the previous fiscal year, reflecting the launch of marketing activities at a Chinese subsidiary established in 2013, and growth in sales in the carbon fiber materials field in the wake of the recovery in market conditions, although the fine materials field struggled somewhat compared with the previous fiscal year.

In January 2014, Osaka Gas Chemicals Co., Ltd. acquired Jacobi Carbons AB, an activated carbon manufacturer / distributor headquartered in Sweden, in a bid to strengthen its presence in the field of activated carbon.

The Osaka Gas Chemicals Group believes these initiatives will bolster Group competitiveness and open up sales channels to global markets with considerable growth potential in their activated carbon markets, raising the number of its global sales channels to more than 100 countries.

Osaka Gas Chemicals Group Net Sales / Net Income (Loss)



- Develop new products and improve work quality by transplanting production technologies
- Increase efficiency through mutual use of logistics and sales structures

### Outline of Jacobi Carbons AB

Location:	Sweden
Main bases:	U.S., U.K., France, Germany, Switzerland, Sri Lanka, India and China, etc.
Established:	1916
Business:	Producing activated carbon at plants in Sri Lanka, India, China and Vietnam, and marketing products to 111 countries, mainly in North America and Europe
Performance:	Net sales of ¥19.5 billion in the fiscal year ended December 31, 2013
Employees:	Approx. 1,200 (including affiliates)

### Outline of Japan EnviroChemicals, Ltd.

Location:	Japan
Paid-in capital:	¥2.1 billion
Established:	2003
Business:	Research, development, production, supply and sales of activated carbon, wood preservatives, termite control materials (repellent), industrial preservatives, wastewater treatment carriers.
Performance:	Net sales of ¥15.5 billion in the fiscal year ended March 31, 2014
Employees:	Approx. 150



## Life &amp; Business Solutions (Non-Energy Business)

## Real Estate Business (Osaka Gas Urban Development Group)

## Business Overview and Characteristics

In addition to making good use of existing real estate held by the Osaka Gas Group, this business engages in a broad range of real estate operations, including leasing, sales, and development of newly acquired real estate, as well as building maintenance. Through these activities, we aim to provide environmentally friendly and comfortable residential and business spaces.

## Initiatives in the Fiscal Year under Review

Buoyed by a brisk market for for-sale condominiums, Osaka Gas Urban Development Co., Ltd. sold a total of 370 condominium units at 10 properties for which the company partly served as the project lead manager. With net sales surpassing ¥10.0 billion, the building maintenance business contributed considerably to higher earnings for the Group.

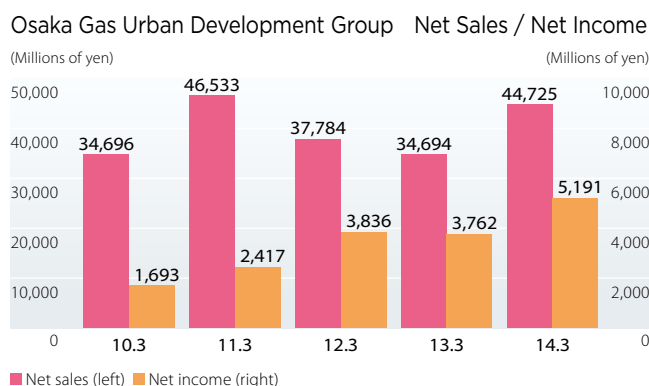
We will pursue synergies with our gas business by supplying properties in which customers can enjoy the comfortable and convenient lifestyles through the use of gas, such as by installing gas appliances like mist saunas, glass-top gas stoves, and floor heating systems.



Urbanex Akihabara East



The Urbanex Namba



## Information Solutions Business (OGIS-RI Group)

## Business Overview and Characteristics

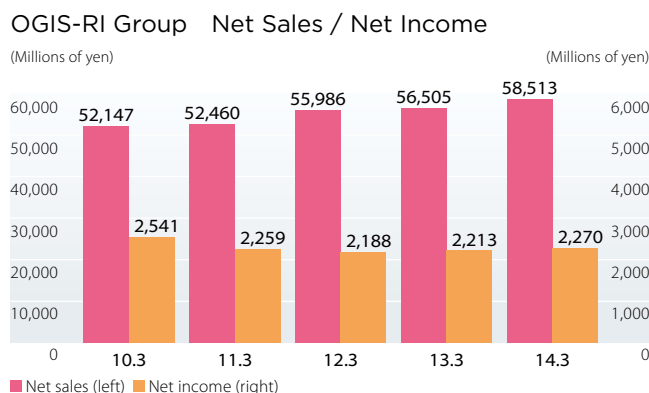
OGIS-RI Co., Ltd. traces its roots back to developing and managing systems for the gas business of Osaka Gas. Today, this business develops cutting-edge systems, provides cloud-based services and operates highly secure data centers, by leveraging the innovative technologies and customer base of the OGIS-RI Group.

## Initiatives in the Fiscal Year under Review

The OGIS-RI Group focused on the data center business, demand for which has been growing as customers seek stronger information security and lower costs. OGIS-RI Co., Ltd. opened new data centers with excellent seismic resistance in Osaka (April 2013) and Tokyo (July 2013). We aim to reinforce the foundations of the data center business while addressing customer needs for monitoring, maintenance and security in data centers through the unification of our two data centers in Osaka and Tokyo.



ICC Building



## Life &amp; Business Solutions (Non-Energy Business)

# Life Services Business / New Businesses

## Business Overview and Characteristics

Aiming to enhance the brand value of the Osaka Gas Group and promote businesses that contribute to efficient and effective Group management, this business segment is involved in a broad range of B to B and B to C fields, including the operation of fitness clubs and other sports facilities, automobile leasing, temporary staffing, and nursing care services. Looking ahead, the Osaka Gas Group will reinforce its ability to respond to customer needs.

By aggressively investing in growth businesses while withdrawing from unprofitable ones and ending operations with weak synergies with the gas business, we venture into new business domains.



Fitness center COSPA



ACTIVELIFE (In-home nursing care services)

## Initiatives in the Fiscal Year under Review

### Participation in a Water Supply Business in the United Kingdom

In October 2013, Osaka Gas received a portion of the shares of Sumitomo Corporation and took up an equity interest in Sutton and East Surrey Water plc (SESW), a water supply company in the United Kingdom. This marks the first time a Japanese gas company has entered the overseas water supply business.

We think the water supply business has a business model that is very similar to that of the gas business, in terms of infrastructure using underground pipes, being a utility business, and being regulated. Since business development is viable over the long term, we expect the water supply business to be a stable source of earnings.

We aim to enhance the corporate value of SESW further by strengthening its business foundation and combining Osaka Gas' know-how accumulated in the gas business, such as customer service, operation and maintenance, with Sumitomo Corporation's extensive experience in water supply and wastewater treatment in the United States, the Middle East, China and Asia.



Water softening process



Screening process



### Outline of Sutton and East Surrey Water plc

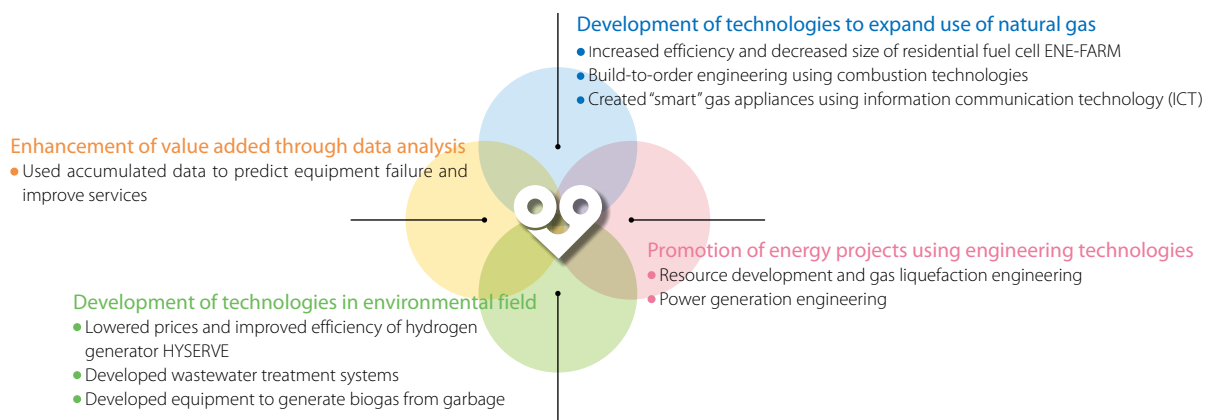
Location:	Surrey, United Kingdom
Supply area:	835km <sup>2</sup> in southeastern London (population: Approx. 670 thousand)
Supply volume:	158 thousand m <sup>3</sup> / day
Locations supplied:	Approx. 280 thousand (residential: about 260 thousand; business / industrial: about 17 thousand)
Established:	1862 (Privatized in 1989)
Business:	Water supply
Performance:	Net sales of ¥8.8 billion in the fiscal year ended March 31, 2013
Employees	230

# Technological Development

## Technological Development Strategy

### Technology-Driven Solutions and Innovation

The Osaka Gas Group aims to spur innovation for the next generation and provide optimal solutions to its customers by leveraging its accumulated core technologies.



## Priority Fields in Technological Development

Osaka Gas aims to improve its engineering capabilities in growth fields, such as upstream businesses and the electric power business.

Looking ahead to the full liberalization of electric power and gas retail activities, Osaka Gas is developing new gas equipment, such as fuel cells, to increase its competitiveness. Osaka Gas is also focusing efforts on information communications technology (ICT) and big data analysis to provide new services that enhance value added in the gas and electricity businesses.

### Major Initiatives Toward a Hydrogen Society

#### Compact-Type On-Site Hydrogen Generator HYSERVE

HYSERVE is a system that produces high-purity hydrogen from city gas, using high-performance steam-reforming catalysts that were independently developed by Osaka Gas. Its features include a compact size, low price, high efficiency, and easy operation.

Osaka Gas succeeded in the commercialization of HYSERVE-300, which features three times the hydrogen generation capacity of the previous model. Sales began in December 2013 to hydrogen stations and mid-scale hydrogen users.

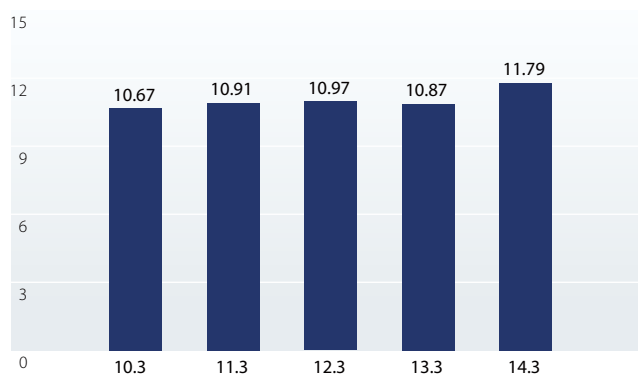
#### Clean Energy Hydrogen Stations

Osaka Gas plans to construct a commercial on-site hydrogen station with a compact hydrogen generator, the HYSERVE-300, next to a natural gas vehicle refueling station in Ibaraki-city, Osaka Prefecture. Operations are slated to commence in spring 2015.

We hope to contribute to the realization of a low-carbon society through the sale of HYSERVE for hydrogen stations and the supply of hydrogen for fuel cell vehicles that automakers plan to begin selling to the general public.

## Research and Development Expenses (Consolidated)

(Billions of yen)



HYSERVE-300



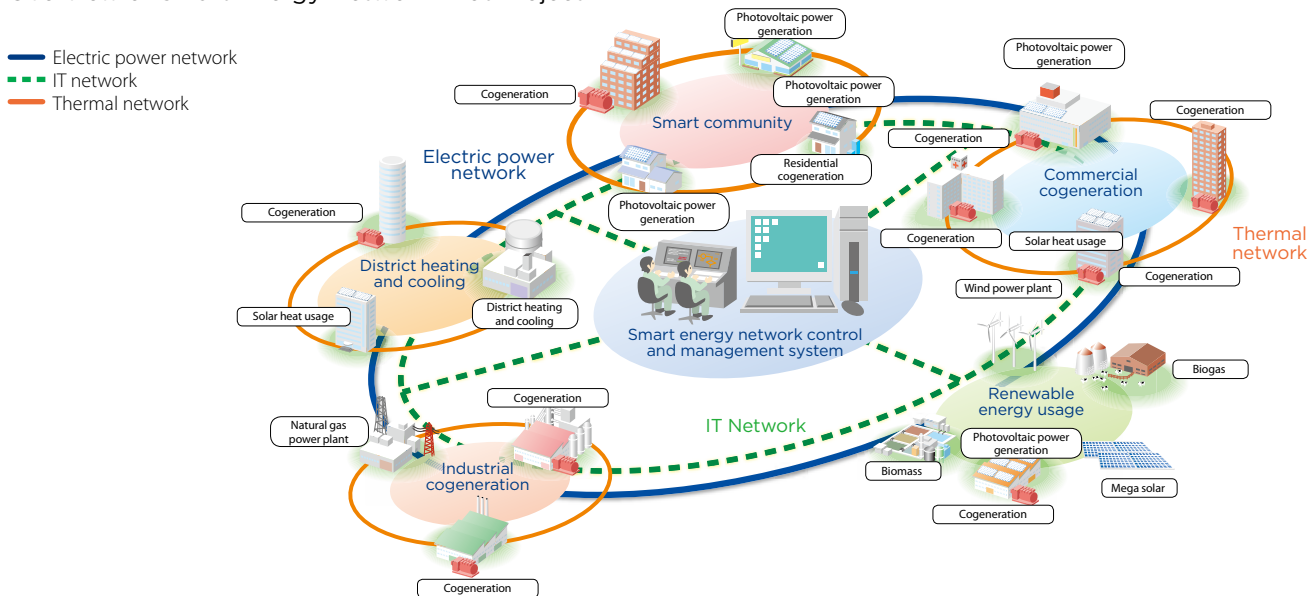
Osaka Hydrogen Station (Operated in April 2011)

## Major Initiatives Smart Energy Networks

A "smart energy network" is essentially an energy community that is composed of gas cogeneration systems, renewable energy, and information and communication technology (ICT). Far more than providing energy flexibility, smart energy networks are next-generation energy systems that create new value by combining distributed energy sources through a process of integrated control. In specific terms, this new value is derived from (1) the pursuit of further reductions in energy consumption and CO<sub>2</sub> emissions, (2) efforts to enhance energy security, and (3) the growing use of renewable energy. Osaka Gas has jointly participated with Tokyo Gas in a pilot project that has been selected as a "Dispersed Energy Compound Optimization Demonstration Project," and is funded by Japan's Ministry of Economy, Trade and Industry, in conjunction with nine customers from May 2010. On the results of this project, Osaka Gas commenced smart service provider business demonstrations from July 2012. Furthermore, from June 2013, Osaka Gas took steps to build a smart energy network for a redevelopment project in the Iwasaki area of Nishi-ku in Osaka. The Company has commenced the supply of electric power\* as a designated electricity supplier.

\*The supply of electric power represents the first designated electricity supplier application in Japan since the relaxation of requirements following revisions to Japan's Electric Utilities Industry Law in the fiscal year ended March 31, 2012.

### Overview of Smart Energy Network Pilot Project



## Major Initiatives Construction of a Large-Capacity PCLNG Tank\*

A large-capacity LNG tank (230,000 m<sup>3</sup>) that uses the latest technology is currently under construction at Osaka Gas' Senboku No. 1 Works, with a scheduled completion date of winter 2015.

### Development and Commercialization of 7% Nickel Steel That Reduces Use of Rare Earth Metals

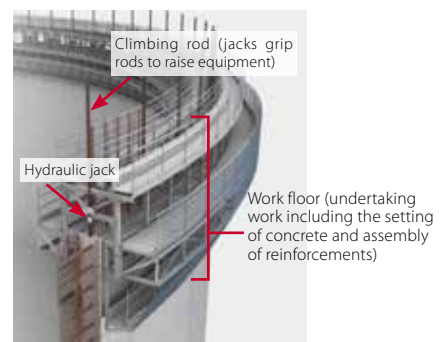
For over half a century, 9% nickel steel (containing 9% nickel, a rare earth metal) has been used as a material for the internal lining of LNG tanks. Osaka Gas developed and commercialized a new 7% Ni-TMCP steel material that cuts the volume of nickel (Ni) used in tanks and successfully reduced material costs. By utilizing thermo mechanical control process (TMCP) technology, which uses computers to precisely control the steelmaking process, this material delivers a level of performance that exceeds that provided by 9% nickel steel.

### Slipform Construction Method Considerably Shortens Time to Build Outer Tank

Osaka Gas built an outer tank using the slipform construction method, a first for a PCLNG tank in Japan. This construction method uses hydraulic jacks to raise integrated formwork and scaffolding equipment, allowing for the continuous placing of reinforcements and concrete without construction joint.

The traditional construction method entails a crane used to install formwork and scaffolding, the assembly of reinforcements, and the pouring and setting of concrete, after which the cycle is repeated when the crane moves the formwork and scaffolding. This traditional method would have taken nine months to construct an outer tank of the same scale, whereas the slipform construction method only took 20 days.

\* A double-walled metal tank with dike-type prestressed concrete (a type of reinforced concrete) affixed to its outer layer



Visual representation of the slipform construction method



## Intellectual Property Activities

### Intellectual Property Strategy

The Osaka Gas Group positions intellectual property as an important management resource. At the same time, the Group takes proactive steps to secure and utilize intellectual property rights in concert with its business and technology development strategies.

### Strategically Acquiring Intellectual Property Rights

The Osaka Gas Group has been developing strong rights coverage centered on technologies of strategic importance to business and R&D, prioritizing the filing of patent applications, particularly in areas deemed key for acquiring intellectual property rights. To this end, we have employed a range of methods including patent portfolio management\*. In particular, we are strategically filing patent applications in technologies related to residential gas cogeneration systems such as fuel cells.

In the fiscal year ended March 31, 2014, the Group submitted 456 patent applications.

\* Patent portfolio management is designed to support business strategies by building strong patent coverage, filling in technological gaps by developing new technologies and acquiring patents.

### Effective Utilization of Intellectual Property Rights

Osaka Gas has focused on boosting its competitiveness by considerably increasing the number of patents it holds in areas of strategic importance, including cogeneration systems for residential use. It also holds patents on mist-sauna applications in the residential gas appliance field, gas air conditioning systems in the commercial and industrial gas appliance field, and LNG tank technology and non-excavation pipeline methods in the gas production, transport and supply field. The Company also owns patents on fine materials and other materials technologies in the material technology field. Its intellectual property rights are used broadly throughout the Group's businesses, and patents are licensed to other companies. Group patents numbered 3,120 as of March 31, 2014, an increase of 259 from March 31, 2013.

### Acquiring and Protecting Trademark Rights

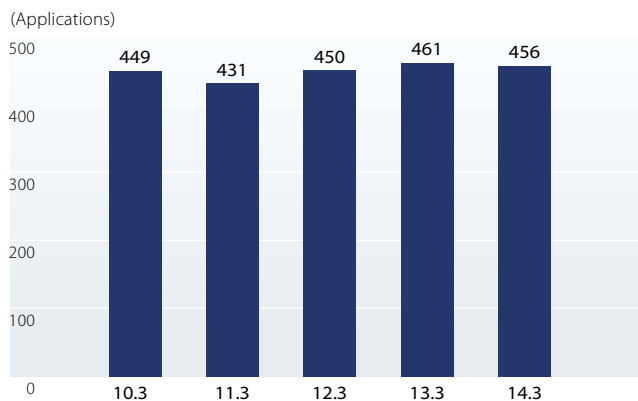
The Osaka Gas Group strategically obtains trademarks for the services and products it provides in order to build its corporate brand. As of March 31, 2014, the Group had 913 registered trademarks.

### Strengthening Intellectual Property throughout the Group

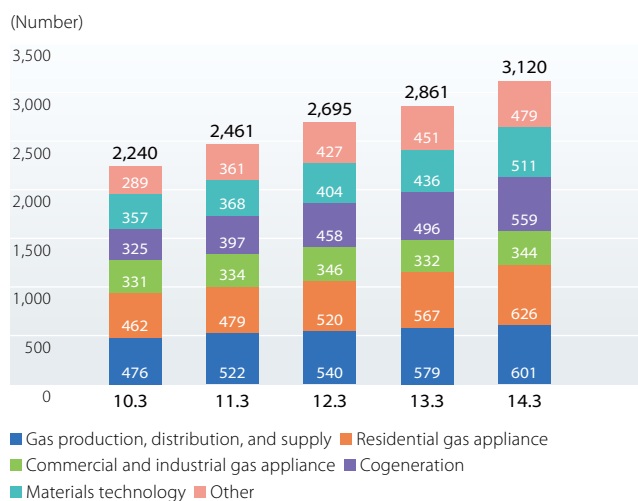
A variety of educational and instructional tools are used to further improve the Osaka Gas Group employees' understanding of intellectual property rights. For example, instructors from both inside and outside the Company conduct training sessions based on both goals and employee rank. E-mail magazines are also distributed with the latest news on intellectual property and explanations of important items to be observed when conducting business activities.

Other efforts are centered on reducing the risks of infringement of intellectual property rights belonging to other companies or infringement of our own intellectual property rights, including full investigations of the Group's trademarks.

### Patent Applications by the Group



### The Group's Patent Portfolio by Business Type



Examples of registered trademarks in the fiscal year ended March 31, 2014



Cogeneration system for residential use (autonomous operation of units even in the event of power outages) No. 5573659



Survey and consulting services that entail behavior observation No. 5626624



## Corporate Governance

Committed to Practicing Sound and Transparent Management while Maximizing Corporate Value



### Basic Stance toward Corporate Governance

The Osaka Gas Group, seeking to maximize corporate value, operates in accordance with its “Value Creation Management” philosophy, which stipulates that value should be raised for all stakeholders including customers, shareholders, society, and employees through fair and transparent business practices.

Guided by this management philosophy, the Group is working to further improve the soundness of management. At the same time, we are endeavoring to not only maintain the current status of our corporate governance system, but also to enhance and strengthen its content and quality. In this manner, every effort is being made to ensure that business is executed in an efficient and appropriate manner and that the Group responds swiftly and precisely to changes in its business environment.

## Corporate Governance Organization

(As of June 27, 2014)

### Annual Shareholders' Meeting

Based on the Companies Act of Japan, matters stipulated under legislation and the Company's Articles of Incorporation are put forward at the Annual Shareholders' Meeting for resolution.

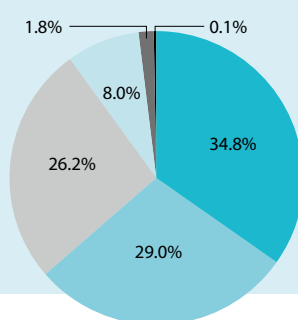
In order to ensure that shareholders' meetings are conducted in a vigorous manner and to facilitate the exercise of voting rights, Osaka Gas attends to the early distribution (approximately four weeks in advance) of notices of shareholders' meetings as a part of efforts to secure an appropriate period for the deliberation of proposals items. In addition, the Company has adopted electronic voting to allow shareholders to exercise their voting rights via the Internet.

#### Number of Shareholders (As of March 31, 2014)

131,643

#### Shareholdings by Type of Shareholder

- Banks and Insurance Companies
- Individuals and Others
- Foreign Corporations and Foreign Individuals
- Other Japanese Corporations
- Securities Companies
- Treasury Stocks



Appointment

Dismissal

Appointment / Dismissal

### Directors and the Board of Directors

The role of the Board of Directors is to thoroughly deliberate on and make timely and appropriate decisions about important matters that affect the whole Group including subsidiaries and to enhance the supervisory function. Osaka Gas has also adopted an executive officer system under which executive officers perform duties determined by the Board of Directors. Certain representative directors and directors concurrently serve as executive officers. This serves to further strengthen the supervisory functions of the Board of Directors and enhance their performance in the execution of their duties.

#### Members

##### President

Hiroshi Ozaki

##### Representative Directors

Masato Kitamae

Takehiro Honjo

Hirofumi Kyutoku

##### Director

Hidetaka Matsuzaka

Kenji Ikejima

Masaki Fujita

Yasuo Ryoki

Tetsuo Setoguchi

Kazuhiya Yano

Eiichi Inamura

##### Outside Director

Shunzo Morishita

#### Biography

- 2004 Representative Director and President of NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION
- 2008 Director and Executive Advisor of NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION
- 2009 Director of the Company (current)
- 2010 Executive Advisor of NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION (current)
- 2012 Chairman of the Board of Directors of Hanshin Expressway Company Limited (current)

##### Outside Director

Hideo Miyahara

#### Biography

- 2002 Dean of the Graduate School of Information Science and Technology, Osaka University
- 2003 President of Osaka University
- 2007 President of the National Institute of Information and Communications Technology
- 2013 Specially Appointed Professor, Osaka University Graduate School of Information Science and Technology (current)
- Director of West Japan Railway Company (current)
- Director of the Company (current)

Appointment / Dismissal / Oversight

Report

### President

#### Director and Corporate Auditor Remuneration

In order to ensure objectivity, the amount of remuneration paid to each director is determined by a resolution of the Board of Directors after taking into consideration deliberations by the Management Advisory Committee, which is composed of a majority of outside directors. The amount falls within the scope (up to a maximum of ¥63 million per month) approved at the Annual Shareholders' Meeting and reflects the position and responsibilities of each director as well as the level of contribution to the Company's performance. The amount of remuneration paid to outside directors is fixed taking into consideration their independence from the business execution function.

The amount of remuneration paid to each corporate auditor is determined following deliberations by corporate auditors. The amount falls within the scope (up to a maximum of ¥14 million per month) approved at the Annual Shareholders' Meeting and reflects the position of each corporate auditor.

The system of paying retirement benefits to directors and corporate auditors has been abolished.

#### The Functions and Roles of Outside Directors and Outside Corporate Auditors

Osaka Gas appoints two outside directors and two outside corporate auditors. Outside directors participate in the decision making process as members of the Board of Directors and are expected to further enhance the auditing and monitoring functions of the Board of Directors. Outside corporate auditors are expected to fulfill their duties as auditors by monitoring the execution of operations by directors from a strictly independent standpoint.

The concrete roles of outside directors and outside corporate auditors include verifying the state of the internal governance system in accordance with Japan's Companies Act, evaluating internal governance related to financial reporting in compliance with the Japanese Financial Instruments and Exchange Law, and holding hearings on the status of CSR in relation to the Board of Directors or other parties. They also confirm the content of audit reports compiled by the independent auditor of accounts.

#### Criteria for Determining the Independence of Outside Directors and Outside Corporate Auditors

Osaka Gas has appointed two outside directors and two outside corporate auditors. In determining a particular appointment, the Company maintains specific predetermined criteria to ensure an appropriate level of independence. Outside directors and outside corporate auditors are not major trading partners of or major shareholders in the Osaka Gas Group, are not nor have they been executives or employees at other companies that are major trading partners of or major shareholders of the Group, and are deemed to be without any conflicts of interest with general shareholders.

Classification	Total amount of remuneration (millions of yen)	Number of payees
<b>Directors</b> (excluding Outside Directors)	513	14
<b>Corporate Auditors</b> (excluding Outside Corporate Auditors)	64	2
<b>Outside Directors and Outside Corporate Auditors</b>	42	5

Note: The number of persons and amount data includes four individuals who retired as of the close of the Company's 195th Annual Shareholders' Meeting held on June 27, 2013. Moreover, the total amount of remuneration is made up of a total amount and basic remuneration.

## Appointment / Dismissal

## Board of Corporate Auditors

Osaka Gas has adopted the corporate auditor system. The Board of Corporate Auditors is comprised of four members, including two outside corporate auditors, who monitor and audit the duties and performance of directors. The Corporate Auditors' Office, consisting of four full-time staff operating outside the directors' chain of command, has been established to strengthen the role played by corporate auditors. It assists in investigations of corporate auditors to further ensure that their duties are fully and properly executed.

**Members**  
**Corporate Auditors**
Shingo Kamei  
Shiro Takenaka
**Outside Corporate Auditor**  
**Atsushi Hayashi**
**Biography**

2008 President of the Takamatsu High Court  
 2010 Professor of the Graduate School of Law, Kyoto University (current)  
 2012 Corporate Auditor of the Company (current)

**Outside Corporate Auditor**  
**Yoko Kimura**
**Biography**

2000 Professor, Faculty of Human Life and Environment, Nara Women's University  
 2000 Member of Local Public Finance Council  
 2010 Chairperson of the Board of Directors, Council of Local Authorities for International Relations  
 2014 Advisor of Japan Center for Cities (current)  
 Corporate Auditor of the Company (current)

**Corporate Auditors' Office**

Dismissal

Report

Cooperation

**Independent Auditor of Accounts**

For its accounting audit, Osaka Gas has concluded a contract agreement with KPMG AZSA LLC. In addition, 14 certified public accountants and 18 other staff assist in the accounting audit operations of the Company.

Corporate auditors and the independent auditor of accounts meet on a regular basis to discuss annual audit plans and audit reports, and also convene as required to exchange audit information to ensure the effectiveness of the auditing activities.

Audit

Report

Audit

**Executive Board**

The Executive Board, which is comprised of the executive directors and senior executive officers, carefully scrutinizes relevant issues from a technical perspective.

**CSR Promotion Council****CSR Executive****CSR Committee****Business Units****CSR & Environment Dept.****Compliance Dept.****Auditing Dept.****Strengthening Internal Control**

Osaka Gas has established the Auditing Department (with a staff of 21) that functions as an internal auditing division and, based on a yearly auditing plan, monitors the appropriateness and efficiency of business activities and provides internal organizations with advice and recommendations. For business units, core Group companies, and other sections, the Group is working to enhance and strengthen the auditing and internal control functions. For example, basic rules for affiliated companies and self-auditing regulations commonly shared by Group companies more clearly define the roles and duties of internal auditors. Moreover, auditors evaluate internal controls over financial reporting based on the Japanese Financial Instruments and Exchange Law and report to management.

CS Promotion Council

Executive Safety Committee

Environment Subcommittee

Social Contribution Subcommittee

Compliance Subcommittee

Corporate Human Rights Committee

Safety and Health Committee

CSR Promotion Organization

**Risk Management Structure and Systems**

The Osaka Gas Group has developed and used the Gas Group Risk Management System (G-RIMS) as a self-assessment risk management mechanism since the fiscal year ended March 31, 2007. Following an annual self-assessment by each division, the secretariat (Auditing Department, Compliance Department, Corporate Strategy Department, and Affiliated Business Department) holds discussions with each division to exchange opinions and monitor implementation. Depending on the assessment and concerning issues of particular importance that have been identified, steps are taken to ensure that pertinent information is commonly shared through reports presented to management. Each division head and manager is responsible for taking action to resolve any issues that have been identified. At the same time, steps are taken to secure an effective PDCA cycle through these risk management activities across the entire Group.

## CSR

The Osaka Gas Group CSR Charter and the Osaka Gas Group Code of Conduct were stipulated to support the sustainable development of the Osaka Gas Group as it fulfills its corporate social responsibility (CSR). Moreover, CSR indicators have been created to facilitate the visualization of progress made in our CSR efforts.

The Company has set up the CSR Promotion Council under the president to plan, report, and discuss CSR-related activities among directors and members of management. The Company has also established the CSR Committee under the CSR Executive, who oversees the CSR activities of the Group; these comprise leaders of organizational units to coordinate and promote CSR in a cross-organizational manner.



► For information on organization, please refer to pages 44 and 45.

### Osaka Gas Group CSR Indicators

CSR Charter	New Indicators (2013.3–2014.3)	2014.3 Result
<b>I</b> Creating value for customers	<b>Customer satisfaction level</b> Seven Customer Service Duties Overall satisfaction rate: 85% or more 82% or more in all satisfaction rates	<b>Customer satisfaction level</b> Seven Customer Service Duties Overall satisfaction rate: 91.0% Achieved over 82% in all satisfaction rates
<b>II</b> Harmonizing with the environment and contributing to realizing a sustainable society	<b>Environmental Management Indicator</b> Environmental Management Efficiency: 68 yen / 1,000 m <sup>3</sup> or less	<b>Environmental Management Indicator</b> Environmental Management Efficiency: 60 yen / 1,000 m <sup>3</sup>
<b>III</b> Being a good corporate citizen contributing to society	<b>Number of contacts and communication events</b> Number of events held (on-site dietary and energy/environment seminars, etc.): 1,000 Number of contacts (visitors to permanent facilities including Gas Science Museum): 70,000 or more <b>Social contribution activities</b> Number of activities implemented: 600 or more	<b>Number of contacts and communication events</b> Number of communication events held: 2,068 Visitors to permanent facilities: 70,087 <b>Social contribution activities</b> Number of activities implemented: 692
<b>IV</b> Complying with laws and regulations and respect for human rights	<b>Compliance awareness survey scores</b> (Individual) Level of understanding of the Code of Conduct: Higher than the previous year (Organization) Degree of penetration of compliance: Higher than the previous year Percentage of employees receiving compliance training: 100%	<b>Compliance awareness survey scores</b> (Individual) Level of understanding of the Code of Conduct: Higher than the previous year ► 73.8% (Up 2.4p) (Organization) Degree of penetration of compliance: Higher than the previous year ► 86.0% (Up 3.2p) Percentage of employees receiving compliance training: 100%
<b>V</b> Management policy for human growth	<b>Employee opinion survey</b> Maintaining sufficient levels in job satisfaction and sense of attachment to the company	<b>Employee opinion survey</b> Survey yet to be conducted as of the end of March 2014 (Next survey scheduled for the fiscal year ending March 31, 2015)

### The Osaka Gas Group Code of Conduct — Our Pledge

- 1 Respect human rights and create a pleasant and secure work environment.
- 2 Comply with laws and regulations and perform work in accordance with common sense.
- 3 In global business activities, respect country and regional laws as well as international standards such as those related to human rights.
- 4 Consideration for the environment
- 5 Comply with fair trade and competitive practices.
- 6 Provide safe and high-quality products and services at reasonable prices and work to enhance customer satisfaction.
- 7 In interactions with associates and business partners, abide by a good code of conduct.
- 8 Properly recognize the value and importance of information and handle and disclose it fairly.
- 9 Prohibit association with anti-social elements.
- 10 Use proper tax and accounting practices.

### Osaka Gas Group Policy to Promote Diversity

The Osaka Gas Group plans to implement activities in supporting females, the elderly, physically challenged, foreign nationals and LGBTs. Consideration will be given to building a workplace environment that enables employees to achieve higher career objectives. Minority workers should not be disadvantaged. As a touchstone for promoting diversity, Osaka Gas seeks to provide its female employees with greater professional opportunities. Of all new recruits with professional qualifications, the Company is looking to ensure that at least 30% are females and that 5% of middle management are women by 2020.

In addition, Osaka Gas was selected as a "Fiscal 2013 Nadeshiko Brand" stock.



"Nadeshiko Brand" stock is a designation given by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange to enterprises listed on the First Section of the Tokyo Stock Exchange that are exceptional in encouraging women's success in the workplace. Candidates are scored based on two factors: 1) career support for women, as indicated by the ratio of women in management positions, and 2) support for work-family balance, such as the ratio of male employees that take time off to rear their children. The candidates are further screened based on their financial performance using return on equity (ROE) and other indicators.

## Environmental Action Targets

The Osaka Gas Group has drawn up and is using environment action targets as indicators to assess progress in environmental management in a continuous, integrated manner.

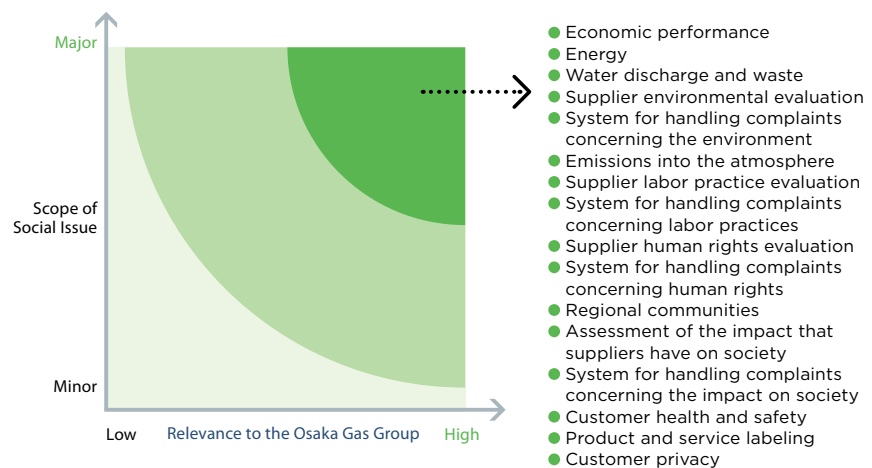
Area	Indicator		2014.3 Target*	2014.3 Result
<b>Integrated indicator</b>	Environmental management efficiency	Environmental impact of gas business per gas sold (Monetary value (yen) of GHG, excavated soil, waste, NOx, COD, chemical substances, water consumption / gas sold (1,000 m <sup>3</sup> ))	68 or less (−26%)	60
<b>Low-carbon society</b>	City Gas business	LNG terminals (CO <sub>2</sub> emissions per 1 million m <sup>3</sup> of gas sold) (t-CO <sub>2</sub> /1 million m <sup>3</sup> )	12.3 or less (−5%)	10.1
		Office buildings (CO <sub>2</sub> emissions per 1,000 m <sup>2</sup> floor space) (t-CO <sub>2</sub> /1,000 m <sup>2</sup> )	75.9 or less (−6%)	66.3
	Group companies' businesses	Electricity business (including from renewable energy sources) (CO <sub>2</sub> emissions per electricity generated)	Fiscal year ending March 31, 2021 (15% decrease compared with the fiscal year ended March 31, 2009)	−31%
		Other businesses (CO <sub>2</sub> emissions per sales) (t-CO <sub>2</sub> /10 million yen)	10.3 or less (−3%)	8.7
<b>Resource recycling</b>	City Gas business	Industrial waste from LNG terminals (final disposal rate)	0%	1.0%
		Industrial waste from offices (final disposal rate)	2% or less	1.2%
		General waste from LNG terminals and offices (final disposal rate)	5% or less	2.8%
		Excavated soil (final disposal rate)	Approx. 2%	1.2%
		Polyethylene (PE) pipes (recycle rate)	100%	100%
		Gas meters (reuse rates)	97% or more	99.3%
	Group companies (core affiliates)	Industrial waste/general waste (final disposal rate)	9% or less	9.5%

\* Target data for the end of the fiscal year under review in parentheses is the percentage increase or decrease compared with the fiscal year ended March 31, 2009. However, targets for Group companies' businesses (other businesses) data is the percentage increase or decrease compared with the fiscal year ended March 31, 2010.

## Fourth Edition of GRI Guidelines Addressing G4 Guidelines

Osaka Gas is stepping up its efforts in information disclosure based on the fourth edition of the GRI Guidelines, which was issued by the Global Reporting Initiative in May 2013. In the fiscal year ended March 31, 2014, the Osaka Gas Group identified important CSR issues ("Materiality") to address while consulting with a number of external experts.

## Priority CSR Issues for the Osaka Gas Group (Materiality)



## Inclusion in SRI Indices

As of March 31, 2014, Osaka Gas was included in the following socially responsible investment (SRI) indices.

MEMBER OF  
**Dow Jones Sustainability Indices**  
In Collaboration with RobecoSAM

**Dow Jones Sustainability Indexes**



**Ethibel Excellence Index**



**FTSE4Good Index Series**



**MSCI ESG Indexes**



**ECPI® Indices**



**MS-SRI**

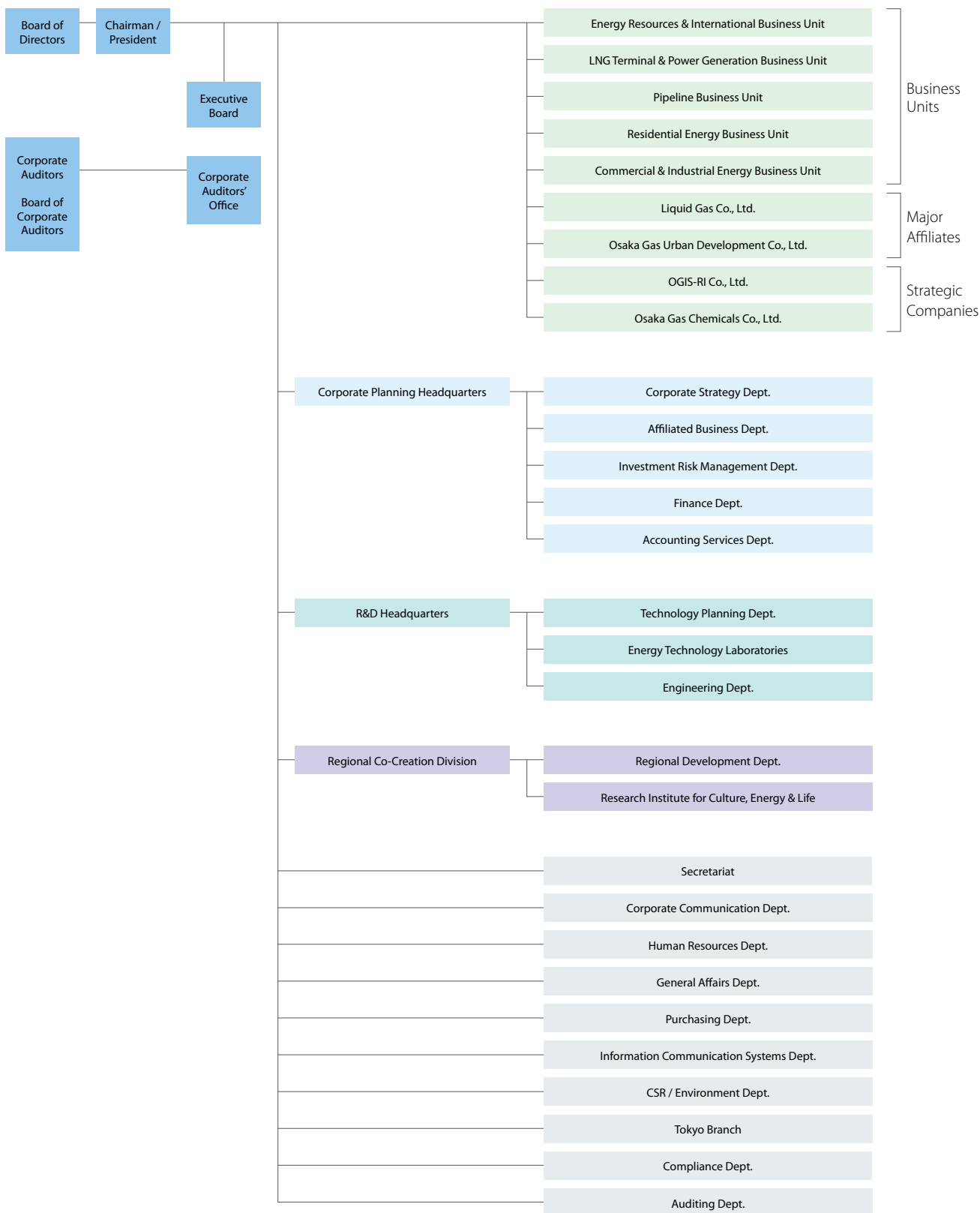


▶ Please refer to the Osaka Gas Group CSR Report 2014 for details concerning CSR.



# Osaka Gas Group Organization

As of April 1, 2014



Note: Organizations other than those denoted by corporate names are part of Osaka Gas Co., Ltd.

# Financial Section

<b>50</b>	Summary of Consolidated Operating Results
<b>52</b>	Management's Discussion and Analysis
<b>58</b>	Consolidated Balance Sheets
<b>60</b>	Consolidated Statements of Income
<b>61</b>	Consolidated Statements of Comprehensive Income
<b>62</b>	Consolidated Statements of Changes in Net Assets
<b>64</b>	Consolidated Statements of Cash Flows
<b>65</b>	Notes to Consolidated Financial Statements



## Summary of Consolidated Operating Results

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Fiscal years ended March 31, 2004 through 2014

	2004.3	2005.3	2006.3	2007.3
<b>Financial Data</b>				
Net sales	¥ 951,324	¥ 975,340	¥1,065,961	¥1,174,456
Operating income	92,096	95,992	100,657	93,729
Income before income taxes and minority interests	78,161	83,904	132,393	88,078
Net income	47,065	50,683	80,710	52,929
Capital expenditure	69,779	65,517	117,455	95,267
Depreciation and amortization	89,564	86,858	84,250	84,031
R&D expenses	12,379	11,404	11,324	9,906
Total assets	1,199,228	1,217,463	1,398,692	1,405,682
Equity	495,635	530,862	628,510	668,887
Interest-bearing liabilities	455,700	448,521	487,509	487,827
Cash flows from operating activities	132,891	116,902	152,935	98,354
Cash flows from investing activities	(67,877)	(65,679)	(162,989)	(99,765)
Cash flows from financing activities	(75,930)	(23,912)	13,245	(22,009)
Number of shares issued and outstanding (thousands)	2,369,011	2,369,011	2,235,669	2,235,669
<b>Per Share Data</b> (yen and U.S. dollars)				
Earnings per share (EPS)	¥ 20.56	¥ 22.69	¥ 36.18	¥ 23.77
Book value per share (BPS)	222.15	238.15	282.12	300.61
Annual dividends	6.00	6.00	7.00	7.00
<b>Key Ratios</b>				
Net worth / Total assets	41.3%	43.6%	44.9%	47.6%
Debt equity ratio (times)	0.92	0.84	0.78	0.73
Interest coverage ratio (times)	12.9	16.1	23.6	10.3
Return on assets (ROA)	3.9%	4.2%	6.2%	3.8%
Return on equity (ROE)	9.9%	9.9%	13.9%	8.1%
<b>Gas sales volume</b> (million m <sup>3</sup> )	7,779	8,072	8,469	8,764
<b>Number of meters installed</b> (thousands)	6,650	6,725	6,785	6,848
<b>Number of employees</b>	15,276	15,992	16,077	16,435

### Notes:

1. The translation of Japanese yen amounts into U.S. dollar amounts is based on the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S.\$1.0.
2. Debt equity ratio = Interest-bearing liabilities / Equity (as of the end of the fiscal years ended March 31)
3. Interest coverage ratio = Cash flows from operating activities / Interest expenses
4. Return on assets (ROA) = Net income / Total assets (average)
5. Return on equity (ROE) = Net income / Average equity (up to 2006, "average equity" was "shareholders' assets [average]")
6. Figures in the financial data are rounded down.

						Millions of yen	Thousands of U.S. dollars
2008.3	2009.3	2010.3	2011.3	2012.3	2013.3	2014.3	2014.3
¥1,238,145	¥1,326,785	¥1,096,628	¥1,187,142	¥1,294,781	¥1,380,060	<b>¥1,512,581</b>	<b>\$14,696,667</b>
75,611	66,932	91,140	88,584	77,274	84,773	<b>99,381</b>	<b>965,614</b>
72,478	64,510	82,572	81,587	75,694	84,630	<b>81,874</b>	<b>795,511</b>
40,283	36,041	48,384	45,968	45,207	52,467	<b>41,725</b>	<b>405,411</b>
111,087	106,087	98,246	69,600	87,171	112,987	<b>124,146</b>	<b>1,206,237</b>
95,253	86,549	95,402	97,569	93,624	82,818	<b>83,806</b>	<b>814,282</b>
10,178	9,603	10,670	10,918	10,974	10,875	<b>11,793</b>	<b>114,584</b>
1,467,934	1,452,457	1,483,895	1,437,297	1,475,759	1,566,899	<b>1,668,317</b>	<b>16,209,842</b>
648,592	612,566	666,689	664,959	684,584	747,802	<b>798,964</b>	<b>7,762,961</b>
566,441	573,483	539,081	532,493	541,349	540,199	<b>573,586</b>	<b>5,573,124</b>
134,282	120,691	229,714	126,399	122,793	129,597	<b>154,225</b>	<b>1,498,493</b>
(132,029)	(108,102)	(111,265)	(82,408)	(107,764)	(116,791)	<b>(175,591)</b>	<b>(1,706,092)</b>
12,495	(3,438)	(49,553)	(41,257)	(8,279)	(27,897)	<b>4,163</b>	<b>40,448</b>
2,158,383	2,158,383	2,158,383	2,083,400	2,083,400	2,083,400	<b>2,083,400</b>	—
¥ 18.27	¥ 16.72	¥ 22.50	¥ 21.62	¥ 21.71	¥ 25.20	<b>¥ 20.04</b>	<b>\$ 0.194</b>
300.76	284.21	310.39	319.33	328.77	359.16	<b>383.90</b>	<b>3.730</b>
7.00	7.00	7.00	8.00	8.00	8.50	<b>9.00</b>	<b>0.087</b>
44.2%	42.2%	44.9%	46.3%	46.4%	47.7%	<b>47.9%</b>	—
0.87	0.94	0.81	0.80	0.79	0.72	<b>0.72</b>	—
13.6	11.5	23.1	14.0	13.8	15.4	<b>18.0</b>	—
2.8%	2.5%	3.3%	3.1%	3.1%	3.4%	<b>2.6%</b>	—
6.1%	5.7%	7.6%	6.9%	6.7%	7.3%	<b>5.4%</b>	—
8,917	8,416	8,150	8,560	8,711	8,534	<b>8,554</b>	—
6,913	6,971	7,009	7,041	7,074	7,114	<b>7,164</b>	—
16,682	19,009	19,268	19,684	19,818	19,870	<b>21,250</b>	—

# Management's Discussion and Analysis

## 1. Operating Environment

In the fiscal year ended March 31, 2014, the Japanese economy achieved a solid recovery as consumer spending and capital investment showed an upward tendency against the backdrop of a weak yen and high stock prices and the recovering U.S. economy pushed up exports.

## 2. An Overview of the Fiscal Year Ended March 31, 2014

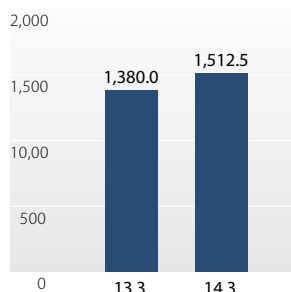
Consolidated net sales for the fiscal year ended March 31, 2014 increased by ¥132.5 billion (9.6%) year on year, to ¥1,512.5 billion, mainly because gas sales unit prices at Osaka Gas remained high under the Fuel Cost Adjustment System. Meanwhile, consolidated operating income came to ¥99.3 billion, up ¥14.6 billion (17.2%). This largely reflected increased gas and electric power business earnings on an Osaka Gas stand-alone basis. In contrast, consolidated net income decreased by ¥10.7 billion (20.5%) to ¥41.7

billion owing primarily to the recording of an impairment loss on the U.S. upstream business.

As of March 31, 2014, the Company had 150 consolidated subsidiaries. During the fiscal year, three companies were excluded, and 23 companies were included in the scope of consolidation. In addition, there were 12 affiliates reported by the equity method as of the end of the fiscal year, an increase of three equity-method affiliates from the end of the previous fiscal year.

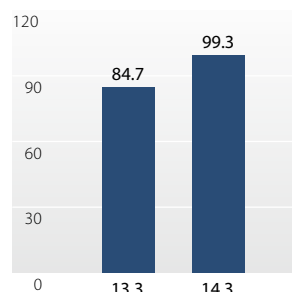
### Net Sales

(Billions of yen)



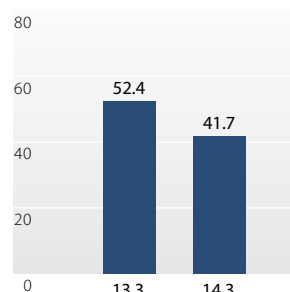
### Operating Income

(Billions of yen)



### Net Income

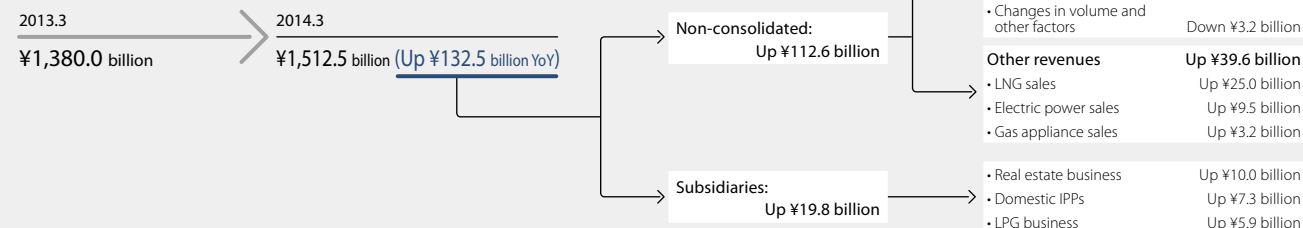
(Billions of yen)



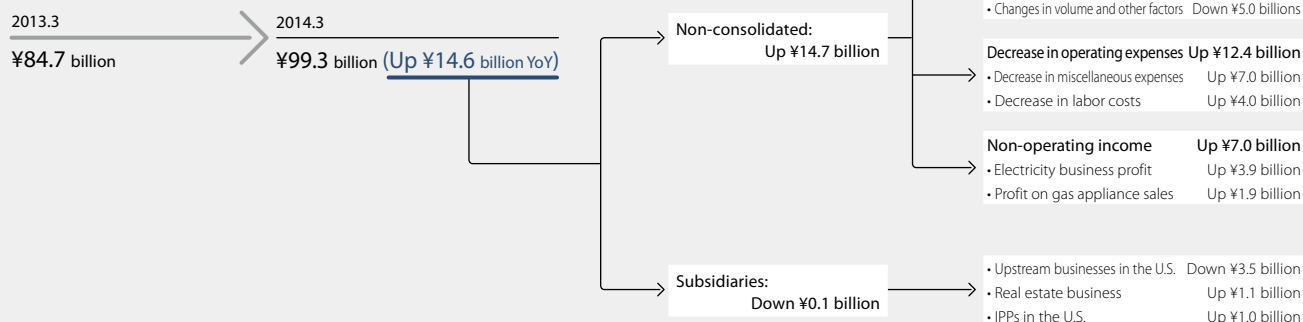
### External Environment Data

	Temperature (°C)	Crude Oil Price (\$/bbl)	Exchange Rate (¥/\$)
2013.3	16.7	113.9	82.9
2014.3	17.1	110.0	100.2

### Breakdown of Movements in Net Sales between Fiscal Years Ended March 31, 2013 and March 31, 2014



### Breakdown of Movements in Operating Income between Fiscal Years Ended March 31, 2013 and March 31, 2014





### 3. Non-Consolidated Gas Sales

In the fiscal year ended March 31, 2014, overall gas sales volume for Osaka Gas was 8,524 million m<sup>3</sup>, essentially unchanged from the previous fiscal year. Included in this amount, residential gas sales volume decreased by 3.3% year on year, to 2,198 million m<sup>3</sup>. This mainly reflected higher atmospheric and water temperatures compared with the previous fiscal year and the downturn in demand for hot water supply and air heating. Industrial gas sales

volume climbed by 2.5% year on year, to 4,329 million m<sup>3</sup> owing largely to increased demand for industrial applications. Commercial gas sales and gas sales for public and medical uses were impacted by the energy-saving efforts of customers. This led to a slight decline of 0.8% to 1,528 million m<sup>3</sup>. Wholesale gas sales came in at 469 million m<sup>3</sup> virtually the same level as the previous fiscal year.

#### Non-Consolidated Gas Sales

45MJ/m <sup>3</sup>		2013.3	2014.3	Change	Change (%)
Average monthly usage per residential customer (m <sup>3</sup> /month)		32.5	31.3	-1.2	-3.7
Gas sales volume (million m <sup>3</sup> )	Residential	2,272	2,198	-74	-3.3
	Commercial and industrial	5,761	5,856	+95	+1.7
	Industrial	4,222	4,329	+107	+2.5
	Commercial, public, and medical	1,540	1,528	-12	-0.8
	Wholesale	469	469	+0	+0.1
Total		8,503	8,524	+21	+0.2

### 4. Overview by Business Segment

#### Gas

Net sales for the gas business segment were up by ¥80.9 billion (7.8%) year on year, to ¥1,119.5 billion. This was mainly due to persistently high gas unit selling prices under the Fuel Cost Adjustment System. Despite a decline in gas business gross profit, segment income also climbed by ¥8.7 billion (37.2%) compared with the previous fiscal year, to ¥32.0 billion due largely to the decrease in operating expenses.

#### LPG, Electricity and Other Energy

Net sales from this segment increased by ¥42.4 billion (19.7%) year on year, to ¥257.9 billion, owing mainly to higher revenue from the electric power business. Segment income was up by ¥5.6 billion (14.7%), to ¥43.8 billion.

#### International Energy

Net sales from the international energy business segment increased by ¥2.5 billion (23.9%) year on year, to ¥13.3 billion. Segment income was essentially unchanged from the previous fiscal year at ¥7.7 billion.

#### Environment and Non-Energy

Net sales from the environment and non-energy business segment improved by ¥14.0 billion (7.6%) year on year to ¥199.6 billion. This was largely attributable to the increase in real estate business revenue. Segment income climbed by ¥1.7 billion (9.1%), to ¥20.8 billion.

#### Net Sales and Segment Income\* for the Fiscal Year Ended March 31, 2014

	Gas	LPG, Electricity and Other Energy	International Energy	Environment and Non-Energy	Adjustments	Total
(Billions of yen)						
Net sales	1,119.5	257.9	13.3	199.6	-77.9	1,512.5
Year-on-year change (%)	+7.8%	+19.7%	+23.9%	+7.6%	—	+9.6%
Year-on-year change	+80.9	+42.4	+2.5	+14.0	—	+132.5
Segment income*	32.0	43.8	7.7	20.8	2.7	107.2
Year-on-year change (%)	+37.2%	+14.7%	+1.7%	+9.1%	—	+17.8%
Year-on-year change	+8.7	+5.6	+0.1	+1.7	—	+16.1

\* Segment income = Operating income + Equity in earnings of affiliates

## 5. Assets, Liabilities, and Net Assets Analysis

### Asset Management Policies

The Osaka Gas Group plans to reduce assets in unprofitable business fields as well as day-to-day operations and intends to aggressively expand its operations in growth fields, especially in the domestic energy, international energy, and Life & business solutions (non-energy business). To minimize investment risks caused by changes in the operating environment, the Group is further tightening its procedures for investment decisions, as well as subsequent follow-up and evaluation for individual investment proposals based on Group-wide investment criteria. The Group will conduct quantitative risk management and pursue returns through active business investments within the scope of the allowed risk amount of the entire Group.

To effectively advance the Group's business strategies, we aim to improve the Group's financial constitution, procure funding through the most appropriate means, and respond to financial risks in the best manner possible. Under the new medium-term business plan, "Catalyze Our Dreams," formulated in March 2014, we put in place a new set of targets. When considering the optimal balance between debt capital and equity capital, the Company looks at factors such as related capital costs and the need to maintain a sound financial position. Based on these considerations, we strive to maintain a consolidated ratio of interest-bearing liabilities to equity of approximately 0.7 and a consolidated shareholders' equity ratio of 50% or more as we aim to maximize capital efficiency.

In this pursuit, we employ a number of measures, including cash management systems (CMSs) and other Group-wide capital efficiency measures; measures to improve the efficiency of invested capital, such as using free cash flows to reduce interest-bearing liabilities and buy back its shares; and financial risk management measures, such as hedging activities to prevent revenue fluctuations due to business risks. In these ways, we are working to strengthen the financial constitution of the Group.

Looking ahead, we intend to invest in our growth by raising funds through new interest-bearing liabilities in line with the growth in shareholders' equity that accompanies higher income.

### Assets, Liabilities, and Net Assets Analysis

Total assets as of March 31, 2014 stood at ¥1,668.3 billion, up by ¥101.4 billion from the previous fiscal year-end. This was mainly due to the increase in distribution facilities and intangible fixed assets. Total liabilities increased by ¥47.1 billion, to ¥839.7 billion, due to the increase in long-term loans payable. Net assets climbed by ¥54.2 billion, to ¥828.5 billion on the back of increases mainly in total accumulated other comprehensive income due to the upswing in foreign currency translation adjustment.

As a result, the shareholders' equity ratio increased by 0.2 of a percentage point from the previous fiscal year-end, to 47.9%. Return on assets (ROA) was down 0.9 of a percentage point, to 2.6%, while return on equity (ROE) declined 1.9 percentage points, to 5.4%.

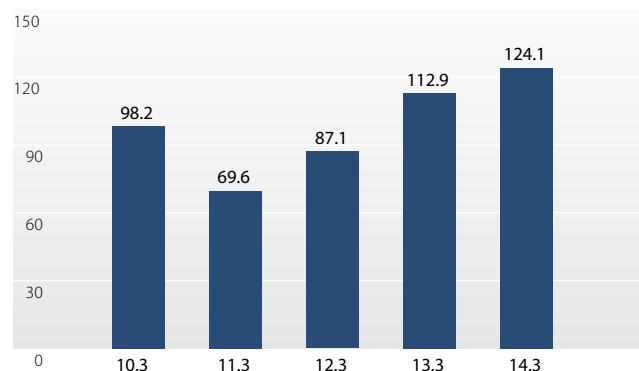
### Capital Expenditure

In the fiscal year ended March 31, 2014, non-consolidated capital expenditure totaled ¥58.6 billion, down by ¥1.4 billion year on year. In contrast, consolidated capital expenditure rose by ¥11.1 billion year on year, to ¥124.1 billion, on the back of such factors as the acquisition of overseas gas field interests and investments in the construction of LNG carriers by consolidated subsidiaries.

The Osaka Gas Group is aggressively investing in both domestic and overseas businesses as potential future growth drivers. In addition to upstream business including gas field interests, we are investing in electric power businesses as well as other non-energy businesses that are derived from the gas business. During the fiscal year under review, we made investments for expansion, greenfield projects, and M&A activities totaling ¥142.8 billion in such areas as our domestic pipeline, upstream businesses, and LNG carriers. We also acquired an activated carbon company and invested in a U.K.-based water-supply business. In overall terms, we have decided to conduct investments totaling ¥523.5 billion over the five-year period that began with the fiscal year ended March 31, 2010. This is equivalent to 131% of the five-year plan from the fiscal year ended March 31, 2010 to the fiscal year ended March 31, 2014.

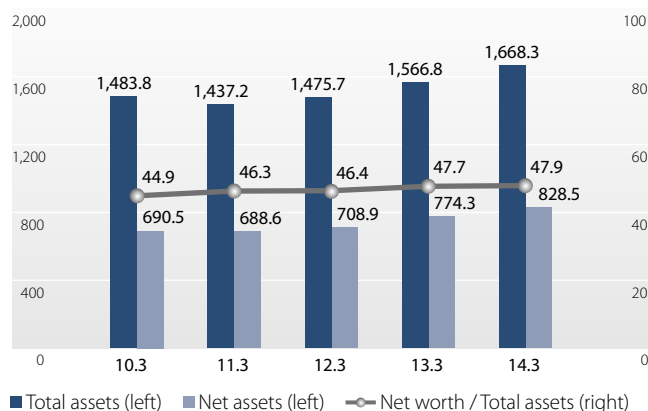
### Consolidated Capital Expenditure

(Billions of yen)

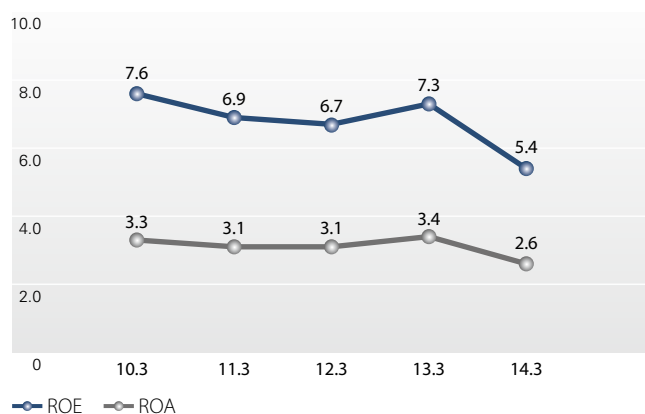


### Total Assets / Net Assets Net Worth / Total Assets

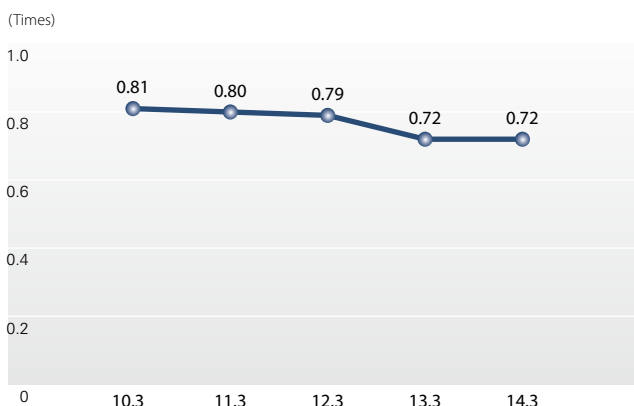
(Billions of yen)



## Return on Equity (ROE) / Return on Assets (ROA)



## Debt Equity Ratio



## 6. Overview of Cash Flows

Net cash provided by operating activities during the fiscal year ended March 31, 2014 increased by ¥24.6 billion, to ¥154.2 billion. This was largely attributable to the larger decrease in inventories than the previous fiscal year, which more than offset the decreases in income before income taxes.

Net cash used in investing activities increased by ¥58.7 billion, to ¥175.5 billion, primarily because of the year-on-year upswing in purchase of investments in subsidiaries resulting in a change in the scope of consolidated.

Net cash provided by financing activities amounted to ¥4.1

billion, a turnaround of ¥32.0 billion from net cash used in financing activities in the previous fiscal year. This was largely on the back of the increase in proceeds from long-term loans payable from the previous fiscal year.

Taking these activities into consideration, the net decrease in cash and cash equivalents in the fiscal year ended March 31, 2014 totaled ¥19.0 billion after adjustment for the effect of exchange rate changes on cash and cash equivalents.

Furthermore, cash and cash equivalents at the year-end for the fiscal year ended March 31, 2014 decreased by ¥19.0 billion, to ¥90.3 billion.

	(Billions of yen)		
	2013.3	2014.3	Change
Cash flows from operating activities	129.5	154.2	+24.6
Cash flows from investing activities	-116.7	-175.5	-58.7
Cash flows from financing activities	-27.8	4.1	+32.0
Net increase (decrease) in cash and cash equivalents	-12.9	-19.0	-6.1
Cash and cash equivalents at the end of the year	109.4	90.3	-19.0
Interest-bearing liabilities at the end of the year	540.1	573.5	+33.3

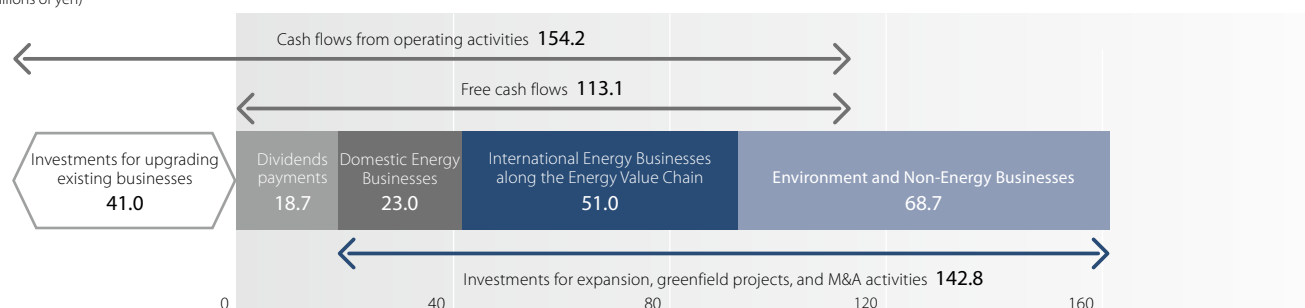
## Use of Free Cash Flows

Consolidated free cash flows for the fiscal year ended March 31, 2014 increased by ¥28.0 billion, to ¥113.1 billion. Uses of these free cash flows included investments of ¥142.8 billion for expansion,

greenfield projects, and M&A activities as well as dividend payments of ¥18.7 billion.

## Use of Consolidated Free Cash Flows for the Fiscal Year Ended March 31, 2014

(Billions of yen)



Note: Free cash flows = Cash flows from operating activities - Investments for upgrading existing businesses (Capital expenditure)

## 7. Ratings

Osaka Gas recognizes that improving fund-raising competitiveness is an important issue in a sound financial strategy. At the same time, to maintain its credit ratings and other indications of financial soundness, the Company has put in place a fresh set of financial soundness indicators under its new medium-term business plan, "Catalyze Our Dreams." Looking ahead, Osaka Gas will seek to achieve: (1) a shareholders' equity ratio of 50% or more, and (2) a ratio of consolidated interest-bearing liabilities to equity of about 0.7, while maintaining the existing balance with shareholders' value added (SVA), free cash flow, interest-bearing liabilities, and other indicators.

Currently, Osaka Gas has been rated AA and Aa by foreign credit rating agencies, and AA by a domestic credit rating agency. Going forward, the Company will continue to ensure that it possesses a sound financial standing.

### Credit Ratings (As of March 31, 2014)

R&I	AA+
Moody's	Aa3
Standard & Poor's	AA-

## 8. Basic Policy Regarding the Distribution of Profits and Dividends

The Company has been striving to grow the business and improve the efficiency of operations, and has appropriated the increase in profit resulting from these efforts for future business growth, for internal reserves, and for the payment of steady dividends to shareholders. We will endeavor to continue payment of steady dividends (interim and year-end) to shareholders, and comprehensively take alternative profit distribution plans and other measures into consideration, based on operational results, future business management, and other plans. We will aim at keeping a consolidated payout ratio exceeding 30%, within the non-consolidated retained

earnings distributable to Osaka Gas shareholders, excluding temporary factors affecting the profit situation. Internal reserves will be appropriated for capital investments and investment for expansion, greenfield projects, and M&A activities.

For the fiscal year ended March 31, 2014, the Company issued dividend payments totaling ¥9 per share, including an interim dividend of ¥4.5 per share. This represents a year-on-year increase of ¥0.5 per share. Turning to the fiscal year ending March 31, 2015, the Company intends to also pay a dividend of ¥9 per share.

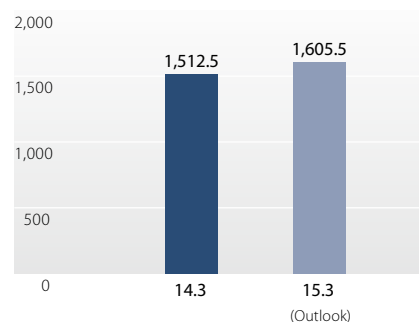
## 9. Outlook for the Fiscal Year Ending March 31, 2015

We project that net sales in the fiscal year ending March 31, 2015 will increase by ¥92.9 billion (6.1%) year on year, to ¥1,605.5 billion. This is largely because LNG prices are expected to be higher in the next fiscal year, and gas sales unit prices are anticipated to remain high due to the Fuel Cost Adjustment System. Operating income is expected to remain about the same at ¥99.5 billion. While time-lag losses in the gas business are expected to show a positive

turnaround, forecast stagnant earnings is primarily due to the anticipated increase in depreciation and amortization expenses associated with the opening of the Mie-Shiga and Himeji-Okayama gas pipelines and decreases in earnings from the electric power business and affiliated companies. In addition, net income in the fiscal year ending March 31, 2015 is forecast to increase by ¥23.7 billion (57.0%), to ¥65.5 billion.

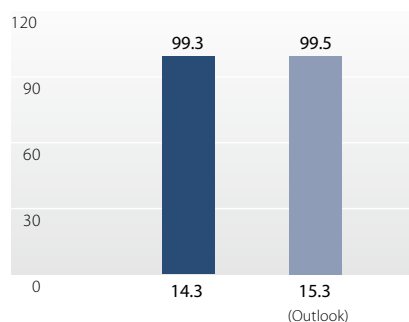
### Net Sales

(Billions of yen)



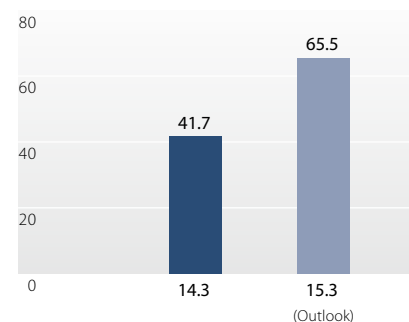
### Operating Income

(Billions of yen)



### Net Income

(Billions of yen)



Net Sales and Segment Income\*<sup>1</sup> for the Fiscal Year Ending March 31, 2015 (Outlook)

(Billions of yen)

	Gas	LPG, Electricity and Other Energy	International Energy	Life & Business Solutions (Non-Energy Business)* <sup>2</sup>	Adjustments	Total
<b>Net sales</b>	1,148.5	296.5	16.5	221.0	-77.0	1,605.5
Year-on-year change (%)	+2.6%	+14.9%	+23.8%	+10.7%	—	+6.1%
Year-on-year change	+28.9	+38.5	+3.1	+21.3	—	+92.9
<b>Segment income*<sup>1</sup></b>	38.0	40.5	8.0	17.0	2.0	105.5
Year-on-year change (%)	+18.5%	-7.7%	+2.9%	-18.3%	—	-1.7%
Year-on-year change	+5.9	-3.3	+0.2	-3.8	—	-1.7

\*<sup>1</sup> Segment income = Operating income + Equity in earnings of affiliates\*<sup>2</sup> Effective from the fiscal year ending March 31, 2015, the name of the environment and non-energy business segment has been changed to the life & business solutions (non-energy business) segment following a review of business segment details of the renewable energy business.**10. Business Risks**

The following are risks that could affect the business performance and financial position of the Group.

**■ Risks Related to All Businesses within the Osaka Gas Group****a. Changes in economic, financial, and social conditions as well as market contraction**

A decrease in net sales, difficulties in fund-raising, insolvency of partner companies, Japan's shrinking population or the transfer of manufacturing overseas, due to worsening economic, financial, and social conditions in the economies of Japan and/or other countries

**b. Changes in foreign exchange rates and borrowing rates****c. Occurrence of catastrophic disasters, accidents, or infectious diseases**

Occurrence of catastrophic natural disasters, terrorist events, accidents, or infectious disease epidemics such as new strains of influenza or other diseases

**d. Changes in politics, laws and regulations, and institutional systems**

Changes in the Gas Utility Industry Law, the Electricity Utilities Industry Law, the Companies Act, the Financial Instruments and Exchange Law, environment-related laws or other policies, laws and regulations, and institutional systems in Japan and/or other countries

**e. Intensifying competition**

Intensified competition with other operators in the gas business and other business areas related to the Group

**f. Breakdown of malfunction of critical IT systems**

Breakdown or malfunction of critical IT systems, such as systems related to gas production/supply billing

**g. Information leaks**

External leaks of important information used in the course of the Group's business, including customer information or technical information possessed by the Group

**h. Non-compliance with laws and regulations**

Expenditures to correct such a non-complying act or damage to its social reputation following acts carried out by the Group or by any person related to the Group in violation of any law or regulation

**■ Risks Related to Major Businesses****1) Domestic energy business****a. Impact of fluctuations in temperature/water temperature on energy demand****b. Changes in raw fuel costs**

Fluctuation in raw fuel costs due to changes in crude oil prices, foreign exchange rates, and other relevant factors\*

Changes in raw fuel costs arising from renewal of contracts or price negotiations with fuel suppliers

\* Although the fluctuation in LNG prices may be offset by the Fuel Cost Adjustment System, under which gas rates are revised to reflect changes in fuel costs, a time lag before the actual adjustment is made or changes in the composition of fuel suppliers could affect the business performance of the Group.

**c. Difficulty in procuring raw fuels**

Problems with the facilities of LNG (raw fuels from which gas or electricity are produced) suppliers or their operations, or other incidents

**d. Difficulties in gas production and supply**

Disruption of the production or supply of gas due to catastrophic natural disaster or accidents

**e. Difficulties in power generation**

Any interruption in the operation of any electric power plant due to a natural disaster, accident, problems with fuel purchasing, or other incident

**f. Gas equipment and facility issues**

Serious problems with gas equipment or appliances

**2) International energy business**

Changes in the operating environment such as a delay or cancellation in projects as a result of the implementation or changes in public policies as well as regulations or deterioration in economic or social conditions in the countries in which the Osaka Gas Group operates, or technological causes in the resource development business

The Osaka Gas Group strives to minimize the potential impact of these risks on business performance through various measures, including derivative contracts to hedge against fluctuations in exchange rates and fuel costs, accident and other insurance contracts, improvement of security of critical IT systems, adherence to compliance and strict information control, monitoring and proper supervision of business management, security measures, disaster countermeasures, and the establishment and periodic revision of business continuity plans (BCPs).



# Consolidated Balance Sheets

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
March 31, 2013 and 2014

		Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
<b>Assets</b>			
<b>Non-current Assets</b>			
<b>Property, plant and equipment</b> (Note 8)			
Production facilities	¥ 78,533	¥ 76,164	\$ 740,031
Distribution facilities	276,132	317,836	3,088,184
Service and maintenance facilities	66,204	66,540	646,521
Other facilities	300,149	291,378	2,831,111
Construction in progress	108,916	111,163	1,080,091
Total property, plant and equipment	829,936	863,084	8,385,969
<b>Intangible assets</b>			
Goodwill	3,588	24,471	237,767
Other	54,990	65,840	639,720
Total intangible assets	58,579	90,311	877,487
<b>Investments and other assets</b>			
Investment securities (Notes 6, 7 and 8)	164,302	192,846	1,873,746
Net defined benefit asset (Note 17)	—	29,414	285,794
Other	85,245	53,175	516,663
Allowance for doubtful accounts	(1,925)	(1,860)	(18,072)
Total investments and other assets	247,622	273,575	2,658,132
Total non-current assets	1,136,138	1,226,971	11,921,599
<b>Current Assets</b>			
Cash and deposits (Notes 4 and 8)	91,323	75,258	731,228
Notes and accounts receivable-trade (Note 8)	168,198	192,277	1,868,218
Securities (Notes 4 and 7)	21,712	20,511	199,290
Inventories (Notes 5 and 8)	84,242	88,748	862,300
Other	66,519	65,950	640,788
Allowance for doubtful accounts	(1,236)	(1,400)	(13,602)
Total current assets	430,760	441,346	4,288,243
Total assets	¥1,566,899	¥1,668,317	\$16,209,842

See accompanying Notes to Consolidated Financial Statements.

	2013	Millions of Yen 2014	Thousands of U.S. Dollars (Note 1) 2014
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bonds payable (Note 8)	¥ 238,157	¥ 242,124	\$ 2,352,545
Long-term loans payable (Note 8)	186,766	244,503	2,375,660
Deferred tax liabilities	14,631	22,031	214,059
Provision for retirement benefits (Note 17)	15,972	—	—
Provision for gas holder repairs	1,621	1,636	15,895
Provision for safety measures	13,418	10,831	105,237
Allowance for investment loss	6,999	6,999	68,004
Net defined benefit liability (Note 17)	—	15,325	148,902
Other	19,269	17,946	174,368
Total non-current liabilities	496,836	561,400	5,454,722
<b>Current liabilities</b>			
Current portion of non-current liabilities (Note 8)	67,135	39,333	382,170
Notes and accounts payable-trade	55,520	60,358	586,455
Short-term loans payable (Note 8)	47,106	46,756	454,294
Income taxes payable	25,603	29,608	287,679
Other	100,378	102,294	993,917
Total current liabilities	295,745	278,351	2,704,537
Total liabilities	792,581	839,752	8,159,269
<b>Net Assets (Note 9)</b>			
<b>Shareholders' equity</b>			
Capital stock	132,166	132,166	1,284,162
Authorized 3,707,506,909 shares			
Issued 2,083,400,000 shares in 2014 and in 2013			
Capital surplus	19,482	19,486	189,331
Retained earnings	564,356	587,268	5,706,062
Treasury shares (Note 10)	(413)	(797)	(7,743)
2,214,444 shares in 2014 and 1,298,619 shares in 2013			
Total shareholders' equity	715,592	738,124	7,171,822
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	31,526	34,839	338,505
Deferred gains or losses on hedges	(2,271)	2,425	23,561
Revaluation reserve for land (Note 12)	(737)	(737)	(7,160)
Foreign currency translation adjustment	3,693	30,414	295,511
Remeasurements of defined benefit plans	—	(6,100)	(59,269)
Total accumulated other comprehensive income	32,210	60,840	591,138
<b>Minority interests</b>	26,514	29,601	287,611
Total net assets	774,317	828,565	8,050,573
Total liabilities and net assets	¥1,566,899	¥1,668,317	\$16,209,842

# Consolidated Statements of Income

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2013 and 2014

		Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
Net sales	¥1,380,060	<b>¥1,512,581</b>	<b>\$14,696,667</b>
Cost of sales (Note 14)	943,688	<b>1,071,374</b>	<b>10,409,774</b>
Gross profit	436,371	<b>441,207</b>	<b>4,286,892</b>
Selling, general and administrative expenses (Note 14)	351,598	<b>341,825</b>	<b>3,321,268</b>
Operating income	84,773	<b>99,381</b>	<b>965,614</b>
Non-operating income			
Interest income	617	<b>638</b>	<b>6,198</b>
Dividends income	3,217	<b>3,172</b>	<b>30,820</b>
Equity in earnings of affiliates	6,335	<b>7,917</b>	<b>76,923</b>
Miscellaneous income	7,512	<b>5,821</b>	<b>56,558</b>
Total non-operating income	17,682	<b>17,550</b>	<b>170,520</b>
Non-operating expenses			
Interest expenses	8,431	<b>8,567</b>	<b>83,239</b>
Miscellaneous income	3,898	<b>2,321</b>	<b>22,551</b>
Total non-operating expenses	12,330	<b>10,888</b>	<b>105,790</b>
Ordinary income	90,125	<b>106,044</b>	<b>1,030,353</b>
Extraordinary income			
Gain on sales of investment securities	—	<b>5,968</b>	<b>57,986</b>
Total Extraordinary income	—	<b>5,968</b>	<b>57,986</b>
Extraordinary losses			
Impairment loss (Note 13)	5,495	<b>30,138</b>	<b>292,829</b>
Total extraordinary losses	5,495	<b>30,138</b>	<b>292,829</b>
Income before income taxes and minority interests	84,630	<b>81,874</b>	<b>795,511</b>
Income taxes			
Income taxes-current	29,989	<b>32,149</b>	<b>312,368</b>
Income taxes-deferred	(273)	<b>4,717</b>	<b>45,831</b>
Total income taxes (Note 18)	29,715	<b>36,867</b>	<b>358,210</b>
Income before minority interests	54,915	<b>45,007</b>	<b>437,300</b>
Minority interests in income	2,447	<b>3,281</b>	<b>31,879</b>
Net income	¥ 52,467	<b>¥ 41,725</b>	<b>\$ 405,411</b>

		Yen	U.S. Dollars (Note 1)
	2013	2014	2014
Amounts per Share of Capital Stock (Note 2)			
Net income	¥25.20	<b>¥20.04</b>	<b>\$0.194</b>
Cash dividends applicable to the year	8.50	<b>9.00</b>	<b>0.087</b>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Comprehensive Income

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2013 and 2014

		Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
Income before minority interests	¥54,915	<b>¥45,007</b>	<b>\$437,300</b>
Other comprehensive income (Note 22)			
Valuation difference on available-for-sale securities	11,824	<b>3,314</b>	<b>32,199</b>
Deferred gains or losses on hedges	168	<b>1,356</b>	<b>13,175</b>
Foreign currency translation adjustment	14,100	<b>25,018</b>	<b>243,082</b>
Share of other comprehensive income of associates accounted for using equity method	2,836	<b>6,153</b>	<b>59,784</b>
Total other comprehensive income	28,929	<b>35,843</b>	<b>348,260</b>
Comprehensive income	¥83,844	<b>¥80,850</b>	<b>\$785,561</b>
Attributable to:			
Owners of the parent	¥79,927	<b>¥76,601</b>	<b>\$744,277</b>
Minority interests	¥ 3,917	<b>¥ 4,248</b>	<b>\$ 41,274</b>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Net Assets

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2013 and 2014

		Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
<b>Shareholders' equity</b>			
Capital stock			
Balance at the beginning of current period	¥132,166	<b>¥132,166</b>	<b>\$1,284,162</b>
Balance at the end of current period	132,166	<b>132,166</b>	<b>1,284,162</b>
Capital surplus			
Balance at the beginning of current period	19,482	<b>19,482</b>	<b>189,292</b>
Changes of items during the period:			
Disposal of treasury shares	0	<b>3</b>	<b>29</b>
Balance at the end of current period	19,482	<b>19,486</b>	<b>189,331</b>
Retained earnings			
Balance at the beginning of current period	528,318	<b>564,356</b>	<b>5,483,443</b>
Changes of items during the period:			
Dividends from surplus	(16,657)	<b>(18,738)</b>	<b>(182,063)</b>
Net income	52,467	<b>41,725</b>	<b>405,411</b>
Change of scope of equity method	—	<b>(75)</b>	<b>(728)</b>
Reversal of revaluation reserve for land	227	<b>—</b>	<b>—</b>
Total changes of items during the period	36,037	<b>22,912</b>	<b>222,619</b>
Balance at the end of current period	564,356	<b>587,268</b>	<b>5,706,062</b>
Treasury shares			
Balance at the beginning of current period	(361)	<b>(413)</b>	<b>(4,012)</b>
Changes of items during the period:			
Purchase of treasury shares	(56)	<b>(405)</b>	<b>(3,935)</b>
Disposal of treasury shares	4	<b>20</b>	<b>194</b>
Total changes of items during the period	(51)	<b>(384)</b>	<b>(3,731)</b>
Balance at the end of current period	(413)	<b>(797)</b>	<b>(7,743)</b>
Total shareholders' equity			
Balance at the beginning of current period	679,605	<b>715,592</b>	<b>6,952,895</b>
Changes of items during the period:			
Dividends from surplus	(16,657)	<b>(18,738)</b>	<b>(182,063)</b>
Net income	52,467	<b>41,725</b>	<b>405,411</b>
Change of scope of equity method	—	<b>(75)</b>	<b>(728)</b>
Purchase of treasury shares	(56)	<b>(405)</b>	<b>(3,935)</b>
Disposal of treasury shares	4	<b>24</b>	<b>233</b>
Reversal of revaluation reserve for land	227	<b>—</b>	<b>—</b>
Total changes of items during the period	35,986	<b>22,531</b>	<b>218,917</b>
Balance at the end of current period	¥715,592	<b>¥738,124</b>	<b>\$7,171,822</b>

See accompanying Notes to Consolidated Financial Statements.



	2013	Millions of Yen 2014	Thousands of U.S. Dollars (Note 1) 2014
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	¥ 19,710	¥ 31,526	\$ 306,315
Changes of items during the period:			
Net changes of items other than shareholders' equity	11,815	3,312	32,180
Total changes of items during the period	11,815	3,312	32,180
Balance at the end of current period	31,526	34,839	338,505
Deferred gains or losses on hedges			
Balance at the beginning of current period	(494)	(2,271)	(22,065)
Changes of items during the period:			
Net changes of items other than shareholders' equity	(1,777)	4,697	45,637
Total changes of items during the period	(1,777)	4,697	45,637
Balance at the end of current period	(2,271)	2,425	23,561
Revaluation reserve for land			
Balance at the beginning of current period	(510)	(737)	(7,160)
Changes of items during the period:			
Net changes of items other than shareholders' equity	(227)	—	—
Total changes of items during the period	(227)	—	—
Balance at the end of current period	(737)	(737)	(7,160)
Foreign currency translation adjustment			
Balance at the beginning of current period	(13,727)	3,693	35,882
Changes of items during the period:			
Net changes of items other than shareholders' equity	17,420	26,720	259,619
Total changes of items during the period	17,420	26,720	259,619
Balance at the end of current period	3,693	30,414	295,511
Remeasurements of defined benefit plans			
Balance at the beginning of current period	—	—	—
Changes of items during the period:			
Net changes of items other than shareholders' equity	—	(6,100)	(59,269)
Total changes of items during the period	—	(6,100)	(59,269)
Balance at the end of current period	—	(6,100)	(59,269)
Total accumulated other comprehensive income			
Balance at the beginning of current period	4,978	32,210	312,961
Changes of items during the period:			
Net changes of items other than shareholders' equity	27,231	28,630	278,177
Total changes of items during the period	27,231	28,630	278,177
Balance at the end of current period	32,210	60,840	591,138
<b>Minority interests</b>			
Balance at the beginning of current period	24,320	26,514	257,617
Net changes of items other than shareholders' equity	2,194	3,086	29,984
Total changes of items during the period	2,194	3,086	29,984
Balance at the end of current period	26,514	29,601	287,611
<b>Total net assets</b>			
Balance at the beginning of current period	708,904	774,317	7,523,484
Changes of items during the period:			
Dividends from surplus	(16,657)	(18,738)	(182,063)
Net income	52,467	41,725	405,411
Change of scope of equity method	—	(75)	(728)
Purchase of treasury shares	(56)	(405)	(3,935)
Disposal of treasury shares	4	24	233
Reversal of revaluation reserve for land	227	—	—
Net changes of items other than shareholders' equity	29,426	31,716	308,161
Total changes of items during the period	65,413	54,248	527,089
Balance at the end of current period	¥774,317	¥828,565	\$8,050,573

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2013 and 2014

		Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
<b>Cash Flows from Operating Activities</b>			
Income before income taxes	¥ 84,630	¥ 81,874	\$ 795,511
Depreciation and amortization	82,818	83,806	814,282
Amortization of long-term prepaid expenses	5,966	5,967	57,977
Impairment loss	5,495	30,138	292,829
Increase (decrease) in provision for safety measures	6,428	(2,586)	(25,126)
Decrease (increase) in net defined benefit assets	—	(3,513)	(34,133)
Interest and dividends income	(3,834)	(3,811)	(37,028)
Interest expenses	8,431	8,567	83,239
Equity in earnings (losses) of affiliates	(6,335)	(7,917)	(76,923)
Loss (gain) on sales of investment securities	(1,589)	(5,968)	(57,986)
(Increase) decrease in notes and accounts receivable-trade	(8,514)	(20,573)	(199,893)
(Increase) decrease in inventories	(23,419)	2,821	27,409
Increase (decrease) in notes and accounts payable-trade	8,542	3,123	30,343
Increase (decrease) in accrued expenses	814	2,887	28,050
Increase (decrease) in accrued consumption taxes	(803)	(1,913)	(18,587)
Other	2,054	9,091	88,330
Subtotal	160,684	181,993	1,768,295
Interest and dividends income received	9,425	10,524	102,254
Interest expenses paid	(8,453)	(8,734)	(84,862)
Income taxes paid	(32,058)	(29,557)	(287,184)
<b>Net cash provided by operating activities</b>	129,597	154,225	1,498,493
<b>Cash Flows from Investing Activities</b>			
Purchase of property, plant and equipment	(91,884)	(109,425)	(1,063,204)
Purchase of intangible assets	(17,942)	(14,956)	(145,316)
Purchase of long-term prepaid expenses	(5,074)	(5,268)	(51,185)
Proceeds from sales of investment securities	1,535	7,659	74,417
Purchase of shares of subsidiaries and affiliates	(4,344)	(12,435)	(120,821)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,375)	(39,802)	(386,727)
Payments of long-term loans receivable	(2,840)	(7,727)	(75,077)
Collection of long-term loans receivable	188	4,780	46,443
Payments into time deposits	(3,630)	(2,152)	(20,909)
Other	9,577	3,735	36,290
<b>Net cash used in investing activities</b>	(116,791)	(175,591)	(1,706,092)
<b>Cash Flows from Financing Activities</b>			
Proceeds from long-term loans payable	20,475	69,356	673,882
Repayment of long-term loans payable	(16,641)	(36,870)	(358,239)
Proceeds from issuance of bonds	10,000	25,000	242,907
Redemption of bonds	(20,707)	(31,217)	(303,313)
Cash dividends paid	(16,656)	(18,738)	(182,063)
Other	(4,367)	(3,367)	(32,714)
<b>Net cash used in financing activities</b>	(27,897)	4,163	40,448
<b>Effect of Exchange Rate Change on Cash and Cash Equivalents</b>	2,100	(1,894)	(18,402)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(12,992)	(19,097)	(185,551)
<b>Cash and Cash Equivalents at the Beginning of current period</b>	122,448	109,456	1,063,505
<b>Cash and Cash Equivalents at the End of current period (Note 4)</b>	¥ 109,456	¥ 90,359	\$ 877,953

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

Osaka Gas Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2013 and 2014

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Osaka Gas Co., Ltd. (the "Company") and its consolidated subsidiaries (together, the "Companies") have been prepared in accordance with the provisions set forth in the Japanese Regulations of accounting process for Gas-Business and related regulations and the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, 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 Financial Instruments 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 consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014 which was ¥102.92 to U.S. \$1.00. The 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.

As permitted, amounts of less than one million yen are omitted in the presentation for 2013 and 2014. As a result, the total amounts shown in the accompanying consolidated financial statements, both in yen and in U.S. dollars, do not necessarily agree with the sum of the individual amounts.

## 2. Significant Accounting Policies

### (1) Consolidation

The consolidated financial statements include the accounts of the Company and those of its consolidated subsidiaries. For purpose of the consolidated financial statements, companies which are owned 40% or more and substantially controlled by the Company are considered subsidiaries and included in the consolidation.

The consolidated financial statements for the years ended March 31, 2013 and 2014 included the accounts of the Company and its 130 and 150 subsidiaries, respectively. For the year ended March 31, 2014, 23 subsidiaries were newly consolidated and 3 subsidiaries were excluded from consolidation. Intercompany transactions and accounts were eliminated. All material unrealized profit resulting from intercompany transactions and included in assets was eliminated.

The 73 subsidiaries included in consolidation have fiscal years that end on December 31. These subsidiaries do not prepare for consolidation purposes statements with periods that correspond to the fiscal year-end of the Company (March 31). For these 73 consolidated subsidiaries, if there were significant transactions between their fiscal year-end and the Company's year-end, necessary adjustments were made to reflect these transactions in the accompanying consolidated financial statements.

The difference between the Company's cost of investment in a consolidated subsidiary and the equity in the net assets at the date of acquisition is amortized within 20 years on a straight-line basis. If the difference is insignificant, it is charged or credited to income in the first year of consolidation.

Investments in significant affiliates are accounted for by the equity method. Affiliates that have an insignificant impact on consolidated net income and consolidated retained earnings are not accounted for by the equity method. As of March 31, 2013 and 2014, 9 and 12 significant affiliates, respectively, were accounted for by the equity method.

### (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 not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

### (3) Inventories

Inventories are mainly valued at moving average cost. The method used to value inventories held for sale in the ordinary course of business subjects the amounts carried on the balance sheet to a write-down in the event of reduced profitability.

### (4) Securities

Under the Japanese accounting standard for financial instruments, all companies are required to examine the securities they hold to determine the intention for which they are held and to classify those securities according to the intention as 1) securities held for trading purposes ("trading securities"), 2) debt securities intended to be held to maturity ("held-to-maturity debt securities"), 3) equity securities issued by subsidiaries and affiliates and 4) all other securities that are not classified in any of the above categories ("available-for-sale securities").

The Companies have no trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliates that are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities whose fair value is readily determinable are stated at fair value as of the end of the year with unrealized gains and losses, net of applicable deferred tax assets/liabilities and minority interests, directly reported as a separate component of net assets rather than reflected in earnings. Realized gains and losses on the sale of such securities are computed mainly using moving average cost. Other securities with no fair values are stated mainly at moving average cost.

If the value of equity securities issued by non-consolidated subsidiaries or affiliated companies or the market value of available-for-sale securities declines significantly, the securities are stated at fair value and the difference between the fair value and the carrying amount is recognized as loss in the period of the decline.

### (5) Property, Plant and Equipment

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

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. The cumulative capital gain arising from the beneficiaries' contributions and offset against the acquisition cost of property, plant and equipment at March 31, 2013 and 2014 was ¥260,759 million and ¥259,997 million (\$ 2,526,204 thousand), respectively. The current capital gain arising from the expropriation of property offset against the acquisition cost of property, plant and equipment at March 31, 2013 and 2014 was ¥360 million and ¥95 million (\$923 thousand), respectively.

**(6) Intangible Assets**

The Companies include goodwill and software in intangible assets. Goodwill is amortized using the straight-line method over a period that is within 20 years, and software is amortized over its estimated useful life.

**(7) Leased Assets**

Property, plant and equipment that are capitalized under finance lease arrangements and that do not transfer ownership of the leased asset to the lessee are depreciated using the straight-line method over the term of the lease with the assumption of no residual value.

**(8) Allowance for Doubtful Accounts**

The Companies provide the allowance for doubtful accounts at an amount based principally on the historical default ratio plus the estimated uncollectible amounts of certain individual receivables.

**(9) 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 salary at the time of retirement or termination, length of service and certain other factors. A portion of the benefits previously paid by the defined benefits plan is now covered by a defined contribution plan.

The Companies provide for retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets. Generally, prior service costs are recognized in expenses when they arise, and actuarial gains and losses are recognized in expenses over 10 years commencing with the following period.

**(10) Provision for Gas Holder Repairs**

The Company and certain consolidated subsidiaries provide for periodic repairs to gas holders by estimating the future expenditures arising from such repairs and charging them to income in equal annual amounts. The difference between the actual expenditure and the estimated amount provided for is charged to income in the year the repair is completed.

**(11) Provision for Safety Measures**

The Company provides for future payments for consumer safety by estimating the future expenditures required for the promotion of replacements with safety-enhanced models, strengthening of incidental inspections and public-ity and maintenance work on aging gas pipelines.

**(12) Allowance for Investment Loss**

The Company provides for future payments for potential losses on the business of affiliates by estimating the expected losses.

**(13) Income Taxes**

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

The Companies recognize the tax effects of loss carryforwards and the temporary differences between the carrying amounts of assets and liabilities for

tax and financial reporting. The asset/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.

**(14) Translation of Foreign Currencies**

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at year-end rates. Net assets are translated into Japanese yen at historical rates. Income and expenses are translated into Japanese yen at average rates for the year. The translation differences arising from the use of different rates are recognized in minority interests in income and as foreign currency translation adjustment in net assets.

**(15) Derivative Transactions and Hedge Accounting**

The Companies state derivative financial instruments at fair value at the end of the fiscal year and recognize changes in the fair value as gain or loss, unless the 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 gain or loss resulting from changes in the fair value of the derivative financial instruments until the related loss or gain on the hedged items is recognized. However, in cases where forward foreign currency exchange contracts and interest rate swap contracts are used as hedges and meet certain hedging criteria, forward foreign currency exchange contracts, interest rate swap contracts and the hedged items are accounted for in the following manner: If a forward foreign currency exchange contract or a currency swap contract is 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 the income statement in the period which includes the inception date.

If a forward foreign currency exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gain or loss on the forward foreign currency exchange contract will be 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.

**(16) Net Income Per Share**

The computation of net income per share of capital stock shown on the consolidated statements of income is based on the weighted average number of shares outstanding during the fiscal year. Diluted net income per share of capital stock for the years ended March 31, 2013 and 2014 was not shown since there were no outstanding convertible bonds or other capital stock equivalents.

### 3. Changes in Accounting Policies, etc.

**<Changes in Accounting Policies>**

Effective from the year ended March 31, 2014, the Company and its consolidated subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter Guidance No. 25")) except the article 35 of the Statement No. 26 and the article 67 of the Guidance No. 25 and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a net defined benefit liability (asset).

In accordance with the article 37 of the Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result of the application, a net defined benefit asset and liability in the amount of ¥29,414 million (\$285,794 thousand) and ¥15,325 million (\$148,902 thousand), respectively, has been recognized, accumulated other comprehensive income has decreased by ¥6,100 million (\$59,269 thousand) at the end of the year ended March 31, 2014.

Net asset per share decreased by ¥2.93 (\$0.028).

**<Unadopted Accounting Standard>**

— Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012)

— Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(Refer also to the ASBJ homepage, which has a summary in English of the accounting standard.)

**(1) Summary**

These accounting standards are revised based on the viewpoint and the international trend which seeks to improve financial reporting through a focus on the accounting treatment of unrecognized actuarial gains and losses and past

service costs, the calculation method of retirement benefit obligation and service cost and the expansion of disclosure.

**(2) Effective dates**

Amendments relating to the determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods ending on or after March 31, 2015.

**(3) Effect of application of standards**

Adopting these standards will have no significant effect on operating income, ordinary income or income before taxes for the fiscal year ended March 31, 2015.

**4. Cash and Cash Equivalents**

The relationship between the closing balance of cash and cash equivalents on the consolidated statements of cash flows and the amount of cash and deposits on the consolidated balance sheets was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Cash and deposits on the consolidated balance sheets	¥ 91,323	<b>¥75,258</b>	<b>\$731,228</b>
Time deposits with more than 3 months to maturity	(2,866)	<b>(4,398)</b>	<b>(42,732)</b>
Short-term investments with an original maturity of three months or less, presenting negligible risk of change in value and included in current assets	20,999	<b>19,499</b>	<b>189,457</b>
Cash and cash equivalents on the consolidated statements of cash flows	¥109,456	<b>¥90,359</b>	<b>\$877,953</b>

In the year ended March, 2014, the Company obtained control of Jacobi Carbons AB as a result of an acquisition of shares on January 7, 2014. The assets and liabilities of the consolidated subsidiary at the time of consolidation in connection with the acquisition cost and net cash paid for the acquisition were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	<b>¥11,632</b>	<b>\$113,019</b>
Non-current assets	<b>16,588</b>	<b>161,173</b>
Goodwill	<b>21,009</b>	<b>204,129</b>
Current liabilities	<b>(4,215)</b>	<b>(40,954)</b>
Non-current liabilities	<b>(4,510)</b>	<b>(43,820)</b>
Acquisition cost	<b>¥40,505</b>	<b>\$393,558</b>
Cash and cash equivalents	<b>(703)</b>	<b>(6,830)</b>
Net cash paid for the acquisition	<b>39,802</b>	<b>386,727</b>

**5. Inventories**

Inventories at March 31, 2013 and 2014 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Merchandises and finished products	¥13,213	<b>¥23,854</b>	<b>\$231,772</b>
Work-in-process	12,615	<b>9,401</b>	<b>91,342</b>
Raw materials and supplies	58,413	<b>55,492</b>	<b>539,176</b>
Total	¥84,242	<b>¥88,748</b>	<b>\$862,300</b>

**6. Financial Instruments**

Book value, fair value and any difference as of March 31, 2013 are set forth in the table below. Financial instruments for which it was extremely difficult to determine the fair value are not included in the table.

	Millions of Yen		
	Book Value	Fair Value	Difference
(1) Cash and deposits	¥ 91,323	¥ 91,323	¥ —
(2) Notes and accounts receivable – trade	168,198	168,198	—
(3) Marketable securities and investment securities	92,613	92,613	—
Total assets	¥352,135	¥352,135	¥ —
(1) Notes and accounts payable – trade	¥ 55,520	¥ 55,520	¥ —
(2) Short-term loans payable	47,106	47,106	—
(3) Bonds payable <sup>(*)</sup>	269,235	287,394	18,158
(4) Long-term loans payable <sup>(*)</sup>	222,158	235,766	13,607
Total liabilities	¥594,021	¥625,787	¥31,766
Derivative transactions <sup>(*)</sup>	¥ 6,551	¥ 6,551	¥ —

(\*)1) Bonds payable and long-term loans payable include current portions.

(\*)2) Assets and liabilities arising from derivative transactions were offset and indicated by parentheses ( ) when the offset amount was a liability.



Book value, fair value and any difference as of March 31, 2014 are set forth in the table below. Financial instruments for which it was extremely difficult to determine the fair value are not included in the table.

	Book Value		Fair Value		Difference	
	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
(1) Cash and deposits	¥ 75,258	\$ 731,228	¥ 75,258	\$ 731,228	¥ —	\$ —
(2) Notes and trade accounts receivable – trade	192,277	1,868,218	192,277	1,868,218	—	—
(3) Marketable securities and investment in securities	94,760	920,715	94,760	920,715	—	—
Total assets	¥362,296	\$3,520,171	¥362,296	\$3,520,171	¥ —	\$ —
(1) Notes and trade accounts payable – trade	¥ 60,358	\$ 586,455	¥ 60,358	\$ 586,455	¥ —	\$ —
(2) Short-term loans payable	46,756	454,294	46,756	454,294	—	—
(3) Bonds <sup>(*)</sup>	263,708	2,562,261	278,634	2,707,287	14,925	145,015
(4) Long-term loans payable <sup>(*)</sup>	261,628	2,542,052	272,829	2,650,884	11,201	108,832
Total liabilities	¥632,452	\$6,145,083	¥658,579	\$6,398,940	¥26,127	\$253,857
Derivative transactions <sup>(*)</sup>	¥ 8,038	\$ 78,099	¥ 8,038	\$ 78,099	¥ —	\$ —

<sup>(\*)</sup> Bonds payable and long-term loans payable include current portions.

<sup>(\*)</sup> Assets and liabilities arising from derivative transactions were offset and indicated by parentheses ( ) when the offset amount was a liability.

#### Notes on the methods used to calculate the fair value of financial instruments, securities and derivatives

##### Assets

##### (1) Cash and deposits and (2) Notes and accounts receivable – trade

The fair value is determined by the book value, which is almost equivalent to the fair value due to the short-time nature of the financial transaction.

##### (3) Marketable securities and investment securities

The fair value of stock is determined by market prices. The fair value of bonds is derived from market prices or prices presented by the corresponding financial institution. Refer to notes on securities for information about securities (Note 7) classified by the purpose for which they are held.

##### Liabilities

##### (1) Notes and accounts payable-trade and (2) Short-term loans payable

The fair value is determined by book value, which is almost equivalent to the fair value due to the short-time nature of the financial transaction.

##### (3) Bonds payable

The market price of the bonds issued by Osaka Gas and each of its group companies is the fair value if available, otherwise fair value is calculated as the present value, which is the total amount of principal and interest discounted at the rate reflecting the time to maturity of the bonds and the credit risk.

##### (4) Long-term loans payable

The fair value of long-term loans payable based on fixed interest rates is calculated by discounting the total amount of principal and interest at the estimated interest rate of a new loan which is similar to the long-term loans.

The fair value of long-term loans payable based on floating interest rates is determined by the book value because the market value is deemed similar to the book value.

Interest rate swap transactions, which determine the interest rate level of long-term loans based on floating interest rates, are treated as extraordinary account items. The transaction amount is calculated by discounting the sum of principal and interest at the estimated rate of a new loan which is similar to the long-term loans.

##### Derivative transactions

Refer to notes on derivative transactions (Note 16).

Shown in the table below are financial instruments for which it was extremely difficult to determine the fair value.

Book Value	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Affiliated company securities	¥77,254	¥101,829	\$989,399
Non-listed equity securities	¥16,147	¥ 16,768	\$162,922

The expected redemption amounts of monetary receivables and securities with maturities after the consolidated fiscal year-end were as follows:

For 2013	Millions of Yen			
	One Year or Less	One to Five Years	Five to Ten Years	More than Ten Years
Cash and deposits	¥ 91,323	¥ —	¥ —	¥ —
Notes and accounts receivable – trade	168,198	—	—	—
Marketable securities and investment securities				
Held-to-maturity debt securities (corporate bonds)	12	50	—	—
Available-for-sale securities with maturities				
(Government bonds and municipal bonds)	—	10	—	98
(Negotiable certificates of deposit)	20,700	—	—	—
(Commercial paper)	999	—	—	—
(Other)	—	—	200	—
Total	¥281,234	¥60	¥200	¥98

For 2014	Millions of Yen			
	One Year or Less	One to Five Years	Five to Ten Years	More than Ten Years
Cash and deposits	¥ 75,258	¥ —	¥ —	¥ —
Notes and accounts receivable – trade	192,277	—	—	—
Marketable securities and investment securities				
Held-to-maturity debt securities (corporate bonds)	12	37	—	—
Available-for-sale securities with maturities (Government bonds and municipal bonds)	—	10	—	98
(Negotiable certificates of deposit)	19,000	—	—	—
(Commercial paper)	1,499	—	—	—
(Other)	—	—	200	—
<b>Total</b>	<b>¥288,047</b>	<b>¥47</b>	<b>¥200</b>	<b>¥98</b>

For 2014	Thousands of U.S. Dollars			
	One Year or Less	One to Five Years	Five to Ten Years	More than Ten Years
Cash and deposits	\$ 731,228	\$ —	\$ —	\$ —
Notes and accounts receivable – trade	1,868,218	—	—	—
Marketable securities and investment securities				
Held-to-maturity debt securities (corporate bonds)	116	359	—	—
Available-for-sale securities with maturities (Government bonds and municipal bonds)	—	97	—	952
(Negotiable certificates of deposit)	184,609	—	—	—
(Commercial paper)	14,564	—	—	—
(Other)	—	—	1,943	—
<b>Total</b>	<b>\$2,798,746</b>	<b>\$456</b>	<b>\$1,943</b>	<b>\$952</b>

## 7. Securities

(1) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair value as of March 31, 2013 and 2014.

Securities with available fair value (book value) that exceeded acquisition cost were as follows:

	Millions of Yen		
	Acquisition Cost	Book Value	Difference
For 2013:			
Stocks	¥23,829	¥69,778	¥45,949
Bonds	10	10	0
<b>Total</b>	<b>¥23,839</b>	<b>¥69,788</b>	<b>¥45,949</b>

	Millions of Yen		
	Acquisition Cost	Book Value	Difference
For 2014:			
Stocks	¥23,882	¥73,757	¥49,875
Bonds	10	10	0
<b>Total</b>	<b>¥23,892</b>	<b>¥73,767</b>	<b>¥49,875</b>

	Thousands of U.S. Dollars		
	Acquisition Cost	Book Value	Difference
For 2014:			
Stocks	\$232,044	\$716,643	\$484,599
Bonds	97	97	0
<b>Total</b>	<b>\$232,141</b>	<b>\$716,741</b>	<b>\$484,599</b>

Securities with available fair value (book value) that did not exceed acquisition cost were as follows:

	Millions of Yen		
	Acquisition Cost	Book Value	Difference
For 2013:			
Stocks	¥ 1,141	¥ 1,026	¥(114)
Bonds	21,798	21,798	—
<b>Total</b>	<b>¥22,939</b>	<b>¥22,824</b>	<b>¥(114)</b>

	Millions of Yen		
	Acquisition Cost	Book Value	Difference
For 2014:			
Stocks	¥ 463	¥ 395	¥(68)
Bonds	20,597	20,597	—
<b>Total</b>	<b>¥21,061</b>	<b>¥20,992</b>	<b>¥(68)</b>

	Thousands of U.S. Dollars		
	Acquisition Cost	Book Value	Difference
For 2014:			
Stocks	\$ 4,498	\$ 3,837	\$(660)
Bonds	200,126	200,126	—
<b>Total</b>	<b>\$204,634</b>	<b>\$203,964</b>	<b>\$(660)</b>

(2) Total sales of available-for-sale securities in the years ended March 31, 2013 and 2014 amounted to ¥1,535 million and ¥7,659 million (\$74,417 thousand), respectively. The related gains and losses amounted to ¥728 million and ¥9 million, respectively, for the year ended March 31, 2013. The related gains and losses amounted to ¥5,968 million (\$57,986 thousand) and ¥0 million (\$0 thousand), respectively, for the year ended March 31, 2014.

sand), respectively, for the year ended March 31, 2014.

(3) For "Available-for-sale securities," impairment losses of ¥80 million and ¥26 million (\$252 thousand) were recorded for the years ended March 31, 2013 and 2014, respectively.

## 8. Short-Term Loans and Long-Term Debt

Short-term loans consisted of short-term notes payable bearing interest at an annual average rate of 0.3% and 0.4% at March 31, 2013 and 2014, respectively.

Long-term debt at March 31, 2013 and 2014 consisted of the following:

		Millions of Yen		Thousands of U.S. Dollars
		2013	2014	2014
Loans principally from banks and insurance companies				
	Due within one year (Average rate 2.5%)	¥ 35,392	¥ 17,124	\$ 166,381
	Maturing through 2033 (Average rate 1.7%)	186,766	244,503	2,375,660
Total		¥222,158	¥261,628	\$2,542,052
Domestic unsecured bonds				
Osaka Gas	3.4% bonds payable due 2017	15,700	15,700	152,545
Osaka Gas	1.47% bonds payable due 2022	19,986	19,987	194,199
Osaka Gas	1.83% bonds payable due 2020	19,993	19,994	194,267
Osaka Gas	1.79% bonds payable due 2020	19,988	19,989	194,218
Osaka Gas	2.33% bonds payable due 2026	9,994	9,995	97,114
Osaka Gas	1.79% bonds payable due 2016	19,994	19,995	194,277
Osaka Gas	2.14% bonds payable due 2019	19,996	19,997	194,296
Osaka Gas	1.59% bonds payable due 2014	19,999	19,999	194,315
Osaka Gas	1.21% bonds payable due 2015	30,000	30,000	291,488
Osaka Gas	1.782% bonds payable due 2018	30,000	30,000	291,488
Osaka Gas	1.199% bonds payable due 2013	30,000	—	—
Osaka Gas	1.345% bonds payable due 2021	10,000	10,000	97,162
Osaka Gas	1.16% bonds payable due 2021	10,000	10,000	97,162
Osaka Gas	0.759% bonds payable due 2022	10,000	10,000	97,162
Osaka Gas	0.748% bonds payable due 2023	—	10,000	97,162
Osaka Gas	1.606% bonds payable due 2034	—	15,000	145,744
OGPA Funding, LLC	7.73% bonds payable due 2015 in U.S. dollars	3,583	3,049	29,624
Total		¥269,235	¥263,708	\$2,562,261

In the year ended March 31, 2007, the Company entered into debt assumption agreements with banks for 2.9% notes payable due in 2018 in the amount of ¥29,000 million. The Company remains contingently liable on the amounts assumed by the banks.

The annual maturities of corporate bonds at March 31, 2014 were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 21,584	\$ 209,716
2016	31,464	305,713
2017	35,700	346,871
2018	—	—
2019	30,000	291,488
April 1, 2019 and thereafter	145,000	1,408,861
Total	¥263,748	\$2,562,650

The annual maturities of long-term debt at March 31, 2014 were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 17,124	\$ 166,381
2016	22,262	216,303
2017	15,914	154,624
2018	44,171	429,178
2019	30,093	292,392
April 1, 2019 and thereafter	132,061	1,283,142
Total	¥261,628	\$2,542,052

Assets pledged as collateral mainly for short-term loans and long-term debt totaling ¥22,133 million and ¥38,817 million (\$377,157 thousand) at March 31, 2013 and 2014, respectively, were as follows:

		Millions of Yen	Thousands of U.S. Dollars
	2013	2014	2014
Property, plant and equipment	¥ 63,724	¥ 81,109	\$ 788,078
Investment securities	12,163	12,267	119,189
Cash and deposits	4,215	12,644	122,852
Accounts receivable	1,157	457	4,440
Inventories and other	20,981	19,578	190,225
Total	¥102,242	¥126,057	\$1,224,805

## 9. Net Assets

Under Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as capital stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of capital stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, all additional paid-in capital and all

legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

The appropriation of retained earnings of the Company proposed by the Board of Directors and approved at the shareholders' meeting held on June 27, 2014 included cash dividends applicable to the year ended March 31, 2014 and the payment of cash dividends to shareholders of record at March 31, 2014 in the aggregate amount of ¥9,365 million (\$90,993 thousand) or ¥4.5 per share. The appropriations have not been accrued in the consolidated financial statements for the year ended March 31, 2014. Such appropriations are recognized in the period in which they are approved by the shareholders.

## 10. Treasury Shares

Changes in treasury shares are as follows:

Thousands of Shares			
As of April 1, 2013	Increase	Decrease	As of March 31, 2014
1,298	975	59	2,214

(Overview of reasons for change)

Overview of reasons for increase

Increase by repurchase of fractional shares 975 thousand shares

Overview of reasons for decrease

Decrease by disposal of fractional shares 59 thousand shares

## 11. Contingent Liabilities

At March 31, 2013 and 2014, the Companies were contingently liable as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
As guarantor of indebtedness of:			
Non-consolidated affiliates	¥10,381	<b>¥19,122</b>	<b>\$185,794</b>
Employees	11	<b>8</b>	<b>77</b>
Debt assumption agreements	29,000	<b>29,000</b>	<b>281,772</b>
Total	¥39,392	<b>¥48,130</b>	<b>\$467,644</b>

## 12. Land Revaluation

Pursuant to the Law Concerning Land Revaluation and the Amended Land Revaluation Law, a consolidated subsidiary revalued its land used for business activities on March 31, 2002. The difference between the revalued amount and the book value before the revaluation was recorded in the consolidated balance sheets as "Deferred tax liabilities for land revaluation" in liabilities and "Revaluation reserve for land" in net assets. The land prices used for the revaluation

were based on prices in the official notice published by the Commissioner of the National Tax Agency in accordance with Article 2, Paragraph 4 of the Enforcement Ordinance Concerning Land Revaluation, after making reasonable adjustments. The market value of the land was ¥1,290 million and ¥937 million (\$9,104 thousand) lower than the revalued book amount at March 31, 2013 and 2014, respectively.

## 13. Impairment Loss

(1) Grouping

①All fixed assets used in processes related to the gas business from production to sales of gas are categorized into one asset group because these assets generate cash flow from the gas business as one asset unit.

②Fixed assets used for other businesses other than those described above are generally categorized into groups based on business divisions controlling such fixed assets.

③Generally, other fixed assets are treated individually.

(2) Details of impairment loss

In accordance with the grouping described in (1) above, an impairment loss of ¥5,495 million and ¥30,138 million (\$292,829 thousand) in the years ended March 31, 2013 and March 31, 2014, respectively, was recognized. Significant properties included in this loss are listed in the table below.

For 2013				Millions of Yen
Asset	Location	Type	Impairment Loss	
Land in Keihanna	Seika-cho and Kizugawa-city, Kyoto Prefecture	Land	¥3,012	

The recoverable value of this asset was assessed based on selling prices in the market. The market prices were based on appraisal by a real estate appraiser.

The land in Keihanna was an asset acquired for future construction of facilities for operation. However since the fall of the market prices, it was appropriated for extraordinary loss and reported as impairment loss.

## For 2014

Millions of Yen / Thousands of U.S. Dollars

Asset	Location	Type	Impairment Loss	
Property for enterprises, etc.	Texas, U.S.A.	Intangible assets and property, plant and equipment (other facilities)	<b>¥28,567</b>	<b>\$277,565</b>

Recoverable values of these assets were assessed based on net sale value for intangible assets, and on value in use for property, plant and equipment.

Market prices are calculated by the third parties at net sale value and by discounting a future cash flow at 12.5%.

Property was acquired for the U.S. shale gas oil development project which

is taking part in through a consolidated subsidiary. However in light of the production situation of economically unfeasible oil and gas extraction without a prospect of significant productivity improvement of this project, the Company recognized an impairment loss as an extraordinary loss.

## 14. 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 ¥10,875 million and ¥ 11,793

million (\$114,584 thousand) for the years ended March 31, 2013 and 2014, respectively.

## 15. Leases

## (1) Finance Lease Transactions

Finance leases which commenced before the beginning of fiscal 2008 and did not transfer ownership of the leased assets to the lessee are not reported herein because their effect was insignificant.

## (2) Operating Lease Transactions

Obligations under non-cancelable operating leases at March 31, 2013 and 2014 were as follows:

As lessee (non-capitalized)

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Payments due within one year	¥ 865	<b>¥ 908</b>	<b>\$ 8,822</b>
Payments due over one year	7,019	<b>6,325</b>	<b>61,455</b>
Total	¥7,885	<b>¥7,233</b>	<b>\$70,277</b>

As lessor (non-capitalized)

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Payments due within one year	¥1,058	<b>¥1,033</b>	<b>\$10,036</b>
Payments due over one year	3,878	<b>4,244</b>	<b>41,235</b>
Total	¥4,936	<b>¥5,278</b>	<b>\$51,282</b>

## 16. Derivative Transactions

Fair value information for the derivative transactions to which hedge accounting was not applied in 2013 was as follows:

					Millions of Yen	
Type	Instruments	Grouping	Contract Amounts		Fair Value	Profit or loss from valuation
			More than One Year			
Currencies	Forward foreign currency exchange contracts Selling position	Dealings other than market transactions	¥9,370	¥4,400	¥412	¥412

Fair value information for the derivative transactions to which hedge accounting was not applied in 2014 was as follows:

			Millions of Yen / Thousands of U.S. Dollars			
Type	Instruments	Grouping	Contract Amounts		Fair Value	Profit or loss from valuation
			More than One Year			
Currencies	Forward foreign currency exchange contracts Selling position	Dealings other than market transactions	¥ 1,168	—	¥ 32	¥ 32
			\$ 11,348	—	\$ 310	\$ 310
Products	Swap transactions and option transactions of oil prices, etc.	Dealings other than market transactions	¥ 20,041	¥ 16,013	¥ 1,961	¥ 1,961
			\$194,724	\$155,586	\$19,053	\$19,053
Total			¥ 21,210	¥ 16,013	¥ 1,994	¥ 1,994
			\$206,082	\$155,586	\$19,374	\$19,374

Notes: 1. Fair values are calculated by using prices presented by major financial institutions.

2. Because some derivative transactions stopped satisfying the requirements for application of hedge accounting, hedge accounting is no longer applied to these transactions.



Fair value information for derivative transactions to which hedge accounting was applied in 2013 was as follows:

				Millions of Yen		
Type	Instruments	Hedge Accounting Method	Hedged Items	Contract Amounts		Fair Value
				More than One Year		
(a) Interest rates	Interest rate swaps	Exceptional accounting of interest rate swaps	Long-term loans payable	¥ 29,987	¥ 29,117	(Note 2)
		Principal method of accounting	Long-term loans payable and bonds payable	¥105,331	¥103,101	¥ (856)
(b) Currencies	Forward foreign currency exchange contracts and currency option transactions	Exceptional accounting such as forward foreign currency exchange contracts, etc., or principal method of accounting	Anticipated foreign currency denominated transactions	¥ 16,214	¥ 1,810	¥ 759
(c) Products	Swap transactions and option transactions of oil prices, etc.	Principal method of accounting	Purchase prices of raw materials, etc.	¥ 50,907	¥ 33,888	¥6,235
Total				¥202,440	¥167,917	¥6,138

Fair value information for derivative transactions to which hedge accounting was applied in 2014 was as follows:

				Millions of Yen / Thousands of U.S. Dollars		
				Contract Amounts		
Type	Instruments	Hedge Accounting Method	Hedged Items	More than One Year		Fair Value
(a) Interest rates	Interest rate swaps	Exceptional accounting of interest rate swaps	Long-term loans payable	¥ 52,656	¥ 52,656	(Note 2)
				\$ 511,620	\$ 511,620	
		Principal method of accounting	Long-term loans payable and bonds payable	¥ 110,819	¥ 106,474	¥ 3,531
				\$1,076,748	\$1,034,531	\$34,308
(b) Currencies	Forward foreign currency exchange contracts and currency option transactions	Exceptional accounting such as forward foreign currency exchange contracts, etc., or principal method of accounting	Anticipated foreign currency denominated transactions	¥ 37,165	¥ 34,606	¥ (647)
				\$ 361,105	\$ 336,241	\$ (6,286)
(c) Products	Swap transactions and option transactions of oil prices, etc.	Principal method of accounting	Purchase prices of raw materials, etc.	¥ 19,858	¥ 6,020	¥ 3,160
				\$ 192,945	\$ 58,492	\$30,703
Total				¥ 220,500	¥ 199,757	¥ 6,044
				\$2,142,440	\$1,940,895	\$58,725

Notes: 1. Fair values are calculated by using prices presented by major financial institutions.

2. Fair values for interest rate swaps to which exceptional accounting is applied are included in those of the corresponding long-term loans payable. As such, values are accounted for together with hedged long-term loans payable.

## 17. Retirement Benefits

For 2013:

(1) Summary of the adopted retirement benefit scheme

The Company and most consolidated subsidiaries provide lump sum retirement allowance plan, and the Company and some consolidated subsidiaries have adopted a defined-benefit corporate pension plan system or an employee's pension fund system.

In addition, the Company has adopted a defined-benefit corporate pension plan system from August 1, 2006.

Moreover, the defined contribution plan to which part of the defined benefit plan shifted has been adopted from January 1, 2005.

Provision for retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2013 consisted of the following:

	Millions of Yen
Projected benefit obligation	¥ 277,676
Unrecognized past service costs	231
Unrecognized actuarial gains and losses	(34,585)
Less fair value of pension assets	(264,197)
Prepaid pension costs	36,847
Provision for retirement benefits	¥ 15,972

Included in the consolidated statements of income for the year ended March 31, 2013 were severance and retirement benefit expenses that consisted of the following:

	Millions of Yen
Service costs	¥ 7,193
Interest cost on projected benefit obligation	4,420
Expected return on plan assets	(7,309)
Amortization of actuarial differences	2,405
Amortization of prior service costs	(30)
Provision for retirement benefit expenses	¥ 6,679

The assumption used in accounting for the above benefit plans were as follows:

Discount rates	Mainly 1.1%
The rate of expected return on plan assets	Mainly 3.1%

For 2014:

(1) Summary of the adopted retirement benefit scheme

The Company and most consolidated subsidiaries provide lump sum retirement allowance plan, and the Company and some consolidated subsidiaries have adopted a defined-benefit corporate pension plan system or an employee's pension fund system.

In addition, the Company has adopted a defined-benefit corporate pension plan system from August 1, 2006.

Moreover, the defined contribution plan to which a part of defined benefit plan shifted is adopted from January 1, 2005.

The portion about multi-employer pension plans has been included below in the note of "(2) Defined benefit plans".

(2) Defined benefit plans

① Retirement benefit obligations

	Millions of Yen	Thousands of U.S. Dollars
Balance at April 1, 2013	<b>¥277,676</b>	<b>\$2,697,979</b>
Service cost	<b>9,037</b>	<b>87,806</b>
Interest cost	<b>2,999</b>	<b>29,139</b>
Actuarial loss (gain)	<b>(697)</b>	<b>(6,772)</b>
Benefits paid	<b>(13,103)</b>	<b>(127,312)</b>
Other	<b>228</b>	<b>2,215</b>
Balance at March 31, 2014	<b>¥276,140</b>	<b>\$2,683,054</b>

② Plan assets

	Millions of Yen	Thousands of U.S. Dollars
Balance at April 1, 2013	<b>¥264,197</b>	<b>\$2,567,013</b>
Expected return on plan assets	<b>8,139</b>	<b>79,080</b>
Actuarial loss (gain)	<b>25,148</b>	<b>244,345</b>
Contributions paid by the employer	<b>5,094</b>	<b>49,494</b>
Benefits paid	<b>(12,351)</b>	<b>(120,005)</b>
Balance at March 31, 2014	<b>¥290,228</b>	<b>\$2,819,937</b>

③ Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset)

	Millions of Yen	Thousands of U.S. Dollars
Funded retirement benefit obligations	<b>¥ 261,033</b>	<b>\$ 2,536,270</b>
Plan assets	<b>(290,228)</b>	<b>(2,819,937)</b>
	<b>(29,194)</b>	<b>(283,657)</b>
Unfunded retirement benefit obligations	<b>15,106</b>	<b>146,774</b>
Total net defined benefit liability (asset) at March 31, 2014	<b>(14,088)</b>	<b>(136,883)</b>
Net defined benefit liability	<b>15,325</b>	<b>148,902</b>
Net defined benefit asset	<b>(29,414)</b>	<b>(285,794)</b>
Total net defined benefit liability (asset) at March 31, 2014	<b>¥ (14,088)</b>	<b>\$ (136,883)</b>

④ Retirement benefit costs

	Millions of Yen	Thousands of U.S. Dollars
Service cost	<b>¥ 9,037</b>	<b>\$ 87,806</b>
Interest cost	<b>2,999</b>	<b>29,139</b>
Expected return on plan assets	<b>(8,139)</b>	<b>(79,080)</b>
Net actuarial loss amortization	<b>(223)</b>	<b>(2,166)</b>
Past service costs amortization	<b>(30)</b>	<b>(291)</b>
Other	<b>7</b>	<b>68</b>
Total retirement benefit costs for the fiscal year ended March 31, 2014	<b>¥ 3,649</b>	<b>\$ 35,454</b>

⑤ Accumulated adjustments for retirement benefit

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized past service costs	<b>¥ (200)</b>	<b>\$ (1,943)</b>
Unrecognized actuarial gains and losses	<b>8,881</b>	<b>86,290</b>
Total balance at March 31, 2014	<b>¥8,681</b>	<b>\$84,347</b>

⑥ Plan assets

Plan assets comprise:

Bonds	<b>27.2%</b>
Stocks	<b>41.9%</b>
Short-term fund	<b>11.6%</b>
Other	<b>19.2%</b>
Total	<b>100.0%</b>

Note 1: The main assets of "Other" is beneficiary securities in the real estate investment trust fund.

Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

⑦ Actuarial assumptions

Discount rates	Mainly 1.1%
The rate of long-term expected return on plan assets	Mainly 3.1%

(3) Defined contribution plan

The donation required to the defined contribution plan of the Companies was ¥978 million (\$9,502 thousand).

(4) Multi-employer pension plans

The contribution required to the employees' pension fund plan of the multi-employer pension plans which was treated the same as the defined contribution plan was ¥321 million (\$3,118 thousand).

## 18. Income Taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 33.3% for the years ended March 31, 2013 and 2014.

The following table summarizes the significant differences between the Company's statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2013 and 2014:

	2013	2014
Statutory tax rate	33.3%	<b>33.3%</b>
Valuation allowance	0.7	<b>15.4</b>
Nondeductible expenses	1.0	<b>2.4</b>
Statutory tax rate difference between the Company and certain subsidiaries	0.7	<b>2.7</b>
Per capita inhabitants taxes	0.3	<b>0.3</b>
Effect of revised corporate tax rate	—	<b>1.3</b>
Equity in earnings of affiliates	(2.5)	<b>(3.0)</b>
Other	1.6	<b>(7.4)</b>
Effective tax rate	35.1%	<b>45.0%</b>

The law which revises parts of the Income Tax Law will take effect on March 31, 2014, and a special corporation tax for reconstruction is repealed from the fiscal year started on and after April 1, 2014.

In connection with this, the statutory tax rate used for the calculation of the deferred tax assets and liabilities for the fiscal year ended March 31, 2014 has been changed to 30.7% from 33.3% in the fiscal year ended March 31, 2013.

As a result, the amount of net deferred tax assets (less the amount of deferred tax liability) decreased by ¥916 million (\$8,900 thousand) and the income taxes - deferred increased ¥1,038 million (\$10,085 thousand) in the fiscal year ended March 31, 2014.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2013 and 2014 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Deferred tax assets:			
Excess depreciation of depreciable assets	¥ 6,341	<b>¥ 6,598</b>	<b>\$ 64,108</b>
Excess depreciation of deferred assets	5,947	<b>4,697</b>	<b>45,637</b>
Provision for safety measures	4,224	<b>3,325</b>	<b>32,306</b>
Impairment loss	4,806	<b>14,300</b>	<b>138,942</b>
Loss on valuation of securities	3,354	<b>3,831</b>	<b>37,223</b>
Provision for retirement benefits	5,684	—	—
Net defined benefit liability	—	<b>5,831</b>	<b>56,655</b>
Accrued enterprise taxes	2,907	<b>3,092</b>	<b>30,042</b>
Other	18,780	<b>17,628</b>	<b>171,278</b>
Subtotal deferred tax assets	52,046	<b>59,302</b>	<b>576,195</b>
Valuation allowance	(9,757)	<b>(22,398)</b>	<b>(217,625)</b>
Total deferred tax assets	¥ 42,289	<b>¥ 36,904</b>	<b>\$ 358,569</b>
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(11,824)	<b>(14,941)</b>	<b>(145,171)</b>
Prepaid pension costs	(11,277)	—	—
Net defined benefit asset	—	<b>(12,348)</b>	<b>(119,976)</b>
Deferred gains and losses on hedges	(3,168)	<b>(1,658)</b>	<b>(16,109)</b>
Reserve defined under the special taxation measures law	(8,580)	<b>(7,032)</b>	<b>(68,324)</b>
Reserve for advanced depreciation of noncurrent assets	(316)	<b>(296)</b>	<b>(2,876)</b>
Other	(3,924)	<b>(4,716)</b>	<b>(45,821)</b>
Total deferred tax liabilities	(39,091)	<b>(40,991)</b>	<b>(398,280)</b>
Net deferred tax assets	¥ 3,197	<b>¥ (4,087)</b>	<b>\$ (39,710)</b>

Net deferred tax assets (liabilities) were included in the consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Current assets (included in "Other")	¥ 11,035	<b>¥ 11,185</b>	<b>\$ 108,676</b>
Investments and other assets (included in "Other")	6,815	<b>6,763</b>	<b>65,711</b>
Current liabilities (included in "Other")	(22)	<b>(4)</b>	<b>(38)</b>
Non-current liabilities	(14,631)	<b>(22,031)</b>	<b>(214,059)</b>
Total	¥ 3,197	<b>¥ (4,087)</b>	<b>\$ (39,710)</b>

## 19. Business Combinations

For 2014:

(1) Overview of business combination

① Name and business combination

Name of acquired company: Jacobi Carbons AB

Main business: Manufacture and sale of activated carbon

② Purpose of business combination

With the strengthening of regulations for water and the atmosphere in advanced nations and improvement in living standards in newly emerging countries, growth with an activated carbon market is expected.

By this combination, Osaka Gas Chemicals Co., Ltd. and subsidiary Japan EnviroChemicals, Ltd. which are consolidated subsidiaries, form the activated carbon enterprise group which holds the stable raw procurement power a broad product line and global circulation and it becomes possible to aim at further development as a world class activated carbon entrepreneur.

③ Date of business combination: January 7, 2014

④ Legal form of business combination

Acquisition of shares in exchange for cash

⑤ Name of acquired company after business combination: No change

⑥ Ratio of voting rights acquired  
Voting rights ratio after acquisition: 100%

⑦ Main basis behind the determination of the acquiring company  
Osaka Gas Chemicals Co., Ltd., which is a consolidated subsidiary of the Company, acquired all the shares of Jacobi Carbons AB in exchange for cash.

(2) The period for which the operating results of the acquired enterprise included in the consolidated statement of income

Since the deemed acquisition date is January 1, 2014, there is no period in which operating results of the acquired enterprise was included.

(3) The acquisition cost and its items of an acquired enterprise

	Millions of Yen	Thousands of U.S. Dollars
Consideration for the acquisition — current price of the Jacobi Carbons AB shares at the acquisition date	¥40,282	\$391,391
Expense related to the acquisition — advisory expense etc.	223	2,166
Total acquisition cost	¥40,505	\$393,558

(4) Amount of goodwill recognized, cause, method of amortization and amortization period

① The amount of goodwill recognized  
¥21,009 million (\$204,129 thousand)

② The cause of recognition

Additional earning power expected when Jacobi Carbons AB develops an activated carbon business.

③ The method of amortization and amortization period  
Straight-line method over ten years

(5) Main assets accepted and the liabilities assumed at the acquisition date

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥11,632	\$113,019
Non-current assets	16,588	161,173
Total assets	28,221	274,203
Current liabilities	4,215	40,954
Non-current liabilities	4,510	43,820
Total liabilities	¥ 8,725	\$ 84,774

(6) Estimated effect on the consolidated statements of income and calculation method if the business combination was completed at the beginning of the fiscal year ended March 31, 2014.

	Millions of Yen	Thousands of U.S. Dollars
Net sales	¥19,512	\$189,584
Ordinary income	(1,003)	(9,745)
Net income	(910)	(8,841)

(Note) Calculation method of estimated amount

The difference between the information about sales and profit which were calculated on the assumption that the business combination was completed at the beginning of the fiscal year and these in the consolidated statements of income is used as the estimated amount of effect. In addition, there is no audit certification regarding the estimated effect.

## 20. Investment and Rental Property

The Company and several of its consolidated subsidiaries own office buildings and other real property for rent (including land) in Osaka Prefecture and other prefectures. In the year ended March 31, 2013, we reported gains of ¥5,783 million from the rent of such real property (recorded mainly as operating income) and impairment loss of ¥3,036 million (recorded as extraordinary loss). In the year ended March 31, 2014, we reported gains of ¥6,134 million (\$59,599 thousand) from the rent of such real property (recorded mainly as operating income).

The book value and fair value of real properties for rent in the consolidated balance sheets for the years ended March 31, 2013 and 2014 were as follows:

As of March 31, 2013

	Book Value	Millions of Yen
As of April 1, 2012	Increase or Decrease	Fair Value as of March 31, 2013
¥108,371	¥(4,212)	¥104,159
		¥158,910

As of March 31, 2014

	Book Value	Millions of Yen
As of April 1, 2013	Increase or Decrease	Fair Value as of March 31, 2014
¥104,159	¥1,868	¥106,027
		¥161,943

As of March 31, 2014

	Book Value	Thousands of U.S. dollars
As of April 1, 2013	Increase or Decrease	Fair Value as of March 31, 2014
\$1,012,038	\$18,150	\$1,030,188
		\$1,573,484

Notes:

- The book value stated in the consolidated balance sheets was the acquisition costs reduced by accumulated depreciation and accumulated impairment loss.
- The main factors contributing to the increase and decrease in the years ended March 31, 2013 and March 31, 2014 was impairment loss of ¥3,036 million and the acquisition of real property of ¥4,100 million (\$39,836 thousand), respectively.
- The fair values as of end of the fiscal year were based mainly on the Real Estate Appraisal Standards or similar evaluation methods (including values adjusted using indicators).

## 21. Segment Information

### (1) Overview of Reportable Segments

The Company group's three business segments, "Domestic Energy Service Businesses," "International Energy Businesses along Energy Value Chain" and "Environment and Non-Energy Businesses" are divided by product and service and organized into the four reporting segments of "Gas Businesses," "LPG, Electricity and Other Energies Businesses," "International Energies Businesses" and "Environment and Non-Energies Businesses," considering the similarities between products and services and other relevant factors.

The "Gas Businesses" segment includes marketing of gas and gas equipment, gas piping work and heat supply. The "LPG, Electricity and Other Energies Businesses" segment includes LPG marketing, industrial gas marketing and electric power supply. The "International Energies Businesses" segment includes overseas energy supply, LNG vessel chartering businesses and oil and

natural gas business development and investment. The "Environment and Non-Energies Businesses" segment includes the renewable energy business, real estate development and leasing, IT services, marketing of fine materials and carbon material products, fitness gym operation, engineering services, and leasing of automobiles and IT related equipment.

### (2) Methods used to calculate sales, income (loss), assets, liabilities and other items by reportable segment

The methods used to account for sales, income (loss), assets, liabilities and other items by reportable segment are consistent with the accounting principles described in Note 2, "Significant Accounting Policies." The pricing of intergroup transactions is based on values arising under arms-length market transactions.

**(3) Sales, income (loss), assets, liabilities and other items by reportable segment**

	Millions of Yen						
For 2013:	Gas	LPG, Electricity and Other Energies	International Energies	Environment and Non-Energies	Total	Adjustments (Note 1)	Consolidated (Note 2)
<b>Net sales</b>							
Outside customers	¥1,019,118	¥212,591	¥ 10,610	¥137,739	¥1,380,060	¥ —	¥1,380,060
Inside group	19,431	2,910	153	47,903	70,400	(70,400)	—
Total	1,038,550	215,502	10,764	185,643	1,450,460	(70,400)	1,380,060
<b>Segment income</b>							
Operating income	¥ 23,368	¥ 37,792	¥ 2,079	¥ 18,791	¥ 82,031	¥ 2,742	¥ 84,773
Equity in earnings of affiliates	4	482	5,570	277	6,335	—	6,335
Total	23,373	38,275	7,649	19,068	88,367	2,742	91,109
<b>Segment assets</b>	¥ 753,424	¥163,462	¥232,871	¥340,709	¥1,490,466	¥76,432	¥1,566,899
Depreciation	54,280	13,306	5,177	10,452	83,216	(789)	82,427
Amortization of goodwill	(96)	140	251	94	390	—	390
Investment in affiliates reported by equity method	405	4,564	42,541	1,401	48,912	—	48,912
Increase in tangible and intangible fixed assets	62,305	3,362	37,024	10,939	113,631	(644)	112,987

	Millions of Yen						
For 2014:	Gas	LPG, Electricity and Other Energies	International Energies	Environment and Non-Energies	Total	Adjustments (Note 1)	Consolidated (Note 2)
<b>Net sales</b>							
Outside customers	¥1,092,452	¥254,688	¥ 12,611	¥152,828	¥1,512,581	¥ —	¥1,512,581
Inside group	27,074	3,282	720	46,849	77,926	(77,926)	—
Total	1,119,526	257,970	13,332	199,677	1,590,508	(77,926)	1,512,581
<b>Segment income</b>							
Operating income	¥ 34,093	¥ 43,120	¥ (773)	¥ 20,197	¥ 96,637	¥ 2,744	¥ 99,381
Equity in earnings of affiliates	(2,016)	770	8,551	612	7,917	—	7,917
Total	32,077	43,890	7,777	20,809	104,555	2,744	107,299
<b>Segment assets</b>	¥ 741,733	¥159,909	¥293,793	¥402,633	¥1,598,069	¥ 70,248	¥1,668,317
Depreciation	52,804	12,147	8,604	10,552	84,109	(842)	83,266
Amortization of goodwill	—	137	308	94	539	—	539
Investment in affiliates reported by equity method	91	5,202	55,224	16,118	76,637	—	76,637
Increase in tangible and intangible fixed assets	60,652	3,253	47,950	13,015	124,872	(725)	124,146

	Thousands of U.S. Dollars						
For 2014:	Gas	LPG, Electricity and Other Energies	International Energies	Environment and Non-Energies	Total	Adjustments (Note 1)	Consolidated (Note 2)
<b>Net sales</b>							
Outside customers	\$10,614,574	\$2,474,621	\$ 122,532	\$1,484,920	\$14,696,667	\$ —	\$14,696,667
Inside group	263,058	31,888	6,995	455,198	757,151	(757,151)	—
Total	10,877,633	2,506,509	129,537	1,940,118	15,453,828	(757,151)	14,696,667
<b>Segment income</b>							
Operating income	\$ 331,257	\$ 418,966	\$ (7,510)	\$ 196,239	\$ 938,952	\$ 26,661	\$ 965,614
Equity in earnings of affiliates	(19,588)	7,481	83,083	5,946	76,923	—	76,923
Total	311,669	426,447	75,563	202,186	1,015,886	26,661	1,042,547
<b>Segment assets</b>	\$ 7,206,888	\$1,553,721	\$2,854,576	\$3,912,096	\$15,527,293	\$682,549	\$16,209,842
Depreciation	513,058	118,023	83,598	102,526	817,226	(8,181)	809,036
Amortization of goodwill	—	1,331	2,992	913	5,237	—	5,237
Investment in affiliates reported by equity method	884	50,544	536,572	156,607	744,626	—	744,626
Increase in tangible and intangible fixed assets	589,312	31,607	465,895	126,457	1,213,291	(7,044)	1,206,237

Notes: 1. Adjustments are as follows:

(1) A major adjustment in segment income is the elimination of intersegment transactions.

(2) A major adjustment in segment assets is for investment securities possessed by the Company.

2. Segment income is adjusted by adding or subtracting equity in earnings of affiliates to or from operating income.

**(4) Information about impairment loss for non-current assets by reportable segment**

	Millions of Yen						
For 2013:	Gas	LPG, Electricity and Other Energies	International Energies	Environment and Non-Energies	Subtotal	Elimination or corporate	Total
Loss from impairment of fixed assets	¥3,178	¥944	¥—	¥1,372	¥5,495	¥—	¥5,495



Millions of Yen						
For 2014:	Gas	LPG, Electricity and Other Energies	International Energies	Environment and Non-Energies	Subtotal	Elimination or corporate Total
Loss from impairment of fixed assets	—	¥138	¥29,502	¥498	¥30,138	¥— ¥30,138

Thousands of U.S. Dollars						
For 2014:	Gas	LPG, Electricity and Other Energies	International Energies	Environment and Non-Energies	Subtotal	Elimination or corporate Total
Loss from impairment of fixed assets	—	\$1,340	\$286,649	\$4,838	\$292,829	\$— \$292,829

#### (5) Information about amount depreciated and the undepreciated balance of goodwill by reportable segment

Millions of Yen						
For 2013:	Gas	LPG, Electricity and Other Energies	International Energies	Environment and Non-Energies	Subtotal	Elimination or corporate Total
Amount depreciated in 2013	¥(96)	¥140	¥251	¥94	¥390	¥— ¥390
Undepreciated balance at fiscal year-end	—	376	2,010	1,201	3,588	— 3,588

Millions of Yen						
For 2014:	Gas	LPG, Electricity and Other Energies	International Energies	Environment and Non-Energies	Subtotal	Elimination or corporate Total
Amount depreciated in 2014	—	¥137	¥308	¥94	¥539	¥— ¥539
Undepreciated balance at fiscal year-end	—	239	2,114	22,117	24,471	— 24,471

Thousands of U.S. Dollars						
For 2014:	Gas	LPG, Electricity and Other Energies	International Energies	Environment and Non-Energies	Subtotal	Elimination or corporate Total
Amount depreciated in 2014	—	\$1,331	\$2,992	\$913	\$5,237	\$— \$5,237
Undepreciated balance at fiscal year-end	—	2,322	20,540	214,895	237,767	— 237,767

## 22. Consolidated Statements of Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Valuation difference on available-for-sale securities			
Incurred in the fiscal year	¥17,648	¥ 9,441	\$ 91,731
Reclassification adjustments	(438)	(5,467)	(53,118)
Before tax effect adjustments	17,210	3,973	38,602
Tax effect	(5,386)	(659)	(6,403)
Valuation difference on available-for-sale securities	11,824	3,314	32,199
Deferred gains or losses on hedges			
Incurred in the fiscal year	4,079	5,382	52,293
Reclassification adjustments	(3,841)	(3,708)	(36,027)
Before tax effect adjustments	237	1,674	16,265
Tax effect	(69)	(317)	(3,080)
Deferred gains or losses on hedges	168	1,356	13,175
Foreign currency translation adjustments			
Incurred in the fiscal year	14,048	25,018	243,082
Reclassification adjustments	52	—	—
Before tax effect adjustments	14,100	25,018	243,082
Tax effect	—	—	—
Foreign currency translation adjustments	14,100	25,018	243,082
Share of other comprehensive income of associates accounted for using equity method			
Incurred in the fiscal year	1,967	4,994	48,523
Reclassification adjustments	869	1,158	11,251
Share of other comprehensive income of associates accounted for using equity method	2,836	6,153	59,784
Total other comprehensive income	¥28,929	¥35,843	\$348,260

## 23. Subsequent Events

Osaka Gas Co., Ltd. concluded a contract to sell all the stock of Osaka Prefectural Urban Development Co., Ltd. held by the Company to Nankai Electric Railway Co., Ltd. on May 22, 2014.

- (1) The number of shares of stock 1,440,000 shares
- (2) Sale value ¥13.5 billion (\$131,169 thousand)
- (3) Profit on sale ¥12.4 billion (\$120,481 thousand)

# Independent Auditor's Report

To the Board of Directors of Osaka Gas Co., Ltd.:

We have audited the accompanying consolidated financial statements of Osaka Gas Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as of March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Osaka Gas Co., Ltd. and its consolidated subsidiaries as of March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 23 to the consolidated financial statements, Osaka Gas Co., Ltd. concluded a contract to sell all the stock of Osaka Prefectural Urban Development Co., Ltd. on May 22, 2014.

## Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 27, 2014  
Osaka, Japan

# Major Consolidated Subsidiaries

As of March 31, 2014

Segment	Name of subsidiary	Main business	Capital (Millions of yen)	Osaka Gas shareholding (%)
Gas	Osaka Gas Customer Relations Co., Ltd.	Maintenance checks on gas equipment and appliances / Checking gas meters / Collection of gas bills, and others	50	100.0
	Osaka Gas Housing & Equipment Co., Ltd.	Sales of gas appliances / Sales of housing equipment and appliances	450	100.0
	Osaka Gas Security Service Co., Ltd.	Provision of security and disaster protection services / Sales of home security systems	100	100.0
	Kansai Business Information Inc.	Contracting and staffing of call center operations / Various research services and consulting	100	100.0
	Kinpai Co., Ltd.	Gas piping works / Sales of gas appliances, and housing equipment and appliances	300	100.0
	Creative Techno Solution Co., Ltd.	Sales and construction of energy equipment, heating system supplies, etc.	1,150	100.0
	Nabari Kintetsu Gas Co., Ltd.	Production, supply, and sales of gas	100	85.0
LPG, Electricity and Other Energy	Osaka Gas LPG Co., Ltd.	Sales of LPG and other products	100	100.0
	Gas and Power Co., Ltd.	Electric power supply	1,368	100.0
	Senboku Natural Gas Power Generation Co., Ltd.	Electric power supply	2,000	90.0
	Nakayama Joint Power Generation Co., Ltd.	Electric power supply	300	95.0
	Nissho Petroleum Gas Corporation	Sales of LPG and other products	1,726	52.5
	Nissho Propane Sekiyu Co., Ltd.	Sales of LPG and other products	60	100.0
	Liquid Gas Co., Ltd.	Sales of industrial gas, LNG, LPG, and other products	1,110	100.0
International Energy	Osaka Gas International Transport Inc.	LNG vessel leasing	3,190	100.0
	Osaka Gas Summit Resources Co., Ltd.	Development and investment of petroleum and natural gas	100	70.0
	Osaka Gas Australia Pty. Ltd. *	Development and investment of petroleum and natural gas	US\$755 million	100.0
	Osaka Gas Energy America Corporation	Research and investment relating to energy supply business	US\$2	100.0
	Osaka Gas Gorgon Pty. Ltd.*	Development and investment of petroleum and natural gas	US\$320 million	100.0
	Osaka Gas Ichthys Pty. Ltd.*	Development and investment of petroleum and natural gas	US\$150 million	100.0
	Osaka Gas Ichthys Development Pty. Ltd.*	Development and investment of petroleum and natural gas	US\$148 million	100.0
	Osaka Gas UK, Ltd.*	Research and investment relating to energy supply business	€134 million	100.0
Environment and Non-Energy	Osaka Gas Autoservice Co., Ltd.	Leasing and servicing of automobiles, and other activities	100	100.0
	Osaka Gas Chemicals Co., Ltd.	Manufacture and sales of fine materials, carbon material products, and others	12,731	100.0
	Osaka Gas Urban Development Co., Ltd.	Development, leasing, management, and sales of real estate	1,570	100.0
	Osaka Gas Business Create Co., Ltd.	Provision of office service operations, operation of facilities, operation of parking and other facilities	100	100.0
	Osaka Gas Finance Co., Ltd.	Leasing, credit, insurance agency business, and others	600	100.0
	OG Sports Co., Ltd.	Management and contract operation of sports facilities	100	100.0
	OGIS-RI Co., Ltd.	Software development / Computer-based data processing services	400	100.0
	Sakura Information Systems Co., Ltd.	Software development / Computer-based data processing services	600	51.0
	Japan EnviroChemicals, Ltd.	Manufacture and sales of activated carbon, wood protective coatings, and other products	2,055	100.0
Total 150 companies				

\* Specified subsidiary

# Company Data

As of June 27, 2014

## Directory

### Head Office

4-1-2, Hiranomachi, Chuo-ku, Osaka 541-0046, Japan  
Tel: (+81) 6-6205-4715  
(IR Team, Corporate Strategy Dept.)

### Tokyo Office

Shin-Otemachi Building 6F, 2-2-1, Otemachi, Chiyoda-ku,  
Tokyo 100-0004, Japan  
Tel: (+81) 3-3211-2551

### Osaka Gas UK, Ltd.

1st Floor, Carrington House, 126-130 Regent Street,  
London W1B 5SE, U.K.  
(+44) 20-7851-7483

### Osaka Gas Energy America Corporation

One North Lexington Avenue, Suite 504, White Plains,  
NY 10601, U.S.A.  
(+1) 914-253-5500

### Osaka Gas Resources America Corporation

2200 Post Oak Blvd., Suite 1500, Houston,  
TX 77056, U.S.A.  
(+1) 713-354-9100

### Osaka Gas Australia Pty. Ltd.

Level 16, 108 St George's Terrace, Perth, WA 6000,  
Australia  
(+61) 8-6188-0450

### Osaka Gas Singapore Pte. Ltd.

80 Robinson Road #10-01A, Singapore 068898  
(+65) 6420-6384

### Osaka Gas (Thailand) Co., Ltd.

18th Floor, Wave Place Building, 55 Wireless Road,  
Lumpini, Pathumwan, Bangkok 10330, Thailand  
(+66) 2-255-7550

## Investor Information

<b>Date of Establishment</b>	April 10, 1897
<b>Regular General Meeting</b>	Held in June each year (The 2014 regular general meeting was held on June 27.)
<b>Common Stock</b>	Authorized: 3,707,506,909 shares
	Issued: 2,083,400,000 shares
* Total number of shares issued includes 2,214,444 shares of treasury stock.	
<b>Listing of Shares</b>	Tokyo Stock Exchange and Nagoya Stock Exchange

<b>Number of Shareholders (As of March 31, 2014)</b>	131,643
<b>Stock Transaction Units</b>	1,000 shares
<b>Independent Certified Public Accountants</b>	KPMG AZSA LLC
<b>Transfer Agent</b>	Mitsui Sumitomo Trust Bank, Limited


### <Contact>

Mitsui Sumitomo Trust Bank, Limited  
Stock Transfer Agency Business Planning Department  
2-8-4 Izumi, Suginami-ku, Tokyo 168-0063, Japan  
Tel: (+81) 120-782-031

The Osaka Gas Co., Ltd. website contains information provided for all investors and is constantly updated.

 <http://www.osakagas.co.jp/en/>

- For inquiries about this report or requests for other materials, please

 E-mail: [keiri@osakagas.co.jp](mailto:keiri@osakagas.co.jp)

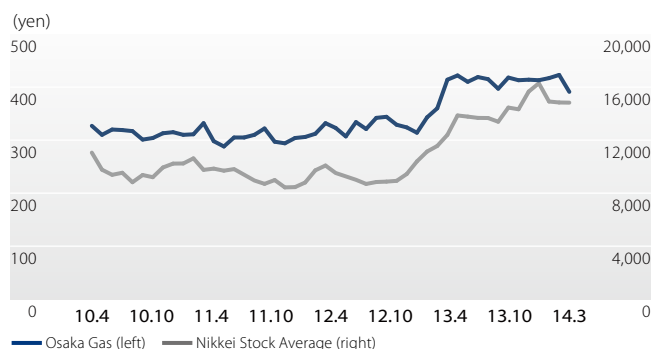
- Please note that we do not accept files attached to e-mails, such as image files.

## Major Shareholders (As of March 31, 2014)

Shareholders	Number of shares held (Thousands)	Shareholding ratio (%)
Nippon Life Insurance Company	102,239	4.91
The Master Trust Bank of Japan, Ltd.(Trust a/c)	83,014	3.98
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	69,929	3.36
Japan Trustee Services Bank, Ltd. (Trust a/c)	68,026	3.27
Resona Bank, Ltd.	52,777	2.53
Meiji Yasuda Life Insurance Company	29,191	1.40
Osaka Gas Employees Shareholding Association	28,671	1.38
Aioi Nissay Dowa Insurance Co., Ltd.	27,865	1.34
Japan Trustee Services Bank, Ltd. (Trust a/c 1)	25,182	1.21
STATE STREET BANK WEST CLIENT-TREATY	24,078	1.16

\* The share ratio is the percentage in respect to the number of shares issued and outstanding (2,083,400,000 shares).

## Stock Price Range



## Unit Conversion List

### Weight

kg	Metric ton	Imperial (short) ton	U.S. (long) ton
1	1×10 <sup>-3</sup>	0.984×10 <sup>-3</sup>	1.102×10 <sup>-3</sup>
1,000	1	0.9842	1.1023
1,016.0	1.0160	1	1.1200
907.19	0.9072	0.8927	1

### Length

m	ft	yard	mile
1	3.2808	1.0936	0.622×10 <sup>-3</sup>
0.3048	1	0.333	0.189×10 <sup>-3</sup>
0.9144	3	1	0.568×10 <sup>-3</sup>
1,609	5,280	1,760	1

### Volume (Liquid)

m <sup>3</sup> (kl)	ft <sup>3</sup>	Imperial gallon	U.S. gallon
1	35.315	219.97	264.17
28.32×10 <sup>-3</sup>	1	6.288	7.481
4.55×10 <sup>-3</sup>	0.1606	1	1.2011
3.78×10 <sup>-3</sup>	0.1337	0.8327	1

1kl = 6.29 barrels, 1 barrel (42 U.S. gallons)=0.159kl

### Volume (Gas)

m <sup>3</sup> (N)	m <sup>3</sup> (S)	SCF
1	1.055	37.33
0.9476	1	35.37
0.0268	0.0283	1

N: 0°C, S: 15°C, SCF: 101.33kPa, 15.5°C (60°F)

### Energy

kcal	Btu	MJ	kWh
1	3.969	4.186×10 <sup>-3</sup>	1.162×10 <sup>-3</sup>
0.2520	1	1.055×10 <sup>-3</sup>	0.2929×10 <sup>-3</sup>
238.9	948.2	1	0.2778
860.1	3,414	3.600	1

### Heating Value (Gas)

kcal/m <sup>3</sup> (N)	Btu/SCF	MJ/m <sup>3</sup> (S)
1	0.1063	3.97×10 <sup>-3</sup>
9,406	1	3.73×10 <sup>-2</sup>
252.1	26.81	1

1 ton of LNG = 13×10<sup>6</sup>kcal = 52×10<sup>6</sup>Btu



**Osaka Gas Co., Ltd.**  
4-1-2, Hiranomachi, Chuo-ku,  
Osaka 541-0046, Japan  
<http://www.osakagas.co.jp/en/>

