Notes to Consolidated Financial Statements

Notes to Non-Consolidated Financial Statements

The 197th Fiscal Year (From April 1, 2014 to March 31, 2015)

OSAKA GAS CO., LTD.

Notes to Consolidated Financial Statements (April 1, 2014 to March 31, 2015)

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

   (1) Scope of consolidation

   Number of consolidated subsidiaries: 145

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

   (2) Application of the equity method

   Number of equity method associates: 13

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

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

   (3) Accounting policies

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

a. Investment securities:	
Bonds held to maturity:	Stated at amortized cost
Other investment securities:	
Securities for which it is practical to determine fair value:	Stated at fair value based on the market price, etc., on the closing day. (Unrealized valuation gains and losses are accounted for as a component of net assets; cost of sales is determined primarily using the moving-average method.)
Securities for which it is not practical to determine fair value:	Primarily stated at cost based on the moving-average method
b. Inventories:	Primarily stated at cost based on the moving-average method; inventories held for trading recorded on the balance sheet are depreciated to write down the carrying amount based on depreciation of profitability.
c. Derivatives:	Stated at fair value

(ii) Depreciation and amortization method of significant depreciable assets

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

b. Intangible assets (excluding leased assets) are amortized primarily using the straight-line method. For internal-use software, the straight-line method based on the term available for use within OSAKA GAS CO., LTD. ("the Company") and each subsidiary has been applied.

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

(iii) Basis for recording significant allowances

a. Allowance for doubtful accounts

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

b. Provision for gas holder repairs

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

c. Provision for safety measures

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

d. Provision for loss on investment

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

e. Provision for loss on guarantees

To provide for any losses on debt guarantees, an estimated amount of such losses is provided upon consideration of the financial conditions of guarantees.

(Additional information)

Due to the elevated possibility of losses arising from debt guarantees, it has been decided to report an estimated amount of such losses as a provision for loss on guarantees for this consolidated fiscal year.

As a result, a provision for loss on guarantees of ¥1,589 million has been stated, reducing ordinary income and income before income taxes and minority interests by the same amount, respectively.

f. Provision for warranty on gas appliances

To provide for the payment of any service costs arising from the sale of gas appliances within their warranty periods, an estimated amount of such costs is provided.

(Additional information)

For this consolidated fiscal year, it has become possible to reasonably estimate any service costs arising from the sale of gas appliances within their warranty periods based on the past results of periodic inspections and other factors. Therefore, it has been decided to report such estimated amount as a provision for warranty on gas appliances.

As a result, a provision for warranty on gas appliances of ¥2,895 million has been stated, reducing operating income, ordinary income and income before income taxes and minority interests by the same amount, respectively.

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

a. Accounting for retirement benefits

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

i Method of attributing projected retirement benefits to periods of service

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

ii Amortization of actuarial gains and losses and past service costs

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

b. Method and period of goodwill amortization

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

c. Accounting for consumption taxes and other taxes

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

2. Changes in Accounting Policies

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

The Company and its consolidated domestic subsidiaries adopted article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, May 17, 2012 (hereinafter, "Statement No.26")) and article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, March 26, 2015 (hereinafter, "Guidance No.25")) from the current consolidated fiscal year, and have changed the determination of retirement benefit obligations and current service costs. In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rate has been changed from a discount rate based on the approximate number of years of the average remaining service period of employees to a single weighted-average discount rate reflecting the expected period and amount of benefit payment.

In accordance with article 37 of Statement No.26, the effect of changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of the current consolidated fiscal year.

As a result of the application, retained earnings increased by JPY 3,649 million at the beginning of the current consolidated fiscal year. The impact on operating income, ordinary income and income before income taxes and minority interests is immaterial.

3. Notes to the Consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities

(i) Assets pledged as collateral

Property, plant and equipment	¥127,946 million
Investments and other assets	¥14,660 million
Others	¥16,978 million
Total	¥159,585 million

(ii) Secured liabilities ¥43,868 million

In addition to above, the amount of shares of consolidated subsidiaries and others of ¥2,216 million which are offset as a result of consolidation are pledged as collateral.

(2) Accumulated depreciation of property, plant and equipment: ¥2,429,192 million

(3) Guarantee liabilities, etc.

Guarantee liabilities:	¥26,183 million
Contingent liabilities in respect of debt assumption agreements with respect to bonds:	¥29,000 million

4. Notes to Revaluation Reserve for Land

Commercial land of certain consolidated subsidiaries has been revaluated in accordance with the Act on Revaluation of Land (Law No. 34 of March 31, 1998) and the Amendment to Act on Revaluation of Land (Law No. 19 of March 31, 2001). Any difference (excluding any amount associated with tax effect accounting) resulting from the revaluation, is included in net assets as revaluation reserve for land. The revaluation is made by making reasonable adjustments to the valuation by road rating which is provided for in Article 2, Item 4 of the Enforcement Order of the Law Concerning the Revaluation of Land (Cabinet Order No. 119 of March 31, 1998).

Differences between the fair value at the end of this consolidated fiscal year and its book value after revaluation in respect of revaluated lands ¥(1,142) million

5. Notes to Financial Instruments

(1) Matters concerning the status of financial instruments

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

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

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

(Millions of Yen)

	Amount recorded on the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	147,426	147,426	—
(2) Notes and accounts receivable-trade	187,482	187,482	—
(3) Securities and investment securities	119,118	119,118	—
Total Assets	454,027	454,027	—

(1) Notes and accounts payable-trade	54,610	54,610	—
(2) Short-term loans payable	26,832	26,832	—
(3) Bonds payable[1]	272,342	288,054	15,712
(4) Long-term loans payable[1]	333,354	345,565	12,211
Total Liabilities	687,139	715,063	27,924
Derivative transaction[2]	3,363	3,363	—

[1] Includes those due within one year.

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

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

Assets

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

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

(3) Securities and investment securities

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

Liabilities

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

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

(3) Bonds payable

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

(4) Long-term loans payable

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

Derivatives

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

2. Shares of associates and unlisted shares (amount recorded on the consolidated balance sheet: ¥135,360 million) are not included in "(3) Securities and investment securities" as they have no market price and their future cash flows cannot be estimated and therefore it is recognized as being very difficult to obtain fair value.

6. Notes to Leased Properties, etc.

(1) Matters concerning the status of leased properties

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

(2) Matters concerning fair value of leased properties

(Millions of Yen)

Amount recorded on the consolidated balance sheet	Fair value
105,714	163,377

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

2. The fair value at the end of this consolidated fiscal year is the amount (including the amount adjusted by using the index etc.) based mainly on the method prescribed by the "Real Estate Appraisal Standard" and other similar methods.

7. Notes to the Consolidated Statement of Changes in Equity

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

2,083,400,000 common shares

(2) Dividends

(i) Amount of payment of dividends

a. At the Annual Meeting of Shareholders held on June 27, 2014, the following were resolved with March 31, 2014, as a record date.

Dividends of common shares

(a) Total amount of dividends ¥9,365 million

(b) Dividend per share ¥4.50

(c)	Effective date for dividends	June 30, 2014

b. At the meeting of the Board of Directors held on October 28, 2014, the following were resolved with September 30, 2014, as a record date.

Dividends of common shares

(a)	Total amount of dividends	¥9,364 million
(b)	Dividend per share	¥4.50
(c)	Effective date for dividends	November 28, 2014

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

At the Annual Meeting of Shareholders to be held on June 26, 2015, the following will be proposed with March 31, 2015, as a record date. Dividends are to be appropriated from retained earnings.

Dividends of common shares

(a)	Total amount of dividends	¥10,404 million
(b)	Dividend per share	¥5.00
	(consisting of a ¥4.50 ordinary dividend and a ¥0.50 commemorative dividend to celebrate the Company's 110th anniversary)	
(c)	Effective date for dividends	June 29, 2015

8. Notes to Per Share Information

(1) Net assets per share: ¥426.98

(2) Net income per share: ¥36.86

Notes to Non-Consolidated Financial Statements (April 1, 2014 to March 31, 2015)

1. Notes to Matters in respect of Significant Accounting Policies

(1) Basis and methodology for the valuation of assets

(i) Valuation of securities:

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

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

Finished goods:	Stated at cost based on the total-average method
Raw materials:	Stated at cost based on the moving-average method
Supplies:	Stated at cost based on the moving-average method

(iii) Derivatives are stated at fair value.

(2) Depreciation and amortization method of non-current assets

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

(ii) Intangible assets (excluding leased assets) are amortized using the straight-line method. For internal-use software, the straight-line method based on the term available for use within OSAKA GAS CO., LTD. ("the Company") has been applied.

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

(3) Basis for recording reserves

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

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

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

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

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

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

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

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

(v) As for the provision for loss on investment, an amount of expected future losses has been provided as reserve to provide for any losses on the operations of subsidiaries and associates.

(vi) With regard to provision for loss on guarantees, to provide for any losses on debt guarantees, an estimated amount of such losses is provided upon consideration of the financial conditions of guarantees.

(Additional information)

Due to the elevated possibility of losses arising from debt guarantees, it has been decided to report an estimated amount of such losses as a provision for loss on guarantees for this fiscal year.

As a result, a provision for loss on guarantees of ¥1,589 million has been stated, reducing ordinary income and income before income taxes by the same amount, respectively.

(vii) With regard to provision for warranty on gas appliances, to provide for the payment of any service costs arising from the sale of gas appliances within their warranty periods, an estimated amount of such costs is provided.

(Additional information)

For this fiscal year, it has become possible to reasonably estimate any service costs arising from the sale of gas appliances within their warranty periods based on the past results of periodic inspections and other factors. Therefore, it has been decided to report such estimated amount as a provision for warranty on gas appliances.

As a result, a provision for warranty on gas appliances of ¥2,895 million has been stated, reducing operating income, ordinary income and income before income taxes by the same amount, respectively.

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

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

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

2. Changes in Accounting Policies

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

The Company adopted the "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, May 17, 2012 (hereinafter, "Statement No.26")) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, March 26, 2015) from the current fiscal year, and have changed the determination of retirement benefit obligations and current service costs. In addition, the Company has changed the method of attributing expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rate has been changed from a discount rate based on the approximate number of years of the average remaining service period of employees to a single weighted-average discount rate reflecting the expected period and amount of benefit payment.

In accordance with article 37 of Statement No.26, the effect of changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of the current fiscal year.

As a result of the application, retained earnings increased by JPY 3,847 million at the beginning of the current fiscal year. The impact on operating income, ordinary income and income before income taxes is immaterial.

3. Notes to the Non-Consolidated Balance Sheet

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

Accumulated depreciation of property, plant and equipment:	¥2,069,640 million
Accumulated amortization of intangible assets:	¥1,971 million

(2) Guarantee liabilities, etc.

Guarantee liabilities:	¥98,404 million
Contingent liabilities in respect of debt assumption agreements with respect to bonds:	¥29,000 million

4. Notes to the Non-Consolidated Statement of income

Amount of business from operational transactions with subsidiaries and associates:

Sales to subsidiaries and associates:	¥91,891 million
Amount of purchases from subsidiaries and associates:	¥150,757 million

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

¥22,685 million

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

Number of treasury stock at the end of the fiscal year: 2,532,646 common shares

6. Notes to Tax Effect Accounting

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

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

7. Notes to Transactions with Related Parties

Company Name	Holding Ratio of Voting Rights	Relationship	Substance of Transaction	Transaction Amount (Millions of Yen)	Item	Outstanding amount as at the year-end (Millions of Yen)
Osaka Gas Australia Pty. Ltd.	100% direct holding	Subsidiary	Subscription for allocation of new shares (Note 1)	23,675	—	—
Osaka Gas Liquefaction USA Corporation	100% direct holding	Subsidiary	Capital injection and subscription for allocation of new shares (Note 2)	22,312	—	—
Osaka Gas Gorgon Pty. Ltd.	100% indirect holding	Subsidiary	Debt guarantee (Note 3)	36,291	—	—

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

(Note 1) The Company subscribed for an allocation of new shares to a shareholder conducted by Osaka Gas Australia Pty. Ltd.

(Note 2) The Company injected capital for the establishment of Osaka Gas Liquefaction USA Corporation and subscribed for an allocation of new shares to a shareholder conducted by the said company.

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

8. Notes to Per Share Information

(1) Net assets per share: ¥306.31

(2) Net income per share: ¥33.77