

Medium-term Management Plan and Business Plan ending March 2016

Hiroshima Gas has established a medium-term management plan for the three-year period ending in fiscal year ending March 2018 and a business plan for fiscal year ending March 2016.

1. Medium-term management plan (FY3/16-FY3/18)

(1) Basic Goals

The Japanese economy is recovering slowly as the real economy is slowly benefiting from economic stimulus measures and monetary easing of the Japanese government and Bank of Japan. However, overseas economic growth is slowing and consumer spending in Japan is slowing. As a result, the economic outlook remains uncertain.

In Japan's energy industry, competition continues to be intense. Japan's aging population and declining number of children is one reason. New housing starts are sluggish, too. There is also increasing competition among suppliers of different types of energy. In addition, reforms of Japan's gas and electricity systems are resulting in new companies in these two sectors and competition as gas and electric power companies enter each other's markets. Due to these events, Japan's energy market has entered a period of dramatic changes.

In the Japanese government's Basic Energy Plan, which received cabinet approval in April 2014, natural gas is positioned as an important energy source that will have a greater role. Additionally, the Hiroshima Gas Group believes that its mission is to increase the use of gas and utilize energy with even greater efficiency in order to conserve energy, lower CO₂ emissions and diversify energy sources.

In this business climate, Hiroshima Gas announced a vision for 2020 called Action for Dream 2020 at the end of October 2009. The first step for making this vision a reality was a three-year action plan that ended in March 2013. Next is a three-year plan for increasing the pace of these initiatives that will end in March 2016. Group companies have used a broad range of activities during these plans.

The medium-term plan ending March 2016 includes measures for responding to changes in the business climate, including liberalization of energy markets, while reflecting the fundamental direction of the 2020 vision. Hiroshima Gas is determined to increase the pace of progress toward achieving the goals of this vision for 2020.

Theme of the FY3/16 Plan

Step up actions leading up to 2020

Step up activities for accomplishing the goals of the 2020 vision

Aim for sustained growth of the Hiroshima Gas Group by viewing changes in the operating environment as opportunities

Goal 1: Conserve energy, cut CO₂ emissions and improve energy security by increasing the use of natural gas and LPG and using energy more efficiently and responsibly.

- The Hiroshima Gas Group is working on developing new demand for gas across a larger area. This involves increasing and deepening relationships in the current service area as well as creating demand in other locations, mainly those near the service area.
- There will be closer ties between city gas and LPG operations in order to make sales activities more efficient. Other programs aim for improvements in the quantity and quality of contact with customers.
- Hiroshima Gas will make investments from a medium to long-term perspective to enlarge its infrastructure. Examples include upgrading the Hatsukaichi LNG terminal pier, increasing the use of natural gas, and investing in the pipeline network to supply gas to customers with even greater reliability.

Goal 2: Supply customers with more value by seeking more ways to provide services from the customers' perspective and helping support life styles that are more environmentally responsible and safe.

- Hiroshima Gas wants to offer customers more value and meet a larger share of their energy requirements. This involves becoming supplier, including electricity and heat. Other goals are increasing the use of renewable energy sources and expanding services by targeting activities associated with the supply of energy.
- The Hiroshima Gas Group will reliably fulfill its role as a supplier of energy. This will require enhancing the reliability of energy supplies, the security of energy and the quality of customer services.
- Preparedness for earthquakes, tsunamis and other natural disasters is another priority. Group companies will use numerous effective measures for preparedness that include cooperation with the disaster response agencies of the national and local governments.

Goal 3. Seek new business opportunities and start new businesses in order to respond properly to the liberalization of Japan's energy market.

- Due to ongoing reforms of Japan's gas distribution and supply system, Hiroshima Gas is taking actions involving rates and services based on the outlook for the full liberalization of retail sales. This also includes preparing contracts and organizational frameworks needed for the new infrastructure that liberalization will demand.
- To capture synergies across current group operations, Hiroshima Gas will study and launch new business activities that can contribute to growth as a comprehensive energy organization.

Goal 4. Earn a reputation as a rewarding workplace and responsible corporate citizen by creating an open-minded organization with priority on fairness and transparency.

- Manage operations with fairness and transparency through the use of effective compliance and risk management systems.
- As a supplier of energy, Hiroshima Gas will conduct many activities that enable the company to prosper with its service area and increase the economic vitality of this area.
- Strengthen group management and corporate governance and upgrade risk preparedness in order to maintain the soundness of business operations.
- Use cooperation among group companies for energy conservation, CO₂ emission reduction and other ways to protect the environment.

Goal 5. Develop a workforce that is highly skilled and motivated and also capable of taking on the responsibility for future growth.

- Use training and skill development programs, measures to increase motivation, and other activities to create an energetic workforce and organization.
- Hiroshima Gas will create pleasant and productive workplaces with measures that include achieving a better balance between work and other activities.

Goal 6. Improve the Hiroshima Gas Group's profitability and financial soundness in order to build a powerful corporate structure and sustain growth.

- Hiroshima Gas will efficiently and effectively use resources in order to respond to energy market liberalization and other events.
- Investments and expenses will be used efficiently and effectively in order to achieve the goals of the 2020 vision as well as with flexibility to reflect changes in market conditions.

(2) Gas supply and demand plan (Units: 45MJ, million cubic meters)

During the current medium-term plan, Hiroshima Gas expects the number of residential accounts to decrease at an average annual rate of about 0.1% to 407,000 in the fiscal year ending in March 2018. The plan for gas sales volume, including wholesale operations, is for average annual growth of about 2.9% to 537 million cubic meters in the fiscal year ending in March 2018.

		FY3/15 (est.)	FY3/16	FY3/17	FY3/18	3-year average growth rate	
Number of customer accounts (end of each FY)		408,000	408,000	407,000	407,000	-0.1%	
Sales volume (million m ³)	Residential	103	103	104	104	0.5%	
	Business	Commercial	45	48	51	51	4.0%
		Industrial	242	220	231	269	3.4%
		Others	37	39	41	41	3.2%
	Total (excluding wholesale)		429	412	428	467	2.8%
	Wholesale and other		62	64	67	69	3.5%
Grand total		492	477	496	537	2.9%	

(3) Plan for capital expenditures

Hiroshima Gas will make well-planned and efficient investments in its production and supply infrastructure. To ensure a reliable supply of gas for customers, investments will be made for enlarging, upgrading and replacing production and distribution facilities and other projects involving production and distribution. For production, the Hatsukaichi LNG terminal pier will be expanded and upgraded to allow handling larger LNG carriers. The pier currently has capacity only for smaller vessels. The plan also includes core infrastructure investments for increasing the use of natural gas and making the supply of this gas more reliable. Hiroshima Gas will study and implement these investments from a medium to long-term perspective.

(billion yen)

	FY3/15 (est.)	FY3/16	FY3/17	FY3/18	3-year total (FY3/16- FY3/18)
Production infrastructure	3.3	3.6	0.3	0.1	4.1
Supply infrastructure	4.9	4.9	4.7	4.3	14.0
Service and maintenance facilities and other facilities	0.6	1.8	1.8	2.2	5.9
Total	8.8	10.4	6.9	6.7	24.1

(4) More activities for safety and security

Hiroshima Gas will continue to implement safety measures in order to prevent accidents involving gas so that customers can use gas with confidence. In addition, there will be efficient and effective measures involving the aging of production and distribution facilities and programs to prevent and be prepared for disasters.

1) More measures for aging main and distribution pipelines

Galvanized steel gas lines will be replaced in accordance with a schedule in order to supply gas with safety and reliability.

2) Implementation of a plan for safety of aging customer gas lines (responsibility of customers)

Negotiations for making improvements are under way for buildings that are critical to safety (such as steel-frame apartment buildings). The goal is to complete these improvements by the end of March 2016.

3) Improvements of air intake and ventilation equipment and replacement of safety devices

To prevent accidents at locations where gas is used, Hiroshima Gas will increase activities involving legally mandated inspections and raising awareness of safety measures. In addition, there will be activities for improving air intake and ventilation equipment and replacing safety devices.

4) More safety measures for commercial kitchens

To prevent carbon monoxide accidents at commercial kitchens and similar facilities, Hiroshima Gas will install commercial ventilation sensors.

5) Studies concerning preparedness for earthquakes and other disasters and implementation of necessary measures

Hiroshima Gas will study and implement effective disaster preparedness measures based on the items with the highest priority in consideration of the characteristics of its operations. Activities will also reflect the activities of governments and other gas utility companies involving disaster preparedness.

(5) Activities involving liberalization of Japan's energy market

Hiroshima Gas will prepare for the complete liberalization of retail gas sales in Japan that is planned for 2017. Based on the premise of maintaining the safety and reliability of gas supplies, Hiroshima Gas will establish systems that match the new operating environment and consider new types of customer contracts and other measures. Furthermore, to meet new needs of customers and remain the first choice of customers, Hiroshima Gas will study and implement

measures involving gas rates, services and other aspects of operations associated with customers.

In addition, to capture synergies with current business operations, Hiroshima Gas will continue to examine opportunities in the electric power business, including power generation, with the goal of becoming a comprehensive energy organization.

2. Fiscal Year Ending March 2016 Business Plan

(1) Gas Supply and Demand Plan (Units: 45MJ, million cubic meters)

In fiscal year ending March 2016, Hiroshima Gas expects a 0.1% decrease in the number of customers to 408,000 and a 3.0% decrease in gas sales to 477 million cubic meters, including wholesale sales. During the year, there will be activities aimed at increasing the use of natural gas, primarily in the residential market.

		FY3/15 (est.)	FY3/16 (plan)	Year-on-year change	
Number of customer accounts (end of each FY)		408	408	-0.1%	
Sales volume (million m ³)	Residential	103	103	0.5%	
	Business	Commercial	45	48	5.4%
		Industrial	242	220	-9.0%
		Others	37	39	4.4%
	Total (excluding wholesale)		429	412	-4.0%
	Wholesale and other		62	64	3.4%
Grand total		492	477	-3.0%	

Residential

Hiroshima Gas plans to maintain the present level of gas sales volume or achieve growth by using a number of measures. One is activities to increase sales of household products that use gas, such as hot water and heating units and heaters. Another goal is increasing the use of residential plans with discounted rates. In addition, there are efficient joint sales activities for city gas and LPG.

For people who have newly constructed or remodeled residences, Hiroshima Gas is offering many ways to make homes more environmentally responsible and energy efficient. The goal is to increase the use of a number of products, including the Ene Farm fuel cell for apartment buildings and other residential use.

To improve customer satisfaction, gas equipment repair services will be upgraded and customer visits to strengthen relationships will continue. By using these activities, Hiroshima Gas plans to create more opportunities to interact with customers and upgrade services.

Another initiative is more sales activities in Higashi Hiroshima and other areas where gas is not yet used or the utilization rate is low. Hiroshima Gas will study opportunities in these areas and take actions to expand its service area.

These initiatives will be implemented jointly by the Group Companies.

Goal for sales of residential gas products (FY3/16)

-Hot water and heating units	3,565
-Heaters	4,555
-Ene Farm	620

Business

Hiroshima Gas plans to increase the use of natural gas, which is environmentally responsible and ideal for powering dispersed sources of electricity. To attract new users of natural gas, there will be more sales activities that include ideas for energy conservation, CO₂ emission reduction and other ways to meet customers' needs. Activities also include identifying new sources of demand for gas to enlarge the service area. These activities will target areas with low gas usage as well as areas where Hiroshima Gas does not currently supply gas.

(2) Plan for capital expenditures

Hiroshima Gas plans to make capital expenditures totaling ¥10.4 billion in FY3/16. Construction is under way at a project to expand the pier at the Hatsukaichi LNG terminal with operation of the upgraded pier scheduled to begin in January 2016. Investments will continue in primary gas lines in order to increase the use of natural gas and improve the reliability of the gas supply. There will also be more replacements of aging main and distribution pipelines.

	Plan for FY3/16	Notes
Production infrastructure	¥3.6 billion	Expansion the pier at the Hatsukaichi LNG terminal and others
Supply infrastructure	¥4.9 billion	Primary gas lines (Hiroshima bay primary line) Replacement of aging main and distribution pipelines and others
Service and maintenance facilities and other facilities	¥1.8 billion	Computer system and others
Total	¥10.4 billion	

(3) Initiatives to strengthen comprehensive energy operations

Hiroshima Gas has been studying the feasibility of operating a biomass power generation for generating electricity in the Kaita area. An environmental impact assessment is under way and other studies involving this project will continue.