

Summary of Consolidated Financial Results for the Fiscal Year Ended March 2015 [Japan GAAP]

Name of Company: Hiroshima Gas Co., Ltd.
 Stock Code: 9535 URL: http://www.hiroshima-gas.co.jp/english/index_e.htm
 Stock Exchange Listing: Tokyo Stock Exchange, First Section,
 Representative Title: President Name: Kozo Tamura
 Contact Person Title: Executive Officer and Manager of General Affair Department Name: Kenji Kubo
 Tel: +81-(82) 252-3001
 Regular general meeting of shareholders: June 23, 2015
 Scheduled date of commencement of dividend payment: June 8, 2015
 Scheduled date of filing of securities report: June 24, 2015
 Supplementary materials for financial report: None
 Information meeting for financial report: None

(Yen in millions, rounded down)

1. Financial results for the year ended March 2015 (April 1, 2014 – March 31, 2015)**(1) Result of operations (Consolidated)**

(Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended March 2015	88,851	6.4	4,111	99.8	4,699	45.3	2,746	39.5
Fiscal year ended March 2014	83,541	7.2	2,058	(27.6)	3,235	2.0	1,969	7.3

Note: Comprehensive income: FY ended March 31, 2015: 3,903 million yen [74.2%], FY ended March 31, 2014: 2,240 million yen [(8.5%)]

	Net income per share (basic)	Net income per share (diluted)	Return on equity	Ratio of ordinary income to assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Fiscal year ended March 2015	46.32	-	7.9	4.8	4.6
Fiscal year ended March 2014	33.31	-	6.0	3.5	2.5

Notes: Equity in earnings of affiliates: FY ended March 31, 2015: 87 million yen FY ended March 31, 2014: 108 million yen

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2015	99,759	39,237	37.4	571.02
As of March 31, 2014	96,785	35,245	34.7	567.11

Reference: Shareholders' equity: As of March 31, 2015: 37,340 million yen As of March 31, 2014: 33,586 million yen

(3) Cash flow position (Consolidated)

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended March 2015	10,164	(10,030)	(1,779)	6,840
Fiscal year ended March 2014	7,399	(12,113)	5,785	8,004

2. Dividends

	Dividends per share					Aggregate amount (Annual)	Payout ratio (Consolidated)	Dividends/net assets (Consolidated)
	End of 1Q	End of 2Q	End of 3Q	End of FY	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended March 2014	-	3.00	-	3.00	6.00	354	18.0	1.1
Fiscal year ended March 2015	-	3.00	-	5.00	8.00	504	17.3	1.4
Fiscal year ending March 2016 (Forecast)	-	3.00	-	3.00	6.00		12.7	

Note: Breakdown of year-end dividend for the fiscal year ended March 2015:

Ordinary dividend: 3.00 yen

Commemorative dividend to celebrate listing on the first section of Tokyo stock exchange: 2.00 yen

3. Forecast for the fiscal year ending March 2016 (Consolidated, April 1, 2015 – March 31, 2016)

(Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	39,000	(5.1)	2,100	58.0	2,300	44.9	1,400	81.1	21.41
Full year	83,000	(6.6)	4,400	7.0	4,800	2.1	3,100	12.9	47.41

* **Notes**

(1) Changes in significant subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation):
None

(2) Changes in accounting principles and estimates, and retrospective restatement

- (a) Changes due to revision of accounting standards: Yes
- (b) Changes other than in (a): None
- (c) Changes in accounting estimates: None
- (d) Retrospective restatement: None

(3) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury shares)

As of March 31, 2015: 67,998,590 shares

As of March 31, 2014: 61,995,590 shares

(b) Treasury shares

As of March 31, 2015: 2,605,711 shares

As of March 31, 2014: 2,771,391 shares

(c) Average number of shares outstanding during the year

Period ended March 31, 2015: 59,295,887 shares

Period ended March 31, 2014: 59,118,174 shares

Reference: Non-consolidated Financial Results

Financial results for the year ended March 2015 (April 1, 2014 – March 31, 2015)

(1) Result of operations (Non-consolidated)

(Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income	
	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended March 2015	70,380	6.2	2,849	235.1	3,575	56.1
Fiscal year ended March 2014	66,290	7.3	850	(45.5)	2,290	12.7

	Net income		Net income per share (basic)	Net income per share (diluted)
	Million yen	%	Yen	Yen
Fiscal year ended March 2015	2,231	50.1	37.63	-
Fiscal year ended March 2014	1,486	17.9	25.15	-

(2) Financial Position (Non-consolidated)

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2015	80,232	26,976	33.6	412.53
As of March 31, 2014	77,197	23,880	30.9	403.22

Notes: Shareholders' equity As of March 31, 2015: 26,976 million yen As of March 31, 2014: 23,880 million yen

(3) Forecast for the fiscal year ending March 2016 (Non-consolidated, April 1, 2015 – March 31, 2016)

(Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	30,000	(5.7)	1,200	77.5	1,600	65.4	1,000	88.7	15.29
Full year	64,000	(9.1)	2,300	(19.3)	3,600	0.7	2,400	7.6	36.70

* Status of implementation of audit procedures

The rule mandating audit procedures (under the Financial Instruments and Exchange Act) does not apply to this Summary of Financial Results. It is under the review procedure process based upon the Financial Instruments and Exchange Act at the time of disclosure of this report.

* Cautionary statement regarding forecasts of operating results and special notes

The forward-looking statements contained in this report are based on information currently available to the Company and certain assumptions which are regarded as legitimate. These statements are not promises by the Company regarding future performance. Actual results may differ significantly from these forecasts due to various factors. For information about the forecasts, please see "(1) Analysis of Results of Operations (forecast for the next fiscal year) of 1. Results of Operations" on page 4.

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1. Results of Operations

(1) Analysis of results of operations

During the fiscal year that ended in March 2015, the Japanese economy recovered slowly as corporate earnings and employment improved due to economic stimulus measures by the Japanese government and monetary measures by the Bank of Japan. However, the outlook for the economy remained unclear. The main reasons were a decline in consumer sentiment caused by the consumption tax increase and concerns about a downturn in overseas economies.

In Japan's energy industry, the drop in the price of crude oil and the weaker yen have severely impacted sales and earnings. At the same time, major changes in the competitive environment are occurring. Most significantly, gas and electric utilities are entering each other's markets and new competitors are emerging because of reforms to Japan's gas and electricity sectors.

As a regional supplier of energy, the Hiroshima Gas Group is determined to earn the trust of shareholders, customers and the public in order to remain an organization that people choose over others. There were many activities during the fiscal year to accomplish this goal. In April 2014, an LP gas sales company and a city gas service company were merged to create a new sales and service channel in the three districts of Hiroshima prefecture that Hiroshima Gas serves. The goal is to upgrade customer services by using an integrated framework for city gas and LP gas.

Another significant event was the March 9, 2015 listing of Hiroshima Gas stock on the first section of the Tokyo Stock Exchange. This accomplishment was made possible by the support of shareholders and many other individuals and companies associated with Hiroshima Gas.

In the fiscal year that ended in March 2015, sales increased 6.4% to 88,851 million yen mainly because of an increase in unit sales prices in accordance with the system of adjusting gas tariffs to reflect the cost of gas resources. Operating income was up 99.8% to 4,111 million yen. After non-operating income and expenses, ordinary income increased 45.3% to 4,699 million yen. Net income increased 39.5% to 2,746 million yen.

(Million yen)

	FY3/2014	FY3/2015	Amount change	% change	Non-consolidated	Ratio of consolidated to parent
Net sales	83,541	88,851	5,309	6.4	70,380	1.26
Cost of sales	58,050	60,666	2,616	4.5	48,003	-
Selling, general and administrative expenses	23,433	24,073	639	2.7	19,528	-
Operating income	2,058	4,111	2,053	99.8	2,849	1.44
Ordinary income	3,235	4,699	1,464	45.3	3,575	1.31
Net income	1,969	2,746	777	39.5	2,231	1.23

Crude Oil Price and Foreign Exchange Rate

	Unit	FY3/2014	FY3/2015	Change (%)
Crude oil price (ICP*)	USD/bbl	105.4	87.9	(17.6)
Foreign exchange rate (TTM)	Yen/USD	100.2	109.9	9.7

* ICP is a market-linked formula for determining prices that was created to determine the price of crude oil produced in Indonesia.

(a) Segment summary

(i) Gas business

The city gas business accounts for most of the sales and earnings of this segment.

At the end of March 2015, despite extensive sales activities, the number of customers was 409,185, down 1,168 from one year earlier.

The city gas sales volume decreased 3.5% to 491 million m³.

In the residential sector, sales volume increased 0.7% to 103 million m³ mainly because air and water temperatures were low.

In the business sector (commercial, government/medical and industrial), sales volume was down 5.9% to 324 million m³ mainly because of a decline in sales volume to current high-volume customers.

In the wholesale sector, growth in sales volume to current wholesale buyers of gas caused the sales volume to increase 2.7% to 62 million m³.

Although the volume of city gas sales was lower, monetary sales increased mainly because of higher unit sales prices in association with the gas resource cost adjustment. As a result, segment sales increased 7.1% to 71,544 million yen and operating income increased 161.9% to 3,562 million yen.

Note: In this document, all gas sales volume figures use the conversion rate of 45 megajoules per cubic meter.

City Gas Business

	Unit	FY3/2014	FY3/2015	Change	% change		
Customers	houses	410,353	409,185	(1,168)	(0.3)		
Market penetration	%	67.6	66.8	(0.8)	-		
Sales volume	Residential	million m ³	103	103	0	0.7	
	Business	Commercial	million m ³	47	45	(2)	(4.9)
		Gov't and medical	million m ³	38	37	(1)	(4.2)
		Industrial	million m ³	258	242	(16)	(6.4)
		million m ³	345	324	(20)	(5.9)	
	Wholesale and other	million m ³	61	62	1	2.7	
Total	million m ³	509	491	(18)	(3.5)		
Avg. monthly sales volume per residential customer	m ³	24.1	24.3	0.1	0.8		
Average air temperature	°C	16.6	16.2	(0.4)	-		
Average water temperature	°C	14.8	14.5	(0.3)	-		

(ii) LPG business

In the liquefied petroleum gas (LPG) business, sales increased 0.2% to 16,338 million yen and operating income was up 64.7% to 349 million yen. The main reason was growth in LPG sales volume.

(iii) Others

Others consists of activities that are not included in reportable business segments. Major businesses are construction, information distribution and senior services. Due mainly to higher construction sales, sales increased 0.6% to 3,916 million yen but operating income fell 90.7% to 13 million yen.

Summary by Segment

(Million yen, upper row: year-on-year change)

	Gas	LPG	Others	Adjustment	Consolidated
Sales	7.1%	0.2%	0.6%		6.4%
	71,544	16,338	3,916	(2,947)	88,851
Operating income	161.9%	64.7%	(90.7%)		99.8%
	3,562	349	13	186	4,111

(b) Forecast for the fiscal year ending in March 2016

Sales are forecast to decrease 6.6% to 83,000 million yen due to the outlook for lower sales in the gas segment. Unit sales prices are expected to decrease in association with the gas resource cost adjustment due to the decline in the price of crude oil.

Earnings are expected to increase despite the effects of changes in the price of crude oil and foreign exchange rates. Based on the outlook for a crude oil price (JCC) of \$65/bbl and an exchange rate of 120 yen to the US dollar, the cost of raw materials is expected to decrease. As a result, we forecast a 7.0% increase in operating income to 4,400 million yen, a 2.1% increase in ordinary income to 4,800 million yen and a 12.9% increase in profit attributable to owners of parent to 3,100 million yen.

In fiscal 2015, we forecast capital expenditures of 11,000 million yen on a consolidated basis, up 13.8% year on year. This spending is slated for the continued expansion of the docking function at the Hatsukaichi LNG terminal and development of gas trunk lines, as well as for the replacement of aging main and distribution pipelines.

(Million yen)

	FY3/2015 [Actual]	FY3/2016 [Forecast]	Change		Ratio of consolidated to parent
			Amount	%	
Net sales	88,851	83,000	(5,851)	(6.6)	1.30
Operating income	4,111	4,400	288	7.0	1.91
Ordinary income	4,699	4,800	100	2.1	1.33
Profit attributable to owners of parent	2,746	3,100	353	12.9	1.29

(Reference) Non-consolidated

(Million yen)

	FY3/2015 [Actual]	FY3/2016 [Forecast]	Change	
			Amount	%
Net sales	70,380	64,000	(6,380)	(9.1)
Operating income	2,849	2,300	(549)	(19.3)
Ordinary income	3,575	3,600	24	0.7
Net income	2,231	2,400	168	7.6

Assumptions

	Unit	FY3/2015 [Actual]	FY3/2016 [Forecast]	Change
City gas sales volume	million m ³	491	498	6
Crude oil price (ICP/JCC)*	USD/bbl	87.9	65.0	(22.9)
Foreign exchange rate (TTM)	Yen/USD	109.9	120.0	10.1

* Starting in the fiscal year ending in March 2016, the basis of the crude oil price assumption has been changed from ICP to JCC (Japan Crude Cocktail, which is the weighted monthly average CIF price for all crude oil imported by Japan).

Capital expenditure

(Million yen)

	FY3/2015 [Actual]	FY3/2016 [Forecast]	Change	
			Amount	%
Consolidated	9,667	11,000	1,332	13.8
Non-consolidated	9,196	10,400	1,203	13.1

]

(2) Analysis of financial condition

(a) Assets, liabilities and net assets

Total assets were 99,759 million yen at the end of March 2015. This was 2,974 million yen higher than one year earlier mainly because of an increase in property, plant and equipment caused by capital expenditures.

A decrease in debt was the main reason for a decrease of 1,017 million yen in liabilities to 60,522 million yen.

Net assets increased 3,992 million yen to 39,237 million yen. The primary reason was growth in capital stock resulting from the issuance of new shares.

As a result, the equity ratio was 37.4% at the end of the fiscal year.

(b) Cash flows

There was a net decrease of 1,163 million yen in cash and cash equivalents during the fiscal year to 6,840 million yen as of March 31, 2015.

(Operating activities)

Net cash provided by operating activities increased 2,764 million yen to 10,164 million yen. The primary cause was the increase in income before income taxes.

(Investing activities)

Net cash used in investing activities decreased 2,082 million yen to 10,030 million yen mainly because of a decrease in the purchase of property, plant and equipment.

(Financing activities)

Net cash used in financing activities was 1,779 million yen, increased 7,565 million yen compared with the previous fiscal year. This change was attributable mainly to the redemption of bonds.

(Million yen)

	FY3/2014	FY3/2015	Change
Cash flows from operating activities	7,399	10,164	2,764
Cash flows from investing activities	(12,113)	(10,030)	2,082
Cash flows from financing activities	5,785	(1,779)	(7,565)
Net increase (decrease) in cash and cash equivalents	1,071	(1,646)	(2,717)
Increase in cash and cash equivalents from newly consolidated subsidiary and from merger with unconsolidated subsidiaries	-	482	482
Cash and cash equivalents at end of period	8,004	6,840	(1,163)
Interest-bearing liabilities at end of period	42,360	39,215	(3,144)

(b) Performance indicators associated with cash flows

	FY3/2011	FY3/2012	FY3/2013	FY3/2014	FY3/2015
Equity ratio	34.3%	33.1%	35.8%	34.7%	37.4%
Market cap equity ratio	17.9%	16.0%	19.1%	17.9%	27.3%
Cash flow/Interest-bearing liabilities	4.5yrs	13.4yrs	2.6yrs	5.7yrs	3.9yrs
Interest coverage ratio	12.8x	5.0x	25.0x	16.4x	24.6x

Notes: Equity ratio is shareholders' equity divided by total assets.

Market cap equity ratio is market capitalization divided by total assets.

Cash flow/debt ratio is interest-bearing liabilities divided by cash flows.

Interest coverage ratio is cash flows divided by interest expenses.

*1 All figures are based on consolidated financial data.

*2 Market capitalization is calculated based on the number of shares issued after deducting treasury shares.

*3 Cash flows are operating cash flows in the consolidated statements of cash flows.

*4 Interest-bearing liabilities is the sum of all interest-bearing liabilities on the consolidated balance sheets.

- (3) Fundamental policy for allocation of earnings and dividends for the current fiscal year and next fiscal year
Hiroshima Gas considers redistribution of profits to its shareholders to be one of the most important management issues. The Group has maintained stable dividends while strengthening its financial position and business foundation. The Group is committed to rigorously pursuing management efficiency and conducting aggressive marketing activities. Our basic policy is to maintain stable dividends with due consideration to future capital investment and, research and development needs, in addition to financial position and earnings level.

Retained earnings will be used for capital expenditures involving the gas production and supply infrastructure and other facilities.

In accordance with the basic policy, the company pays dividend from surplus twice a year as interim dividend and year-end dividend.

After considering results of operations in the fiscal year that ended in March 2015, the business climate and all other applicable factors, the Board of Directors approved a resolution on May 13, 2015 to pay a fiscal year-end dividend of 5 yen per share. This is the sum of a 3 yen ordinary dividend and a 2 yen commemorative dividend for the Tokyo Stock Exchange first section listing. With the interim dividend of 3 yen, this resulted in a dividend of 8 yen per share applicable to the fiscal year.

For the fiscal year ending in March 2016, Hiroshima Gas plans to pay an ordinary dividend of 6 yen per share.

- (4) Business and other risk factors

This section explains risk factors that may affect the Hiroshima Gas Group regarding performance, financial soundness and other items. Forward-looking statements are the judgments of management at the time this document was prepared.

- 1) Effect on gas demand of changes in air and water temperatures and the declining population and number of households

- (i) Changes in air and water temperatures

Due to the nature of the gas business, changes in air and water temperatures cause demand for gas to move up and down. These movements in demand may influence results of operations. Sales and earnings are usually high during the winter when air and water temperatures are low. Due to the high percentage of fiscal year sales and earnings in the fourth quarter, predicting fiscal year performance based on performance during the fiscal year may be difficult.

- (ii) Declining population and number of households

As the population and the number of households decline, gas demand may decrease affecting the company's business performance.

- 2) Climate change in the business client

At Hiroshima Gas, commercial customers account for a large share of the volume of gas sales. Consequently, changes in the economy, the structure of industrial activity and other associated items may affect results of operations.

- 3) Changes in the cost of resources

Movements in the cost of resources caused by changes in the price of crude oil and foreign exchange rates are generally offset by gas price revisions based on the resource cost adjustment system. However, if the cost of resources climbs sharply for an extended time or gas price adjustments fall behind the rise in the cost of resources, there may be an effect on results of operations.

- 4) Difficulty procuring resources

Hiroshima Gas purchases imported liquefied natural gas (LNG) for the production of gas. As a result, an accident or other problem involving the equipment or other aspects of operations at the suppliers of LNG may affect results of operations.

- 5) Interest rates and fund procurement

Changes in interest rates on funds procured may affect results of operations. However, this effect is limited because a large percentage of debt has fixed interest rates.

- 6) Natural disasters and accidents

Earthquakes and other natural disasters as well as accidents that damage the facilities of the Hiroshima Gas Group or its customers may affect results of operations.

- 7) Problems involving gas appliances and other equipment

A major problem involving gas appliances or other equipment that uses gas may affect results of operations.

- 8) Compliance

If there is a violation of a law or regulation, the resulting expenses, loss of public trust or other negative effects may affect results of operations.

- 9) Information leaks

If there is a leak of the personal information of customers, the resulting expenses, loss of public trust or other negative effects may affect results of operations.

- 10) Competition, revisions in institutions and other aspects of the energy industry

- (i) Competition

The complete liberalization of retail energy sales in Japan will create new business opportunities. On the other hand, liberalization will be accompanied by the risk of lower gas prices and the loss of customers due to competition.

- (ii) Changes in institutions, etc.

The city gas business and community gas business must receive government permits for business operations, meet requirements for gas rates and the supply of gas, and comply with other requirements in accordance with the Gas

Business Act. In the event of a violation of this act or another law or regulation that is detrimental to public interests, the Gas Business Act states that the business permit can be canceled. At this time, there are no events at the Hiroshima Gas Group that could result in a business permit cancellation. However, if a business permit is canceled in the future for some reason, there may be an effect on the ability to conduct business operations.

In addition, business operations must comply with the Gas Business Act and other laws, regulations and institutions. Consequently, any revisions in these laws, regulations and institutions may require expenses for compliance or affect operations in some other way.

11) Litigation

There are ten lawsuits (with eleven plaintiff companies) that demand the payment of damages in association with an event that was discovered in March 2009 at consolidated subsidiary Hiroshima Gas Kaihatsu Co., Ltd. As shown below, proceedings are currently under way for one of these lawsuits. For two of the ten lawsuits, Hiroshima Gas has prevailed because the court recognized the position of Hiroshima Gas and all demands of the plaintiffs have been rejected. For seven of the ten lawsuits, the plaintiffs reached a settlement with Hiroshima Gas.

Hiroshima Gas plans to fight the allegations of the plaintiff in court. The verdict may require payments by Hiroshima Gas that would be recognized as expenses on the consolidated financial statements. As a result, depending on the outcome of this lawsuit, there may be an effect on results of operations and the financial position.

(As of March 31, 2015)

Plaintiffs	Defendants	Date of filing	Description	Amount demanded (million yen)
Airack Co., Ltd.	Hiroshima Gas, one other company and 10 people	April 12, 2010	Demand for payment of damages	803
Furusawa Construction Co., Ltd.	Hiroshima Gas, one other company and 10 people	April 12, 2010	Demand for payment of damages	643
Total				1,446

Note: A settlement was reached on April 10, 2015 concerning the lawsuit of Furusawa Construction.

2. Corporate Group

In the fiscal year that ended in March 2015, the scope of consolidation changed because of the following organizational revisions.

Hiroshima Gas Nishi Chugoku Co., Ltd. absorbed Hiroshima Gas Seibu Shop Co., Ltd., which was dissolved.

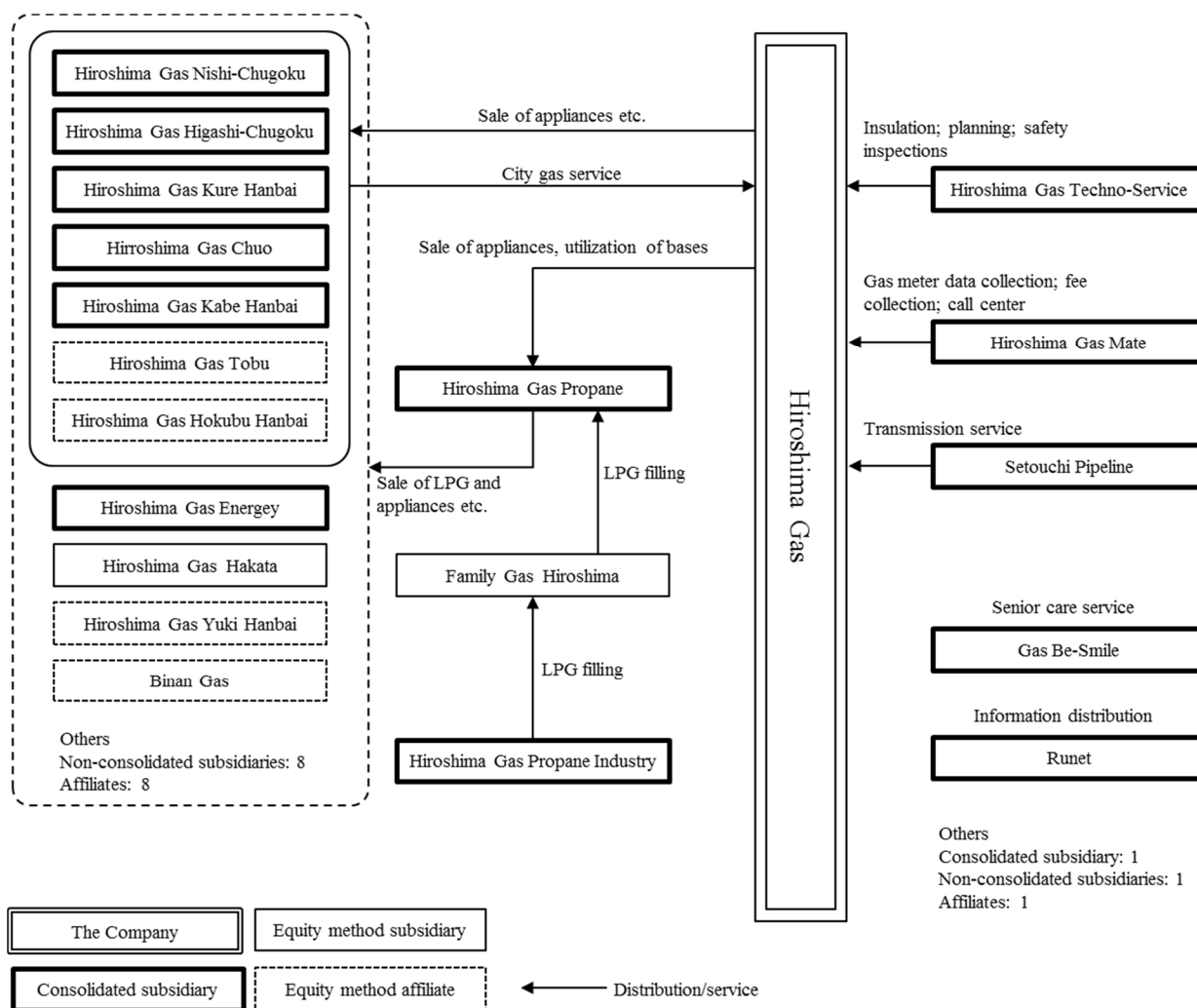
Hiroshima Gas Kure Hanbai Co., Ltd. absorbed Hiroshima Gas Kure Shop Co., Ltd., which was dissolved.

Hiroshima Gas Higashi Chugoku Co., Ltd. absorbed Hiroshima Gas Onomichi Shop Co., Ltd., which was dissolved.

Hiroshima Gas Saijo Hanbai Co., Ltd. absorbed Hiroshima Gas Takehara Hanbai Co., Ltd., which was dissolved, and was renamed Hiroshima Gas Chuo Co., Ltd.

Due to these actions, Hiroshima Gas Kure Hanbai, which was an equity-method subsidiary, has been included in the consolidated financial statements because of its greater significance. In addition, Hiroshima Gas Seibu Shop is no longer consolidated and the equity method is no longer used for Hiroshima Gas Kure Shop, Hiroshima Gas Onomichi Shop and Hiroshima Gas Takehara Hanbai. After these changes, there are fourteen consolidated subsidiaries.

The following diagram shows the Hiroshima Gas Group after the actions outlined in this section.



3. Management Policies

(1) Fundamental management policy and medium/long-term strategies

The Japanese economy recovered at a moderate pace as the effects of economic stimulus measures by the Japanese government and monetary measures by the Bank of Japan slowly began to appear in the real economy. However, the outlook for the economy remains unclear. The main reasons are slowing economic growth overseas and weakening consumer spending.

In Japan's energy industry, the operating environment continues to be challenging. Japan's population is aging as the number of children decreases. Furthermore, the number of housing starts is falling. There is also increasing competition among companies in different sectors of the energy industry. In addition, gas and electric utilities are entering each other's markets and new competitors are emerging because of reforms to Japan's gas and electricity sectors. Consequently, Japan's energy market is entering a period of major changes.

In Japan's Basic Energy Plan, which was approved by the Cabinet in April 2014, natural gas is positioned as an important energy source that will have a greater role. The Hiroshima Gas Group regards as its mission making a contribution to conserving energy, lowering CO₂ emissions and further decentralizing energy sources by increasing the use of gas and utilizing energy in even more advanced ways.

At the end of October 2009, Hiroshima Gas announced a new vision for the group called Action for Dream 2020. To make this vision a reality, Hiroshima Gas implemented an action plan during the three-year period starting in fiscal 2011 as the first step to achieve the new vision. The next three-year period, which started FY3/2014, was positioned as a time to step up activities involving the vision and there were many initiatives for this purpose.

The medium-term management plan ending March 2016 is structured to achieve more progress based on the fundamental goals of the 2020 vision. Hiroshima Gas will take many actions that reflect changes in market conditions, including liberalization of Japan's energy market. All actions will place even greater emphasis on accomplishing the goals of the 2020 vision.

(Management policy)

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

- 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.
- 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.
- 3) Seek new business opportunities and start new businesses in order to respond properly to the liberalization of Japan's energy market.
- 4) Earn a reputation as a rewarding workplace and responsible corporate citizen by creating an open-minded organization with priority on fairness and transparency.
- 5) Develop a workforce that is highly skilled and motivated and also capable of taking on the responsibility for future growth.
- 6) Improve the Hiroshima Gas Group's profitability and financial soundness in order to build a powerful corporate structure and sustain growth.

(2) Targeted performance indicators

Hiroshima Gas places priority on the return on equity for the purpose of increasing corporate value as actions are taken to make gas more competitive in relation to other fuel sources and to become more profitable.

In fiscal 2016 and the following years, although performance will probably be affected by the cost of resources and other items, Hiroshima Gas will aim for more growth in the ROE by operating more efficiently and increasing profitability. Improving financial soundness is another goal. To accomplish this, the plan is to increase the equity ratio and reduce debt.

(3) Important Issues

- 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 the demand for gas by increasing and deepening relationships in its current service area as well as neighboring areas. We are also taking actions aimed at increasing the use of city gas and LP gas. Our goal is to maintain and increase the volume of gas sales.

In the residential market, we are stepping up activities in our service area to persuade people not to switch to other fuels. For example, we are contacting owners of apartment buildings to explain the advantages of gas. Other initiatives include raising sales of Ene Farm (household fuel cells for electricity and heat) and other strategic products and enlarging our service area in eastern Hiroshima. We plan to maintain and increase the volume of gas sales and the number of customers.

In the commercial market, our goal is to maintain and increase the volume of gas sales primarily by attracting new customers and retaining current gas cogeneration system users amid competition from other companies. In addition, we will create new sources of demand mainly by increasing the use of gas equipment and systems that help conserve energy, cut CO₂ emissions and enhance energy security.

In addition, infrastructure is vital to the Hiroshima Gas Group's growth and to building a stronger foundation. This is why we will make investments for various projects from a medium to long-term perspective. For example, we plan to increase the capacity of the pier at the Hatsukaichi LNG terminal and upgrade our pipeline network in order to increase the use of natural gas and make our supply system even more reliable.

For the procurement of gas used to produce the gases we sell, we plan to make more progress with procurement activities that place priority on low cost, stability and flexibility.

The Hiroshima Gas Group has a strong commitment to using the greater use of gas in order to conserve energy, cut CO₂ emissions and improve Japan's energy security.

- 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.

The Hiroshima Gas Group aims to offer customers more value and meet a larger share of their energy requirements. We plan to supply of many types of energy, including electricity and heat. Another goal is increasing the use of solar and other renewable energy sources. Our plans also include expanding services by targeting activities associated with the supply of energy.

Fulfilling our role as a supplier of energy is one of our highest priorities. We are always seeking ways to improve the reliability of our energy supplies, the level of security and the quality of our customer services.

Preparedness for earthquakes, tsunamis and other natural disasters is another priority. We have numerous effective measures that include cooperation with the disaster response agencies of the national and local governments.

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

The Hiroshima Gas Group is monitoring events involving the full liberalization of gas and electricity market. We are taking actions involving rates and services based on the outlook for the liberalization. We are also preparing contracts and organizational frameworks needed for the new infrastructure that deregulation will demand.

Capturing more synergies within our current operations is another objective. This is why we are studying and launching new business activities that can contribute to our growth as a comprehensive energy organization.

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

The Hiroshima Gas Group is dedicated to using compliance and risk management programs in order to conduct business with fairness and transparency. We are reinforcing the group's administrative functions as well as corporate governance. Further improving our ability to deal with risk factors is another goal to ensure the soundness of our operations.

Moreover, we aim to create workplaces where people can do their best and organizations that are energetic. To accomplish this, we are making people more aware of human rights, building stronger lines of communication and taking other actions.

Meeting our obligations as a key supplier of energy in Hiroshima is a central theme. One way is with activities that contribute to the economic vitality and growth of the areas we serve. Obligations also include conserving energy, lowering CO₂ emissions and taking other actions to protect the environment.

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

Maintaining a workforce with the right skills is essential to fulfilling our role as an energy supplier for the Hiroshima region. We seek people with the proper balance of basic knowledge along with the required capabilities and mindset. We also place emphasis on technologies, including passing on this know-how to younger workers, in order to improve customer satisfaction and the reliability of our energy supply.

In addition, we have a variety of measures to maintain an environment that makes it easy for people to work. For instance, we help people lead a healthy life and offer programs for preserving the proper work-life balance.

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

We are restructuring group functions and reinforcing management systems. To support these actions, we are efficiently and effectively using our resources in order to respond to energy market liberalization and other events. We are studying our group's functions, organizational structure and operations from a standpoint that includes steps that will be needed after liberalization. For the profit centers of all group companies, we will examine the roles of current operations and start new activities that target opportunities created by liberalization of the energy market.

By taking the actions outlined in this section, the Hiroshima Gas Group is determined to earn the trust of shareholders, customers and communities as a regional supplier of energy and remain the first choice of our customers and others.

4. Basic Perspective on Selection of Accounting Standards

Hiroshima Gas plans to continue using Japanese accounting standards in order to facilitate comparisons with the consolidated financial statements of other companies. We will continue to consider the use of International Financial Reporting Standards (IFRS) mainly by monitoring events involving IFRS in Japan and other countries.

5. Consolidated Financial Statements

(1) Consolidated balance sheets

(Million yen)

	As of March 31, 2014	As of March 31, 2015
ASSETS		
Non-current assets		
Property, plant and equipment		
Production facilities	18,139	18,567
Distribution facilities	25,746	26,628
Service and maintenance facilities	3,889	3,898
Other facilities	7,798	7,871
Construction in progress	4,555	3,574
Total property, plant and equipment	60,128	60,541
Intangible assets	122	504
Investments and other assets		
Investment securities	8,312	9,280
Long-term loans receivable	343	363
Deferred tax assets	1,447	1,422
Other investments and other assets	3,252	4,990
Allowance for doubtful accounts	(270)	(255)
Total investments and other assets	13,085	15,800
Total non-current assets	73,336	76,846
Current assets		
Cash and deposits	8,743	7,901
Notes and accounts receivable - trade	7,486	7,247
Merchandise and finished goods	1,083	908
Raw materials and supplies	3,857	4,664
Deferred tax assets	649	682
Other current assets	1,912	1,542
Allowance for doubtful accounts	(283)	(33)
Total current assets	23,449	22,912
Total assets	96,785	99,759

(Million yen)

	As of March 31, 2014	As of March 31, 2015
LIABILITIES		
Non-current liabilities		
Bonds payable	13,000	10,000
Long-term loans payable	20,236	21,127
Provision for directors' retirement benefits	342	365
Provision for gas holder repairs	390	344
Net defined benefit liability	2,502	4,276
Asset retirement obligations	104	106
Other non-current liabilities	288	225
Total non-current liabilities	36,864	36,445
Current liabilities		
Current portion of non-current liabilities	4,064	7,044
Notes and accounts payable - trade	6,586	6,023
Short-term loans payable	1,000	1,000
Income taxes payable	1,079	1,146
Commercial papers	4,000	-
Other current liabilities	7,946	8,862
Total current liabilities	24,676	24,076
Total liabilities	61,540	60,522
NET ASSETS		
Shareholders' equity		
Capital stock	3,291	5,181
Capital surplus	941	946
Retained earnings	28,880	29,632
Treasury shares	(784)	(737)
Total shareholders' equity	32,328	35,023
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,714	2,758
Deferred gains or losses on hedges	6	(61)
Remeasurements of defined benefit plans	(462)	(379)
Total accumulated other comprehensive income	1,257	2,317
Non-controlling interests	1,658	1,897
Total net assets	35,245	39,237
Total liabilities and net assets	96,785	99,759

(2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income

(Million yen)

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Net sales	83,541	88,851
Cost of sales	58,050	60,666
Gross profit	25,491	28,185
Selling, general and administrative expenses		
Supply and sales expenses	17,468	17,980
General and administrative expenses	5,965	6,093
Total selling, general and administrative expenses	23,433	24,073
Operating income	2,058	4,111
Non-operating income		
Interest income	7	8
Dividend income	907	660
Share of profit of entities accounted for using equity method	108	87
Revenue from CNG sales	236	275
Miscellaneous income	442	435
Total non-operating income	1,703	1,466
Non-operating expenses		
Interest expenses	444	409
Loss on bond retirement	-	157
Litigation expenses	-	135
Miscellaneous expenses	82	177
Total non-operating expenses	527	878
Ordinary income	3,235	4,699
Extraordinary income		
Gain on sales of non-current assets	69	-
Total extraordinary income	69	-
Extraordinary losses		
Loss on sales of non-current assets	-	40
Impairment loss	26	-
Special contribution relating to withdrawal of employees' pension fund	-	68
Total extraordinary losses	26	108
Income before income taxes and minority interests	3,277	4,590
Income taxes - current	1,271	1,334
Income taxes - deferred	(42)	413
Total income taxes	1,229	1,747
Income before minority interests	2,048	2,843
Minority interests in income	79	96
Net income	1,969	2,746

Consolidated statements of comprehensive income

(Million yen)

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Income before minority interests	2,048	2,843
Other comprehensive income		
Valuation difference on available-for-sale securities	286	1,044
Deferred gains or losses on hedges	(94)	(67)
Remeasurements of defined benefit plans	-	83
Total other comprehensive income	191	1,059
Comprehensive income	2,240	3,903
Comprehensive income attributable to owners of parent	2,160	3,806
Comprehensive income attributable to minority interests	79	96

(3) Consolidated statement of changes in net assets
 Previous fiscal year (Apr. 1, 2013 –Mar. 31, 2014)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	3,291	940	27,265	(836)	30,661
Cumulative effect of changes in accounting policies					-
Balance at the beginning of current period after the changes in accounting policies	3,291	940	27,265	(836)	30,661
Changes of items during the period					
Issuance of new shares					-
Dividends from surplus			(354)		(354)
Net income			1,969		1,969
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		1		51	52
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	1	1,614	51	1,667
Balance at the end of current period	3,291	941	28,880	(784)	32,328

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	1,427	101	-	1,528	1,605	33,795
Cumulative effect of changes in accounting policies						-
Balance at the beginning of current period after the changes in accounting policies	1,427	101	-	1,528	1,605	33,795
Changes of items during the period						
Issuance of new shares						-
Dividends from surplus						(354)
Net income						1,969
Purchase of treasury shares						(0)
Disposal of treasury shares						52
Net changes of items other than shareholders' equity	286	(94)	(462)	(271)	53	(217)
Total changes of items during the period	286	(94)	(462)	(271)	53	1,449
Balance at the end of current period	1,714	6	(462)	1,257	1,658	35,245

Current fiscal year (Apr. 1, 2014 –Mar. 31, 2015)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	3,291	941	28,880	(784)	32,328
Cumulative effect of changes in accounting policies			(1,638)		(1,638)
Balance at the beginning of current period after the changes in accounting policies	3,291	941	27,241	(784)	30,690
Changes of items during the period					
Issuance of new shares	1,889				1,889
Dividends from surplus			(355)		(355)
Net income			2,746		2,746
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		5		46	52
Net changes of items other than shareholders' equity					
Total changes of items during the period	1,889	5	2,391	46	4,332
Balance at the end of current period	5,181	946	29,632	(737)	35,023

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	1,714	6	(462)	1,257	1,658	35,245
Cumulative effect of changes in accounting policies						(1,638)
Balance at the beginning of current period after the changes in accounting policies	1,714	6	(462)	1,257	1,658	33,606
Changes of items during the period						
Issuance of new shares						1,889
Dividends from surplus						(355)
Net income						2,746
Purchase of treasury shares						(0)
Disposal of treasury shares						52
Net changes of items other than shareholders' equity	1,044	(67)	83	1,059	238	1,297
Total changes of items during the period	1,044	(67)	83	1,059	238	5,630
Balance at the end of current period	2,758	(61)	(379)	2,317	1,897	39,237

(4) Consolidated statements of cash flows

(Million yen)

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Cash flows from operating activities		
Income before income taxes	3,277	4,590
Depreciation	7,284	6,925
Impairment loss	26	-
Increase (decrease) in provision for retirement benefits	(2,289)	-
Increase (decrease) in net defined benefit liability	1,808	(471)
Increase (decrease) in allowance for doubtful accounts	(611)	(265)
Interest and dividend income	(915)	(668)
Interest expenses	444	409
Loss on redemption of bonds	-	157
Share of (profit) loss of entities accounted for using equity method	(108)	(87)
Decrease (increase) in notes and accounts receivable - trade	110	308
Decrease (increase) in inventories	(312)	(582)
Increase (decrease) in notes and accounts payable - trade	(737)	(756)
Increase (decrease) in accrued consumption taxes	(199)	467
Other, net	667	1,192
Subtotal	8,444	11,219
Interest and dividend income received	918	677
Interest expenses paid	(440)	(431)
Performance of rehabilitation of subsidiaries	(30)	-
Income taxes paid	(1,491)	(1,300)
Cash flows from operating activities	7,399	10,164
Cash flows from investing activities		
Purchase of investment securities	(1)	(265)
Purchase of shares of subsidiaries	(98)	(26)
Purchase of property, plant and equipment	(10,839)	(7,339)
Proceeds from sales of property, plant and equipment	91	73
Payments of loans receivable	(10)	(30)
Collection of loans receivable	89	12
Purchase of long-term prepaid expenses	(1,333)	(2,128)
Other, net	(11)	(326)
Cash flows from investing activities	(12,113)	(10,030)

(Million yen)

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015
Cash flows from investing activities		
Net increase (decrease) in short-term loans payable	(200)	-
Increase (decrease) in commercial papers	(3,500)	(4,000)
Proceeds from long-term loans payable	9,040	5,018
Repayments of long-term loans payable	(4,176)	(1,142)
Proceeds from issuance of bonds	4,966	4,970
Redemption of bonds	-	(8,157)
Proceeds from issuance of common shares	-	1,869
Purchase of treasury shares	(0)	(0)
Proceeds from sales of treasury shares	52	52
Cash dividends paid	(354)	(355)
Cash dividends paid to minority shareholders	(13)	(16)
Other, net	(29)	(16)
Cash flows from investing activities	5,785	(1,779)
Net increase (decrease) in cash and cash equivalents	1,071	(1,646)
Cash and cash equivalents at beginning of period	6,932	8,004
Increase in cash and cash equivalents from newly consolidated subsidiary and from merger with unconsolidated subsidiaries	-	482
Cash and cash equivalents at end of period	8,004	6,840