

Summary of Consolidated Financial Results for the Fiscal Year Ended March 2016 [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: Hirofumi Ikegami
 Tel: +81-(82) 252-3001
 Regular general meeting of shareholders: June 24, 2016
 Scheduled date of commencement of dividend payment: June 6, 2016
 Scheduled date of filing of securities report: June 27, 2016
 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 2016 (April 1, 2015 – March 31, 2016)**(1) Result of operations (Consolidated)**

(Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended March 2016	76,303	(14.1)	5,475	33.2	5,775	22.9	3,647	32.8
Fiscal year ended March 2015	88,851	6.4	4,111	99.8	4,699	45.3	2,746	39.5

Note: Comprehensive income: FY ended March 31, 2016: 2,231 million yen [(42.8%)] ,FY ended March 31, 2015: 3,903 million yen [74.2%],

	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 2016	55.75	-	9.4	5.7	7.2
Fiscal year ended March 2015	46.32	-	7.9	4.8	4.6

Notes: Equity in earnings of affiliates: FY ended March 31, 2016: 172 million yen FY ended March 31, 2015: 87 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, 2016	102,357	41,991	39.0	590.12
As of March 31, 2015	99,759	39,237	37.4	571.02

Reference: Shareholders' equity: As of March 31, 2016: 39,961 million yen As of March 31, 2015: 37,340 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 2016	13,950	(9,735)	(1,788)	9,674
Fiscal year ended March 2015	10,164	(10,030)	(1,779)	6,840

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 2015	-	3.00	-	5.00	8.00	504	17.3	1.4
Fiscal year ended March 2016	-	3.00	-	4.00	7.00	468	12.6	1.2
Fiscal year ending March 2017 (Forecast)	-	3.50	-	3.50	7.00		8.0	

Note: Breakdown of year-end dividend for the fiscal year ended March 2016:

Ordinary dividend: 3.00 yen

Commemorative dividend to celebrate the 20th years of the natural gas supply start: 1.00 yen

3. Forecast for the fiscal year ending March 2017 (Consolidated, April 1, 2016 – March 31, 2017)

(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	35,000	(5.8)	1,700	(39.2)	1,900	(38.1)	4,000	107.0	59.07
Full year	75,000	(1.7)	4,500	(17.8)	4,900	(15.2)	5,900	61.7	87.13

* **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, 2016: 67,998,590 shares As of March 31, 2015: 67,998,590 shares
- (b) Treasury shares
As of March 31, 2016: 281,010 shares As of March 31, 2015: 2,605,711 shares
- (c) Average number of shares outstanding during the year
Period ended March 31, 2016: 65,433,091 shares Period ended March 31, 2015: 59,295,887 shares

Reference: Non-consolidated Financial Results

Financial results for the year ended March 2016 (April 1, 2015 – March 31, 2016)

(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 2016	59,763	(15.1)	2,826	(0.8)	4,709	31.7
Fiscal year ended March 2015	70,380	6.2	2,849	235.1	3,575	56.1

	Net income		Net income per share (basic)	Net income per share (diluted)
	Million yen	%	Yen	Yen
Fiscal year ended March 2016	3,789	69.8	57.92	-
Fiscal year ended March 2015	2,231	50.1	37.63	-

(2) Financial Position (Non-consolidated)

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2016	82,561	30,646	37.1	452.56
As of March 31, 2015	80,232	26,976	33.6	412.53

Notes: Shareholders' equity As of March 31, 2016: 30,646 million yen As of March 31, 2015: 26,976 million yen

(3) Forecast for the fiscal year ending March 2017 (Non-consolidated, April 1, 2016 – March 31, 2017)

(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	25,000	(12.8)	500	(63.7)	1,000	(42.1)	800	(25.8)	11.81
Full year	54,000	(9.6)	2,400	(15.1)	3,800	(19.3)	2,800	(26.1)	41.35

* 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.

Index for Supplementary Information

1.	Results of Operations	2
(1)	Analysis of results of operations.....	2
(2)	Analysis of financial condition	5
(3)	Fundamental policy for allocation of earnings and dividends for the current fiscal year and next fiscal year	6
(4)	Business and other risk factors	6
2.	Corporate Group.....	7
3.	Management Policies.....	8
(1)	Fundamental management policy and medium/long-term strategies	8
(2)	Targeted performance indicators	8
(3)	Important Issues.....	9
4.	Basic Perspective on Selection of Accounting Standards.....	10
5.	Consolidated Financial Statements.....	11
(1)	Consolidated balance sheets	11
(2)	Consolidated statements of income and consolidated statements of comprehensive income	13
(3)	Consolidated statement of changes in shareholders' equity.....	15
(4)	Consolidated statements of cash flows	17

1. Results of Operations

(1) Analysis of results of operations

During the fiscal year that ended in March 2016, the Japanese economy showed signs of a gentle recovery as corporate earnings and personal income improved but concerns about a downturn in overseas economies and other factors meant resulted in the outlook for the economy remaining unclear.

In Japan's energy industry, the combination of the start of the liberalization of retail sales of electric power from April 2016, the scheduled liberalization of retail sales of gas from 2017, and the fact that gas and electric utilities are entering each other's markets and new competitors are emerging, is resulting in major changes occurring in the competitive environment within the gas industry.

Given this background to the industry at present, the Hiroshima gas group, as a regional supplier of energy, the Hiroshima Gas Group has redoubled its efforts and remained steadfast in its determination to earn the trust of shareholders, customers and the public of the region in which it operates in order to remain an organization that people choose over others. There were many activities during the fiscal year to accomplish this goal. At the end of last year, we carried out expansion works to further expand the docking function at the Hatsukaichi LNG terminal, took delivery of our first large-sized-standard LNG carrier, as an addition to our existing small sized LNG carriers, and made further progress with the challenges of strengthening the base of our gas business.

In the fiscal year that ended in March 2016, sales decreased 14.1% to 76,303 million yen mainly because of a decrease in unit sales prices in accordance with the system of adjusting gas tariffs to reflect the cost of gas resources. Operating income was up

33.2% to 5,475 million yen as a result of a large-scale decline in gas resource costs deriving from lower crude oil prices. After non-operating income and expenses, ordinary income increased 22.9% to 5,775 million yen. Net income increased 32.8% to 3,647 million yen.

	(Million yen)					
	FY3/2015	FY3/2016	Amount change	% change	Non-consolidated	Ratio of consolidated to parent
Net sales	88,851	76,303	(12,548)	(14.1)	59,763	1.28
Cost of sales	60,666	46,195	(14,470)	(23.9)	36,672	-
Selling, general and administrative expenses	24,073	24,631	558	2.3	20,264	-
Operating income	4,111	5,475	1,364	33.2	2,826	1.94
Ordinary income	4,699	5,775	1,075	22.9	4,709	1.23
Profit attributable to owners of the parent	2,746	3,647	901	32.8	3,789	0.96

Crude Oil Price and Foreign Exchange Rate

	Unit	FY3/2015	FY3/2016	Change (%)
Crude oil price (ICP/JCC)*	USD/bbl	87	49	(38)
Foreign exchange rate (TTM)	Yen/USD	109	120	11

(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 fiscal year that ended in March 2016, despite extensive sales activities that ultimately succeeded in slowing the declining trend to some extent, the number of customers was 408,490, down 695 from one year earlier.

The city gas sales volume decreased 1.8% to 483 million m³.

In the residential sector, sales volume decreased 3.5% to 100 million m³ mainly because air and water temperatures were high.

In the business sector (commercial, government/medical and industrial), sales volume was down 0.8% to 322 million m³ mainly because of a decline in sales volume to current high-volume customers.

In the wholesale sector, a decline in sales volume to current wholesale buyers of gas caused the sales volume to decrease 3.9% to 60 million m³.

As a result of the developments itemized above, segment sales for the gas business decreased 13.6% to 61,802 million yen because of a decrease in unit sales prices in accordance with the system of adjusting gas tariffs to reflect the cost of gas resources and other factors. On the other hand however, segment operating income increased 21.9% to 4,341 million yen as a result of a large-scale decline in gas resource costs deriving from lower crude oil prices.

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

City Gas Business

	Unit	FY3/2015	FY3/2016	Change	% change		
Customers	houses	409,185	408,490	(695)	(0.2)		
Market penetration	%	66.8	65.2	(1.6)	-		
Sales volume	Residential	million m ³	103	100	(3)	(3.5)	
	Business	Commercial	million m ³	45	43	(1)	(3.3)
		Gov't and medical	million m ³	37	36	(0)	(2.7)
		Industrial	million m ³	242	242	(0)	(0.0)
		million m ³	324	322	(2)	(0.8)	
	Wholesale and other	million m ³	62	60	(2)	(3.9)	
	Total	million m ³	491	483	(8)	(1.8)	
Avg. monthly sales volume per residential customer	m ³	24.3	23.5	(0.8)	(3.5)		
Average air temperature	°C	16.2	16.7	0.5	-		
Average water temperature	°C	14.5	15.1	0.6	-		

(ii) LPG business

In the liquefied petroleum gas (LPG) business, sales decreased 15.5% to 13,810 million yen due to lower unit selling prices for LPG, but segment operating income was up 74.4% to 609 million yen thanks to a lower cost of goods sold because of the decline in inventory stocking prices and other factors.

(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 reduction of construction works, sales decreased 5.0% to 3,721 million yen, segment operating loss was 72 million yen.

Summary by Segment

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

	Gas	LPG	Others	Adjustment	Consolidated
Sales	(13.6%) 61,802	(15.5%) 13,810	(5.0%) 3,721	(3,031)	(14.1%) 76,303
Operating income	21.9% 4,341	74.4% 609	- (72)	597	33.2% 5,475

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

Sales are forecast to decrease 1.7% to 75,000 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 \$42.5/bbl and an exchange rate of 115 yen to the US dollar. As a result, we forecast a 17.8% decrease in operating income to 4,500 million yen, a 15.2% decrease in ordinary income to 4,900 million yen. Profit attributable to owners of parent is expected to increase by 61.7% to 5,900 million yen due to the extraordinary income of 2.105 million yen for the fiscal year ending March 2017 (April 1, 2016 - March 31, 2017) as announced in today's 'Booking of Extraordinary Income due to Gain on Forgiveness of Debts at Consolidated Subsidiary' detailing the debt waiver received by the Group's Hiroshima Gas Development, Co. Ltd. consolidated subsidiary.

The economic framework for our assumptions envisages a crude oil price (JCC) of \$42.5/bbl (\$40/bbl in the first half of the fiscal year and \$45/bbl in the second half of the fiscal year) and an exchange rate of 115 yen to the US dollar.

Moreover, in fiscal 2016, we forecast capital expenditures of 9,100 million yen on a consolidated basis, down 7.6% year on year. This spending is slated for the continued expansion and the further enhancement of the stability of the supply function of our natural gas distribution network, the development of gas trunk lines, and also for the replacement of aging main and distribution pipelines.

(Million yen)

	FY3/2016 [Actual]	FY3/2017 [Forecast]	Change		Ratio of consolidated to parent
			Amount	%	
Net sales	76,303	75,000	(1,303)	(1.7)	1.39
Operating income	5,475	4,500	(975)	(17.8)	1.88
Ordinary income	5,775	4,900	(875)	(15.2)	1.29
Profit attributable to owners of parent	3,647	5,900	2,252	61.7	2.11

(Reference) Non-consolidated

(Million yen)

	FY3/2016 [Actual]	FY3/2017 [Forecast]	Change	
			Amount	%
Net sales	59,763	54,000	(5,763)	(9.6)
Operating income	2,826	2,400	(426)	(15.1)
Ordinary income	4,709	3,800	(909)	(19.3)
Net income	3,789	2,800	(989)	(26.1)

Assumptions

	Unit	FY3/2016 [Actual]	FY3/2017 [Forecast]	Change
City gas sales volume	million m ³	483	507	24
Crude oil price (ICP/JCC)*	USD/bbl	49	42.5	(6.5)
Foreign exchange rate (TTM)	Yen/USD	120	115	(5)

* 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)

	FY3/2016 [Actual]	FY3/2017 [Forecast]	Change	
			Amount	%
Consolidated	9,851	9,100	(751)	(7.6)
Non-consolidated	9,403	8,000	(1,403)	(14.9)

(2) Analysis of financial condition

(a) Assets, liabilities and net assets

Total assets were 102,357 million yen at the end of March 2016. This was 2,598 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 155 million yen in liabilities to 60,366 million yen.

Net assets increased 2,754 million yen to 41,991 million yen. The primary reason was an increase in retained earnings.

As a result, the equity ratio was 39.0% at the end of the fiscal year.

(b) Cash flows

There was a net increase of 2,834 million yen in cash and cash equivalents during the fiscal year to 9,674 million yen as of March 31, 2016.

(Operating activities)

Net cash provided by operating activities increased 3,785 million yen to 13,950 million yen. The primary cause was the increase in income before income taxes.

(Investing activities)

Net cash used in investing activities increased 295 million yen to 9,735 million yen mainly because of a decrease in the purchase of long-term prepaid expenses.

(Financing activities)

Net cash used in financing activities was 1,788 million yen, almost flat compared with the previous fiscal year.

	(Million yen)		
	FY3/2015	FY3/2016	Change
Cash flows from operating activities	10,164	13,950	3,785
Cash flows from investing activities	(10,030)	(9,735)	295
Cash flows from financing activities	(1,779)	(1,788)	(8)
Effect of exchange rate change on cash and cash equivalents	—	8	8
Net increase (decrease) in cash and cash equivalents	(1,646)	2,434	4,080
Increase in cash and cash equivalents from newly consolidated subsidiary and from merger with unconsolidated subsidiaries	482	400	(81)
Cash and cash equivalents at end of period	6,840	9,674	2,834
Interest-bearing liabilities at end of period	39,215	37,350	(1,865)

(b) Performance indicators associated with cash flows

	FY3/2012	FY3/2013	FY3/2014	FY3/2015	FY3/2016
Equity ratio	33.1%	35.8%	34.7%	37.4%	39.0%
Market cap equity ratio	16.0%	19.1%	17.9%	27.3%	25.4%
Cash flow/Interest-bearing liabilities	13.4yrs	2.6yrs	5.7yrs	3.9yrs	2.7yrs
Interest coverage ratio	5.0x	25.0x	16.4x	24.6x	42.7x

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 2016, the business climate and all other applicable factors, the Board of Directors approved a resolution on May 11, 2016 to pay a fiscal year-end dividend of 4 yen per share. This is the sum of a 3 yen ordinary dividend and a 1 yen commemorative dividend to celebrate the 20th years of the natural gas supply start. With the interim dividend of 3 yen, this resulted in a dividend of 7 yen per share applicable to the fiscal year.

For the fiscal year ending in March 2017, Hiroshima Gas plans to pay an ordinary dividend of 7 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 cancelation. 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.

2. Corporate Group

In the fiscal year that ended in March 2016, the scope of consolidation changed because of the inclusion of the HG LNG SHIPPING CORPORATION as a consolidated subsidiary because of its increased importance to the Group. Since, with the exclusion of the above-mentioned change, there have been no other significant changes made to the the scope of consolidation since the publication of the last securities report, the disclosure of diagram showing the composition of the Hiroshima Gas Group has been omitted.

3. Management Policies

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

The Japanese economy continued to recover slowly due in part to economic stimulus measures and monetary easing. However, there is a risk of a downturn in the Japanese economy because of the global decline in stock prices that started in China and other events.

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 goal of the medium-term plan ending March 2017 is sustained growth of the Hiroshima Gas Group. Based on the view that the liberalization of energy markets and other developments are creating many opportunities for the group, the plan aims to increase the use of gas energy and improve the efficiency of the group's operations. In addition, Hiroshima Gas is seeking new business activities that can benefit from changes in the business climate.

(Management policy)

Build a sound base for the group's next vision and future goals

By viewing the liberalization of the energy market and other changes in the business climate as opportunities, aim for sustained growth of the Hiroshima Gas Group in order to accomplish the goals of the 2020 vision and build a sound foundation for the next vision.

- 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.

With regard to later in 2016 fiscal year, 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 growing 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, in pursuit of intention of making progress with further expanding distribution of unified gas energy services, and thereby to achieve our aim of maintaining and increasing the volume of our overall gas sales.

In the residential market, we are stepping up activities in our home region of eastern Hiroshima to expand our service area by means of developing new sources of demand through other initiatives including boosting sales of *Ene Farm* (household fuel cells for electricity and heat) and other important strategic products, as well as contacting owners of apartment buildings to explain the advantages of gas and persuade people not to switch to other fuels. Other initiatives planned include increasing the frequency of our opportunities to interact with our customers through our '*Fureai Junkai*' (lit. 'Rapport Patrol') customer visit service, offering an enhanced equipment maintenance system with our 'Seven-year Long-term Guarantee Program', boosting the strength of our sales service activities, and maintaining and increasing the volume of our gas sales and the number of our 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.

Furthermore, the Hiroshima Gas Group recognizes the key role that infrastructure provision plays in driving growth and in building a stronger foundation for its activities. This is why we will continue to make invest in a wide variety of medium to long-term projects including: further upgrades to our pipeline network in order to drive growth the use of natural gas and make our supply system even more reliable; and strengthening our base of production facilities and equipment.

We plan to make even more progress with procurement activities that prioritize low cost, stability and flexibility in the procurement of the gas we require to produce the gases we sell on to our customers.

- 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 plans to offer its customers a multi-energy supplier package including both electric power and heat, as well as to increase the use of solar and other renewable energy sources so as to be able to deliver more value and meet a larger share of their energy requirements. Another goal is expanding services by targeting activities associated with the supply of energy and thereby more completely fulfilling our role as a supplier of energy by constructing an energy tariff menu that is very competitively priced so that we can boost of value to customers and our share of the energy market.

The whole of the Hiroshima Gas Group is united in a single aim of constantly striving to for sale our role of improving the reliability of our energy supply, as well as the level of security and the quality of the customer service that we provide.

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.

In anticipation of and preparation for the full liberalization of gas and electricity market in April 2017, the Hiroshima Gas Group has not only put in place marketing strategies involving the rates and services based on the outlook for the liberalization, but we are also considering and implementing business developments as an integrated general energy company with an eye to achieving synergies with our existing businesses. Furthermore, we are embarking upon a radical new direction for our gas system and engaged in preparing and applying strategies for dealing with the new structure.

- 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 that we plan to achieve so as to ensure the soundness of our operations.

Moreover, we aim to create workplaces that are easy to work in, where people can carry out their duties to the best of their abilities, and also participate in organizational structures that are lively, stimulating, and progressive. To accomplish these aims, we are taking great care to ensure that people become more aware of human rights, by building stronger lines of communication and taking other actions that are appropriate to the achievement of these goals.

Moreover, we are very keenly aware of our obligations as a key supplier of energy to our home region of Hiroshima in which we have deep and long established roots in the community. Consequently, we are highly motivated to engage in activities that contribute to the economic vitality and growth of the areas we serve, and also to conscientiously fulfil our

other obligations in areas such as conserving energy, lowering CO2 emissions and taking positive steps to protect the environment in our home region.

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

The Hiroshima Gas Group is fully aware of the crucial importance of having a workforce with exactly the skills that are essential to our ability to fulfil our role as an energy supplier for the Hiroshima region. As well as proactively seeking to hire staff with the appropriate combination of the basic knowledge required, combined with the necessary sense and awareness that we need from our people, we also seek out potential employees that offer the ability to raise the degree of customer satisfaction, but are also very comfortable and familiar with the necessary technologies (including the ability to pass on their experience and knowledge to more junior employees) to ensure and enhance the reliability of our energy supply.

In August last year, one of our employees, whilst engaged in working to cut through a gas pipe, was involved in a fatal, disastrous accident. This terrible event came as an appalling shock to the company, and we immediately responded by implementing measures to ensure that such accidents will be prevented in the future, including educational programs and a drive to further enhance safety awareness training. The Hiroshima Gas Group will continue to strive to meet the challenges of fostering safety awareness and ensuring the safety of its employees in the workplace and in the execution of their duties.

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

In order to enhance the profitability and soundness of the entire group, we are examining ways to right size the Group's functions and 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. Moreover, we are continuously aiming to achieve constant development to ensure that all of the companies in the group are profitable entities by tirelessly examining our group's existing function as an energy supply business, scrutinize the relevance of the relationships between group companies and the prospects for potential future synergies among them, seek out opportunities for developing new businesses, and take action to maximize the positive synergistic effects that exist within the group at present.

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, 2015	As of March 31, 2016
ASSETS		
Non-current assets		
Property, plant and equipment		
Production facilities	18,567	18,321
Distribution facilities	26,628	26,970
Service and maintenance facilities	3,898	4,385
Other facilities	7,871	7,537
Construction in progress	3,574	4,118
Total property, plant and equipment	60,541	61,334
Intangible assets	504	879
Investments and other assets		
Investment securities	9,280	8,939
Long-term loans receivable	363	337
Deferred tax assets	1,422	2,128
Other investments and other assets	4,990	6,386
Allowance for doubtful accounts	(255)	(277)
Total investments and other assets	15,800	17,514
Total non-current assets	76,846	79,727
Current assets		
Cash and deposits	7,901	11,093
Notes and accounts receivable - trade	7,247	5,763
Merchandise and finished goods	908	680
Raw materials and supplies	4,664	2,400
Deferred tax assets	682	650
Other current assets	1,542	2,049
Allowance for doubtful accounts	(33)	(7)
Total current assets	22,912	22,630
Total assets	99,759	102,357

(Million yen)

	As of March 31, 2015	As of March 31, 2016
LIABILITIES		
Non-current liabilities		
Bonds payable	10,000	12,500
Long-term loans payable	21,127	18,074
Provision for directors' retirement benefits	365	358
Provision for gas holder repairs	344	385
Provision for safety measures	-	620
Provision for appliances warranties	-	170
Net defined benefit liability	4,276	5,472
Asset retirement obligations	106	108
Other non-current liabilities	225	310
Total non-current liabilities	36,445	38,000
Current liabilities		
Current portion of non-current liabilities	7,044	6,607
Notes and accounts payable - trade	6,023	5,187
Short-term loans payable	1,000	-
Income taxes payable	1,146	1,690
Other current liabilities	8,862	8,880
Total current liabilities	24,076	22,365
Total liabilities	60,522	60,366
NET ASSETS		
Shareholders' equity		
Capital stock	5,181	5,181
Capital surplus	946	1,141
Retained earnings	29,632	33,005
Treasury shares	(737)	(121)
Total shareholders' equity	35,023	39,207
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,758	2,326
Deferred gains or losses on hedges	(61)	(12)
Remeasurements of defined benefit plans	(379)	(1,560)
Total accumulated other comprehensive income	2,317	753
Non-controlling interests	1,897	2,030
Total net assets	39,237	41,991
Total liabilities and net assets	99,759	102,357

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

(Million yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Net sales	88,851	76,303
Cost of sales	60,666	46,195
Gross profit	28,185	30,107
Selling, general and administrative expenses		
Supply and sales expenses	17,980	18,771
General and administrative expenses	6,093	5,860
Total selling, general and administrative expenses	24,073	24,631
Operating income	4,111	5,475
Non-operating income		
Interest income	8	7
Dividend income	660	156
Share of profit of entities accounted for using equity method	87	172
Revenue from CNG sales	275	219
Miscellaneous income	435	283
Total non-operating income	1,466	839
Non-operating expenses		
Interest expenses	409	324
Loss on bond retirement	157	-
Balance on commissioned construction	12	59
Miscellaneous expenses	300	156
Total non-operating expenses	878	540
Ordinary income	4,699	5,775
Extraordinary losses		
Loss on sales of non-current assets	40	-
Special contribution relating to withdrawal of employees' pension fund	68	-
Total extraordinary losses	108	-
Income before income taxes and minority interests	4,590	5,775
Income taxes - current	1,334	2,067
Income taxes - deferred	413	(87)
Total income taxes	1,747	1,980
Net income	2,843	3,795
Profit attributable to non-controlling interests	96	147
Profit attributable to owners of the parent	2,746	3,647

Consolidated statements of comprehensive income

(Million yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Net income	2,843	3,795
Other comprehensive income		
Valuation difference on available-for-sale securities	1,044	(432)
Deferred gains or losses on hedges	(67)	49
Remeasurements of defined benefit plans	83	(1,180)
Total other comprehensive income	1,059	(1,563)
Comprehensive income	3,903	2,231
Comprehensive income attributable to owners of parent	3,806	2,084
Comprehensive income attributable to non-controlling interests	96	147

(3) Consolidated statement of changes in net assets
Previous 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)
Profit attributable to owners of the parent			2,746		2,746
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		5		46	52
Change of scope of consolidation					-
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				Non-controlling 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)
Profit attributable to owners of the parent						2,746
Purchase of treasury shares						(0)
Disposal of treasury shares						52
Change of scope of consolidation						-
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

Current fiscal year (Apr. 1, 2015 –Mar. 31, 2016)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	5,181	946	29,632	(737)	35,023
Cumulative effect of changes in accounting policies					-
Balance at the beginning of current period after the changes in accounting policies	5,181	946	29,632	(737)	35,023
Changes of items during the period					
Issuance of new shares					-
Dividends from surplus			(523)		(523)
Profit attributable to owners of the parent			3,647		3,647
Purchase of treasury shares				(129)	(129)
Disposal of treasury shares		195		746	941
Change of scope of consolidation			248		248
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	195	3,372	616	4,184
Balance at the end of current period	5,181	1,141	33,005	(121)	39,207

	Accumulated other comprehensive income				Non-controlling 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	2,758	(61)	(379)	2,317	1,897	39,237
Cumulative effect of changes in accounting policies						-
Balance at the beginning of current period after the changes in accounting policies	2,758	(61)	(379)	2,317	1,897	39,237
Changes of items during the period						
Issuance of new shares						-
Dividends from surplus						(523)
Profit attributable to owners of the parent						3,647
Purchase of treasury shares						(129)
Disposal of treasury shares						941
Change of scope of consolidation						248
Net changes of items other than shareholders' equity	(432)	49	(1,180)	(1,563)	133	(1,430)
Total changes of items during the period	(432)	49	(1,180)	(1,563)	133	2,754
Balance at the end of current period	2,326	(12)	(1,560)	753	2,030	41,991

(4) Consolidated statements of cash flows

(Million yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Cash flows from operating activities		
Income before income taxes	4,590	5,775
Depreciation	6,925	7,091
Increase (decrease) in net defined benefit liability	(471)	(448)
Increase (decrease) in allowance for doubtful accounts	(265)	(4)
Interest and dividend income	(668)	(164)
Interest expenses	409	324
Loss on redemption of bonds	157	-
Share of (profit) loss of entities accounted for using equity method	(87)	(172)
Decrease (increase) in notes and accounts receivable - trade	308	1,484
Decrease (increase) in inventories	(582)	2,535
Increase (decrease) in notes and accounts payable - trade	(756)	(836)
Increase (decrease) in accrued consumption taxes	467	224
Other, net	1,192	(318)
Subtotal	11,219	15,491
Interest and dividend income received	677	176
Interest expenses paid	(431)	(330)
Income taxes paid	(1,300)	(1,386)
Cash flows from operating activities	10,164	13,950
Cash flows from investing activities		
Purchase of investment securities	(265)	(0)
Purchase of shares of subsidiaries	(26)	(108)
Purchase of property, plant and equipment	(7,339)	(8,008)
Proceeds from sales of property, plant and equipment	73	28
Payments of loans receivable	(30)	-
Collection of loans receivable	12	6
Purchase of long-term prepaid expenses	(2,128)	(1,657)
Other, net	(326)	5
Cash flows from investing activities	(10,030)	(9,735)

(Million yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Cash flows from investing activities		
Net increase (decrease) in short-term loans payable	-	(1,000)
Increase (decrease) in commercial papers	(4,000)	-
Proceeds from long-term loans payable	5,018	2,130
Repayments of long-term loans payable	(1,142)	(5,138)
Proceeds from issuance of bonds	4,970	4,970
Redemption of bonds	(8,157)	(3,000)
Proceeds from issuance of common shares	1,869	-
Purchase of treasury shares	(0)	(129)
Proceeds from sales of treasury shares	52	937
Cash dividends paid	(355)	(523)
Cash dividends paid to non-controlling shareholders	(16)	(14)
Other, net	(16)	(21)
Cash flows from investing activities	(1,779)	(1,788)
Effect of exchange rate change on cash and cash equivalents	-	8
Net increase (decrease) in cash and cash equivalents	(1,646)	2,434
Cash and cash equivalents at beginning of period	8,004	6,840
Increase in cash and cash equivalents from newly consolidated subsidiary and from merger with unconsolidated subsidiaries	482	400
Cash and cash equivalents at end of period	6,840	9,674