# Consolidated Financial Results for the Fiscal Year Ended March 31, 2014 [Japanese GAAP]

April 24, 2014

Company name: NIPPON GAS CO., LTD.
Code number: 8174
URL: http://www.nichigas.co.jp/
Stock exchange listing: Tokyo Stock Exchange
Representative: Shinji Wada, President and Representative Director
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Phone: 03-3553-1281
Scheduled date of Ordinary General Meeting of Shareholders: June 27, 2014
Scheduled date of commencing dividend payments: June 30, 2014
Scheduled date for filling of securities report: June 27, 2014
Availability of supplementary briefing material on financial results: Available
Schedule of financial results briefing session: Scheduled (for institutional investors)

(Amounts are rounded down to the nearest million yen.)

## 1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2014 (April 1, 2013 to March 31, 2014)

(1) Consolidated Results of Operations (% indicates changes from the previous corresponding period.)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Fiscal year ended Mar. 31, 2014 | 126,833 | 8.3 | 9,032 | 14.5 | 9,193 | 12.3 | 9,464 | 150.7 |
| Fiscal year ended Mar. 31, 2013 | 117,070 | 6.2 | 7,885 | 5.1 | 8,189 | 14.7 | 3,774 | 20.9 |

(Note) Comprehensive income: Fiscal year ended Mar. 31, 2014 ¥10,057 million [92.6%]
Fiscal year ended Mar. 31, 2013 ¥5,221 million [32.6%]

| | Net income per share | Diluted net income per share | Return on equity | Ordinary income to total assets | Operating income to net sales |
|---|---|---|---|---|---|
| | Yen | Yen | % | % | % |
| Fiscal year ended Mar. 31, 2014 | 220.93 | — | 22.2 | 7.4 | 7.1 |
| Fiscal year ended Mar. 31, 2013 | 78.01 | — | 9.8 | 6.6 | 6.7 |

(Reference) Equity in earnings (losses) of affiliates: Fiscal year ended Mar. 31, 2014 ¥45 million
Fiscal year ended Mar. 31, 2013 ¥28 million

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | % | Yen |
| As of Mar. 31, 2014 | 123,496 | 44,831 | 36.3 | 1,017.92 |
| As of Mar. 31, 2013 | 124,958 | 53,016 | 32.2 | 832.11 |

(Reference) Equity: As of Mar. 31, 2014 ¥44,824 million As of Mar. 31, 2013 ¥40,260 million

(3) Consolidated Cash Flows

| | 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 |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Fiscal year ended Mar. 31, 2014 | 13,864 | (7,170) | (7,393) | 14,089 |
| Fiscal year ended Mar. 31, 2013 | 15,225 | (14,310) | (3,554) | 14,708 |

**2. Dividends**

| | Annual dividends | | | | | Total dividends paid (annual) | Payout ratio (consolidated) | Dividends to net assets (consolidated) |
|---|---|---|---|---|---|---|---|---|
| | End of 1Q | End of 2Q | End of 3Q | Year-end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Millions of yen | % | % |
| Fiscal year ended Mar. 31, 2013 | — | 6.50 | — | 6.50 | 13.00 | 631 | 16.7 | 1.6 |
| Fiscal year ended Mar. 31, 2014 | — | 6.50 | — | 19.50 | 26.00 | 1,120 | 11.8 | 2.8 |
| Fiscal year ending Mar. 31, 2015 (Forecast) | — | 13.00 | — | 13.00 | 26.00 | | 19.1 | |

**3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2015 (April 1, 2014 to March 31, 2015)**

(% indicates changes from the previous corresponding period.)

| | Net sales | | Operating income | | Ordinary income | | Net income | | Net income per share |
|---|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Six months ending Sep. 30, 2014 | 60,000 | 12.0 | 2,700 | 3.8 | 2,600 | 0.7 | 1,400 | (32.9) | 31.79 |
| Full-year | 133,000 | 4.9 | 10,000 | 10.7 | 9,800 | 6.6 | 6,000 | (36.6) | 136.25 |

**4. Notes**

(1) Significant changes of subsidiaries during the year under review(changes in specified subsidiaries resulting in changes in scope of consolidation during the year under review): No

(2) Changes to accounting policies, changes to accounting estimates, and revision restatements

1) Changes to accounting policies accompanying the revision of accounting standards, etc.: Yes

2) Changes to accounting policies other than 1) above: No

3) Changes to accounting estimates: No

4) Revision restatements: No

(3) Total number of issued shares (common share)

1) Total number of issued shares (including treasury share):

| | |
|---|---|
| Mar.31, 2014 | 48,561,525 shares |
| Mar. 31, 2013 | 48,561,525 shares |

2) Total number of treasury share at the end of the period:

| | |
|---|---|
| Mar.31, 2014 | 4,525,927shares |
| Mar. 31, 2013 | 177,290 shares |

3) Average number of shares during the period:

| | |
|---|---|
| Fiscal year ended Mar.31, 2014 | 42,839,888 shares |
| Fiscal year ended Mar.31, 2013 | 48,385,227 shares |

(Reference) Summary of Non-consolidated Financial Results

**1. Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2014 (April 1, 2013 to March 31, 2014)**

(1) Non-consolidated Results of Operations (% indicates changes from the previous corresponding period.)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Fiscal year ended Mar. 31, 2014 | 79,023 | 7.3 | 6,055 | 20.5 | 6,392 | 14.2 | 2,704 | (16.5) |
| Fiscal year ended Mar. 31, 2013 | 73,648 | 6.7 | 5,023 | 11.4 | 5,597 | 26.3 | 3,241 | 37.7 |

| | Net income per share | Diluted net income per share |
|---|---|---|
| | Yen | Yen |
| Fiscal year ended Mar. 31, 2014 | 62.90 | — |
| Fiscal year ended Mar. 31, 2013 | 66.75 | — |

(2) Non-consolidated Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | % | Yen |
| As of Mar. 31, 2014 | 91,947 | 32,518 | 35.4 | 734.54 |
| As of Mar. 31, 2013 | 86,599 | 34,703 | 40.1 | 714.71 |

(Reference) Equity: As of Mar. 31, 2014 ¥32,518 million As of Mar. 31, 2013 ¥34,703 million

**2. Non-consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2015 (April 1, 2014 to March 31, 2015)**

(% indicates changes from the previous corresponding period.)

| | Net sales | | Ordinary income | | Net income | | Net income per share |
|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Six months ending Sep. 30, 2014 | 37,700 | 15.2 | 2,700 | 2.4 | 1,700 | (8.4) | 38.40 |
| Full-year | 83,900 | 6.2 | 6,900 | 7.9 | 4,400 | 62.7 | 99.39 |

* Presentation regarding the implementation status of the audit process

These financial statements are outside the scope of audit process procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these financial statements, audit process procedures for the financial statements under the Financial Instruments and Exchange Act have not been completed.

* Explanation of the proper use of performance forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as of the date of publication of this document. Actual results may differ significantly from these forecasts due to a wide range of factors. Please refer to “Analysis of Results of Operations” on page 2 of the attached Appendix for the notes on the use of preconditions for the earnings forecast and the use of the earnings forecast.

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1. Results of Operations

(1) Analysis of Results of Operations

Japan is now a mature developed economy, as well as a developed country facing serious challenges that requires sweeping reform of its social structure. Even when considering the special circumstances since March 11, 2011, the challenge facing the energy business amid Japan's new growth strategy is the invigoration of the economy through the creation of new innovation under smart regulations as represented by the discussions on liberalization.

In the future, it is believed that an advanced and logically bundled mid-to-long-term management strategy will be formed in each area outside business, outside the region and overseas with an eye to general energy commercialization. At present, the status of incentive regulations that provide motivation to companies and managers who are to handle that job to make investment and undertake new challenges by taking risks constitutes an extremely important theme for discussions. Partly owing to the realization of an advanced information society, previous circumstances where large operators controlled market prices and the options of retailers and consumers were not secured have changed substantially. With the progress in supply and demand adjustment as a result of competition in efficiency among operators in various business areas, and with the addition of a new modality of competition, which can be expressed as "face-to-face and the Internet" against the background of information engineering, market competition and metabolism have further intensified.

Under these circumstances, the Company believes that consolidation with separation between capital and management will inevitably happen as a result of liberalization in the industry, which has been subdivided by regulations. In order to participate in the formation of advanced, large-scale alliances, the Company has made the necessary structural reforms and the move into the retail business in the challenging liberalized fields overseas for the purpose of ensuring overwhelming performance in the retail field where the Company's strengths have been most concentrated.

Meanwhile, the Company engaged in the development of a general cloud system to operate various businesses efficiently and borderlessly through general energy commercialization by establishing a system company named Kumonouchusen Co., Ltd., which was jointly established with KDDI CORPORATION and Hitachi Capital Corporation. Kumonouchusen, an operational system linking cloud technology and mobile devices, has already commenced full-scale operation at the Company, realizing drastic streamlining of operations to create cost for competition and advanced security. This system constitutes the core of the Group's strategy as a borderless operation system after liberalization.

Also, the Group completed the conversion of city gas consolidated subsidiaries into its wholly owned subsidiaries, which was announced in December 2013, in March of this year and started streamlining operations through expeditious Group decision-making and sharing of the system. In addition, in January 2014, the Company agreed with Aqua Clara Lemongas Holdings Co., Ltd., which has a common understanding of the industry after liberalization, to commence discussions on business alliance with business integration in sight, and is already steadily proceeding with strategic discussions.

As for the development of overseas businesses, the electricity retailer Entrust Energy, Inc. operating in Texas and affiliated with the U.S. holding company Strategic Power Holdings LLC, in which the Group is involved in its management in the U.S., and North Eastern States Inc. which operates electricity and gas retail business in

seven states in Northeastern America are steadily increasing its number of customers, and the number of customers as of the end of the current fiscal year totaled 98,000 households. In the future too, the Group will expand its customer base in an effort to increase the Group's customers to 500,000 households in three years to enhance its earnings base.

Meanwhile in Australia, the Group is involved in an electric energy saving management service company for commercial and industrial customers, COzero Holdings Limited, in terms of capital and management and is accumulating business know-how related to power saving systems using cloud technology in the retail field, which will be an extremely vital business area in the domestic energy market after liberalization.

By applying the knowledge and expertise acquired from overseas investments in the U.S and Australia, where liberalization of retail sale of energy is advancing, to the strategies for the planned liberalization of retail sale of energy in Japan in the future, the Group will enhance the business value of domestic businesses.

Furthermore, based on the capital and business alliance agreement with One Equity Partners (OEP), which is the investment arm of the international financial institution JP Morgan, the Group holds strategic investment committee meetings with OEP and continues to discuss joint investment.

For the fiscal year under review, consolidated net sales increased by 8.3% year-on-year to ¥126,833 million due to a steady increase in the number of customers and higher sales prices owing to factors including the gas rate adjustment system.

The number of customers of the Group steadily increased by 36,000 households compared with the end of the previous fiscal year to 1,066,000 households as of the end of the current fiscal year.

In terms of profit, despite higher raw material prices compared with the same period of the previous fiscal year and an increase in cost of sales, operating income increased by 14.5% year-on-year to ¥9,032 million, ordinary income increased by 12.3% year-on-year to ¥9,193 million, due to a reduction of overall costs across all businesses through the deployment of the new logistics/operational systemson top of the solid revenue resulting from an increase in the gas sales volume, and net income increased by 150.7% year-on-year to ¥9,464 million thanks to factors including posting of gain on bargain purchase resulting from making the four consolidated subsidiaries wholly owned subsidiaries through share exchange. All profit items increased, marking record high profits for three consecutive fiscal years.

Business performance by segment for the current fiscal year is as follows:

[LP Gas Business]

In the LP gas business, net sales for the current fiscal year increased by ¥5,448 million (7.9% increase) year-on-year to ¥74,414 million.

Despite the impact of high atmospheric and water temperatures, both consumer gas sales volume and commercial gas sales volume increased compared with the same period of the previous fiscal year thanks to a steady increase in the number of customers. In addition, sales prices moved higher compared with the same period of the previous fiscal year when sales prices were lowered due to a reduction in material costs.

[City Gas Business]

In the city gas business, net sales for the current fiscal year increased by ¥4,313 million (9.0% increase) year-on-year to ¥52,418 million.

This is because, although consumer gas sales volume decreased year-on-year due to the impact of atmospheric and water temperatures, sales prices moved higher compared with the same period of the previous fiscal year due to the gas rate adjustment system, in addition to an increase in commercial gas sales volume due to an increased demand for air-conditioning.

(Outlook for the next fiscal year and issues to be addressed)

In the fiscal year ending March 31, 2015, the Group will continue to focus on increasing gas sales volume throughthe expansion of its customer base and on the spread and the expansion of the use of gas appliances. As a result, theCompany projects consolidatednet sales of ¥133,000 million or 4.9% increase year-on-year.

In terms of profits, as a result of factors such as an increase in the number of customers, further evolution of the new logistics/operational systems, and progress in reducing administrative costs by making consolidated subsidiaries wholly owned subsidiaries, the Group projects operating income of ¥10,000 million (10.7% increase) and ordinary income of ¥9,800 million (6.6% increase). The Group projects net income of ¥6,000 million (36.6% decrease) due to posting of gain on bargain purchase in 2013.

(2) Analysis of Financial Position

1) Assets, liabilities and net assets

Total assets as of the end of the current fiscal year decreased by ¥1,462 million or 1.2% decreasefrom the end of the previous fiscal year and stood at ¥123,496 million.

Current assets increased by ¥3,346 million or 11.0% increase from the end of the previous fiscal year and projected ¥33,782 million.This is mainly because of the increase in notes and accounts receivable-trade and the increase in merchandise and finished goods due to elevated raw material prices.

Noncurrent assets decreased by ¥4,785 million or 5.1% decrease from the end of the previous fiscal year and projected ¥89,681 million.This was mainly due to the decrease in investments and other assets resulting from factors such as sales of shares of subsidiaries and associates.

Total liabilities as of the end of the current fiscal year increased by ¥6,722 million or 9.3% increase from the end of the previous fiscal year and stood at ¥78,665 million.This is mainly because of the increase in loans payable due to the procurement of funds for capital investments, purchase of treasury share and other purposes.

Net assets as of the end of the current fiscal year decreased by ¥8,184 million or 15.4%decrease from the end of the previous fiscal year and stood at ¥44,831 million. This is mainly a reflection of the increase in retained earnings due to net income recorded for the current fiscal year, the increase in treasury share (decrease in shareholders' equity), and the decrease in minority interests associated with making four consolidated subsidiaries wholly owned subsidiariesthrough share exchange.

As a result, equity ratio improved by 4.1 points from the end of the previous fiscal year to 36.3%.

2) Overview of consolidated cash flows

Balance of cash and cash equivalents (hereinafter referred to as "Funds") at the end of the current fiscal year decreased by ¥619 million from the end of the previous fiscal year to ¥14,089 million.

(Net cash provided by (used in) operating activities)

Funds provided by operating activities amounted to ¥13,864million, down by ¥1,361million from the end of the previous fiscal year. This is mainly attributable to the increase in income before income taxes and minority interestsoffset by outflows such as the gain on bargain purchase and the increase in notes and accounts receivable-trade.

(Net cash provided by (used in) investing activities)

Funds used in investing activities amounted to ¥7,170million, down by ¥7,140 million from the end of the previous fiscal year. This is mainly attributable to the increase in proceeds from sales of shares of subsidiaries and associates and collection of loans receivable.

(Net cash provided by (used in) financing activities)

Funds used in financing activities amounted to ¥7,393 million, up by ¥3,839 million from the end of the previous fiscal year. This is mainly attributable to the net increase in loans payable and purchase of treasury share.

(Reference) Indicators relative to cash flows

| | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|---|---|---|---|---|---|
| Equity ratio | 18.8 | 20.9 | 29.9 | 32.2 | 36.3 |
| Equity ratio on a market value basis | 47.8 | 40.3 | 51.9 | 41.1 | 56.1 |
| Interest-bearing debt / cash flow ratio | 3.5 | 4.1 | 2.7 | 2.9 | 3.5 |
| Interest coverage ratio | 19.0 | 16.1 | 23.9 | 25.0 | 25.0 |

Equity ratio: Equity/Total assets

Equity ratio on a market value basis: Total market capitalization/ Total assets

Interest-bearing debt / cash flow ratio: Interest-bearing debt/Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities/Interest paid

* All indicators are calculated using consolidated financial results.
* Total market capitalization is calculated by multiplying the final share price at the end of the fiscal year by the total number of issued shares at the end of the fiscal year excluding treasury share.
* Cash flows refer to cash flows from operating activities. Interest-bearing debt refers to all liabilities on the Balance Sheets for which interest is paid.

(3) Basic Policy of Appropriation of Profits and Dividend Payment for Current Fiscal Year and Next Fiscal Year

In terms of appropriation of profit, the Company upholds its basic policy of maintaining stable dividends while striving to improve the payout ratio.

The Company basically pays dividends on surplus twice a year, i.e. the interim and year-end dividends. Interim dividends are determined by the Company's Board of Directors and year-end dividends are determined by the General Meeting of Shareholders. The Company plans to pay annual dividends of ¥26.00 per share, including interim dividends of ¥6.50 per share for the current fiscal year. For the following year, the Company, based on its basic policy of maintaining stable dividends, also plans to pay annual dividends of ¥26.00 per share, including interim dividends of ¥13.00 per share. Internal reserves shall be used for capital investments for stabilizing and streamlining the distribution system of LP gas and city gas, as well as building up reserves to ensure that the Company will be able to fulfill its social responsibility of steadily keeping the basic utilities running in emergency situations, such as major earthquakes, in addition to active investments to expand the customer base and to improve shareholders' value into the future. It should be noted that the Company's Articles of Incorporation stipulate that the Company may pay interim dividends.

(4) Risks Related to Business

The business performance and financial conditions of the Group may be affected by various risks including, but not limited to the following.

It should be noted that forwarding-looking statements in this document are judgments made by the Group based on information available at the end of the current fiscal year.

The profitability of the gas business, the core business of the Group, is mainly affected by the following factors:

1) Impact of fluctuations in atmospheric and water temperatures on gas demand

Due to the nature of the "Gas business," which accounts for the greater part of the Group's net sales, there is a risk that fluctuations in atmospheric and water temperatures could impact gas demand. However, the Group is striving to minimize the potential effects of this risk through such measures as aggressively expanding the customer base and promoting sales of gas heat pump air-conditioners, such as the GHP, small cogeneration systems (ECOWIL) and floor heating systems.

2) Risk of natural disasters

The Group supplies gas to many of its customers through an underground network of gas pipelines. Therefore, in order to prepare for the occurrence of catastrophic natural disasters such as earthquakes, it has been actively promoting construction using highly-quake resistant polyethylene pipes from the initial stages of development. Moreover, the Group, drawing on the lessons learned from its support of the recovery efforts of the Great Hanshin-Awaji Earthquake, and from the fact that no damages have been reported involving polyethylene pipes in the Niigata Chuetsu Earthquake, the Kushiro-oki Earthquake and the Niigata Chuetsu-oki Earthquake, has determined the replacement of all white gas pipes to be the priority measure in preventing damage from earthquakes and has been actively promoting the replacement of white gas pipes with polyethylene pipes. The

Group has been taking measures to minimize the effects of natural disasters by preparing an earthquake preparedness manual, raising its employees' awareness of disaster prevention through annual drills and establishing a regional support system between the Group companies.

3) Larger than expected fluctuations in gas material prices and exchange rates

As LP gas depends on imports from the Middle East for its raw materials, elevated raw material prices due to political unrest or a weakened yen in the exchange rates could adversely affect the Group's performance. Prices of LNG, the raw material for city gas, have been at high levels because of rising demand for LNG for thermal power generation. Although the effects of fluctuations in material prices and exchange rates on city gas and the community gas utility business can be offset by gas tariffs through the application of the gas rate adjustment system, there is a risk of the effects extending beyond the current fiscal year as a result of caps on gas tariff rises imposed by the gas rate adjustment system or the time lag until the price fluctuation is actually reflected in the gas tariffs.

4) Risk of deregulation in the general gas business

As a result of the Gas Business Act being amended on April 1, 2007, large-volume customers within the general gas utility supply area that consume more than 100,000$m^3$ of gas per year may select a provider of their choice, which has intensified more than ever the competition with the other gas providers. Consequently, the Group, in an effort to promptly and accurately respond to diverse customer needs, has been devising various business strategies including the development of comprehensive energy solutions.

5) Management of personal information

The Group considers the proper protection of personal information on its customers, which is acquired and managed in order to execute its business, as a primary responsibility. The Group's employees and outsourcing providers in the security and delivery businesses have been thoroughly instructed to comply with the Personal Information Protection Act and other related laws, and every possible measure has been taken to ensure the safe handling of information. However, in the event of an external leakage of information, the credibility of the Group could be lost and liability for damages could occur.

6) Risks associated with the handling of customers

Improper handling of customers could result in damages including the loss of social credibility and competitiveness of the Group. The Company has set up a customer consultation counter and monitors the speed of responses and the level of customer satisfaction. Such findings are also discussed at the monthly management meetings and further efforts are being made toward the improvement of CS (Customer Satisfaction).

2. Consolidated Group

Disclosure has been omitted, as there were no significant changes from the “Business Diagram (Business Outline)” and “Information on Subsidiaries and Affiliates” stated in the latest securities report (filed June 27, 2013).

3. Management Policy

(1)Basic Management Policy of the Company (2) Management Indicators Set as Targets, and (3) Mid-to-long-term Company Management Strategy

Disclosure is omitted because there have been no significant changes to the contents disclosed in the financial statements for the fiscal year ended March 31, 2012, as released on April 27, 2012.

The relevant financial statements are available at the following URL.

(The Tokyo Stock Exchange website (Listed Company Search page))

http://www.tse.or.jp/listing/compsearch/index.html

(4) Issues to be Addressed of the Company

The environment surrounding the domestic energy industry has begun to rapidly undergo significant changes following the Great East Japan Earthquake and the tight supply of electricity afterward.

In the electricity industry, with the revised Electricity Business Act taking effect, it was decided that electricity markets in 10 regions nationwide would be integrated in 2014 and retail sale, including home use electricity, would be fully liberalized in 2016. Meanwhile in the city gas industry too, discussions on liberalization have started from November 2013 under the leadership of the Ministry of Economy, Trade and Industry, and in line with the liberalization of electricity, discussions on system reform are swiftly progressing in the direction of the invigoration of the economy through efficient operation and liberalization of energy overall, including the full liberalization of retail sales and the opening up of primary bases, and neutrality concerning the utilization of gas pipeline network. Owing to the liberalization of energy as a result of the rapid relaxation of regulations, alliances beyond the borders of the electricity and gas industries are expected to be forged and dissolved in the future, with the industry expected to be significantly realigned with an eye to the cultivation of general energy company groups.

In such a management environment, the Group will take the following initiatives to further promote the achievement of both improvement of quality and cost reduction as well as reinforce the alliance strategy to aim at becoming the energy retailer most trusted by customers with the formation of general energy company groups in sight.

1. Speeding up response to liberalization of energy

1) Making city gas subsidiaries into wholly owned subsidiaries

The Group decided to make four city gas subsidiaries into its wholly owned subsidiaries in December 2013, and completed the process in March of this year. Through this initiative, the Group will expedite decision-making and make it more agile to respond to the speed of liberalization, as well as advance awareness and structural

reforms of city gas subsidiaries, achieve streamlining of the entire Group, and reinforce its structure in preparation for liberalization.

2) Establishment of Strategic Planning Headquarters

Also, since it is expected that the liberalization of energy businesses, including electricity and gas, will make rapid progress, the Group established the Strategic Planning Headquarters in February of this year and will secure human resources to respond to the liberalization of energy and advance initiatives such as alliances beyond the borders of industries.

2. Expansion of energy retail business including alliances with other companies

1) Expansion of number of customers

As an operator that directly supplies gas to customers, it is of the utmost importance that the Group maintain and expand the support of its customers with regard to liberalization.

In the previous fiscal year, as a result of efforts to strengthen customer services, the number of customers of the Group increased by 37,000 households year-on-year to 1,066,000 households at the end of March 2014. Over the past 10 years, the Group has conducted transactions with new customers totaling 450,000 households through persistent sales efforts.

2) Alliance with competitor

In addition, in January 2014, the Company agreed with Aqua Clara Lemongas Holdings Co., Ltd., which operates LP gas business and water home delivery business, to commence discussions on business alliance with business integration in sight. In the future, realignment of the LP gas industry is expected to further pick up speed. Amid such moves, the Group is making preparations to assume a major role.

3) Strategy under realignment of energy industry

In the energy industry, as it is becoming clear that liberalization is advancing rapidly, the move is surfacing toward general energy commercialization through forging and dissolving of alliances beyond the borders of industries, such as electricity and gas. However, the realization of such commercialization calls for securing sales capabilities to end users of energy, and the Group believes that there is significant room for the Group to play a role in forming alliances.

Up to now, the Group has continued striving to expand the energy business base in liberalized fields both in Japan and abroad while specializing in downstream fields. Overseas, the Group has continued efforts for two years in the electricity retail business in an environment of liberalization in Texas, U.S. In Texas, the Group started from scratch and will soon see its number of customers reach 100,000 while witnessing the moment at which attracting domestic and foreign investment revitalizes the economy in an environment of liberalization. Furthermore, this year the Group obtained a license for electricity and gas retail business in seven states in Northeastern America and commenced business therein. In the future, while making use of this experience in the liberalization of energy in Japan, the Group will make efforts to further enhance the Company’s strength as

an “energy company specializing in retail sale” and work to forge high-quality alliances with other companies amid the formation of general energy company groups.

3. Further drastic streamlining of operations

1) Scaling up of distribution reform

The Company’s distribution system has already achieved significant cost reductions by shipping cylinders from hub bases near primary bases operating 365 days a year to unmanned depot bases across Kanto area using trailers that double as container storage spaces, and shifting such operations system to cloud technology. The Company will also consider enlarging hub bases and expanding depot bases to scale up efficient shipping system and strengthen cooperation with other companies.

2) Full-scale deployment of new operational system

Kumonouchusen, the new operational system linking cloud technology and mobile devices, has already commenced full-scale operation at the Company, and information for key operations such as security, inspection, and delivery is immediately processed onsite through a smartphone, and then sent via the Internet for automatic processing, thus drastically improving efficiency.

In the current fiscal year, the Group will carry out the full-scale deployment of the Kumonouchusen system at city gas subsidiaries, and also plans to sell the system to energy operators nationwide via Kumonouchusen Co., Ltd., which was jointly established with KDDI CORPORATION and Hitachi Capital Corporation, and contribute to the consolidation and streamlining of regional operations.

The Kumonouchusen system already has acquired various patent rights for operations such as delivery and inspection and is applicable to other types of business such as electricity and water. Accordingly, in the process of forming general energy company groups, the Group will further enhance the system as a powerful tool given the indispensability of borderless operations.

4. Advancement and upgrading of security

1) Advancement of security

The Group’s most precious item is safety. With the new operational system, an onsite device automatically checks for security-related processing errors or omissions, and the processed information is automatically processed by the cloud system. As a result, processing information about all aspects of security is synchronized with the necessary departments and places in a real time and accurate manner to form an advanced security system. Also, by consolidating the Group’s security system and bringing in-house the safety operations that had been contracted out, security investigation is standardized and security human resource development is strengthened.

2) Forming the industry’s top security system

Amid expectations of forging and dissolving of alliances beyond the borders of industries in the future, it is becoming increasingly vital to secure an advanced security system in the gas business.

As such, during the current fiscal year, a General Security Emergency Center will be established within the Group, and security capabilities for special facilities, in addition to consumer households, will be improved to enhance expertise. In addition, the security inspection system and the emergency dispatch preparedness within the Group will be unified to conduct efficient security inspection in a timely and appropriate manner and strengthen the Group's emergency response with the aim of forming the industry's top security system.

5. Full-scale development of overseas businesses

1) Full-scale development of electricity and gas retail business in North America

The Group established the electricity retailer Entrust Energy, Inc. in Texas, U.S. in August 2010. The number of customers of Entrust Energy, Inc. will soon reach 100,000 households and is expected to surpass the cash break-even point in the first quarter of 2014. Also, last year the Group obtained a license for electricity and gas retail business in seven states in Northeastern America through a local company, aiming to have customers exceeding 500,000 households in the electricity and gas retail business in North America after three years from now.

The Group's policy calls for enhancing its corporate value through the full-scale development of overseas businesses, as well as applying the know-how acquired from countries where liberalization is advanced in Japan where the liberalization of energy is making progress.

2) Investment in electric energy saving service in Australia

In August 2013, the Group acquired shares in COzero Holdings Limited, an electric energy management service company for corporations in Australia, and participated in its management. This Australian company has power-saving technology that enhances the efficiency of power consumption by customers. The Company supports the technological development of COzero Holdings Limited for the purpose of making use of such technology in business development in Japan after liberalization of energy.

6. Support by OEP(One Equity Partners), the overseas investment arm of JP Morgan

The capital and business alliance agreement was concluded with OEP in October 2011, and OEP became the largest shareholder of the Company. Since then, strategic investment committee meetings have been held at which valuable discussions take place concerning the Group's management strategy, utilizing OEP's world-class information network and advanced financial strategies.

In the future, in consultation with OEP, the Group will press ahead with efforts to increase corporate value, while reflecting OEP suggestions in management practice.

The Group, entering turbulent period around the world, will continue pursuing speedy business operation considering the peculiarity of the advanced information society and reforms required to make contributions to society.

Also, in preparation for the coming full-scale liberalization of the energy business, the Group will strengthen solidarity, bring together its resources and expedite reforms, as well as strengthen and enhance the quality of the alliance strategy with other companies with general energy company in sight.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of yen)

| Account | Fiscal year ended Mar. 31, 2013 (As of Mar. 31, 2013) | Fiscal year ended Mar. 31, 2014 (As of Mar. 31, 2014) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 14,914 | 14,494 |
| Notes and accounts receivable-trade | *5 7,836 | *5 10,152 |
| Merchandise and finished goods | 6,063 | 7,298 |
| Work in process | 22 | 9 |
| Raw materials and supplies | 88 | 95 |
| Deferred tax assets | 712 | 739 |
| Other | 922 | 1,128 |
| Allowance for doubtful accounts | (124) | (135) |
| Total current assets | 30,435 | 33,782 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 18,982 | 19,104 |
| Accumulated depreciation | (11,051) | (11,728) |
| Buildings and structures, net | 7,930 | 7,375 |
| Machinery, equipment and vehicles | 176,608 | 182,964 |
| Accumulated depreciation | (138,418) | (145,304) |
| Machinery, equipment and vehicles, net | 38,189 | 37,660 |
| Tools, furniture and fixtures | 2,527 | 2,671 |
| Accumulated depreciation | (2,096) | (2,243) |
| Tools, furniture and fixtures, net | 431 | 428 |
| Land | 21,365 | 21,725 |
| Lease assets | 2,046 | 3,721 |
| Accumulated depreciation | (657) | (1,504) |
| Lease assets, net | 1,388 | 2,216 |
| Construction in progress | 441 | 227 |
| Total property, plant and equipment | *1 69,746 | *1 69,632 |
| Intangible assets | | |
| Goodwill | 6,707 | 5,872 |
| Other | 897 | 1,193 |
| Total intangible assets | 7,605 | 7,066 |
| Investments and other assets | | |
| Investment securities | *2 10,321 | *2 5,597 |
| Long-term loans receivable | 2,752 | 2,614 |
| Deferred tax assets | 2,483 | 3,493 |
| Other | 2,497 | 2,215 |
| Allowance for doubtful accounts | (939) | (939) |
| Total investments and other assets | 17,115 | 12,982 |
| Total non-current assets | 94,466 | 89,681 |
| Deferred assets | | |
| Development expenses | 56 | 32 |
| Total deferred assets | 56 | 32 |
| Total assets | 124,958 | 123,496 |

(Millions of yen)

| Account | Fiscal year ended Mar. 31, 2013 (As of Mar. 31, 2013) | Fiscal year ended Mar. 31, 2014 (As of Mar. 31, 2014) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | *5 14,318 | *5 15,607 |
| Short-term loans payable | *1 7,974 | *1 12,539 |
| Lease obligations | 602 | 789 |
| Income taxes payable | 2,456 | 2,885 |
| Provision for bonuses | 425 | 423 |
| Other | 3,888 | 3,792 |
| Total current liabilities | 29,665 | 36,037 |
| Noncurrent liabilities | | |
| Long-term loans payable | *1 36,670 | *1 36,533 |
| Lease obligations | 1,362 | 1,672 |
| Deferred tax liabilities for land revaluation | 231 | 230 |
| Provision for retirement benefits | 2,133 | – |
| Provision for directors' retirement benefits | 981 | 1,011 |
| Provision for gas holder repairs | 213 | 275 |
| Net defined benefit liability | – | 2,196 |
| Other | 683 | 706 |
| Total non-current liabilities | 42,276 | 42,628 |
| Total liabilities | 71,942 | 78,665 |
| Netassets | | |
| Shareholders' equity | | |
| Capital stock | 7,070 | 7,070 |
| Capital surplus | 5,198 | 6,020 |
| Retained earnings | 27,130 | 36,028 |
| Treasury share | (61) | (4,977) |
| Total shareholders' equity | 39,337 | 44,140 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 923 | 695 |
| Remeasurements of defined benefit plans | – | (11) |
| Total accumulated other comprehensive income | 923 | 683 |
| Minority interests | 12,755 | 6 |
| Total net assets | 53,016 | 44,831 |
| Total liabilities and net assets | 124,958 | 123,496 |

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

| Account | Fiscal year ended Mar. 31, 2013 (from Apr. 1, 2012 to Mar. 31, 2013) | Fiscal year ended Mar. 31, 2014 (from Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|---|
| Net sales | 117,070 | 126,833 |
| Cost of sales | 69,567 | 78,624 |
| Gross profit | 47,503 | 48,209 |
| Selling, general and administrative expenses | | |
| Freightage related expenses | 2,494 | 2,617 |
| Provision of allowance for doubtful accounts | 65 | 51 |
| Salaries and allowances | 7,218 | 7,461 |
| Provision for bonuses | 387 | 371 |
| Retirement benefit expenses | 585 | 625 |
| Provision for directors' retirement benefits | 172 | 141 |
| Provision for gas holder repairs | 39 | 26 |
| Welfare expenses | 1,590 | 1,676 |
| Supplies expenses | 3,313 | 3,191 |
| Taxes and dues | 1,109 | 1,160 |
| Enterprise tax | 290 | 310 |
| Depreciation | 8,885 | 9,100 |
| Amortization of goodwill | 1,149 | 1,078 |
| Repair expenses | 903 | 778 |
| Commission fee | 7,196 | 6,683 |
| Other | *1 4,216 | *1 3,902 |
| Total selling, general and administrative expenses | 39,618 | 39,176 |
| Operating income | 7,885 | 9,032 |
| Non-operating income | | |
| Interest income | 132 | 293 |
| Dividend income | 102 | 92 |
| Foreign exchange gains | 545 | 22 |
| Real estate rent | 43 | 45 |
| Insurance income | 23 | 17 |
| Share of profit of entities accounted for using equity method | 28 | 45 |
| Other | 213 | 224 |
| Total non-operating income | 1,090 | 740 |
| Non-operating expenses | | |
| Interest expenses | 604 | 546 |
| Provision of allowance for doubtful accounts | 150 | – |
| Other | 30 | 32 |
| Total non-operating expenses | 786 | 578 |
| Ordinary income | 8,189 | 9,193 |
| Extraordinary income | | |
| Gain on sales of non-current assets | *2 17 | *2 25 |
| Gain on sales of investment securities | – | 92 |
| Gain on sales of shares of subsidiaries and associates | – | 234 |
| Gain on bargain purchase | 8 | 6,008 |
| Compensation for transfer | 25 | – |
| Total extraordinary income | 51 | 6,360 |

(Millions of yen)

| Account | Fiscal year ended Mar. 31, 2013 (from Apr. 1, 2012 to Mar. 31, 2013) | Fiscal year ended Mar. 31, 2014 (from Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|---|
| Extraordinary loss | | |
| Loss on sales of non-current assets | *3 6 | *3 8 |
| Loss on retirement of non-current assets | *4 293 | *4 175 |
| Loss on sales of investment securities | – | 0 |
| Loss on valuation of investment securities | 3 | 2,082 |
| Loss on sales of shares of subsidiaries and associates | – | 140 |
| Loss on sales of shares of subsidiaries | – | 0 |
| Impairment loss | *6 163 | – |
| Other | *5 11 | *5 0 |
| Total extraordinary losses | 478 | 2,407 |
| Income before income taxes and minority interests | 7,761 | 13,147 |
| Income taxes-current | 3,151 | 3,746 |
| Income taxes-deferred | 24 | (897) |
| Total income taxes | 3,175 | 2,849 |
| Income before minority interests | 4,585 | 10,298 |
| Minority interests in income | 810 | 834 |
| Net income | 3,774 | 9,464 |

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

| Account | Fiscal year ended Mar. 31, 2013 (from Apr. 1, 2012 to Mar. 31, 2013) | Fiscal year ended Mar. 31, 2014 (from Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|---|
| Income before minority interests | 4,585 | 10,298 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 635 | (241) |
| Total other comprehensive income | * 635 | * (241) |
| Comprehensive income | 5,221 | 10,057 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of the parent | 4,406 | 9,236 |
| Comprehensive income attributable to minority interests | 815 | 820 |

(3) Consolidated Statement of Changes in Equity

Fiscal year ended Mar. 31, 2013 (from Apr. 1, 2012 to Mar. 31, 2013)

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at the beginning of current period | 7,070 | 5,198 | 23,980 | (59) | 36,189 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | (624) | | (624) |
| Net income | | | 3,774 | | 3,774 |
| Purchase of treasury shares | | | | (1) | (1) |
| Disposal of treasury shares | | (0) | | 0 | 0 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | – | (0) | 3,149 | (1) | 3,148 |
| Balance at the end of current period | 7,070 | 5,198 | 27,130 | (61) | 39,337 |

| | Accumulated other comprehensive income | | | Minority interests | Total net assets |
|---|---|---|---|---|---|
| | Valuationdifferenceonavailable-for-salesecurities | Remeasure-ments of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at the beginning of current period | 291 | – | 291 | 12,083 | 48,565 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | | | (624) |
| Net income | | | | | 3,774 |
| Purchase of treasury shares | | | | | (1) |
| Disposal of treasury shares | | | | | 0 |
| Net changes of items other than shareholders' equity | 631 | – | 631 | 671 | 1,302 |
| Total changes of items during period | 631 | – | 631 | 671 | 4,451 |
| Balance at the end of current period | 923 | – | 923 | 12,755 | 53,016 |

Fiscal year ended Mar. 31, 2014 (from Apr. 1, 2013 to Mar. 31, 2014)

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at the beginning of current period | 7,070 | 5,198 | 27,130 | (61) | 39,337 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | (566) | | (566) |
| Net income | | | 9,464 | | 9,464 |
| Purchase of treasury shares | | | | (10,260) | (10,260) |
| Disposal of treasury shares | | 822 | | 5,344 | 6,166 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | – | 822 | 8,897 | (4,916) | 4,803 |
| Balance at the end of current period | 7,070 | 6,020 | 36,028 | (4,977) | 44,140 |

| | Accumulated other comprehensive income | | | Minority interests | Total net assets |
|---|---|---|---|---|---|
| | Valuationdifferenceonavailable-for-salesecurities | Remeasure-ments of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at the beginning of current period | 923 | – | 923 | 12,755 | 53,016 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | | | (566) |
| Net income | | | | | 9,464 |
| Purchase of treasury shares | | | | | (10,260) |
| Disposal of treasury shares | | | | | 6,166 |
| Net changes of items other than shareholders' equity | (227) | (11) | (239) | (12,748) | (12,987) |
| Total changes of items during period | (227) | (11) | (239) | (12,748) | (8,184) |
| Balance at the end of current period | 695 | (11) | 683 | 6 | 44,831 |

(4) Consolidated Statement of Cash Flows

(Millions of yen)

| Account | Fiscal year ended Mar. 31, 2013 (from Apr. 1, 2012 to Mar. 31, 2013) | Fiscal year ended Mar. 31, 2014 (from Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|---|
| Cash flows from operating activities | | |
| Income before income taxes and minority interests | 7,761 | 13,147 |
| Depreciation | 8,934 | 9,165 |
| Impairment loss | 163 | – |
| Amortization of deferred assets | 167 | 66 |
| Amortization of goodwill | 1,149 | 1,078 |
| Gain on bargain purchase | (8) | (6,008) |
| Increase (decrease) in allowance for doubtful accounts | 162 | 10 |
| Increase (decrease) in provision for retirement benefits | 64 | (2,133) |
| Increase (decrease) in allowance for retirement benefits for employees | – | 2,179 |
| Increase (decrease) in provision for directors' retirement benefits | (91) | 30 |
| Interest and dividend income | (235) | (385) |
| Interest expenses | 604 | 546 |
| Foreign exchange losses (gains) | (545) | (5) |
| Shares of (profit) loss of entities accounted for using equity method | (28) | (45) |
| Loss (gain) on sales of property, plant and equipment | (10) | (17) |
| Loss on retirement of property, plant and equipment | 293 | 175 |
| Loss (gain) on sales of investment securities | – | (92) |
| Loss (gain) on valuation of investment securities | 3 | 2,082 |
| Loss (gain) on sales of shares of subsidiaries and associates | – | (94) |
| Decrease (increase) in notes and accounts receivable-trade | 488 | (2,316) |
| Decrease (increase) in inventories | (832) | (1,227) |
| Increase (decrease) in notes and accounts payable-trade | 193 | 1,288 |
| Increase (decrease) in accrued consumption taxes | 102 | 136 |
| Increase (decrease) in advances received | 165 | (116) |
| Increase (decrease) accrued liability of a defined contribution pension plan | (182) | – |
| Other, net | 590 | (0) |
| Subtotal | 18,910 | 17,463 |
| Interest and dividend income received | 114 | 311 |
| Interest expenses paid | (608) | (554) |
| Income taxes paid | (3,191) | (3,356) |
| Net cash provided by (used in) operating activities | 15,225 | 13,864 |
| Cash flows from investing activities | | |
| Payments into time deposits | (5) | (405) |
| Proceeds from withdrawal of time deposits | 7 | 205 |
| Purchase of property, plant and equipment | (9,612) | (7,603) |
| Proceeds from sales of property, plant and equipment | 86 | 161 |
| Purchase of goodwill | (752) | (317) |
| Purchase of investment securities | (1,129) | (505) |
| Proceeds from sales of investment securities | — | 704 |
| Purchase of shares of subsidiaries and associates | (35) | (40) |
| Proceeds from sales of shares of subsidiaries and associates | — | 2,110 |
| Purchase of shares of subsidiaries | (58) | (462) |
| Purchase of treasury shares of subsidiaries | (0) | (556) |
| Payments of loans receivable | (2,396) | (1,516) |

(Millions of yen)

| Account | Fiscal year ended Mar. 31, 2013 (from Apr. 1, 2012 to Mar. 31, 2013) | Fiscal year ended Mar. 31, 2014 (from Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|---|
| Collection of loans receivable | 65 | 1,696 |
| Other, net | (480) | (643) |
| Net cash provided by (used in) investing activities | (14,310) | (7,170) |
| Cash flows from financing activities | | |
| Increase in short-term loans payable | 2,500 | 7,550 |
| Decrease in short-term loans payable | (2,350) | (7,800) |
| Proceeds from long-term loans payable | 13,860 | 11,502 |
| Repayments of long-term loans payable | (16,434) | (6,960) |
| Purchase of treasury shares | (1) | (10,239) |
| Proceeds from sales of treasury shares | 0 | — |
| Cash dividends paid | (624) | (566) |
| Cash dividends paid to minority shareholders | (126) | (115) |
| Other, net | (377) | (763) |
| Net cash provided by (used in) financing activities | (3,554) | (7,393) |
| Effect of exchange rate change on cash and cash equivalents | 390 | 79 |
| Net increase (decrease) in cash and cash equivalents | (2,248) | (619) |
| Cash and cash equivalents at beginning of period | 16,957 | 14,708 |
| Cash and cash equivalents at end of period | * 14,708 | * 14,089 |

(5) Notes to Consolidated Financial Statements

(Notes on GoingConcern Assumption)

None.

(Important Matters that Form the Basis for Preparing Consolidated Financial Statements)

1. Scope of consolidation

(1) Names of the 6 consolidated subsidiaries:

TOSAI GAS INC., SHINNIHON GAS CORPORATION, HIGASHINIHON GAS CORPORATION, KITANIHON GAS CO., LTD., NIHONGAS KOJI Inc., NIHONGAS UNYU SEIBI Inc.

Changes in consolidated subsidiaries, etc.

None.

(2) Names of non-consolidated subsidiaries:

TOSAI SETSUBI, Inc., GAS PLAZA TOSAI Inc., NICHIGAS LOGISTICS CALCULATION CENTER Inc., Kumonouchusen Co., Ltd., Nippon Gas USA, Inc., Kurihashi Gas Development Co., Ltd.

Reasons for excluding the non-consolidated subsidiaries from the scope of consolidation

The 6 non-consolidated subsidiaries were excluded from the scope of consolidation due to their insignificance in size, and as the total amounts of their total assets, net sales, net income/loss (to the extent of the Company's equity position) and retained earnings (to the extent of the Company's equity position) did not significantly impact the consolidated financial statements.

2. Scope of application of the equity method

(1) Number of non-consolidated subsidiaries accounted for under the equity method: 2

TOSAI SETSUBI, Inc., GAS PLAZA TOSAI Inc.

(2) Affiliates accounted for under the equity method:–

(3) Non-consolidated subsidiaries and affiliates to which the equity method is not applied

The name of non-consolidated subsidiaries

NICHIGAS LOGISTICS CALCULATION CENTER Inc., Kumonouchusen Co., Ltd., Nippon Gas USA, Inc., Kurihashi Gas Development Co., Ltd.

The name of affiliates

Strategic Power Holdings LLC, Strategic Power Holdings Operations, Inc.

Reason for not applying the equity method

The equity method is not applied to 4 non-consolidated subsidiaries and 2 affiliates, due to their insignificance overall; and as their net income/loss (to the extent of the Company's equity position) and their retained earnings (to the extent of the Company's equity position), even if eliminated from the scope of companies accounted for under the equity method, have minimal impact on the consolidated financial statements.

3. Fiscal year, etc. of consolidated subsidiaries

The fiscal year end dates of the consolidated subsidiaries coincide with the consolidated accounting date.

4. Accounting standards

(1) Valuation standards and methods regarding significant assets

(a) Inventories

Merchandise

Primarily stated at cost based on the first-in, first-out method (method by which the carrying amount is written-down according to the decline in profitability). However, real estate for sale is stated at cost based on the identified cost method (method by which the carrying amount is written-down according to the decline in profitability).

Finished goods,work in process,raw materials, and supplies

Mainly stated at cost using the moving-average method (method by which the carrying amount is written-down according to the decline in profitability).

(b) Securities

Available-for-sale securities

Securities with market quotations:

Stated at their quoted market prices at the end of fiscal year (Cost of securities sold is calculated primarily using the moving-average method and net unrealized gains [losses] are included directly in net assets).

Securities without market quotations:

Stated at cost using the moving-average method.

(2) Depreciation method for significant depreciable assets

(a) Property, plant and equipment (excluding lease assets)

Calculated using the declining-balance method (However, the straight-line method is used for buildings [excluding building fixtures] acquired on or after April 1, 1998).

Useful lives of assets are principally as follows:

| | |
|---|---|
| Buildings and structures | 7 to 50 years |
| Machinery, equipment and vehicles | 4 to 22 years |

(b) Intangible assets (excluding lease assets)

Straight-line method

Internally used software is amortized over the estimated useful life (5 years).

(c) Lease assets

Lease assets concerning non-transfer ownership finance lease transactions:

Depreciated by the straight-line method, defining the lease term of respective assets as their useful lives, without residual value.

(3) Accounting method of significant deferred assets

Development expenses

Amortized using the straight-line method over 5 years.

(4) Accounting standards for significant allowances and provisions

(a)Allowance for doubtful accounts

The Group provides for possible credit losses stemming from notes and accounts receivable-trade. Estimated amounts of irrecoverable debt are calculated based on historical write-off ratio for ordinary receivables, and on a consideration of feasibly recoverable amounts in individual cases of specific debts such as doubtful accounts.

(b)Provision for bonuses

Although the Company is not required to report a reserve for bonuses, the Company's consolidated subsidiaries provide for future bonus payments to employees in the estimated amount accrued on the fiscal year end date.

(c) Provision for directors' retirement benefits

In order to provide for the payment of retirement benefits to directors, a reserve is provided in the amount required on the fiscal year end date, in accordance with internal rules.

(d) Provision for gas holder repairs

Among the consolidated subsidiaries, the 4 city gas companies – TOSAI GAS INC., SHINNIHON GAS CORPORATION, HIGASHINIHON GAS CORPORATION and KITANIHON GAS CO., LTD. – post a provision for repairs by distributing the estimated costs to each fiscal term during the period until the next scheduled repair.

(5) Accounting method for retirement benefits

(i)Methods for attributing expected retirement benefits payment

In order to calculate the amount of retirement benefit obligations, straight-line basisis applied for attributing expected retirement benefits payment to the periods to theend of the current fiscal year.

(ii)Methods for accounting treatmentfor actuarial gainsor losses

Actuarial gainsor losses are recognized as expenses, amortized by the declining-balance method over a fixed number of years (5 years) within the average remaining service period of the employees at the occurrences in each fiscal year, starting from each fiscal year following the fiscal year in which they occur.

(iii) Adoption of simplified method in small businesses etc.

Consolidated subsidiariesadopt a simplified method for the calculation of net defined benefit liabilityand retirement benefit expenses, in which retirementbenefit obligations are calculated by the amountof retirement benefitrequired for voluntary termination at the end of fiscal year.

(6) Significant hedge accounting

(i)Hedge accounting

Exceptional treatment (“tokurei-shori”) is applied to interest rate swaps that meet the requirements for exceptional treatment.

Hedge accounting is not applied to commodity derivatives, as there was no outstanding balance at the end of the term.

(ii) Means of hedging and hedging items

Means of hedging

Interest rate swaps, commodity swaps

Hedging items

Loans payable, money for the purchase of commodities

(iii) Hedging policy

Foreign currency risks, commodity price risks and interest rate fluctuation risks are hedged to the extent allowed by the internal rules regarding risks.

(iv) Methods for evaluating the effectiveness of hedges

Assessment of effectiveness is omitted as the Company is only engaged in interest rate swaps to which exceptional treatment is applied.

(7) Amortization of goodwill and amortization period

Goodwill is amortized over 20 year periods for a company, and over 5 years for other companies using the straight-line method.

(8) Scope of cash and cash equivalents in the consolidated statement of cash flows

Cash and cash equivalents as stated in the consolidated statement of cash flows consist of cash in hand, demand deposits, and any short-term liquid investments with a maturity not exceeding 3 months at the time of purchase whose value is not subject to significant fluctuation risk.

(9) Other significant matters for preparing consolidated financial statements

Accounting method for consumption taxes

Transactions subject to consumption tax and local consumption tax are recorded at the amount exclusive of these taxes.

(Changes to Accounting Policies)

The Company has adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan [ASBJ] Statement No. 26, May 17, 2012, hereinafter referred to as "Retirement Benefits Accounting Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012, hereinafter referred to as "Retirement Benefits Guidance") from the current fiscal year (excluding provisions specified in the main clause of Paragraph 35 of the Retirement Benefits Accounting Standard and the main clause of Paragraph 67 of the Retirement Benefits Guidance).

The previous method has been changed to a method by which the amount obtained by subtracting plan assets from retirement benefit obligations is recorded as net defined benefit liability. Unrecognized actuarial gains or losses are recorded as net defined benefit liability.

In adopting the Retirement Benefits Accounting Standard etc., the effected amount associated with the aforementioned change has been adjusted toremeasurements of defined benefit plans in accumulated other comprehensive income, at the end of the current fiscal year, according to the transitional handling prescribed in Paragraph 37 of the Retirement Benefits Accounting Standard.

As a result, net defined benefit liability of ¥2,196 million was recorded as of the end of the current fiscal year, and accumulated other comprehensive income declined by ¥11 million.

(Unadopted Accounting Standards, etc.)

- "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012)
- "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

(1) Outline

The aforementioned accounting standards, etc. were revised in the perspective of improving financial reporting andin response to international trends. The main points of the revisions are: methods of accounting treatment of unrecognized actuarial gains or losses and unrecognized past service costs; methods of calculation of retirement benefit obligations and service costs; and expansion of disclosure.

(2) Scheduled date for adoption

Adoption with respect to the methods of calculation of retirement benefit obligations and service costs is scheduled to be started from the beginning of the fiscal year ending March 2015.

(3) Impact of adoption of the accounting standards, etc.

At the time of preparation of the consolidated financial statements, the amount of impact is being under evaluation.

(Changes inPresentation Methods)

(Consolidated Statement of Cash Flows)

1. “Gain on bargain purchase,” which was included in “Other, net” of the “Cash flows from operating activities,”has been separatelypresented from the current fiscal year because of its increasedsignificance.To reflect this change to the presentation method, consolidated financial statement for the previous fiscal year have been reclassified.

   As a result, ¥582 million that was included in “Other, net” of the “Cash flows from operating activities” in theConsolidated Statement of Cash Flows of the previous fiscal year, has been reclassified to ¥(8) million of “Gain on bargain purchase” and ¥590 million of “Other, net.”

2. “Purchase of shares of subsidiaries” and “Purchase of treasury shares of subsidiaries,” which were included in “Other, net” of the “Cash flows frominvesting activities,”have been separatelypresented from the current fiscal year because of their increased significance.To reflect this change to the presentation method, consolidated financial statements for the previous fiscal year have been reclassified.

   As a result, ¥(539) million that was included in “Other, net” of the “Cash flows frominvesting activities” in theConsolidated Statement of Cash Flows of the previous fiscal year, has been reclassified to ¥(58) million of “Purchase of shares of subsidiaries,” ¥(0) million of “Purchase of treasury shares of subsidiaries” and ¥(480) million of “Other, net.”

(Consolidated Balance Sheet)

*1 Assets pledged as collateral and borrowings secured by collateral

Assets pledged as collateral are as follows:

(Millions of yen)

| | For the previous fiscal year (As of Mar. 31, 2013) | For the current fiscal year (As of Mar. 31, 2014) |
|---|---|---|
| Land | 1,088 | 1,088 |
| Buildings and structures | 182 | 174 |
| Factory foundation collateral | 7,297 | 7,579 |
| [Land] | [456] | [456] |
| [Machinery, etc.] | [6,840] | [7,122] |
| Total [Book value] | 8,568 | 8,841 |

Borrowings secured by collateral are as follows:

(Millions of yen)

| | For the previous fiscal year (As of Mar. 31, 2013) | For the current fiscal year (As of Mar. 31, 2014) |
|---|---|---|
| Short-term loans payable | 2,814 | 4,621 |
| Long-term loans payable | 3,578 | 1,451 |
| Total | 6,392 | 6,072 |

*2 Investments in non-consolidated subsidiaries and affiliates are as follows.

(Millions of yen)

| | For the previous fiscal year (As of Mar. 31, 2013) | For the current fiscal year (As of Mar. 31, 2014) |
|---|---|---|
| Investment securities (shares) | 3,766 | 1,607 |
| (of which, investments in jointly controlled entities) | 326 | — |

3 Guarantee obligations

The Group provides the following guarantees on borrowings from financial institutions.

(Millions of yen)

| | For the previous fiscal year (As of Mar. 31, 2013) | For the current fiscal year (As of Mar. 31, 2014) |
|---|---|---|
| Employees (employee housing loans) | 10 | 8 |

4 In order to efficiently fund their working capital, the Company and its 4 consolidated subsidiaries have entered into contracts for overdraft facilities with 12 of their financing banks. As of the end of the fiscal year, the undisbursed balance on the overdraft facilities was as follows.

(Millions of yen)

| | For the previous fiscal year (As of Mar. 31, 2013) | For the current fiscal year (As of Mar. 31, 2014) |
|---|---|---|
| General overdraft limit | 5,000 | 5,000 |
| Undisbursed balance | 1,150 | 900 |
| Difference | 3,850 | 4,100 |

*5 As for accounting treatment for bills due at the fiscal year end date, bill clearance dates are used for the settlement. Since the fiscal year end dateof the previous fiscal year fell on a holiday for financial institutions, the amounts of bills due at the fiscal year end date as described below are included in term-end balances.

(Millions of yen)

| | For the previous fiscal year (As of Mar. 31, 2013) | For the current fiscal year (As of Mar. 31, 2014) |
|---|---|---|
| Notes receivable | 83 | – |
| Notes payable | 302 | – |

(Consolidated Statement of Income)

*1 Research and development expenses included in selling, general and administrative expenses are as follows:

(Millions of yen)

| For the previous fiscal year (From Apr. 1, 2012 to Mar. 31, 2013) | For the current fiscal year (From Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|
| 22 | 19 |

*2 Gain on sales of non-current assets

(For the previous fiscal year)

Gain on sales of non-current assets includes gains from the sales of buildings and structures; machinery, equipment and vehicles; tools, furniture and fixtures; and land.

(For the current fiscal year)

Gainon sales of non-current assets includes gains from the sales of buildings and structures; machinery, equipment and vehicles; tools, furniture and fixtures; and land.

*3 Loss on sales of non-current assets

(For the previous fiscal year)

Loss on sales of non-current assets includes losses from the sales ofmachinery, equipment and vehicles; and land.

(For the current fiscal year)

Loss on sales of non-current assets includes losses from the sales of buildings and structures; machinery, equipment and vehicles; tools, furniture and fixtures;and land.

*4 Loss on retirement of non-current assets

(For the previous fiscal year)

Loss on retirement of non-current assets includes losses from the retirement of buildings and structures; machinery, equipment and vehicles; and tools,furniture and fixtures.

(For the current fiscal year)

Loss on retirement of non-current assets includes losses from the retirement of buildings and structures; machinery, equipment and vehicles; and tools, furniture and fixtures.

*5 Breakdown of others under extraordinary loss is as follows:

(Millions of yen)

| | For the previous fiscal year (From Apr. 1, 2012 to Mar. 31, 2013) | For the current fiscal year (From Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|---|
| Loss on sale of golf club membership | 6 | – |
| Loss on valuation of golf club membership | 4 | 0 |
| Total | 11 | 0 |

*6 Impairment loss

(For the previous fiscal year)

For the fiscal year under review, the Group recorded impairment loss for the following assets:

| Place | Usage | Type |
|---|---|---|
| Tsukuba-shi, Ibaraki Prefecture | Idle assets | Land |

In order to calculate the amount of the impairment loss, the Group conducts grouping of assets in each reportable segment, based on the businesses for which investment decisions are made. For idle assets, the assets related to one property are handled as one asset group.

For idle assets that are not used for business purposes and whose fair values fell significantly, the Group reduced their book values to recoverable amounts and recorded the amount of such reduction as impairment loss (¥163 million) under extraordinary loss for the current fiscal year. The description of the impairment is: land, ¥163 million.

The recoverable amounts of the land are measured at net sale value, which are calculated based on the amount evaluated for real-estate tax.

(Consolidated Statement of Comprehensive Income)

*Reclassification adjustment amount and tax effect amount pertaining to other comprehensive income

(Millions of yen)

| | For the previous fiscal year (From Apr. 1, 2012 to Mar. 31, 2013) | For the current fiscal year (From Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|---|
| Valuation difference on available-for-sale securities | | |
| Amount accrued during the fiscal year | 987 | (329) |
| Reclassification adjustment | (0) | (45) |
| Before tax effect adjustment | 986 | (374) |
| Tax effect | (351) | 133 |
| Valuation difference on available-for-sale securities | 635 | (241) |
| Total other comprehensive income | 635 | (241) |

(Consolidated Statement of Changes in Equity)

For the previous fiscal year (From April 1, 2012 to March 31, 2013)

1.Shares issued

| Class of shares | As of Apr. 1, 2012 | Increase | Decrease | As of Mar. 31, 2013 |
|---|---|---|---|---|
| Common shares (shares) | 48,561,525 | – | – | 48,561,525 |

2.Treasury shares

| Class of shares | As of Apr. 1, 2012 | Increase | Decrease | As of Mar. 31, 2013 |
|---|---|---|---|---|
| Treasury shares (shares) | 175,918 | 1,433 | 61 | 177,290 |

(Summary of Reason for Changes)

The main reason for increase in the number of shares wasas follows:

Increase due to the purchase of fractional shares 1,433 shares

The main reason for the decrease in the number of shares was as follows:

Decrease due to the transferof fractional shares 61 shares

3.Dividends

(1) Dividends paid

| Resolution | Class of shares | Total dividends (Millions of yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Resolution adopted by the Ordinary General Meeting of Shareholders held on Jun. 28, 2012 | Common shares | 315 | 6.50 | Mar. 31, 2012 | Jun. 29, 2012 |
| Resolution adopted by the Board of Directors held on Oct. 31, 2012 | Common shares | 315 | 6.50 | Sep. 30, 2012 | Nov. 19, 2012 |

(2) Dividends whose record date falls in the current fiscal year but the effective date of dividend payment falls in the next fiscal year

| Resolution | Class of shares | Resource of dividend | Total dividends (Millions of yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Resolution adopted by the Ordinary General Meeting of Shareholders held on Jun. 27, 2013 | Common shares | Retained earnings | 315 | 6.50 | Mar. 31, 2013 | Jun. 28, 2013 |

For the current fiscal year (From April 1, 2013 to March 31, 2014)

1.Shares issued

| Class of shares | As of Apr. 1, 2013 | Increase | Decrease | As of Mar. 31, 2014 |
|---|---|---|---|---|
| Common shares (shares) | 48,561,525 | – | – | 48,561,525 |

2.Treasury shares

| Class of shares | As of Apr. 1, 2013 | Increase | Decrease | As of Mar. 31, 2014 |
|---|---|---|---|---|
| Common shares (shares) | 177,290 | 9,027,115 | 4,678,478 | 4,525,927 |

(Summary of Reason for Changes)

The main reasons for increase in the number of shares were as follows:

| | |
|---|---|
| Increase due to purchase of treasury sharesin accordance with resolution of Board of Directors | 8,964,172 shares |
| Increase due to allocation to consolidated subsidiaries for share exchange | 62,323 shares |
| Increase due to the purchase of fractional shares | 620 shares |

The main reason for the decrease in the number of shares was as follows:

| | |
|---|---|
| Decrease due to share exchange | 4,678,478shares |

3.Dividends

(1) Dividends paid

| Resolution | Class of shares | Total dividends (Millions of yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Resolution adopted by the Ordinary General Meeting of Shareholders held on Jun. 27, 2013 | Common shares | 315 | 6.50 | Mar. 31, 2013 | Jun. 28, 2013 |
| Resolution adopted by the Board of Directors held on Oct. 31, 2013 | Common shares | 257 | 6.50 | Sep. 30, 2013 | Nov. 19, 2013 |

(2) Dividends whose record date falls in the current fiscal year but the effective date of dividend payment falls in the next fiscal year

| Resolution | Class of shares | Resource of dividend | Total dividends (Millions of yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Resolution adopted by the Ordinary General Meeting of Shareholders held on Jun. 27, 2014 | Common shares | Retained earnings | 863 | 19.50 | Mar. 31, 2014 | Jun. 30, 2014 |

(Consolidated Statement of Cash Flows)

*Relations between the year-end balance of cash and cash equivalents and the accounts listed in the consolidated balance sheet

(Millions of yen)

| | For the previous fiscal year (From Apr. 1, 2012 to Mar. 31, 2013) | For the current fiscal year (From Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|---|
| Cash and deposits | 14,914 | 14,494 |
| Time deposits with maturities of over 3 months | (205) | (405) |
| Cash and cash equivalents | 14,708 | 14,089 |

(Business Combination, etc.)

1. Transactions, etc. under common control

(1) Outline of business combination

(i) Names of companies involved in business combination and their description of business

Names of companies acquired: TOSAI GAS INC. (hereinafter referred to as "TOSAI GAS"), HIGASHINIHON GAS CORPORATION (hereinafter referred to as " HIGASHINIHON GAS"), SHINNIHON GAS CORPORATION (hereinafter referred to as "SHINNIHON GAS"), and KITANIHON GAS CO., LTD. (hereinafter referred to as"KITANIHON GAS," and TOSAI GAS, HIGASHINIHON GAS, SHINNIHON GAS, and KITANIHON GAS will collectively be referred to as "Four Subsidiaries")

Business description: Supply and sales of city gas/LP gas, sales of gas appliances, and design/construction of gas pipeworks

(ii) Date of business combination

March 7, 2014 (effective date)

(iii) Legal form of business combination

The business combination was conducted by way of a share exchange, whereas the Company is the wholly owning parent company in share exchange and the Four Subsidiaries the wholly owned subsidiaries in share exchange.

(iv) Name after the business combination

Not changed.

(v) Other matters related to the outline of transactions

The Company and the Four Subsidiaries resolved at the Board of Directors'meeting held on December 20, 2013 to undertake a share exchange whereas the Company is the wholly owning parent company in share exchange and the Four Subsidiaries the wholly owned subsidiaries in share exchange, and concluded the share exchange agreement on the same day. Subsequently, the share exchange was conducted on March 7, 2014.

In the energy industry, the full liberalization of retail sale of electricity in 2016 has been concluded, and discussions on the liberalization of retail sale of city gas have commenced in line with such conclusion. The Group has decided to make the Four Subsidiaries in the city gas field its wholly owned subsidiaries so as to swiftly forge various capital alliances in a timely manner in a business environment where the energy industry, which has been subdivided by regulations, will be moving toward liberalization and consolidation in the future. As a result of the foregoing, the Group intends to expedite awareness and structural reforms in the city gas field in which the Group has been lagging behind, in response to the liberalization to be realized after two years from now. At the same time, the Group is intent on implementing active capital policy in order to generate corporate

value.

(2) Outline of accounting treatments adopted

The business combination was accounted for as transactions under common control, based on "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, announced on December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, announced on December 26, 2008).

(3) Matters related to additional acquisition of subsidiary shares

(i)Ratio of acquired voting rights

| | TOSAI GAS | HIGASHINIHON GAS | SHINNIHON GAS | KITANIHON GAS |
|---|---|---|---|---|
| Ratio of voting rights immediately prior to acquisition | 64.9% | 64.9% | 48.1% | 89.4% |
| Ratio of voting rights additionally acquired on the day of business combination | 35.1% | 35.1% | 51.9% | 10.6% |
| Ratio of voting rights after acquisition | 100.0% | 100.0% | 100.0% | 100.0% |

(ii)Acquisition cost and its detail

| | |
|---|---|
| Market value of the Company's common shares on the day of business combination | ¥6,166 million |
| Cost directly required for acquisition such as advisory cost | ¥60 million |
| Acquisition cost | ¥6,226 million |

(4)Exchange ratio by type of share and its calculation method and number of issued shares

(i) Class of shares: Common shares

| | the Company | TOSAI GAS | HIGASHINIHON GAS | SHINNIHON GAS | KITANIHON GAS |
|---|---|---|---|---|---|
| Share exchange ratio | 1 | 2.80 | 0.34 | 0.40 | 1.86 |

(ii) Methodof calculation of share exchange ratio

In order to ensure the fairness and reasonabilityof share exchange ratio, the Company and the Four Subsidiaries have separately requested independent third-party appraisal agencies to calculate the share exchange ratio. The Company selected SMBC Nikko Securities Inc. (hereinafter referred to as"SMBC Nikko Securities"), TOSAI GAS and HIGASHINIHON GAS selected Tokyo Kyodo Accounting Office (hereinafter referred to as"Tokyo Kyodo Accounting"), SHINNIHON GAS selected AGS Consulting Co., Ltd. (hereinafter referred to as"AGS"), and KITANIHON GAS selected Chuo Sogo Business Consulting (hereinafter referred to as"Chuo Sogo"), respectively, as the third-party appraisal agencies to calculate the share exchange ratio.

The Company carefully considered the results of analysis of and advice on the share exchange ratio submitted by SMBC Nikko Securities, and also took into account the financial conditions, business performance trends, stock price trends, and other factors of the Company and the Four Subsidiaries. The Company engaged in negotiations and consultations separately with each of the Four Subsidiaries based on such considerations.

Meanwhile, TOSAI GAS carefully considered the results of analysis of and advice on the share exchange ratio submitted by Tokyo Kyodo Accounting, and also took into account the financial conditions, business performance trends, stock price trends, and other factors of TOSAI GAS and the Company. TOSAI GAS engaged in negotiations and consultations with the Company based on such considerations.

HIGASHINIHON GAS carefully considered the results of analysis of and advice on the share exchange ratio submitted by Tokyo Kyodo Accounting, and also took into account the financial conditions, business performance trends, stock price trends, and other factors of HIGASHINIHON GAS and the Company. HIGASHINIHON GAS engaged in negotiations and consultations with the Company based on such considerations.

SHINNIHON GAS carefully considered the results of analysis of and advice on the share exchange ratio submitted by AGS, and also took into account the financial conditions, business performance trends, stock price trends, and other factors of SHINNIHON GAS and the Company. SHINNIHON GAS engaged in negotiations and consultations with the Company based on such considerations.

KITANIHON GAS carefully considered the results of analysis of and advice on the share exchange ratio submitted by Chuo Sogo, and also took into account the financial conditions, business performance trends, stock price trends, and other factors of KITANIHON GAS and the Company. KITANIHON GAS engaged in negotiations and consultations with the Company based on such considerations.

As a result, the Company and the Four Subsidiaries agreed upon the share exchange ratio stated in (i) above.

(iii)Number of shares of the Companyissued through share exchange

Common share:4,678 thousands shares

The Companyappropriated all the Company’s treasury shares for the Company’s shares issuedand did not issue new shares.

(5) Amount of gain on bargain purchase and cause of its occurrence

(i)Amount of gain on bargain purchase

¥5,458 million

(ii)Cause of itsoccurrence

The gain occurred from the difference between the increase amount of equity of the Company which arethe parties to the business combination and the acquisition cost.

(Segment Information, etc.)

(Segment Information)

1. Overview of reportable segments

(1) Periodical review of reportable segments

The Group's reportable segments are regularly reviewed by the Board of Directors using the segregated financial information available within each segment to determine the allocation of management resources and evaluate business performance.

The Group is mainly engaged in the supply and sale of LP gas and city gas (natural gas), as well as the peripheral business of gas appliances sales and gas pipe works. The consolidated companies are grouped into the 2 product/service segments of "LP gas business" and "city gas business."

(2) Main products and services of each reportable segment

LP gas business……..Supply and sale of LP gas, Community gas business, Gas appliances sales, Gas pipe works, Replacement gas cylinders, Aerosol product

City gas business……Supply and sale of city gas, Gas appliances sales, Gas pipe works

2. Calculation method of the amount of net sales, income (loss), assets, liabilities and other items by reportable segments

The accounting method applied to reported business segments is the same as that stated in "Important Matters that Form the Basis for Preparing Consolidated Financial Statements." Inter-segment sales and transfers are based on actual prices in the markets.

3. Information on the amount of net sales, income (loss), assets, liabilities and other items by reportable segments

For the previous fiscal year (From April 1, 2012 to March 31, 2013)

(Millions of yen)

| | Reportable segments | | Total | Adjustments (Note 1) | Consolidated financial statementsamount (Note 2) |
|---|---|---|---|---|---|
| | LP gas Business | City gas Business | | | |
| Net sales | | | | | |
| Net sales to outside customers | 68,966 | 48,104 | 117,070 | – | 117,070 |
| Inter-segment sales and transfers | 8,480 | 9 | 8,489 | (8,489) | – |
| Total | 77,446 | 48,114 | 125,560 | (8,489) | 117,070 |
| Segment income | 4,238 | 3,633 | 7,872 | 12 | 7,885 |
| Segment assets | 71,850 | 53,108 | 124,958 | – | 124,958 |
| Other items | | | | | |
| Depreciation | 2,330 | 6,603 | 8,934 | – | 8,934 |
| Investments in companies accounted for under the equity method | – | 338 | 338 | – | 338 |
| Increase in property, plant and equipment and intangible assets | 5,216 | 6,908 | 12,125 | – | 12,125 |

(Notes) 1. The amounts ¥12 million in adjustments for segment income include the elimination of transactions between the segments.

2. Segment income is adjusted to operating income in the Consolidated Statement of Income.

For the current fiscal year (From April 1, 2013 to March 31, 2014)

(Millions of yen)

| | Reportable segments | | Total | Adjustments (Note 1) | Consolidated financial statementsamount (Note 2) |
|---|---|---|---|---|---|
| | LP gas Business | City gas Business | | | |
| Net sales | | | | | |
| Net sales to outside customers | 74,414 | 52,418 | 126,833 | – | 126,833 |
| Inter-segment sales and transfers | 9,715 | 2 | 9,717 | (9,717) | – |
| Total | 84,130 | 52,420 | 136,550 | (9,717) | 126,833 |
| Segment income | 5,412 | 3,601 | 9,014 | 18 | 9,032 |
| Segment assets | 65,640 | 57,856 | 123,496 | – | 123,496 |
| Other items | | | | | |
| Depreciation | 2,614 | 6,550 | 9,165 | – | 9,165 |
| Investments in companies accounted for under the equity method | – | 382 | 382 | – | 382 |
| Increase in property, plant and equipment and intangible assets | 2,580 | 7,380 | 9,961 | – | 9,961 |

(Notes) 1. The amounts ¥18 million in adjustments for segment income include the elimination of transactions between the segments.

2. Segment income is adjusted to operating income in the Consolidated Statement of Income.

(Information on the Gain on Bargain Purchase by Reportable Segments)

Gain on bargain purchase at the amount of ¥6,008 million was recorded as extraordinary income as the Four Subsidiaries became wholly owned subsidiaries through share exchange.

Income of reportable segments of the Groupis based on the operating income, and thus is not allocated to each reportable segment.

(Per Share Information)

| Item | For the previous fiscal year (From Apr. 1, 2012 to Mar. 31, 2013) | For the current fiscal year (From Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|---|
| Net assets per share | 832.11 yen | 1,017. 92 yen |
| Net income per share | 78. 01 yen | 220. 93 yen |
| Diluted net income per share | Not stated since there is no dilutive security. | Not stated since there is no dilutive security. |

(Note) The basis for calculation

1. The basis for calculation of net assets per share is as follows:

(Millions of yen unless otherwise stated)

| Item | For the previous fiscal year (As of Mar. 31, 2013) | For the current fiscal year (As of Mar. 31, 2014) |
|---|---|---|
| Total net assets | 53,016 | 44,831 |
| Amount deducted from the total net assets | 12,755 | 6 |
| [Minority interests] | [12,755] | [6] |
| Amount of net assets related to common share as of the end of the fiscal year | 40,260 | 44,824 |
| Number of shares of common share used in the calculation of net assets per share as of the end of the fiscal year (Thousands shares) | 48,384 | 44,035 |

2. The basis for calculation of net income per share is as follows:

(Millions of yen unless otherwise stated)

| | For the previous fiscal year (From Apr. 1, 2012 to Mar. 31, 2013) | For the current fiscal year (From Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|---|
| Net income | 3,774 | 9,464 |
| Net income not attributable to common shareholders | – | – |
| Net income related to common share | 3,774 | 9,464 |
| Average number of shares of common share outstanding during the fiscal year (Thousands shares) | 48,385 | 42,839 |

(Significant Subsequent Events)

None.

5. Non-consolidated Financial Statements

(1) Balance Sheet

(Millions of yen)

| Account | Fiscal year ended Mar. 31, 2013 (As of Mar. 31, 2013) | Fiscal year ended Mar. 31, 2014 (As of Mar. 31, 2014) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 8,232 | 8,964 |
| Notes receivable-trade | 2,910 | 2,741 |
| Accounts receivable-trade | 5,449 | 7,248 |
| Merchandise | 5,244 | 6,303 |
| Supplies | 31 | 29 |
| Advance payments-trade | 151 | 93 |
| Deferred tax assets | 451 | 453 |
| Other | 795 | 636 |
| Allowance for doubtful accounts | (102) | (103) |
| Total current assets | 23,164 | 26,366 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings | 7,890 | 7,858 |
| Accumulated depreciation | (3,998) | (4,166) |
| Buildings, net | 3,892 | 3,692 |
| Structures | 6,036 | 6,128 |
| Accumulated depreciation | (4,204) | (4,536) |
| Structures, net | 1,832 | 1,591 |
| Machinery and equipment | 30,539 | 30,828 |
| Accumulated depreciation | (25,179) | (26,078) |
| Machinery and equipment, net | 5,360 | 4,749 |
| Vehicles | 446 | 520 |
| Accumulated depreciation | (321) | (388) |
| Vehicles, net | 124 | 131 |
| Tools, furniture and fixtures | 948 | 952 |
| Accumulated depreciation | (783) | (822) |
| Tools, furniture and fixtures, net | 164 | 130 |
| Land | 16,822 | 16,902 |
| Lease assets | 891 | 1,608 |
| Accumulated depreciation | (261) | (528) |
| Lease assets, net | 629 | 1,080 |
| Construction in progress | 37 | 13 |
| Total property, plant and equipment | 28,864 | 28,291 |
| Intangible assets | | |
| Goodwill | 1,473 | 1,196 |
| Leasehold right | 8 | 8 |
| Software | 199 | 789 |
| Telephone subscription right | 32 | 32 |
| Other | 276 | 12 |
| Total intangible assets | 1,991 | 2,039 |

(Millions of yen)

| Account | Fiscal year ended Mar. 31, 2013 (As of Mar. 31, 2013) | Fiscal year ended Mar. 31, 2014 (As of Mar. 31, 2014) |
|---|---|---|
| Investments and other assets | | |
| Investment securities | 6,309 | 3,752 |
| Shares of subsidiaries and associates | 21,133 | 25,557 |
| Investments in capital | 3 | 3 |
| Long-term loans receivable | 2,565 | 2,739 |
| Long-term loans receivable from employees | 85 | 78 |
| Long-term loans receivable from subsidiaries and associates | 1,115 | 795 |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | 367 | 367 |
| Long-term prepaid expenses | 34 | 18 |
| Deferred tax assets | 407 | 1,268 |
| Guarantee deposits | 157 | 167 |
| Other | 1,326 | 1,430 |
| Allowance for doubtful accounts | (928) | (928) |
| Total investments and other assets | 32,577 | 35,249 |
| Total non-current assets | 63,433 | 65,581 |
| Deferred assets | | |
| Development expenses | 1 | 0 |
| Total deferred assets | 1 | 0 |
| Total assets | 86,599 | 91,947 |
| Liabilities | | |
| Current liabilities | | |
| Notes payable-trade | 4,997 | 4,513 |
| Accounts payable-trade | 6,450 | 7,419 |
| Short-term loans payable | 3,468 | 8,904 |
| Lease obligations | 482 | 655 |
| Accounts payable-other | 1,481 | 1,577 |
| Accrued expenses | 248 | 259 |
| Income taxes payable | 1,429 | 1,629 |
| Accrued consumption taxes | 211 | 260 |
| Advances received | 115 | 24 |
| Deposits received | 136 | 149 |
| Total current liabilities | 19,022 | 25,393 |
| Noncurrent liabilities | | |
| Long-term loans payable | 29,598 | 30,305 |
| Lease obligations | 996 | 1,314 |
| Provision for retirement benefits | 1,218 | 1,267 |
| Provision for directors' retirement benefits | 431 | 491 |
| Other | 628 | 657 |
| Total non-current liabilities | 32,873 | 34,035 |
| Total liabilities | 51,895 | 59,429 |

(Millions of yen)

| Account | Fiscal year ended Mar. 31, 2013 (As of Mar. 31, 2013) | Fiscal year ended Mar. 31, 2014 (As of Mar. 31, 2014) |
|---|---|---|
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 7,070 | 7,070 |
| Capital surplus | | |
| Legal capital surplus | 5,197 | 5,197 |
| Other capital surplus | 0 | 822 |
| Total capital surplus | 5,198 | 6,020 |
| Retained earnings | | |
| Legal retained earnings | 949 | 949 |
| Other retained earnings | | |
| Reserve for advanced depreciation of non-current assets | 13 | 12 |
| General reserve | 7,750 | 7,750 |
| Retained earnings brought forward | 12,819 | 14,952 |
| Total retained earnings | 21,532 | 23,664 |
| Treasury shares | (6) | (4,901) |
| Total shareholders' equity | 33,793 | 31,852 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 909 | 665 |
| Total valuation and translation adjustments | 909 | 665 |
| Total net assets | 34,703 | 32,518 |
| Total liabilities and net assets | 86,599 | 91,947 |

(2) Statement of Income

(Millions of yen)

| Account | Fiscal year ended Mar. 31, 2013 (from Apr. 1, 2012 to Mar. 31, 2013) | Fiscal year ended Mar. 31, 2014 (from Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|---|
| Net sales | 73,648 | 79,023 |
| Cost of sales | | |
| Beginning goods | 4,428 | 5,244 |
| Cost of purchased goods | 49,397 | 54,105 |
| Total | 53,825 | 59,350 |
| Ending goods | 5,244 | 6,303 |
| Total cost of sales | 48,581 | 53,047 |
| Gross profit | 25,067 | 25,976 |
| Selling, general and administrative expenses | | |
| Freightage related expenses | 2,491 | 2,548 |
| Provision of allowance for doubtful accounts | 75 | 44 |
| Salaries | 3,946 | 4,274 |
| Retirement benefit expenses | 285 | 294 |
| Welfare expenses | 796 | 866 |
| Supplies expenses | 2,041 | 1,879 |
| Taxes and dues | 283 | 297 |
| Depreciation | 2,703 | 2,634 |
| Repair expenses | 1,006 | 955 |
| Commission fee | 4,367 | 4,046 |
| Other | 2,047 | 2,079 |
| Total selling, general and administrative expenses | 20,043 | 19,920 |
| Operating income | 5,023 | 6,055 |
| Non-operating income | | |
| Interest income | 82 | 297 |
| Interest on securities | 56 | – |
| Dividend income | 283 | 250 |
| Foreign exchange gains | 545 | 22 |
| Real estate rent | 53 | 53 |
| A share of the expenses of labor costs and business advisory fee | 11 | 11 |
| Insurance income | 18 | 4 |
| Miscellaneous income | 145 | 147 |
| Total non-operating income | 1,198 | 787 |
| Non-operating expenses | | |
| Interest expenses | 452 | 433 |
| Provision of allowance for doubtful accounts | 150 | – |
| Miscellaneous loss | 21 | 17 |
| Total non-operating expenses | 624 | 450 |
| Ordinary income | 5,597 | 6,392 |
| Extraordinary income | | |
| Gain on sales of non-current assets | 8 | 10 |
| Gain on sales of investment securities | – | 90 |
| Gain on sales of shares of subsidiaries and associates | – | 234 |
| Total extraordinary income | 8 | 335 |

(Millions of yen)

| Account | Fiscal year ended Mar. 31, 2013 (from Apr. 1, 2012 to Mar. 31, 2013) | Fiscal year ended Mar. 31, 2014 (from Apr. 1, 2013 to Mar. 31, 2014) |
|---|---|---|
| Extraordinary losses | | |
| Impairment loss | 163 | – |
| Loss on sales of non-current assets | 4 | 7 |
| Loss on retirement of non-current assets | 91 | 20 |
| Loss on sales of investment securities | – | 0 |
| Loss on valuation of investment securities | 3 | 2,082 |
| Loss on sales of shares of subsidiaries and associates | – | 140 |
| Loss on sales of shares ofsubsidiaries | – | 0 |
| Loss on sales of membership | 6 | – |
| Total extraordinary losses | 268 | 2,251 |
| Income before income taxes | 5,336 | 4,476 |
| Income taxes-current | 2,050 | 2,500 |
| Income taxes-deferred | 45 | (728) |
| Total income taxes | 2,095 | 1,771 |
| Net income | 3,241 | 2,704 |

(3) Statement of Changes in Equity

Fiscal year ended Mar. 31, 2013(from Apr. 1, 2012 to Mar. 31, 2013)

(Millions of yen)

| | Shareholders' equity | | | |
|---|---|---|---|---|
| | Capital stock | Capital surplus | | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus |
| Balance at the beginning of current period | 7,070 | 5,197 | 0 | 5,198 |
| Changes of items during period | | | | |
| Dividends of surplus | | | | |
| Reversal of reserve for advanced depreciation of non-current assets | | | | |
| Net income | | | | |
| Purchase of treasury shares | | | | |
| Disposal of treasury shares | | | (0) | (0) |
| Net changes of items other than shareholders' equity | | | | |
| Total changes of items during period | ― | ― | (0) | (0) |
| Balance at the end of current period | 7,070 | 5,197 | 0 | 5,198 |

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Retained earnings | | | | |
| | Legal retained earnings | Other retained earnings | | | Total retained earnings |
| | | Reserve for advanced depreciation of non-current assets | General reserve | Retained earnings brought forward | |
| Balance at the beginning of current period | 949 | 13 | 7,750 | 10,209 | 18,922 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | | (631) | (631) |
| Reversal of reserve for advanced depreciation of non-current assets | | (0) | | 0 | ― |
| Net income | | | | 3,241 | 3,241 |
| Purchase of treasury shares | | | | | |
| Disposal of treasury shares | | | | | |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items duringperiod | ― | (0) | ― | 2,610 | 2,609 |
| Balance at the end of current period | 949 | 13 | 7,750 | 12,819 | 21,532 |

(Millions of yen)

| | Shareholders' equity | | Valuation and translation adjustments | | Total net assets |
|---|---|---|---|---|---|
| | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | |
| Balance at the beginning of current period | (5) | 31,185 | 286 | 286 | 31,471 |
| Changes of items during period | | | | | |
| Dividends of surplus | | (631) | | | (631) |
| Reversal of reserve for advanced depreciation of non-current assets | | — | | | — |
| Net income | | 3,241 | | | 3,241 |
| Purchase of treasury shares | (1) | (1) | | | (1) |
| Disposal of treasury shares | 0 | 0 | | | 0 |
| Net changes of items other than shareholders' equity | | | 623 | 623 | 623 |
| Total changes of items during period | (1) | 2,608 | 623 | 623 | 3,232 |
| Balance at the end of current period | (6) | 33,793 | 909 | 909 | 34,703 |

Fiscal year ended Mar. 31, 2014 (from Apr. 1, 2013 to Mar. 31, 2014)

(Millions of yen)

| | Shareholders' equity | | | |
|---|---|---|---|---|
| | Capital stock | Capital surplus | | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus |
| Balance at the beginning of current period | 7,070 | 5,197 | 0 | 5,198 |
| Changes of items during period | | | | |
| Dividends of surplus | | | | |
| Reversal of reserve for advanced depreciation of non-current assets | | | | |
| Net income | | | | |
| Purchase of treasury shares | | | | |
| Disposal of treasury shares | | | 822 | 822 |
| Net changes of items other than shareholders' equity | | | | |
| Total changes of items during period | ― | ― | 822 | 822 |
| Balance at the end of current period | 7,070 | 5,197 | 822 | 6,020 |

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Retained earnings | | | | |
| | Legal retained earnings | Other retained earnings | | | Total retained earnings |
| | | Reserve for advanced depreciation of non-current assets | General reserve | Retained earnings brought forward | |
| Balance at the beginning of current period | 949 | 13 | 7,750 | 12,819 | 21,532 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | | (572) | (572) |
| Reversal of reserve for advanced depreciation of non-current assets | | (0) | | 0 | ― |
| Net income | | | | 2,704 | 2,704 |
| Purchase of treasury shares | | | | | |
| Disposal of treasury shares | | | | | |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | ― | (0) | ― | 2,132 | 2,131 |
| Balance at the end of current period | 949 | 12 | 7,750 | 14,952 | 23,664 |

(Millions of yen)

| | Shareholders' equity | | Valuation and translation adjustments | | Total net assets |
|---|---|---|---|---|---|
| | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | |
| Balance at the beginning of current period | (6) | 33,793 | 909 | 909 | 34,703 |
| Changes of items during period | | | | | |
| Dividends of surplus | | (572) | | | (572) |
| Reversal of reserve for advanced depreciation of non-current assets | | — | | | — |
| Net income | | 2,704 | | | 2,704 |
| Purchase of treasury shares | (10,239) | (10,239) | | | (10,239) |
| Disposal of treasury shares | 5,344 | 6,166 | | | 6,166 |
| Net changes of items other than shareholders' equity | | | (244) | (244) | (244) |
| Total changes of items during period | (4,895) | (1,941) | (244) | (244) | (2,185) |
| Balance at the end of current period | (4,901) | 31,852 | 665 | 665 | 32,518 |

6. Supplementary Information

(1) Production, Order and Sales Status

The Group is mainly engaged in sales and consequently does not indicate amounts and volumes representing its production and orders received for each reportable segment.

1) Sales results

Sales by reportable segment for the fiscal yearended March 31, 2014 are as follows:

Sales results by reportable segments (Millions of yen)

| Reportable segments | For the fiscal year ended Mar. 31, 2014 (from Apr. 1, 2013 to Mar. 31, 2014) | For the fiscal year ended Mar. 31, 2013 (from Apr. 1, 2012 to Mar. 31, 2013) |
|---|---|---|
| LP gas Business | 74,414 | 68,966 |
| City gas Business | 52,418 | 48,104 |
| Total | 126,833 | 117,070 |

2) Sales results of LP gas business (Millions of yen)

| Reportable segments | For the fiscal year ended Mar. 31, 2014 (from Apr. 1, 2013 to Mar. 31, 2014) | For the fiscal year ended Mar. 31, 2013 (from Apr. 1, 2012 to Mar. 31, 2013) |
|---|---|---|
| Gas | 58,828 | 53,911 |
| Equipment, construction contracts, etc. | 15,586 | 15,054 |
| Total | 74,414 | 68,966 |

3) Sales results of city gas business (Millions of yen)

| Reportable segments | For the fiscal year ended Mar. 31, 2014 (from Apr. 1, 2013 to Mar. 31, 2014) | For the fiscal year ended Mar. 31, 2013 (from Apr. 1, 2012 to Mar. 31, 2013) |
|---|---|---|
| Gas | 43,460 | 40,283 |
| Equipment, construction contracts, etc. | 8,958 | 7,821 |
| Total | 52,418 | 48,104 |

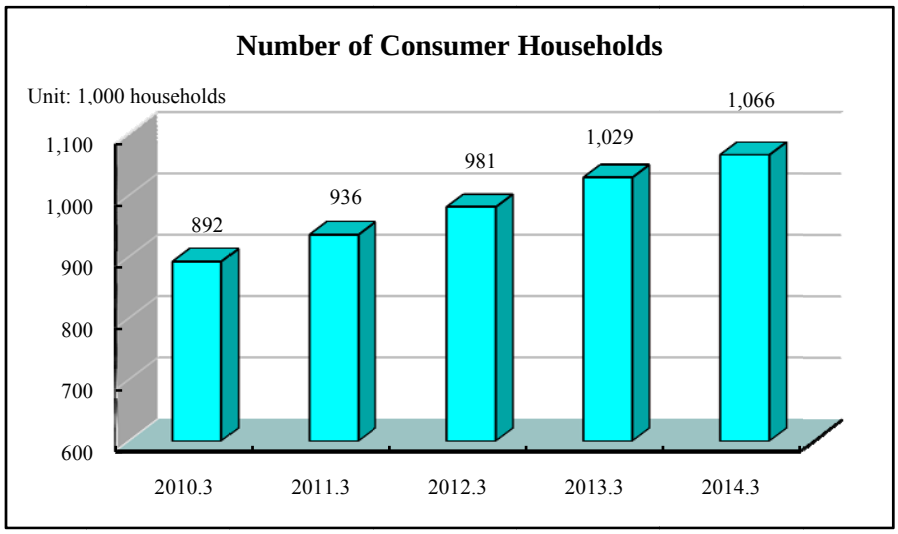
(Notes) 1. Above figures are stated net of consumption taxes, etc.

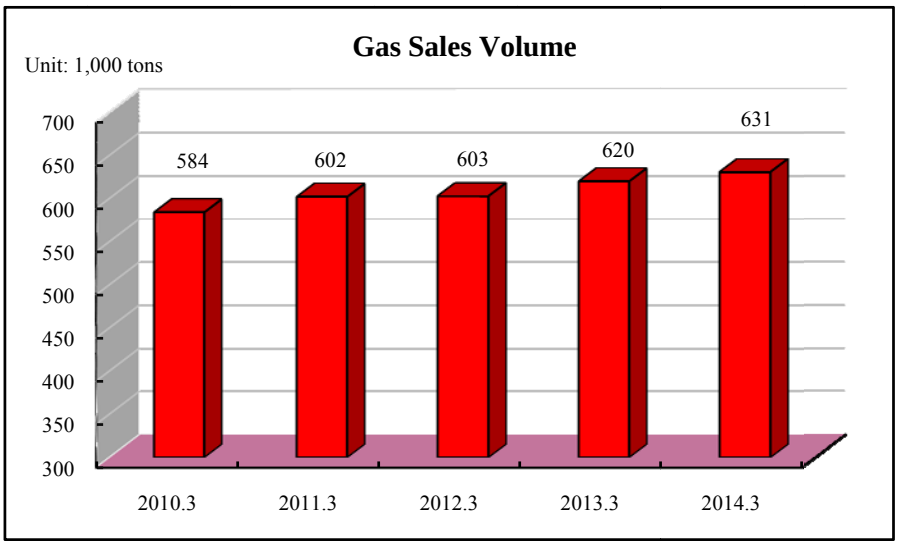
2. Inter-segment transactions are offset.

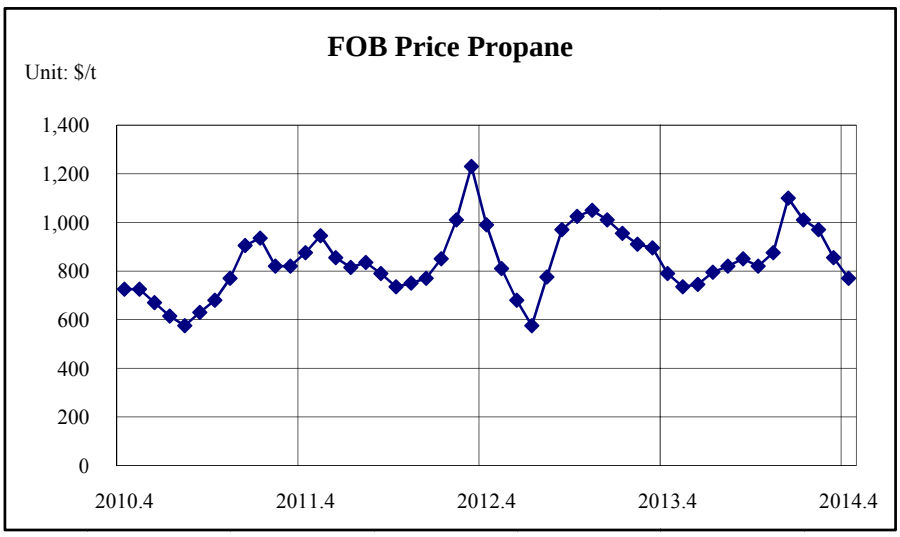
(2) Changes to the Officers of the Company

As for the details of this matter, please refer to the “Notice of Organizational Restructuring and Changes in Personnel,” announced onMarch 28,2014.

(3) Trends in the Number of Houses, etc.




(Note) Gas sales volume includes the sales volume of city gas (LNG) of the city gas business, which has beenconverted into the calorie value equivalent of LPG gas sales volume (1,000 tons)