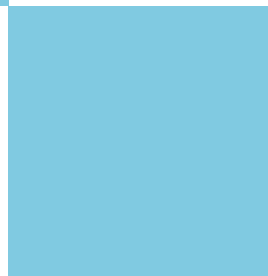




For the Year Ended March 31 , 2014

ANNUAL REPORT 2014



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Forward-Looking Statements

In this annual report, statements other than historical facts are forward-looking statements that reflect the plans and expectations of the Company. These forward-looking statements involve risks, uncertainties and other factors that may cause actual results and achievements to differ materially from those anticipated in these statements.

President's Message

The Toho Gas Group, an energy group operating mainly in Aichi, Gifu and Mie Prefectures, focuses on supplying natural gas, a clean, environment-friendly source of energy.

Natural gas, our main product, is positioned as an important energy source in Japan's energy policy, so its market is expected to grow even further in the years ahead. Meanwhile, more intense competition is anticipated due to the energy liberalization brought about by electricity and gas system reforms.

Against that background, in March 2014 the Toho Gas Group formulated a new medium-term management plan (target period: FY2014 through 2018). In the years to come, we will steadily implement the following measures, set out in the plan.

In LNG procurement, we will diversify supply sources, types of contracts and price indexes, and will strengthen our bargaining power through joint procurement, thereby ensuring stable procurement of LNG at competitive prices. Also, to enhance the flexibility of our LNG terminal operations, we will take such steps as constructing a new LNG tank at the Chita-Midorihamas Works.

To increase demand for natural gas in the residential market, we will further promote "ENE FARM (fuel cell for residential-use cogeneration)" and take other related steps to provide comfortable life and high-quality services. In the industrial/commercial market, we will provide "Comprehensive Utility Service," designed to fulfill customer needs on a one-stop basis, while promoting distributed



Koichi Yasui / President

energy supply systems. Moreover, we will expand the city-gas service area by extending gas pipelines, and develop demand for LNG and LPG in wide area, thereby broadening our gas service area.

The Toho Gas Group is determined to do its utmost to carry out this plan and build a robust gas business and continue to be trusted and chosen by customers in the face of fierce competition. We will also take advantage of expanding business opportunities to achieve even greater growth.

We truly appreciate the continuing understanding and support of our shareholders and investors.

About Natural Gas Business in Japan

- **Japan produces very little natural gas**

Japan imports a great deal in the form of liquefied natural gas (LNG)

- **Abundance of mountain ranges in the country and the population disproportionately located in urban areas LNG receiving terminals are chiefly built at the port of major cities.**

There is no integrated long-distance pipeline connecting major cities

- **There are around 200 city gas companies in Japan**

The three biggest together account for approximately 80% of nationwide city gas sales in volume

- **Gas suppliers are required not only rate or business regulations, but also safety of customer's site**

About Toho Gas

Core businesses

Toho Gas is the third largest city gas provider in Japan following Tokyo Gas and Osaka Gas, supplying city gas mainly in Aichi, Gifu and Mie Prefectures in the Tokai Area. Beside the LPG (liquefied petroleum gas) sales business, its group companies are engaged in the residential energy business that proposes gas appliances for residential use, including bathroom and kitchen refurbishment, and the engineering business that performs design and installation of gas equipment in plants, office buildings and other commercial and industrial facilities.

Our Gas Service Area

The three prefectures of the Tokai area that Toho Gas supplies (Aichi, Gifu and Mie), which are located in the central portion of the Japanese archipelago, represent 6% of the area of Japan, roughly 9% of the population and 10% of GDP. Nagoya, which has a population of over 2 million, is one of the largest cities in Japan.

A unique feature of the Tokai area is its high concentration of superior manufacturers in a variety of categories,

Trend of Gas Sales Volume

Due to these characteristics of our service area, sales to plants and other industrial customers account for 60% of our total gas sales volume. Including sales to office buildings, stores, and other commercial facilities, sales to “non-residential” customers account for more than 70% of our total gas sales volume. After the Lehman crisis and the East Japan Great Earthquake, gas sales have decreased. However, since we have made efforts in demand development, recently, the sales volumes have gradually recovered to the level before the Lehman crisis.

Comparison with Tokyo Gas and Osaka Gas

(Non-Consolidated Results for FY2013)

	TOHO GAS	TOKYO GAS	OSAKA GAS
Number of customers (thousands)	2,340 (100)	10,809 (492)	7,136 (305)
Gas Sales Volume (billions of m ³) <46.04655MJ(11,000kcal)/m ³ >	3.9 (100)	14.9* (380)	8.7* (223)

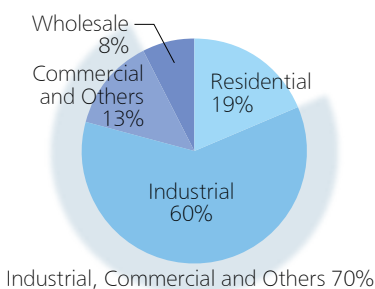
Note: () means multiples of TOHO (=100)

*Converting the calorie about results of TOKYO GAS and OSAKA GAS to 46.04655MJ (11,000kcal)/m³

including Toyota and its affiliated companies, manufacturers of transportation devices, steel, machines, ceramics and other high technology businesses. The share of domestic production of products, including globally competitive automotive-related products, metalworking and machine tools and aircraft-related products, is particularly high in the Tokai area.

Gas Sales Volume by sector

(Years ended March 31)



Si Sensor Gas Kitchen Stove for Residential Use



Industrial Furnace for Industrial Use



Air Conditioning System for Commercial Use

Toho Gas Service Area and Pipeline Network (As of April 1, 2014)



Financial/Operating Statistics Highlights

Financial Statistics

TOHO GAS CO., LTD. And Consolidated Subsidiaries Years Ended March 31

	Millions of yen, except per share data						Thousands of U.S. dollars ⁽¹⁾ , except per share data
	2009	2010	2011	2012	2013	2014	2014
For the year:							
Net sales	¥474,560	¥411,525	¥436,826	¥482,361	¥518,305	¥560,463	\$5,441,388
Operating income	10,889	17,819	23,907	17,504	12,621	15,751	152,922
Net income	5,808	10,977	14,492	8,570	8,526	11,241	109,136
Capital investment (payment basis)	48,446	43,673	33,259	32,547	35,199	33,094	321,301
Depreciation	40,630	61,158	40,573	40,272	36,902	35,781	347,388
At year-end:							
Total assets	¥516,129	¥506,725	¥495,627	¥492,889	¥504,462	¥509,760	\$4,949,126
Net assets	205,748	220,938	221,502	224,365	236,470	245,890	2,387,282
Interest-bearing debt	193,201	171,052	161,401	164,325	162,016	164,518	1,597,262
Per share data (yen and U.S. dollars):							
Net income	¥10.38	¥19.68	¥26.22	¥15.68	¥15.62	¥20.61	\$0.20
Net assets	367.67	399.37	402.25	410.96	433.53	450.92	\$4.38
Financial Indicators:							
Return on equity (ROE) ⁽²⁾	2.6%	5.1%	6.6%	3.8%	3.7%	4.7%	
Return on assets (ROA) ⁽³⁾	1.1	2.1	2.9	1.7	1.7	2.2	

Notes: 1.U.S. dollar amounts have been translated from Japanese yen, solely for the convenience of readers, using the approximate prevailing exchange rate at March 31, 2014, which was ¥103 to U.S.\$1.00

2.ROE = net income ÷ net assets (average of the beginning and end of the period) × 100

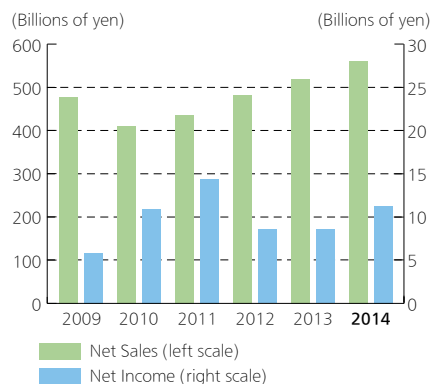
3.ROA = net income ÷ total assets (average of the beginning and end of the period) × 100

Operating Statistics

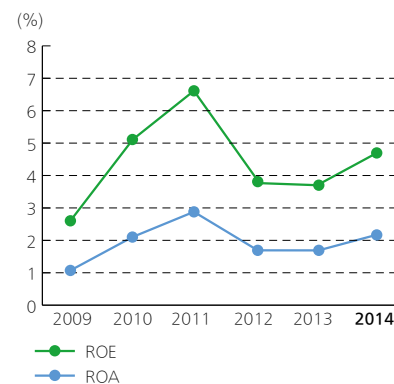
TOHO GAS CO., LTD. And Consolidated Subsidiaries Years Ended March 31

	Number of Customers/ Gas Sales Volume: Thousand m ³					
	2009	2010	2011	2012	2013	2014
Number of Customers:						
Number of Customers	2,280,469	2,295,241	2,306,706	2,322,472	2,344,773	2,363,767
Gas Sales Volume:						
Residential	722,428	730,102	753,130	755,730	761,142	743,018
Industrial	2,172,405	2,129,659	2,332,675	2,353,087	2,367,580	2,407,993
Commercial and Others	514,125	514,021	541,168	522,113	525,857	530,711
Industrial, Commercial and Others	2,686,530	2,643,680	2,873,843	2,875,200	2,893,437	2,938,704
Wholesale	270,096	252,936	282,925	312,028	298,208	298,903
Total Gas Sales Volume	3,679,054	3,626,718	3,909,898	3,942,958	3,952,787	3,980,625

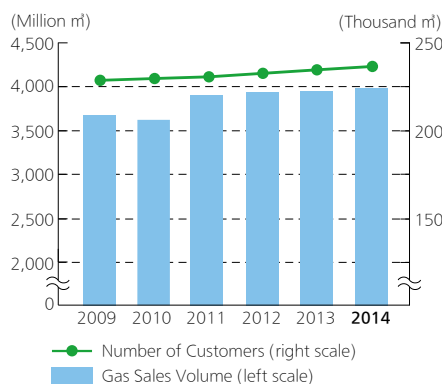
Net Sales and Net Income



ROE and ROA



Number of Customers and Gas Sales Volume



Corporate Data

Corporate Name:

TOHO GAS CO., LTD.

Head Office:

19-18, Sakurada-cho, Atsuta-ku,
Nagoya 456-8511, Japan
Phone: +81-52-872-9341
Fax: +81-52-881-3876
URL: http://www.tohogas.co.jp/eng_index/

Date of foundation:

June 1922

Date of establishment:

July 1922

Capital stock:

Authorized: 805,998,157 shares
Issued: 545,966,429 shares

Number of shareholders:

20,715

Stock transaction unit:

1,000 shares

Stock listing:

Capital stock is listed on the Tokyo Stock Exchange,
and Nagoya Stock Exchange.

Transfer agent:

Mitsubishi UFJ Trust and Banking Corporation
(Corporate Agency Div.)
4-5, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-8212, Japan

Shareholders' meeting:

The ordinary general meeting of shareholders
of the Company is normally held in June of
each year in Nagoya, Japan.

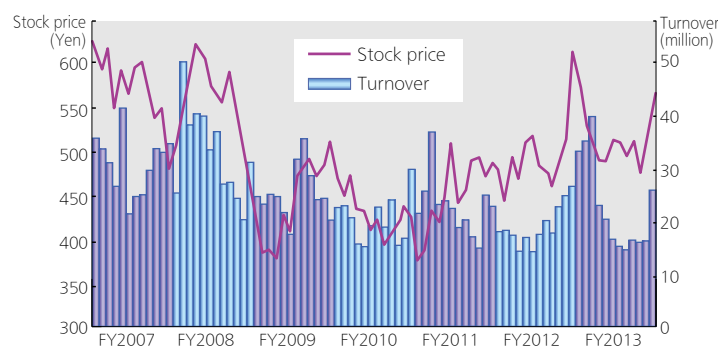
Number of employees:

5,813

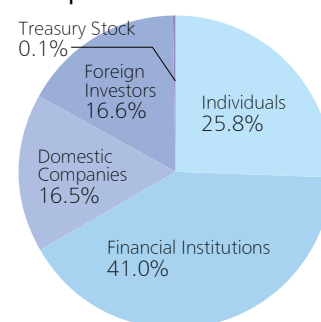
Number of customers:

2,363,767

Stock Price and Traded Volume



Composition of Shareholders



Return to Shareholders

Following its basic policy of distributing stable dividends, Toho Gas has increased dividends to shareholders gradually while considering the balance with the return to customers (lowering of the gas rates). From FY2012, Toho Gas has

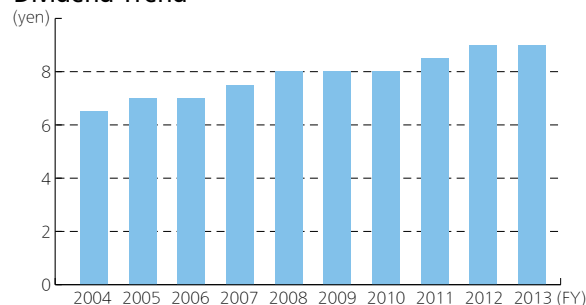
paid annual dividends of ¥9 per share to shareholders.

In addition, Toho Gas has implemented a strategy to purchase back its own shares, which resulted in an increase in per-share earnings.

Return to Shareholders

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Net income(a)	5.8	10.9	14.4	8.5	8.5	11.2
Cash dividend (per share)	4.4 (¥8)	4.4 (¥8)	4.4 (¥8)	4.6 (¥8.5)	4.9 (¥9)	4.9 (¥9)
Share buy-back	—	2.9	2.7	—	—	—
Dividend +share buy-back(b)	4.4	7.4	7.1	4.6	4.9	4.9
(b)/(a)	77%	68%	49%	54%	58%	44%

Dividend Trend



Excellent Characteristics of Natural Gas

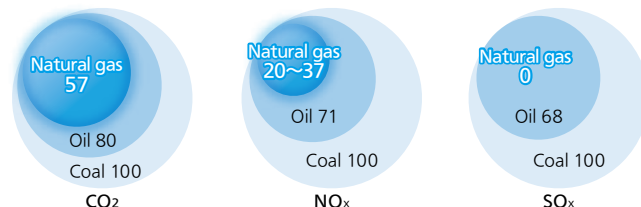
Natural gas, which is the main product of Toho Gas, is environment-friendly. It exists abundantly and can be

supplied stably. Expansion of its use is expected in the future.

Environment friendly

Natural gas, which is primarily composed of methane, when burned, generates only small amounts of carbon dioxide that is the key contributors to global warming and nitrogen oxide emissions that causes photochemical smog, respectively-and zero sulfur oxide emissions, the principal cause of air pollution and acid rain. For this reason, natural gas, as a clean environment-friendly energy source, is gaining in popularity around the world.

Emissions of combustion by-products from fossil fuels (Coal = 100)



Source: The Institute of Applied Energy, Report on Evaluation of Effect of Thermoelectric Power Generation on the Atmosphere (1990) for CO₂, OECD/IEA, Natural Gas Prospects to 2010 (1987) for NO_x and SO_x

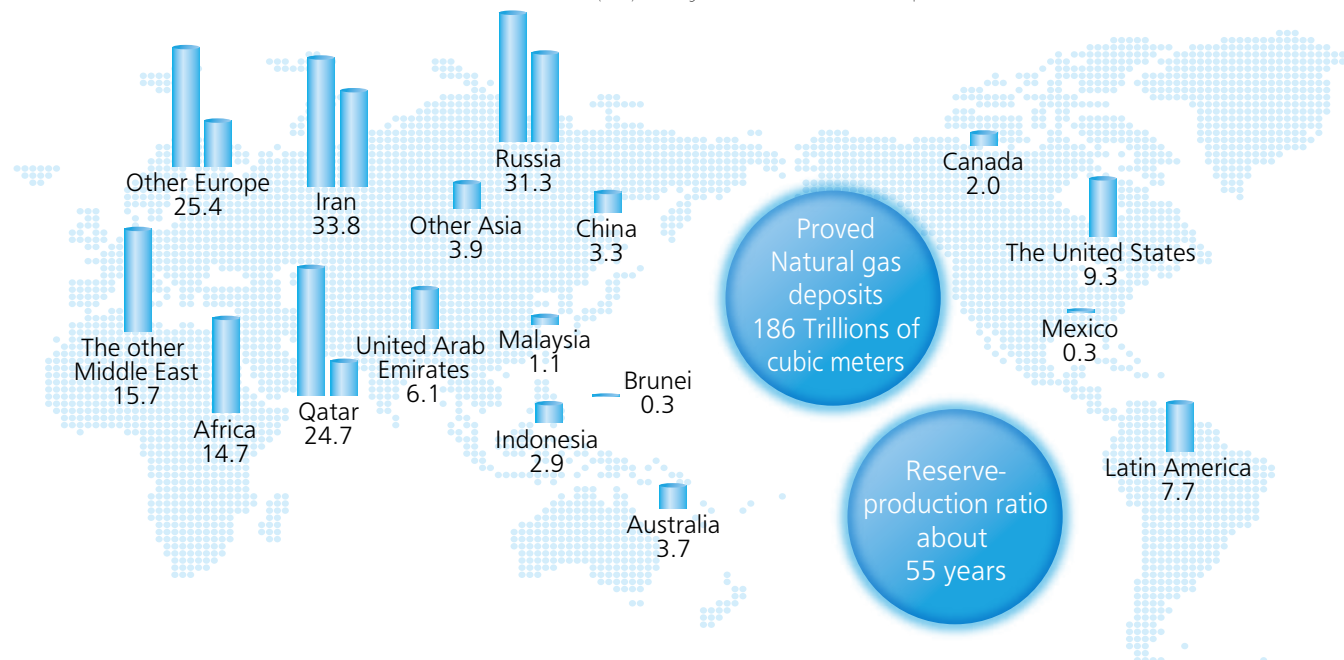
Stable supply

Natural gas exists abundantly around the world. It is imported by LNG tankers to Japan from Australia, Malaysia, Russia and many other countries. Recent advances in extraction technology have enabled natural gas extraction from deeper underground than was feasible using traditional technology, as well as the extraction of unconventional natural gas resources (shale gas, tight sand gas and coal bed methane). These circumstances will support

the stable supply of natural gas.

Moreover, methane hydrate in amounts sufficient to meet Japan's natural gas requirements for about 100 years is embedded under seas close to Japan. A development project is now in progress under the initiative of the Japanese government to achieve commercial use of methane hydrate.

Global Distribution of Natural Gas Deposits



Medium-term Management Plan

Toho Gas has developed a new five-year Medium-Term Management Plan (FY2014 to FY2018). This Plan creates a path to realize the “Toho Gas Group Vision” for the 100th anniversary of our establishment.

The concepts of this plan are “Build a robust gas business” and “Take on challenges for further growth”. We will thoroughly support households and businesses in local communities by building a robust gas business that is

trusted and will continue to be chosen by customers even in the face of fierce competition. In addition, we will quickly and precisely capture growing business opportunities due to changes in the business environment and create a foundation for further growth.

Based on this concept, we developed five action plans and set targets to strengthen the business foundation to support these action plans.

Medium-term Management Plan

Concept

「Build a robust gas business」

「Take on challenges for further growth」

Action plan

Action1 Provide a stable supply of energy at a competitive price

Action2 Strengthen our relationship with customers

Action3 Expand gas business service area

Action4 Expand scope of business

Action5 Ensure safety and security

Strengthen the business foundation for further growth

Management goals

	FY2018 (projection)
Number of Customers*	2.94 million
Gas Sales Volume(Natural Gas)	4.5 billion m ³
Gas Sales Volume(LPG)	470 thousand tons
Operating Cash Flow	58 billion yen
Debt Equity Ratio	1.0 and under
ROA	About 3%

* Including the customers of Natural gas and LPG

Toho Gas Group Vision

for the 100th Anniversary of our Establishment (March 2013)

Ideal form

Towards energy that opens up the way to the future

—Delivering higher and wider scope of value to customers—

The 100th Anniversary

Medium-term management plan

FY2014~FY2018

Group Vision

FY2013~FY2022

Medium-term Management Plan

Action 1 Provide a stable supply of energy at a competitive price

Toho Gas moves forward with efforts to optimize our portfolio by diversifying LNG procurement and to create the infrastructure for a stable supply, and provide energy at a competitive price.

❖ Diversifying LNG procurement

We will diversify supply sources, type of contracts and price-index to procure LNG at a more competitive price.

We purchase 3 million tons of LNG each year from five countries (Indonesia, Australia, Malaysia, Qatar and Russia (Sakhalin)) under long-term supply contracts. In January 2014, we concluded a LNG purchase agreement with the U.S. Cameron Project. Under this agreement, Toho Gas has adopted the Henry hub price as the price index, for the first time, for its long-term agreement.

We strengthen our position in negotiations with

suppliers by expanding choices through diversified procurement, joint purchasing and acquire more competitive prices and flexible contract terms.

Supply Sources



TOPICS The U.S. Cameron Project for LNG purchase

The U.S. Cameron Project is a project to liquefy U.S. natural gas, including shale gas, and export as LNG. Toho Gas has entered into a sale and purchase agreement with Mitsui & Co., Ltd. ("Seller"), and we will annually purchase approximately 300 thousand tons of LNG from the Seller for 20

years from the start of production under this Project.

Cameron LNG Terminal



❖ Improving the infrastructure for a stable supply

LNG is transported from other countries by tanker to our works in Chita-Midorihama, Chita LNG Terminal and Yokkaichi, and is stored in LNG tanks. In these three works, LNG is gasified by LNG vaporizers and mixed with LPG (liquefied petroleum gas), to adjust it to the required calories. After Gas Odorizer is added for safety reasons, it is delivered as city gas (13A).

We will make the most effective use of facilities in the Chita and Yokkaichi areas and increase the flexibility of LNG terminal operations in order to diversify LNG procurement (changes in LNG properties such as lighter LNG, increase purchases on the spot market, introduce large LNG tankers, etc.).

TOPICS The completion of Cross Ise Bay Trunkline and Construction of No.3 Tank in Progress at Chita-Midorihama Works

Cross Ise Bay Gas Pipeline was completed in September 2013. It connects the works in Chita and in Yokkaichi, that are located on the opposite shores across Ise Bay. Since the backup system between the works was completed, our capacity to transmit gas to Mie Area has increased.

The construction of the third in-ground LNG tank is under way in the Chita-Midorihama Works, which is scheduled for completion in FY 2016. Once completed, it will be one of the largest LNG tank in the world, with a capacity of 220,000 kl,

which will flexibly and efficiently support our raw material storage requirements.

Creating the infrastructure for a stable supply



Action 2 Strengthen our relationship with customers

Toho Gas strengthens our relationship with customers due to realization and providing services which responds customer needs.

Residential use

❖ Providing a comfortable life and high-quality services

We will address spreading of cogeneration for residential use (fuel cell system “ENE FARM” and residential gas engine cogeneration system “ECO WILL”).

Cogeneration is efficient system, generates electricity by city gas. The exhaust heat discharged as a by-product can be used for heating and water heating. Especially ENE FARM, which generates electricity by the chemical reaction between hydrogen (retrieved from city gas) and oxygen in the air, has developed the number of installed units because of its environment-friendliness and economic efficiency.

We are striving to achieve stock sales of 35,000 units by the end of FY 2018 by promoting greater efficiency and lowering costs of the system and further proposing its combined use with solar energy

systems.

In addition, we will provide a comfortable life by strengthening our ability of solution proposals for residential customers such as conducting energy saving assessments for homes, which include providing advice on behaviors improving energy efficiency. We will also improve the quality of services in the opportunities to contact with customers such as connection/disconnection work services, repairs, etc., and propose additional services.

Goal of installed units of cogeneration for residential use

	End of FY2013	End of FY2018	End of FY2022
Cogeneration for residential use (Installed units)	20 thousand units	35 thousand units	50 thousand units

❖ Promoting the introduction of smart technology

We will develop smart gas meters and communication methods, reduce the cost and deal with the introduction of smart technology.

From FY2014, we initially introduce to the homes of customers

using automatic notification service, evaluate equipment and system performance, and build monitoring system, examine services, etc.

Industrial/Commercial use

❖ Proposing optimal energy use

We have promoted the use of clean natural gas, encouraging customers to change their industrial furnaces such as thermal treatment furnaces and drying furnaces and boiler fuel from oil to city gas. Industrial furnaces using city gas demonstrate excellent controllability and energy-saving property. City gas is used in the production processes of many industries, including transportation machines, steel and other metals, foods, and glasses, etc.

We will expand our Comprehensive Utility Services business. This

business satisfies thermal energy demands of industrial furnaces and boilers, develops gas air-conditioning demands and provides comprehensive services from construction of gas facilities to their operation, maintenance and management. By proposing the optimal use of energy for each customer, we will develop new demand equivalent to 100 million m³ annually.



Fuel conversion in an industrial furnace

❖ Further spreading distributed energy systems

Distributed energy system, such as gas cogeneration system, generates electricity at the user site. The exhaust heat discharged as a by-product can be used for air-conditioning and water heating, thereby contributing to efficient energy use.

We will improve the efficiency of the cogeneration system and reduce its cost, aiming to increase the installed capacity from the current 750,000 kW to 800,000 kW by the final year of the medium-term plan.

We will also expand the area-wide use of energy such as district heating and cooling which optimizes the advantage of cogeneration system mainly in Nagoya station area where redevelopment plans have been taking shape.

Goal of installed capacity of distributed energy system

	End of FY2013	End of FY2018	End of FY2022
Distributed energy system (Installed capacity)	750 thousand kW	800 thousand kW	1,000 thousand kW

Medium-term Management Plan

Action 3 Expand gas business service area

Toho Gas provides gas energy to a wider area through optimal supply form which responds customer needs.

Expanding the city-gas service area

We will improve delivery capacity to the entire the city-gas service area by improving transportation pressure at Chita LNG terminal, building the trunk line toward the area which has highly gas demand and so on.

We have expanded our service areas to meet increasing gas demand, establishing and improving its gas pipelines, so as to ensure stable city gas supply. The length of the Toho Gas

Group pipelines and branch lines totals about 28,000 km, almost two-thirds the circumference of the earth.

We will improve and expand our gas pipeline network from medium- and long-term perspectives, including sites for future works and land development plans. Specifically we plan to develop demands in the middle and eastern Mino regions of Gifu and the middle and southern Ise regions of Mie, etc.

Expanding the service area for LNG and LPG

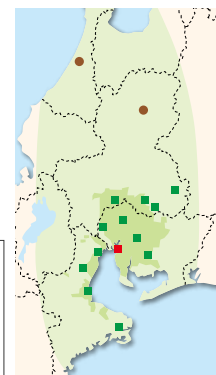
We will launch sales of LNG, in particular to industrial customers in areas near those supplied with city gas, with a goal of switching them over to the LNG pipeline network in the future.

The Meiko LPG Terminal, the largest secondary terminal in Japan, is a core terminal of Toho Gas. It covers the supply of LPG in the Tokai Area, through the network of company-owned gas storage stations. We will further strengthen the LPG business as another pillar of the “robust

gas business,” following the city gas business, to expand demand in a wider area.

LPG service area

- 【Legends】
- LPG service area
 - LPG filling station
 - LPG wide area sales office
 - Meiko LPG terminal
 - City gas service area



Action 4 Expand scope of business

Toho Gas expands its business scope, particularly for the comprehensive energy business and in fields peripheral to energy, and realize further growth for the Toho Gas Group.

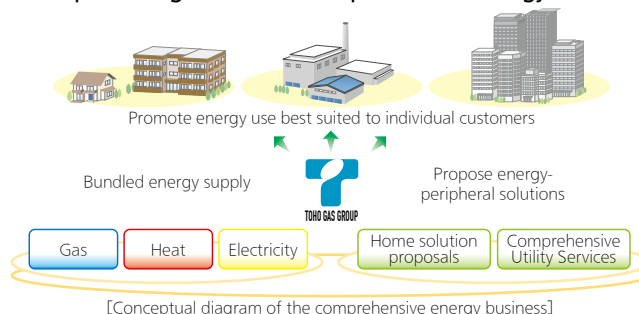
Developing the comprehensive energy business

Complete liberalization of the energy business is approaching, led by the government's initiative to reform the electric power generation and the gas businesses. Under these circumstances, Toho Gas puts emphasis on a “Comprehensive Energy Business” to realize optimal energy use for customers. The Comprehensive Energy Business provides not only a system that collectively supplies gas, heat, and electricity but also solution proposals for a broad range of energy-related businesses.

We are also strengthening our efforts in the power generation field, mainly by installing cogeneration system and other distributed power sources. For example, we will install a large-scale cogeneration (power cogeneration)

system in an industrial park where a huge volume of heat is consumed. Excess power that is generated may be supplied to consumers outside the industrial park.

Conceptual diagram of the comprehensive energy business



❖ Expanding upstream business

In January 2012, we concluded an LNG sales and purchase agreement with the Ichthys LNG Project, in which Toho Gas also acquired its first upstream equity interest. The Project is

scheduled to begin production in FY2016. We also plan to participate in another upstream project.

❖ Strengthening Group business

Our group companies are engaged in the residential energy business that proposes gas appliances for residential use, including bathroom and kitchen refurbishment, and the engineering business that performs design and installation

of gas equipment in plants, office buildings and other commercial and industrial facilities. We will strengthen our group business and generate synergies with the gas business.

❖ Developing smart towns

We revitalize of local communities through superior urban planning in terms of the environment and disaster prevention, and strive to develop smart towns, which will create business opportunities. Currently, the preparation of a former plant site of Toho Gas is in progress to build a smart town on it, aiming to start and gradually introduce services from 2015 to 2018.

We also develop hydrogen supply infrastructure for the

expected introduction of fuel cell cars in FY2015. We will build two new hydrogen stations and work to make the three existing stations commercially viable after verifying the technology.



Hydrogen refueling station

Action 5 Ensure safety and security

Toho Gas ensures safety and security for customers by strengthening efforts related to disaster prevention and safety.

❖ Promoting disaster prevention measures

Based on the large-scale earthquake scenarios published by the national and local governments, we take necessary anti-quake, anti-tsunami and anti-liquefaction measures. We also strive to strengthen our disaster control organizations. For example, we also have a system that can quickly stop city gas supply by remote control in accordance with the damage conditions at each respective location, so as to prevent secondary disaster. Moreover, to minimize inconvenience to

gas consumers and ensure no interruption of the city gas supply to less-damaged areas, we have divided our gas pipeline network into 72 small blocks, which we will further divide into much smaller blocks.



Automatic supply management system

❖ Promoting security measures

We conduct maintenance and replacement of production and supply facilities. For example, to further increase the safety of our gas facilities, we are now replacing gas pipes with quake-resistant and anti-corrosive gas piping materials (such as polyethylene pipes), in accordance with our plan.

We also continue security activities concerning gas appliances in customers' homes and sites, including

encouraging customers to replace their current appliances that are not equipped with flame-failure devices with safer appliances.



Replace aging gas pipes with polyethylene pipes

Medium-term Management Plan

Strengthen the business foundation for further growth

Realize growth cycle

We work to improve the efficiency of management and maintain fixed expenses at the current level, by creating efficient equipment, pursuing efficient operation and cost reduction, while increasing the sales volumes and sales amounts. In addition, we will generate operating cash flows of at least 260 billion yen over the next five years by increasing management efficiency, achieving steady growth in the gas business, our core business, and reinforcing

group businesses. While maintaining a sound and stable financial position, we will invest the cash flows on expanding gas business service area and expanding the scope of business. Then as the return to shareholders from the cash flows, we will flexibility conduct share buybacks while having a basic policy of paying stable dividends.

We expand the profit base and create a sustainable growth cycle by implementing these measures.

Strengthen human resources and “Genba-Ryoku”

We will recruit and develop human resources who possess a broad perspective. We will also strengthen our ability to

efficiently and steadily execute core operations.

* Capabilities needed at the front of business

Strengthen technical capabilities

We will work to develop technology to precisely meet more diverse customer needs. For example, we will strive to improve the efficiency and reduce costs of residential use equipment such as ENE-FARM and industrial equipment including cogeneration system, gas heat pumps (GHP) and

industrial furnaces. We will also develop optimal energy-network controlling technologies of smart town.

Additionally we will reinforce the Group’s engineering capability by constructing, maintaining and managing gas production and supply facilities and customer facilities.

Thoroughly implement CSR management

We will strive to improve corporate governance and thoroughly implement compliance. As an environmentally advanced company, we will also contribute to local

communities through our various activities such as next-generation education.

Management goals

		FY2013	FY2018 Projection	FY2013 to FY2018 Average Annual Rate of Increase	FY2022 100th Anniversary
Number of Customers	Natural Gas	2.36 million	2.46 million	0.8%	2.5 million
	LPG*1	0.44 million	0.48 million	1.8%	0.5 million
Gas Sales Volume	Natural Gas*2	4.0 billion m ³	4.5 billion m ³	2.2%	5 billion m ³
	LPG	421 thousand tons	470 thousand tons	2.3%	500 thousand tons

*1 Including the number of customers based on commissioned business for delivery

*2 Including the number of gas sales volume of LNG

	FY2009 to 2013 Average	FY2018 Projection	FY2022 100th Anniversary
Operating Cash Flow	48.2 billion yen	58 billion yen	60 billion yen
Debt Equity Ratio	0.7	1.0 and under	1.0 and under
ROA	2.1%	About 3%	3% and over

Transparency and Integrity of Management

Toho Gas establishes a fair and transparent management structure, complies with laws and regulations, and respects

the common sense of society. Toho Gas is engaged in its business activities in good faith and in a fair manner.

Corporate Governance

Organizations for Corporate Governance

(1) Management Structure

The board of directors of the Company comprises 9 directors, including one outside director. In accordance with regulations for the board of directors, the board makes important decisions relating to group companies and the entire Group, and supervises directors' execution of duties. To strengthen the function of executive operations and clarify responsibilities, the Company uses the Executive Officer System. The Management Committee has also been established to deliberate on important management

issues in accordance with the basic policy established by the Board of Directors and to strengthen coordination and cross-checking between corporate functions and business divisions. Important individual matters are deliberated in relevant committees, including the Compliance Committee, the Group Environment Committee and other committees chaired by the president or officers in charge, before they are escalated to the Management Committee.

(2) Audit Structure

The board of corporate auditors comprises five corporate auditors, including three outside corporate auditors. Each corporate auditor performs their duties based on an auditing plan drafted by the Board of Corporate Auditors and monitors the management activities of directors through such measures as attending key meetings, including updates and meetings of the Board of Directors and other events. There is also a Corporate Auditors' Office with four full-time staff who supports the corporate

auditors, thereby strengthening auditing functions.

Auditing Department that acts as an internal auditing organization conducts periodic audits as outlined in its auditing plan to assess the propriety and efficiency of operational activities within the Group, including affiliates. The results of the audits, which include advisement, are promptly issued to the Chairman, President, Managing Directors, who are in charge of the division under audit, and auditors, as well as the division under audit.

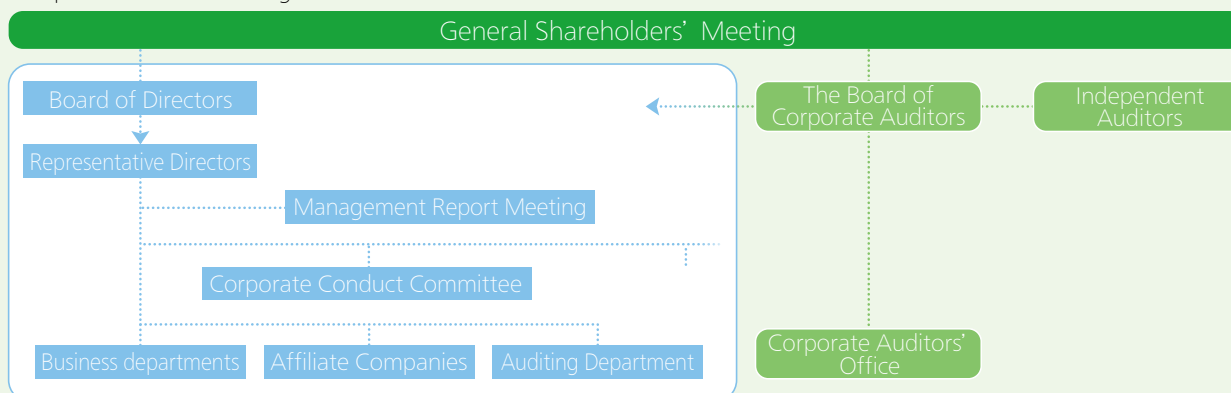
(3) Outside Directors and Outside Corporate Auditors

Outside directors and outside corporate auditors are appointed for the purpose of strengthening the supervising and auditing functions of these boards and ensuring the transparency and fairness of Company management. Since one outside director and the three outside corporate auditors have no special relation with the Company, the Company deems them "independent officers," as defined by securities exchanges, since it has been determined

that no conflict of interest exists or will arise between shareholders and these outside director and corporate auditors.

Outside directors and outside corporate auditors of the Company provide advice and proposals relating to overall management of the Company based on their abundant experience and knowledge from independent perspectives. They also supervise and audit directors' execution of duties.

【Corporate Governance Organizational Chart】



Transparency and Integrity of Management

❖ Status of Internal Control System

To ensure appropriate and efficient business operations within the Toho Gas Group, the Board of Directors of Toho Gas has determined a basic policy for internal control systems to “establish a system that ensures the appropriateness of operations (internal control system).” In accordance with this policy, we manage our activities to ensure strict compliance and risk reduction.

To comply with the requirement of “Report of Internal Controls Relating to Financial Report” under the Financial

Instruments and Exchange Act, the relevant departments conduct self-checking concerning whether they have in place and operate properly internal rules and a checking system, which is further confirmed by the Auditing Department before undergoing auditing by an independent auditing firm. When the effectiveness of the internal control related to financial reporting of Toho Gas is confirmed by the above-mentioned internal steps, an internal control report is submitted to the Financial Services Agency.

❖ Risk management

To reduce business-related risks, we have Risk Management Regulations in place. Under the responsibility of the officer in charge of risk management, the main controlling department identifies, assesses and takes necessary actions against business-related risks, in cooperation with related departments. The identified risks and their status across the corporate group are reported to the Management Committee and the Board of Directors of Toho Gas.

Serious risks related to business environment, material procurement, financial condition, operations, disaster or compliance are deliberated at meetings of the Management Committee to decide basic policy and to ensure cooperation and cross-checking between the headquarters and departments. For important cross-departmental issues, a dedicated committee is formed to discuss the matters. The results are reported to the Management Committee to share the awareness of the problems and information.

Board of Directors and Corporate Auditors



Takashi Saeki, Chairman (left) and Koichi Yasui, President

Chairman
Takashi Saeki

President
Koichi Yasui

Representative Directors
Nobuaki Matsushima
Yoshiharu Sago

Directors
Hiromu Ohji
Osamu Nakamura
Yoshiro Tominari
Shinji Niwa

Outside Managing
Executive Officer
Katsuaki Watanabe

Corporate Auditors
Yasushi Kanda
Hiroshi Yamazaki

Outside Auditors
Hideo Ogasawara
Yoshihiro Yasui
Michiyo Hamada

Compliance

Toho Gas recognizes compliance as a foundation to acquire confidence from society and customers. Each employee of Toho Gas fulfills his/her role, with awareness and strong sense of mission as an employee of a public utility company, to respond to confidence from customers and to contribute to the growth of the local community. All group companies, including affiliated companies, work seriously for compliance through employee education and strengthening their internal control systems.

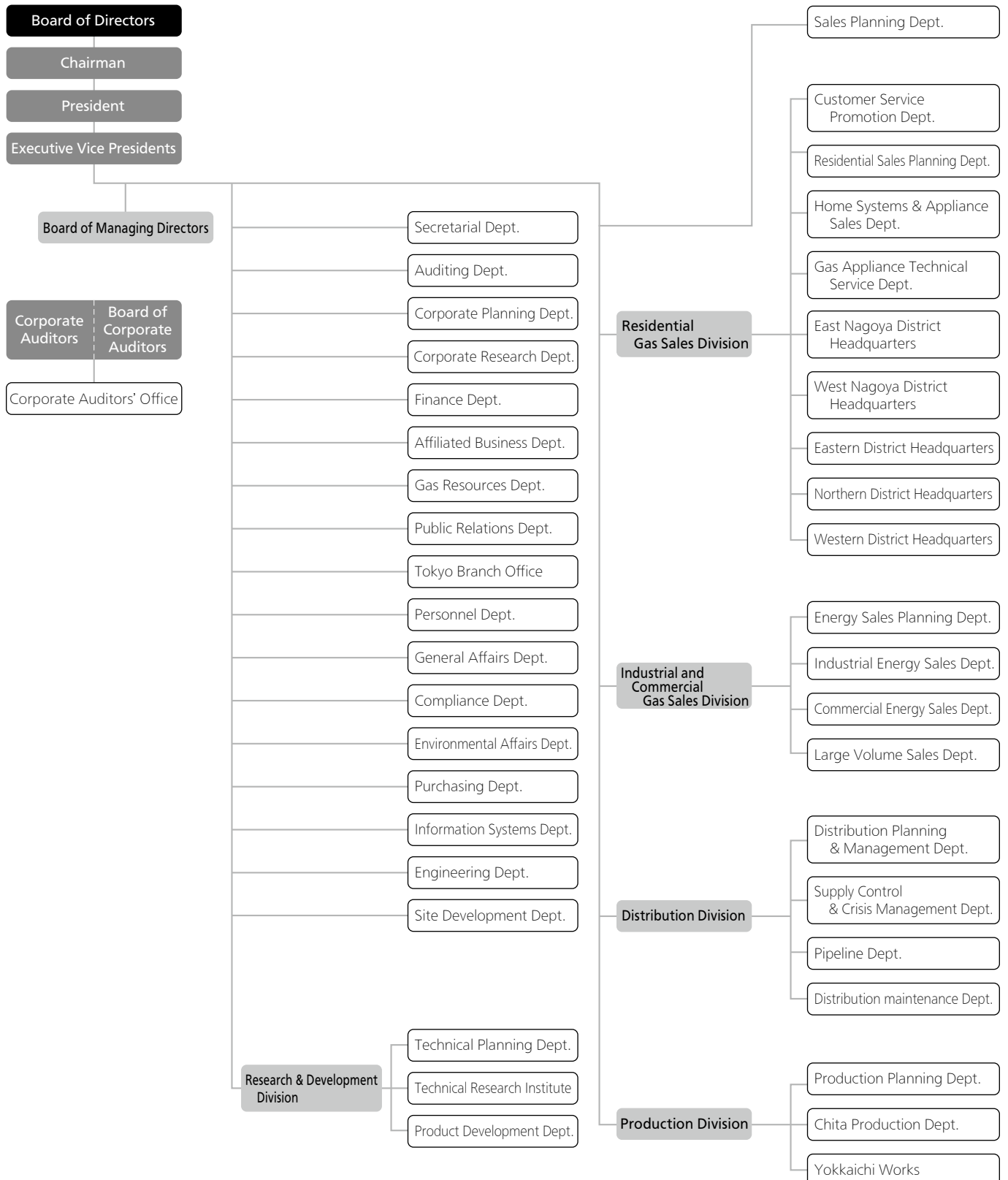
To ensure proper business practices, we have a Compliance

Committee chaired by the president of Toho Gas. The committee members include managers from business divisions and the chairperson of the labor union. The Compliance Department serves as the administrative office of the committee. Each affiliated company also establishes a code of conduct and a compliance committee and appoints an officer in charge of compliance.

A compliance counselor is appointed both inside and outside the company so that compliance-related concerns and reports from employees can directly be communicated to the executives.

Organization Chart

TOHO GAS CO., LTD. And Consolidated Subsidiaries
As of June 25, 2014



Financial Section

Management's Discussion and Analysis of Results of Operations and Financial Condition

Consolidated Business Results

The economic condition in our service area has recovered moderately during the year, mainly in the automobile-related industries. The economic recovery is expected to continue, basically. However, there are some uncertainties about the future prospects, such as economic conditions in the U.S., Europe and emerging countries and the trend of domestic industrial production

Against that background, as a result of diligent efforts to expand city gas use, supply stably and ensure security, the number of customers increased by 0.8% from the

previous year. The consolidated sales volume of city gas increased by 0.7% from the previous year and LPG sales volume decreased by 0.3%.

Consolidated net sales increased by 8.1% from the previous year to ¥560,463 million. Costs of sales increased by 13.6% to ¥414,265 million due to the increased raw material costs. Selling, general and administrative expenses decreased by 7.6% to ¥130,447 million. Consequently, ordinary income increased by 27.4% to ¥17,054 million. Net income increased by 31.8% from the previous year to ¥11,241 million.

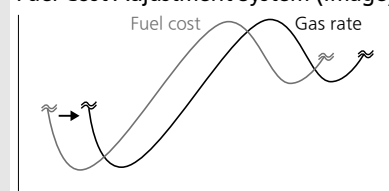
TOPICS Characteristics of the Gas Rate System

City gas is made from liquid natural gas (LNG), whose price changes depending on the crude oil price and exchange rates. In Japan, this fluctuation in fuel costs is reflected several months later in the gas fee rates, in accordance with the Fuel Cost Adjustment System.

Accordingly, the impact of fuel cost fluctuations is offset in the long term, but they do affect the operational results of the short term. Specifically, if the LNG price increases, the fuel cost to the Company will increase, negatively affecting

the Company's profit/loss, until the fee charged to customers is adjusted (increased). If the LNG price decreases, fuel costs to the Company will decrease, positively affecting profit/loss status until the fee is adjusted (decreased).

Fuel Cost Adjustment System (Image)



Segment Information

Gas Sales

The customer base increased by 19 thousand households, to 2,364 thousand households during the year.

The total gas sales volume increased 0.7% to 3,981 million m³. In the residential market, sales volume decreased 2.4% to 743 million m³. In the non-residential segment, the gas sales volume to industrial customers increased by 1.7% due to our marketing efforts to develop new gas demand, etc., and the sales volume to commercial and other

business customers increased by 0.9%. As a result, in the non-residential market, sales volume was 2,939 million m³, an increase of 1.6% from the previous year. The volume of wholesale sales to other gas utilities increased 0.2% to 299 million m³.

Gas sales revenues increased 10.5% from the previous year to ¥420,897 million. Operating income increased 52.7% to ¥12,788 million.

Gas Appliance Sales and Related Construction

Sales revenues of this segment increased by 0.5% from the previous year to ¥37,139 million supported by the increase in

the new constructions, etc. Operating income decreased by 33.8%, to ¥351 million.

LPG and other energy Sales

Sales of LPG and thermal energy supply businesses increased by 6.5% from the previous year to ¥84,569 million. Operating

income decreased by 16.4%, to ¥618 million. LPG sales volume decreased 0.3% from the previous year to 421 thousand tons.

Other

Sales of other businesses, including plant design and construction, and real estate leasing, etc., decreased by 8.7%

to ¥35,753 million. Operating income decreased by 48.2% to ¥929 million.

Financial Position

Assets, Liabilities and Net Assets

Total assets increased by ¥5,298 million from the end of the previous year. This was mainly due to an increase in the market value of stock investments as a result of an upward trend in the stock market.

Liabilities decreased by ¥4,121 million. This was mainly due to

a decrease of accounts payable and accrued expenses.

Net assets increased by ¥9,420 million. This was mainly due to recording of net income of 11,241 million yen.

As a result, the equity ratio increased from 46.9% in the previous year to 48.2%.

Cash Flows

Net cash provided by operating activities was ¥37,809 million, mainly due to recording of income before income taxes and depreciation.

Net cash used in investing activities was ¥33,016 million, which was mainly used for facilities investments.

As a result, free cash flow for the year was ¥4,793 million.

Net cash used in financing activities was ¥2,837 million, which was mainly used for dividend payments.

As a result, net cash and cash equivalents as of the end of March 31, 2014 increased by ¥2,644 million from the same date of the previous year to ¥14,241 million.

Risks

The major risks that have the potential to impact the Group's results of operations and financial condition are described below. Forward-looking statements are based on information available to management as of March 31, 2013.

(a) Impact of change in demand

The sales volumes and revenues of the city gas and LPG gas businesses may be positively or negatively affected by changes in temperature, such as extreme heat and warm winter, or by economic conditions.

(b) Impact of Fluctuating Gas Resource Costs

LNG is the primary resource for gas production. The supply-demand balance as well as fluctuating crude oil prices and exchange rates can impact the cost of LNG and other resources. Fluctuations in the LNG price are offset by adjustments in the gas sales price made in accordance with the fuel cost adjustment system. However, since there is a time lag until the adjustment is made, the operating results for a given year may be affected by such fluctuations in LNG price. Operating results and financial conditions may be affected by the development of the negotiation of LNG prices.

(c) Impact of changing Interest Rates and Other Market Conditions

Trends in market interest rates will cause the cost of debt to fluctuate, which may affect income and expenses. However, most of Toho Gas' interest-bearing debt comprises long-term loans and corporate bonds acquired at fixed interest rates. By steadily reducing interest-bearing debt, the Company limits the risks inherent in changing interest rates.

Varying stock market conditions may cause the value of investment securities in the Company's portfolio to fluctuate.

(d) Impact of revisions in governmental policies, laws and statutory systems

Any revision in the government's energy policy, environmental policy, law or statutory system may have impact on the operating results of the Toho Gas Group.

(e) Impact of Natural Disasters

Earthquakes and other major natural disasters may have impact on the operating results of the Toho Gas Group, as such disasters may cause damages to the production/supply facilities of the Group and customers' business sites. Unexpected large-scale power failure may also have negative impact on the

operating results of the Toho Gas Group.

To prepare for large-scale natural disaster and to minimize resulting damage, the Company has installed in-house power generation facilities, fire-fighting equipment and other disaster control facilities and systems. The earthquake resistance of gas pipes and supply and production facilities has also been improved.

(f) Impact of serious difficulty in procuring gas resources, production or supply process

Serious difficulty in procuring gas resources, production or supply process may have negative impact on the operating results of the Toho Gas Group.

(g) Impact of mission-critical information system

Mission-critical information system may have negative impact on the operating results of the Toho Gas Group.

(h) Impact of serious problems involving customers' gas equipment and appliances

Serious problems involving customers' gas equipment and appliances may result in tangible or intangible damages, including social liabilities, being incurred by the Company.

(i) Impact of irrecoverable investments in upstream businesses

Part or all of investments in overseas gas field development projects may not be recovered properly as a result of changes in the economic conditions and other factors and such irrecoverability may affect the operating results of the Toho Gas Group.

(j) Impact of non-compliance

If the Company or any related party to the Company breaches any law, agreement or conducts any act against corporate ethics or social norms, this may result in tangible or intangible damages, including social liabilities, being incurred by the Company.

(k) Impact of information leak

If customers' personal information kept and managed by the Toho Gas Group leaks outside the Group, this may result in tangible or intangible damages, including social liabilities, being incurred by the Company.

(l) Impact of pandemic of new-type influenza or other infectious disease

Pandemic of new-type influenza or other infectious disease may have negative impact on the operating results of the Toho Gas Group.

Consolidated Balance Sheets

TOHO GAS CO., LTD. and Consolidated Subsidiaries
March 31, 2014 and 2013

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Property, plant and equipment (Notes 7 and 15):			
Production facilities	¥234,819	¥221,072	\$2,279,796
Distribution facilities	839,604	822,572	8,151,495
Service and maintenance facilities	70,338	69,808	682,893
Other facilities	94,546	93,776	917,923
Construction in progress	20,635	26,134	200,340
	1,259,942	1,233,362	12,232,447
Accumulated depreciation	(957,529)	(927,625)	(9,296,398)
Total property, plant and equipment	302,413	305,737	2,936,049
Intangible assets (Note 7):	4,541	3,854	44,087
Investments and other assets:			
Investment securities (Notes 3, 4 and 7)	66,220	60,600	642,913
Deferred tax assets (Note 8)	12,267	13,804	119,097
Other	6,207	6,280	60,262
Allowance for doubtful accounts	(110)	(187)	(1,068)
Total investments and other assets	84,584	80,497	821,204
Current assets:			
Cash and cash equivalents (Notes 3 and 7)	14,241	11,597	138,262
Receivables:			
Trade notes and accounts receivable (Note 3)	63,813	56,451	619,544
Allowance for doubtful accounts	(310)	(324)	(3,010)
Inventories (Note 5)	22,560	31,198	219,029
Deferred tax assets (Note 8)	1,529	3,204	14,845
Other (Note 3)	16,389	12,180	159,116
Total current assets	118,222	114,306	1,147,786
Deferred charges	—	68	—
Total assets	¥509,760	¥504,462	\$4,949,126

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Noncurrent liabilities:			
Long-term debt (Notes 3 and 7)	¥117,234	¥118,351	\$1,138,194
Employees' retirement benefits liability (Note 6)	—	20,694	—
Provision for gas holder repairs	1,212	1,199	11,767
Reserve for safety measures.....	8,895	11,463	86,359
Deferred tax liabilities (Note 8)	887	619	8,612
Net defined benefit liability (Note 6)	29,720	—	288,544
Other (Note 7)	7,260	7,177	70,485
Total noncurrent liabilities	165,208	159,503	1,603,961
Current liabilities:			
Short-term loans payable (Notes 3 and 7)	24,070	21,880	233,689
Current portion of noncurrent liabilities (Notes 3 and 7)	22,276	20,873	216,272
Trade notes and accounts payable (Note 3)	19,837	26,586	192,592
Income taxes payable	5,466	6,797	53,068
Other	27,013	32,185	262,262
Total current liabilities	98,662	108,321	957,883
Provision:			
Provision for calorie change	—	168	—
Net assets (Notes 9 and 16):			
Shareholders' equity:			
Capital stock:			
Authorized — 805,998,157 shares			
Issued ——— 545,966,429 shares in 2014 and 2013	33,073	33,073	321,097
Capital surplus	8,387	8,387	81,427
Retained earnings	175,387	169,375	1,702,787
Less treasury stock -			
654,004 shares in 2014 and 507,436 shares in 2013	(324)	(249)	(3,146)
Total shareholders' equity	216,523	210,586	2,102,165
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	29,579	24,666	287,175
Deferred gains (losses) on hedges	4,773	897	46,340
Foreign currency translation adjustments	1,530	321	14,854
Remeasurements of defined benefit plans	(6,515)	—	(63,252)
Total accumulated other comprehensive income.....	29,367	25,884	285,117
Minority interests	—	—	—
Total net assets	245,890	236,470	2,387,282
Total liabilities and net assets	¥509,760	¥504,462	\$4,949,126

Consolidated Statements of Income

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales (Note 11)	¥560,463	¥518,305	\$5,441,388
Operating costs and expenses:			
Cost of sales	414,265	364,553	4,021,990
Selling, general and administrative expenses	130,447	141,131	1,266,476
	544,712	505,684	5,288,466
Operating income (Note 11)	15,751	12,621	152,922
Other income (expenses):			
Interest and dividend income	1,294	1,090	12,563
Interest expense	(1,740)	(1,712)	(16,893)
Other, net	1,749	1,044	16,981
	1,303	422	12,651
Income before income taxes and minority interests	17,054	13,043	165,573
Income taxes (Note 8):			
Current	3,263	5,725	31,680
Deferred	2,550	(1,202)	24,757
Total income taxes	5,813	4,523	56,437
Income before minority interests	11,241	8,520	109,136
Minority interests in net loss of consolidated subsidiaries	—	(6)	—
Net income	¥11,241	¥8,526	\$109,136
Per share:			
Net income	¥20.61	¥15.62	\$0.20
Cash dividends applicable to the year (Notes 2 and 16)	9.00	9.00	0.09

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Year ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Income before minority interests	¥11,241	¥8,520	\$109,136
Other comprehensive income (Note 10):			
Net changes in valuation difference on available-for-sale securities	4,913	7,421	47,699
Net changes in deferred gains on hedges	3,876	985	37,631
Foreign currency translation adjustment	1,209	321	11,738
Total other comprehensive income	9,998	8,727	97,068
Comprehensive income	¥21,239	¥17,247	\$206,204
Comprehensive income attributable to:			
Owners of the parent	¥21,239	¥17,253	\$206,204
Minority interests	—	(6)	—

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Number of shares of common stock	Millions of yen				
		Shareholders' equity				
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2012	545,966,429	¥33,073	¥8,387	¥165,761	(¥85)	¥207,136
Dividends from surplus				(4,912)		(4,912)
Net income				8,526		8,526
Purchase of treasury stock					(166)	(166)
Disposal of treasury stock			0		2	2
Change in scope of consolidation						
Net changes in items other than shareholders' equity						
Total changes in items during the period		—	0	3,614	(164)	3,450
Balance at March 31, 2013	545,966,429	¥33,073	¥8,387	¥169,375	(¥249)	¥210,586
Dividends from surplus				(4,909)		(4,909)
Net income				11,241		11,241
Purchase of treasury stock					(79)	(79)
Disposal of treasury stock			0		4	4
Change in scope of consolidation				(320)		(320)
Net changes in items other than shareholders' equity						
Total changes in items during the period		—	0	6,012	(75)	5,937
Balance at March 31, 2014	545,966,429	¥33,073	¥8,387	¥175,387	(¥324)	¥216,523

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2013	\$321,097	\$81,427	\$1,644,418	(\$2,418)	\$2,044,524
Dividends from surplus			(47,660)		(47,660)
Net income			109,136		109,136
Purchase of treasury stock				(767)	(767)
Disposal of treasury stock		0		39	39
Change in scope of consolidation			(3,107)		(3,107)
Net changes in items other than shareholders' equity					
Total changes in items during the period		0	58,369	(728)	57,641
Balance at March 31, 2014	\$321,097	\$81,427	\$1,702,787	(\$3,146)	\$2,102,165

	Millions of yen						
	Accumulated other comprehensive income					Minority interests in consolidated subsidiaries	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit pension plan	Total accumulated other comprehensive income		
Balance at March 31, 2012	¥17,245	(¥88)	¥0	—	¥17,157	¥72	¥224,365
Dividends from surplus							(4,912)
Net income							8,526
Purchase of treasury stock							(166)
Disposal of treasury stock							2
Change in scope of consolidation							
Net changes in items other than shareholders' equity ..	7,421	985	321	—	8,727	(72)	8,655
Total changes in items during the period	7,421	985	321	—	8,727	(72)	12,105
Balance at March 31, 2013	¥24,666	¥897	¥321	—	¥25,884	—	¥236,470
Dividends from surplus							(4,909)
Net income							11,241
Purchase of treasury stock							(79)
Disposal of treasury stock							4
Change in scope of consolidation							(320)
Net changes in items other than shareholders' equity ..	4,913	3,876	1,209	(6,515)	3,483	—	3,483
Total changes in items during the period	4,913	3,876	1,209	(6,515)	3,483	—	9,420
Balance at March 31, 2014	¥29,579	¥4,773	¥1,530	(¥6,515)	¥29,367	—	¥245,890

	Thousands of U.S. dollars (Note 1)						
	Accumulated other comprehensive income					Minority interests in consolidated subsidiaries	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit pension plan	Total accumulated other comprehensive income		
Balance at March 31, 2013	\$239,476	\$8,709	\$3,116	—	\$251,301	—	\$2,295,825
Dividends from surplus							(47,660)
Net income							109,136
Purchase of treasury stock							(767)
Disposal of treasury stock							39
Change in scope of consolidation							(3,107)
Net changes in items other than shareholders' equity ..	47,699	37,631	11,738	(63,252)	33,816	—	33,816
Total changes in items during the period	47,699	37,631	11,738	(63,252)	33,816	—	91,457
Balance at March 31, 2014	\$287,175	\$46,340	\$14,854	(\$63,252)	\$285,117	—	\$2,387,282

Consolidated Statements of Cash Flows

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests.....	¥17,054	¥13,043	\$165,573
Adjustments for:			
Depreciation and amortization	35,781	36,902	347,388
(Decrease) increase in employees' retirement benefit liability and other allowances	(2,813)	(1,429)	(27,311)
Interest and dividend income	(1,294)	(1,090)	(12,563)
Interest expense	1,740	1,712	16,893
Gain on sale of investment securities	—	(444)	—
Loss on valuation of investment securities	—	436	—
(Increase) decrease in trade notes and accounts receivable	(7,229)	(1,053)	(70,184)
Decrease (increase) in inventories	8,734	(8,053)	84,796
(Decrease) increase in trade notes and accounts payable	(6,921)	3,849	(67,194)
Other	(1,906)	3,734	(18,505)
	43,146	47,607	418,893
Interests and dividends received	1,294	1,090	12,563
Interests paid	(1,739)	(1,799)	(16,883)
Income taxes paid	(4,892)	(6,636)	(47,495)
Net cash provided by operating activities	37,809	40,262	367,078
Cash flows from investment activities:			
Purchases of investment securities	(88)	(2,051)	(854)
Proceeds from sale of investment securities	757	476	7,350
Purchases of noncurrent assets.....	(33,094)	(35,199)	(321,301)
Proceeds from sale of noncurrent assets.....	106	165	1,029
Other	(697)	(1,749)	(6,767)
Net cash used in investment activities	(33,016)	(38,358)	(320,543)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	1,940	7,950	18,834
Proceeds from long-term loans payable	12,914	6,605	125,379
Repayment of long-term loans payable.....	(12,335)	(13,534)	(119,757)
Purchase of treasury stock	(79)	(34)	(767)
Cash dividends paid	(4,909)	(4,915)	(47,660)
Dividends to minority interests.....	—	(0)	—
Other	(368)	(3,430)	(3,573)
Net cash used in financing activities.....	(2,837)	(7,358)	(27,544)
Effect of exchange rate change on cash and cash equivalents	541	322	5,252
Net increase (decrease) in cash and cash equivalents	2,497	(5,132)	24,243
Cash and cash equivalents at beginning of year	11,597	16,729	112,592
Increase in cash and cash equivalents from newly consolidated subsidiary	147	—	1,427
Cash and cash equivalents at end of year	¥14,241	¥11,597	138,262

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

TOHO GAS CO., LTD. and Consolidated Subsidiaries

1 Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of TOHO GAS CO., LTD. (the "Company") and its consolidated subsidiaries (together with the Company, the "TOHO GAS Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. The Company, as a regulated company, also complies with the GAS Business Law and its related accounting regulations for preparing the financial statements.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in

accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing approximate exchange rate at March 31, 2014, which was ¥103 to U.S. \$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 Summary of significant accounting policies

Consolidation

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (22 in 2014 and 21 in 2013). All significant intercompany transactions and accounts are eliminated in consolidation. The difference between the cost of investments in consolidated subsidiaries and the underlying equity in the net assets adjusted based on the fair value at the time of acquisition is charged to income as incurred.

Though the fiscal year-end of certain consolidated subsidiaries differ from the consolidated fiscal year-end of the Company, the Company has consolidated the subsidiaries' financial statements as of their respective year-end. Significant transactions for the period between a subsidiary's year-end and the Company's year-end are adjusted for on consolidation.

Property, plant and equipment

Depreciation of property, plant and equipment is computed mainly by the declining balance method over the estimated useful life of the asset. However, buildings acquired after March 31, 1998 are depreciated by the straight-line method.

Property, plant, and equipment that are capitalized under finance lease arrangements and that do not transfer ownership of the leased asset to the lessee are depreciated using the straight-line method over the term of the lease with the assumption of no residual value.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, readily-available deposits and short-term highly liquid debt investments with original maturities of three months or less

Investments

The TOHO GAS Group classifies certain investments in debt and equity securities as "held-to-maturity," "trading" or "available-for-sale." The classification determines the respective accounting method as stipulated by the accounting standard for financial instruments. Investments in debt securities that are classified as held-to-maturity are carried at amortized cost.

Available-for-sale securities with available market quotations are stated at fair value, and net unrealized gain or loss on these securities is reported as a separate component of net assets or shareholders' equity, net of applicable income taxes.

Available-for-sale securities without available market quotations are carried at cost determined by the moving average method. Adjustments in carrying values from write-downs are charged to income when a decline in value is deemed other than temporary.

Derivatives

Derivatives are valued at fair value when hedge accounting is not appropriate or when there is no hedging designation, and the gains and losses on the derivatives are recognized in current earnings. Certain transactions classified as hedging transactions such as commodity swaps, foreign exchange forward contracts and interest rate swaps are accounted for under a deferral method in which unrealized gains and losses on the hedging instruments are carried as net assets on the balance sheets until the gain or loss on the related hedged item is realized. According to the special treatment permitted by the accounting standards for financial instruments, hedging interest rate swaps are accounted for on an accrual basis and recorded net of interest expense generated from the hedged borrowings if certain conditions are met.

Inventories

Inventories are mostly stated at the moving average cost (balance sheet prices are calculated using the book value reduction method based on any reduction in profitability.)

Allowance for doubtful accounts

An allowance for doubtful accounts has been provided for at the aggregate amount of estimated credit loss based on an individual financial review of certain doubtful or troubled receivables and a general reserve for other receivables based on the historical loss experience of a certain past period.

Deferred charges

Bond issuance costs are charged to income as incurred.

Employees' retirement benefits

In the calculation of retirement benefit obligations, the expected retirement benefits are attributed to the period up to the end of the current fiscal year based on the straight-line method. Unrecognized actuarial differences from that which was assumed and from changes in assumptions themselves are amortized on a straight-line basis over ten years, which is within the average remaining service years of employees, from the year following the year in which they arise.

Provision for gas holder repairs

The TOHO GAS Group provides for future repairs of gas holders by estimating future expenditures and charging them to income in equal annual amounts over the period to the next repair.

Reserve for safety measures

The TOHO GAS Group provides for expenses necessary to secure safety for gas customers by estimating the total amount expected to be incurred after the year-end.

Income taxes

Income taxes are accounted for by the asset-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

Research and development expenses

Research and development expenses are charged to income as incurred. In the accompanying consolidated statements of income, research and development expenses included in cost of sales and selling, general and administrative expenses amounted to ¥1,959 million (\$19,019 thousand) and ¥1,812 million for the years ended March 31, 2014 and 2013, respectively.

Translation of foreign currency accounts

Receivables, payables and securities, other than stocks of subsidiaries and certain other securities, are translated into Japanese yen at the exchange rates prevailing at the fiscal year-end. Transactions in foreign currencies are recorded based on the prevailing exchange rates on the transaction date. Resulting translation gains and losses are included in current earnings.

Appropriation of retained earnings

Cash dividends are recorded in the fiscal year when the proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders.

Amounts per share

Net income per share is computed by dividing income available to shareholders by the weighted average number of shares of common stock outstanding during the respective year. Diluted net income per share is not disclosed as the TOHO GAS had no dilutive common shares for the years ended March 31, 2014 or 2013.

Cash dividends per share applicable to the year are dividends declared by the Company applicable to the respective year and include dividends approved or to be approved after the balance sheet date.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Change in accounting policy

Effective from the year ended March 31, 2014, The TOHO GAS Group companies have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, "Guidance No. 25")) except Article 35 of Statement No. 26 and Article 67 of Guidance No. 25, and actuarial gains and losses and past service costs that had yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability for retirement benefits.

In accordance with Article 37 of Statement No. 26, the effect of the change in accounting policies arising from the initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income. As a result of the application, a liability for retirement benefits in the amount of 29,720 million yen (\$288,544 thousand) has been recognized, and accumulated other comprehensive income was 6,515 million yen (\$63,252 thousand) less at the end of the current fiscal year the amount that would have been reportable without the application. The effects of this change on earnings per share are described in the related note.

Accounting standards not adopted

- 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

From the perspective of improving financial reporting and based on international trends, these accounting standards have been revised primarily to enhance the disclosure and calculation methods of retirement benefit obligations and current service costs, and methods for treating unrecognized past service costs and unrecognized actuarial differences.

(2) Scheduled implementation date

The scheduled implementation date for amendments related to calculation methods of retirement benefit obligations and current service costs will be the beginning of the year ending March 31, 2015.

(3) Impact of the implementation of these accounting standards

The impact is currently being assessed during the preparation of these consolidated financial statements.

3 Fair values of financial instruments

1. Qualitative information on financial instruments

① Policies for using financial instruments

The TOHO GAS Group invests its excess cash in bank deposits and other safe financial instruments. Cash needed for operations and other business activities is acquired through the issuance of corporate bonds and commercial paper through financing from banks and other financial institutions.

② Details of financial instruments used and exposure to risks and how they arise

Trade notes and accounts receivable, which are operational credit, are exposed to customers' credit risk. Investment securities comprise mainly equity securities of corporations with which the Company has business relations. These securities are exposed to the risk of market price fluctuations.

The due dates for most trade notes and accounts payable, which are operational debt, are within one year. Corporate bonds and loans payable are used to procure working capital and cash for capital investments. The longest redemption date is 13 years after the end of the current fiscal year. Long-term loans payable with variable interest rates are exposed to the risk of interest rate fluctuations. Variable interest rates on some of these liabilities mainly interest rate swap contracts, are hedged by derivative contracts.

The TOHO GAS Group uses commodity swaps, foreign exchange forward contracts and interest rate swaps only for the purpose of mitigating the risk of fluctuations in market prices of raw materials and interest rates. The TOHO GAS Group does not use derivatives for speculative trading purposes. The derivatives are executed with creditworthy financial institutions, and the Company's management believes there is little risk of default by the counterparties.

③ Policies and processes for managing risk

1) Management of credit risk

As for trade receivables, the TOHO GAS Group monitors the status of major customers in accordance with its risk management rules by monitoring the due dates and balances of receivables of individual customers, quickly identifying any deterioration in the financial position of customers and reducing the uncollectability of receivables. When derivative contracts are used, the TOHO GAS Group enters into derivative contracts only with highly rated financial institutions in order to reduce the credit risk of counterparty default.

2) Management of market risk

To hedge the risk of fluctuation in the purchase price of raw materials and interest rates, the Company uses commodity swap contracts, foreign exchange forward contracts and interest swap contracts to stabilize the cash flow of the hedged transactions and avoid or mitigate the impact of market price fluctuations. Market prices of investment securities are monitored on a quarterly basis.

Derivative transactions are executed and managed by the Company in accordance with its in-house regulations stipulating approval authority, management and reporting methods and other matters regarding derivative transactions. To ensure an effective cross-checking function, derivative transactions are administered and risk managed by a department separate from the department responsible for the execution of the relevant transactions.

3) Management of liquidity risk in funding

The liquidity risk of the TOHO GAS Group is managed by preparing and updating a cash management plan.

④ Supplemental information on fair values

The current price of a financial product is based on its market price or a price calculated using an alternative method if the product does not have an available market price. Since the calculation of the current price reflects variable factors, the current price may vary if different factors and assumptions are used for the calculation. Contract prices of derivative contracts or other amounts indicated in the table below, do not necessarily reflect the market risk of the derivative contracts themselves.

Carrying values and fair values of the financial instruments included in the consolidated balance sheets at March 31, 2013 and 2012 were as follows:

	Millions of yen		
	Carrying value	Fair value	Difference
For 2014:			
Assets:			
Cash and time deposits	¥15,329	¥15,329	¥ —
Trade notes and accounts receivable	63,813	63,813	—
Investment securities	60,233	60,233	—
Total	139,375	139,375	—
Liabilities:			
Trade notes and accounts payable	19,837	19,837	—
Short-term loans payable	24,070	24,070	—
Bonds payable, including current portion	99,994	104,982	4,988
Long-term loans payable, including current portion	39,467	39,900	433
Total	183,368	188,789	5,421
Derivative transactions	6,857	6,857	—
For 2013:			
Assets:			
Cash and time deposits	¥11,890	¥11,890	¥ —
Trade notes and accounts receivable	56,451	56,451	—
Investment securities	53,063	53,063	—
Total	121,404	121,404	—
Liabilities:			
Trade notes and accounts payable	26,586	26,586	—
Short-term loans payable	21,880	21,880	—
Bonds payable, including current portion	99,993	105,719	5,726
Long-term loans payable, including current portion	38,887	39,612	725
Total	187,346	193,797	6,451
Derivative transactions	1,330	1,330	—
			Thousands of U.S. dollars
	Carrying value	Fair value	Difference
For 2014:			
Assets:			
Cash and time deposits	\$148,825	\$148,825	\$ —
Trade notes and accounts receivable	619,544	619,544	—
Investment securities	584,786	584,786	—
Total	1,353,155	1,353,155	—
Liabilities:			
Trade notes and accounts payable	192,592	192,592	—
Short-term loans payable	233,689	233,689	—
Bonds payable, including current portion	970,815	1,019,242	48,427
Long-term loans payable, including current portion	383,175	387,379	4,204
Total	1,780,271	1,832,902	52,631
Derivative transactions	66,573	66,573	—

Note: The calculation methods for fair value of financial instruments

1. Assets

(1) Cash and time deposits, trade notes and accounts receivable
Since these items are settled in a short period of time, their fair value is approximate to the carrying value. Accordingly, the carrying value is used as the fair value.

(2) Investment securities

The fair value of the Company's equity securities is based on the prices quoted on the stock exchange. The fair value of other investment securities is based on the price quoted by financial institutions or the published reference price.

2. Liabilities

(1) Trade notes and accounts payable and short-term loans payable
Since these items are settled in a short period of time, their fair value is

approximate to the carrying value. Accordingly, the carrying value is used as the fair value.

(2) Bonds payable

The fair value of corporate bonds issued by the Company are calculated by their market prices.

(3) Long-term debt

The fair value of these accounts is calculated by the sum of the principal and interest discounted by the interest rate applicable to a similar new loan or transaction. "Special accounting treatment for interest rate swap contracts" applies to some long-term loans with variable interest rates. Current prices of such loans are calculated by the sum of the principal and interest treated as a unit together with the relevant interest rate swap contracts and discounted by the interest rate reasonably estimated to apply to a similar loan.

Financial instruments whose fair value cannot be reliably determined were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Nonmarketable securities			
Unlisted equity securities	¥4,500	¥4,869	\$43,690
Investments in affiliates	1,486	2,667	14,427
Other	1	1	10

A maturity analysis for cash and time deposits and trade notes and accounts receivable is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
	Due within one year	Due within one year	Due within one year
Cash and time deposits	¥15,329	¥11,890	\$148,825
Trade notes and accounts receivable	63,813	56,451	619,544
	¥79,142	¥68,341	\$768,369

A maturity analysis for bonds payable and long-term bank loans payable is as follows:

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
For 2014:						
Short-term bank loans payable.....	¥24,070	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	10,000	10,000	10,000	10,000	10,000	50,000
Long-term bank loans payable	12,227	6,710	13,195	1,792	2,755	2,788
	¥46,297	¥16,710	¥23,195	¥11,792	¥12,755	¥52,788
For 2013:						
Short-term bank loans payable.....	¥21,880	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable.....	10,000	10,000	10,000	10,000	10,000	50,000
Long-term bank loans payable	10,531	12,037	6,500	6,877	1,591	1,351
	¥42,411	¥22,037	¥16,500	¥16,877	¥11,591	¥51,351
	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
For 2014:						
Short-term bank loans payable.....	\$233,689	\$ —	\$ —	\$ —	\$ —	\$ —
Bonds payable	97,088	97,087	97,087	97,087	97,087	485,437
Long-term bank loans payable	118,708	65,146	128,107	17,398	26,748	27,068
	\$449,485	\$162,233	\$225,194	\$114,485	\$123,835	\$512,505

4 Investments

In accordance with the accounting standard for financial instruments, investment securities include equity securities, bonds and other of which the aggregate cost, gross unrealized gains/losses and fair value pertaining to available-for-sale securities at March 31, 2014 and 2013 were as follows.

(a) Available-for-sale securities

Securities with fair and carrying value exceeding cost:

	Millions of yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2014				
Equity securities	¥17,365	¥41,550	¥—	¥58,915
Other	5	4	—	9
	¥17,370	¥41,554	¥—	¥58,924
March 31, 2013				
Equity securities	¥15,610	¥34,729	¥—	¥50,339
Other	5	3	—	8
	¥15,615	¥34,732	¥—	¥50,347
	Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2014				
Equity securities	\$168,592	\$403,398	\$—	\$571,990
Other	49	39	—	88
	\$168,641	\$403,437	\$—	\$572,078

Securities with fair and carrying value not exceeding cost:

	Millions of yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2014				
Equity securities	¥1,393	¥—	¥(84)	¥1,309
	¥1,393	¥—	¥(84)	¥1,309
March 31, 2013				
Equity securities	¥3,065	¥—	¥(349)	¥2,716
	¥3,065	¥—	¥(349)	¥2,716
	Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2014				
Equity securities	\$13,524	\$—	\$(816)	\$12,708
	\$13,524	\$—	\$(816)	\$12,708

For the years ended March 31, 2014 and 2013, there were no material sale transactions for available-for-sale securities.

5 Inventories

Inventories at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Finished products	¥5,565	¥5,294	\$54,029
Work-in-process	619	505	6,010
Raw materials and supplies	16,376	25,399	158,990
	¥22,560	¥31,198	\$219,029

6 Employees' retirement benefits liability

The TOHO GAS Group principally has a defined benefit pension plan and a lump-sum retirement benefit plan which substantially cover all employees.

Reconciliation of the benefit obligation at March 31, 2013 was as follows:

	Millions of yen
	2013
Projected benefit obligation	¥108,173
Fair value of pension plan assets at end of year	(72,652)
Projected benefit obligation in excess of fair value of pension plan assets	35,521
Less unrecognized actuarial differences (loss)	(14,827)
Net amount of employees' retirement benefits liability recorded on the consolidated balance sheets	¥20,694

Note: Projected benefit obligation of certain subsidiaries was calculated using the simplified calculation method as permitted by the accounting standard for employee retirement benefits.

Net periodic retirement benefit expense for the year ended March 31, 2013 was as follows:

	Millions of yen
	2013
Components of net periodic retirement benefit expense:	
Service cost	¥2,629
Interest cost	1,826
Expected return on pension plan assets	(1,308)
Recognized actuarial differences	1,444
Net periodic retirement benefit expense	¥4,591

Major assumptions used in the calculations above for the year ended March 31, 2013 was as follows:

	2013
Method attributing the projected benefits to periods of services	Straight-line method
Discount rate	1.0%
Expected rate of return on pension plan assets	2.0%
Amortization of unrecognized actuarial differences	10 years

The TOHO GAS Group principally has a defined benefit pension plan and a lump-sum retirement benefit plan which substantially cover all employees. Projected benefit obligation of certain subsidiaries was calculated using the simplified calculation method as permitted by the accounting standard for employee retirement benefits.

Reconciliation of the beginning and ending balances for retirement benefit obligations at March 31, 2014 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Beginning balance of the retirement benefit obligation	¥108,173	\$1,050,223
Service cost	3,110	30,194
Interest cost	1,062	10,310
Accruals of actuarial gains and losses	56	544
Payment of retirement benefits	(3,902)	(37,883)
Ending balance of the retirement benefit obligation	¥108,499	\$1,053,388

Note: Including a system for the application of the simplified method

Reconciliation of the beginning and ending balances for pension plan assets was as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Fair value of pension plan assets at beginning of year	¥72,652	\$705,359
Expected return on pension plan assets	1,453	14,107
Recognized actuarial differences	4,085	39,660
Contributions from the employer	3,596	34,912
Payment of retirement benefits	(3,007)	(29,194)
Fair value of pension plan assets at ending of year	¥78,779	\$764,844

Reconciliation of the retirement benefit obligation and fair value of pension plan assets at the end of year, net defined benefit liability and the fair valued pension plan assets were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Projected benefit obligation of funded plans.....	¥94,644	\$918,874
Fair value of pension plan assets	(78,779)	(764,845)
	15,865	154,029
Projected benefit obligation of unfunded obligation	13,855	134,515
Net of assets and liabilities	29,720	288,544
Net defined benefit liability.....	29,720	288,544
Net defined benefit assets.....	—	—
Net of assets and liabilities	¥29,720	\$288,544

Note: Including a system for the application of the simplified method

Retirement benefit expense and amount of the detailed items

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Components of net periodic retirement benefit expense:		
Service cost	¥3,110	\$30,194
Interest cost	1,062	10,311
Expected return on pension plan assets	(1,453)	(14,107)
Recognized actuarial differences	1,439	13,971
Net periodic retirement benefit expense related to defined benefit pension plan	¥4,158	\$40,369

Remeasurement of the defined benefit pension plan (before tax effects) was as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Less unrecognized actuarial differences (gain)	(¥9,360)	(\$90,874)

Plan assets

	Plan assets comprise
Bond	60%
Equity securities	24%
General account	16%
Other.....	0%

To determine the expected long-term rate of return on pension plan assets, we considered the composition of plan assets and the expected current return, and the rate of return on long-term expected current and future assets from a variety of assets that make up the plan assets.

Major assumptions used in the calculations above for the years ended March 31, 2014 were as follows:

	2014
Discount rate	1.0%
Expected long-term rate of return on pension plan assets	2.0%

7 Bank loans and long-term debt

Short-term bank loans consisted of short-term notes payable bearing interest at an annual average rate of 0.5% at March 31, 2014.

Long-term debt and other interest-bearing liabilities at March 31, 2014 and 2013 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Domestic unsecured notes due 2018 at a rate of 3.175%	¥10,000	¥10,000	\$97,087
Domestic unsecured notes due 2023 at a rate of 1.12%	10,000	10,000	97,087
Domestic unsecured notes due 2015 at a rate of 1.63%	10,000	10,000	97,087
Domestic unsecured notes due 2016 at a rate of 2.07%	10,000	10,000	97,087
Domestic unsecured notes due 2022 at a rate of 2.06%	9,994	9,994	97,030
Domestic unsecured notes due 2018 at a rate of 1.658%	10,000	10,000	97,087
Domestic unsecured notes due 2013 at a rate of 1.218%	—	10,000	—
Domestic unsecured notes due 2014 at a rate of 0.3%	10,000	10,000	97,088
Domestic unsecured notes due 2027 at a rate of 1.628%	10,000	10,000	97,087
Domestic unsecured notes due 2022 at a rate of 0.792%	10,000	10,000	97,087
Domestic unsecured notes due 2023 at a rate of 0.933%	10,000	—	97,088
Loans from banks, insurance companies and government agencies due through 2025 at interest rates ranging from 0.3% to 3.07% per annum at March 31, 2014	39,467	38,887	383,175
Capitalized lease obligations	205	166	1,991
Others	—	277	—
	139,666	139,324	1,355,981
Less amounts due within one year	(22,273)	(20,873)	(216,243)
	¥117,393	¥118,451	\$1,139,738

Assets pledged as collateral mainly for trade accounts payable and long-term debt in the aggregate amounts of ¥25 million (\$243 thousand) and ¥55 million at March 31, 2014 and 2013, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Production facilities	¥—	¥28	\$—
Distribution facilities	—	674	—
Service and maintenance facilities	—	25	—
Other facilities	16	16	155
Construction in progress	1,801	551	17,486
Intangible assets	2,139	1,757	20,767
Investment securities	927	768	9,000
Cash and deposits	196	161	1,903
Other	285	1,112	2,767
	¥5,364	¥5,092	\$52,078

The annual maturities of long-term debt and other interest bearing liabilities at March 31, 2014 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥22,273	\$216,243
2016	16,744	162,563
2017	23,216	225,398
2018	11,809	114,650
2019	12,762	123,903
2020 and thereafter	52,862	513,224
	¥139,666	\$1,355,981

8 Income tax

Income taxes of the TOHO GAS Group consist of corporate income taxes, inhabitants taxes and enterprise taxes. Enterprise taxes for the gas business are included in selling, general and administrative expenses in the accompanying consolidated statements of income.

Components of deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Employees' retirement benefit liability	¥—	¥6,717	\$—
Net defined benefit liability	9,258	—	89,883
Reserve for safety measures	2,704	3,597	26,253
Depreciation	8,187	3,089	79,485
Deferred charges	1,185	1,223	11,505
Other	8,230	14,903	79,903
Less valuation allowance	(2,126)	(2,284)	(20,641)
	27,438	27,245	266,388
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(11,891)	(9,718)	(115,447)
Reserve for overseas investment loss	(380)	(380)	(3,689)
Deferred capital gains	(149)	(151)	(1,447)
Other	(2,109)	(607)	(20,475)
	(14,529)	(10,856)	(141,058)
Net deferred tax assets	¥12,909	¥16,389	\$125,330

The reconciliation for the year ended March 31, 2013 was as follows:

	Percentage of pretax income
Combined statutory tax rate	33.0%
Permanently nondeductible expenses	1.7%
Tax exempt income	(2.5%)
Other, net	2.5%
Effective tax rate	34.7%

For the fiscal year ended March 31, 2014, the disclosure was omitted because the difference between the tax rate after application of tax effect accounting and the statutory tax rate was below 5% of the statutory tax rate.

After promulgation of the “Act for Partial Revision of the Income Tax Act, etc.” (No. 10, March 31, 2014), the TOHO GAS Group changed the statutory tax rate used in the calculation of deferred tax liabilities and deferred tax assets at the end of the current fiscal year. As a result, the carrying value of deferred tax assets was ¥455 million (\$4,417 thousand) less, the amount of income tax deferred ¥629 million (\$6,107 thousand) more, and the amount of accumulated other comprehensive income ¥174 million (\$1,689 thousand) more than the amounts that would have been reported without the change.

9 Net assets

Under the Japanese Corporate Law (“the Law”), the entire amount paid for new shares is required to be designated as capital stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of capital stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. At March 31, 2014 and 2013, respectively, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included legal earnings reserve in the amount of ¥8,780 million (\$85,243 thousand) at both March 31, 2014 and 2013.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws.

For the year ended March 31, 2014, the number of issued shares of common stock was 545,966,429 shares, unchanged from fiscal 2011.

In November 2013, the Company paid interim dividends of ¥2,454 million (\$23,825 thousand), ¥4.5 per share. For year-end dividends, see Note 16.

10 Statements of comprehensive income

The amount of reclassification adjustments and the tax effects concerning other comprehensive income.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net changes in valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥7,243	¥10,243	\$70,320
Reclassification adjustments	(158)	3	(1,534)
Subtotal before tax	7,085	10,246	68,786
Tax (expense) or benefit	(2,172)	(2,825)	(21,087)
Subtotal net of tax	4,913	7,421	47,699
Net changes in deferred (losses) gains on hedges			
Increase (decrease) during the year	11,359	1,412	110,282
Reclassification adjustments	(5,168)	200	(50,175)
Adjustments for amounts transferred to initial carrying amount of hedged items	(664)	(144)	(6,447)
Subtotal before tax	5,527	1,468	53,660
Tax (expense) or benefit	(1,651)	(483)	(16,029)
Subtotal net of tax	3,876	985	37,631
Net changes in foreign currency translation adjustments			
Increase (decrease) during the year	1,209	321	11,738
Total other comprehensive income	9,998	8,727	97,068

11 Segment information

1. General information about reportable segments

The TOHO GAS Group defines reportable segments as constituent business units of the TOHO GAS Group for which discrete financial information is available and reviewed regularly by the Board of Directors to determine the best allocation of managerial resources and to evaluate business performance. The three reportable segments of the TOHO GAS Group are "Gas Sales", "Gas Appliance Sales and Related Construction" and "LPG and Other Energies." They are determined based on the GAS Business Law and its related accounting regulations.

The main products and services of each reporting segment are as follows:

Gas Sales: Products, supplies and sales of gas

Gas Appliance Sales and Related Construction: Gas appliance sales and related construction

LPG and Other Energies: LPG sales, LPG appliance sales, LNG sales, district heating and cooling and sales of cokes and petroleum products.

2. Basis of measurement for reported segment income or loss, segment assets and other material items

The accounting methods for the reporting segments are consistent with the accounting methods described in Note 2, "Summary of significant accounting policies" Intersegment sales and transfers are attributable to transactions among group companies and calculated based on market value.

3. Information for reported segment income or loss, segment assets and other material items

Information for reported segments as of and for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen							
	Reported segments				Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Gas sales	Gas Appliance Sales and Related Construction	LPG and Other Energies	Total				
For 2014:								
Net sales:								
External customers	¥420,798	¥34,337	¥83,639	¥538,774	¥21,689	¥560,463	¥—	¥560,463
Intersegment	99	2,802	930	3,831	14,064	17,895	(17,895)	—
Total net sales	420,897	37,139	84,569	542,605	35,753	578,358	(17,895)	560,463
Segment income (loss)	¥12,788	¥351	¥618	¥13,757	¥929	¥14,686	¥1,065	¥15,751
Segment assets	¥355,620	¥12,955	¥44,471	¥413,046	¥53,916	¥466,962	¥42,798	¥509,760
Other items:								
Depreciation expenses	31,967	125	2,482	34,574	1,297	35,871	(90)	35,781
Capital expenditures	28,100	131	2,111	30,342	2,406	32,748	(174)	32,574
For 2013:								
Net sales:								
External customers	¥380,771	¥34,800	¥78,400	¥493,971	¥24,334	¥518,305	¥—	¥518,305
Intersegment	90	2,142	1,029	3,261	14,807	18,068	(18,068)	—
Total net sales	380,861	36,942	79,429	497,232	39,141	536,373	(18,068)	518,305
Segment income (loss)	¥8,375	¥530	¥739	¥9,644	¥1,793	¥11,437	¥1,184	¥12,621
Segment assets	¥360,580	¥11,510	¥44,083	¥416,173	¥50,588	¥466,761	¥37,701	¥504,462
Other items:								
Depreciation expenses	33,230	168	2,302	35,700	1,290	36,990	(88)	36,902
Capital expenditures	28,307	118	1,794	30,219	3,721	33,940	(173)	33,767

	Thousands of U.S. dollars							
	Reported segments				Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Gas sales	Gas Appliance Sales and Related Construction	LPG and Other Energies	Total				
For 2014:								
Net sales:								
External customers	\$4,085,418	\$333,369	\$812,029	\$5,230,816	\$210,572	\$5,441,388	\$—	\$5,441,388
Intersegment	961	27,204	9,029	37,194	136,544	173,738	(173,738)	—
Total net sales	4,086,379	360,573	821,058	5,268,010	347,116	5,615,126	(173,738)	5,441,388
Segment income (loss)	\$124,155	\$3,408	\$6,000	\$133,563	\$9,020	\$142,583	\$10,339	\$152,922
Segment assets	\$3,452,621	\$125,777	\$431,757	\$4,010,155	\$523,457	\$4,533,612	\$415,514	\$4,949,126
Other items:								
Depreciation expenses	310,359	1,214	24,097	335,670	12,592	348,262	(874)	347,388
Capital expenditures	272,816	1,272	20,495	294,583	23,359	317,942	(1,690)	316,252

- Notes: 1. The "Other" segment incorporates operations not included in reported segment, including LNG processing under contract, leasing of buildings, engineering of gas production plants, comprehensive utility service business, sales of housing equipment, data processing services, and other leasing and other business.
2. The "Adjustments" column in "Segment income" denotes eliminations of intersegment transactions. "Segment assets" in the "Adjustments" column denotes unallocated general corporate items which were not assigned to specific segments, such as long-term investments in securities.
3. Segment income in the table above is reconciled to operating income on the accompanying consolidated statements of income.

Enterprise-wide information for the year ended March 31, 2014 and 2013

(1) Information about products and services:

	Millions of yen			
	Gas sales	LPG	Other	Total
	For 2014:			
Net sales to external customers	¥420,798	¥59,939	¥79,726	¥560,463
For 2013:				
Net sales to external customers	¥380,771	¥54,942	¥82,592	¥518,305
	Thousands of U.S. dollars			
	Gas sales	LPG	Other	Total
	For 2014:			
Net sales to external customers	\$4,085,418	\$581,932	\$774,038	\$5,441,388

(2) Information about geographic areas:

•Operating revenues

Not applicable

•Property, plant and equipment

The Company has omitted the disclosure of property, plant and equipment because property, plant and equipment in Japan account for more than 90% of the amount of property, plant and equipment reported in the consolidated balance sheets.

(3) Information about major customers:

Not applicable

Information about impairment losses on fixed assets in reportable segments

Not applicable

Information about goodwill in reportable segments

Not applicable

12 Certain lease transactions

Finance lease transactions that do not transfer the ownership of the leased property commenced before April 1, 2008, the beginning date of the application of the accounting standard for lease transactions and accounted for with accounting treatment similar to that used for operating leases were summarized as follows:

As lessor:

Some of the consolidated subsidiaries have entered into finance lease contracts as lessor. A summary of the contracts under finance leases on a pro forma basis were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Lease income	¥120	¥120	\$1,165
Future lease commitments to be received (inclusive of imputed interests):			
Due within one year	120	120	1,165
Due after one year	1,680	1,800	16,311
	¥1,800	¥1,920	\$17,476
	Millions of yen		Thousands of U.S. dollars
	Acquisition cost	Accumulated depreciation	Net value
For 2014:			
Other facilities	¥1,900	¥652	¥1,248
For 2013:			
Other facilities	¥1,900	¥581	¥1,319
	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net value
For 2014:			
Other facilities	\$18,447	\$6,330	\$12,117
	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Lease depreciation	¥72	¥72	\$699

13 Contingent liabilities

The TOHO GAS Group was contingently liable for bank loans with respect to guarantees for joint and several liability upon the default of others and for bank loans with respect to guarantees for housing loans of employees. At March 31, 2014 and 2013, these contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Guarantees for housing loans of employees	¥501	¥620	\$4,864
Guarantees for bank loans of Ichthys LNG Pty Ltd	5,197	1,619	50,456

14 Derivative transactions

The TOHO GAS Group has adopted policies restricting the use of derivatives and requiring the reporting of such transactions to the responsible officials of the Company. All derivative transactions outstanding at March 31, 2014 and 2013 were accounted for by hedge accounting in accordance with the accounting standard for financial instruments. The effectiveness of a hedge is evaluated by confirming the relationship between the hedge contract and the transaction hedged by that contract.

Hedge contract	Object of hedged transaction
Commodity swap	Purchase price of raw materials
Exchange forward contract	Purchase price of raw materials
Interest rate swap	Corporate bonds and bank loans

Derivative transactions to which hedge accounting was applied that were outstanding as of March 31, 2014 and 2013 are summarized as follows:

Hedge contract	Notional principal or contract amounts		
	Total	Over 1 year	Fair value
	Millions of yen		
For 2014:			
Commodity swap contracts			
(fixed rate payment, floating rate receipt)	¥39,979	¥—	¥3,485
Exchange forward contracts	40,392	15,523	3,201
Interest rate swap contracts			
(floating rate payment, fixed rate receipt)	5,000	5,000	172
Interest rate swap contracts			
(fixed rate payment, floating rate receipt)	14,647	7,000	(*2)
For 2013:			
Commodity swap contracts			
(fixed rate payment, floating rate receipt)	¥39,974	¥19,987	¥(453)
Exchange forward contracts	50,597	26,481	1,575
Interest rate swap contracts			
(floating rate payment, fixed rate receipt)	5,000	5,000	208
Interest rate swap contracts			
(fixed rate payment, floating rate receipt)	13,000	13,000	(*2)
	Thousands of U.S. dollars		
Commodity swap contracts	\$388,146	\$—	\$33,835
Exchange forward contracts	392,155	150,709	31,078
Interest rate swap contracts	48,544	48,544	1,670
Interest rate swap contracts	142,204	67,961	(*2)

Notes:*1. Fair value was based principally on prices provided by the corresponding financial institutions.

*2. Derivative transactions such as interest rate swap contracts are accounted for by special hedge accounting such that the derivatives are not separated from the hedged bank loans. Therefore, the fair value of such derivative instruments is reflected in the calculation of the related bank loan.

15 Fair value of investment and rental property

The Company and some of its subsidiaries own land and office buildings for rent in Aichi and other prefectures. For the years ended March 2014 and 2013, in connection with those rental properties, the Company recorded rent revenues of ¥1,238 million (\$12,019 thousand) and ¥1,205 million, respectively. Rent revenues were included in the net sales account and the non-operating income account in the accompanying consolidated statements of income. Major rent expenses were included in the selling, general and administrative expenses account.

Information about fair value of rental property as of and for the year ended March 31, 2014 and 2013 were as follows:

	Millions of yen			
	Carrying value at the beginning of year	Net changes during the year	Carrying value at the end of year	Fair value at the end of year ※
March 31, 2014	¥8,813	(¥137)	¥8,676	¥28,913
March 31, 2013	¥8,649	¥164	¥8,813	¥29,181
	Thousands of U.S. dollars			
March 31, 2014	\$85,563	(\$1,330)	\$84,233	\$280,709

Fair value was based principally on real estate appraisal standards.

16 Subsequent events

Appropriation of retained earnings

On June 25, 2014, at the annual general meeting of shareholders of the Company, the following appropriations of retained earnings were approved:

	Millions of yen	Thousands of U.S. dollars
Cash dividends ¥4.50 (\$0.04) per share	¥2,454	\$23,825

Independent Auditors' Report

TOHO GAS CO., LTD. and Consolidated Subsidiaries

To the Board of Directors of TOHO GAS Co., Ltd.:

We have audited the accompanying consolidated financial statements of TOHO GAS Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TOHO GAS Co., Ltd. and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of the Notes to the Consolidated Financial Statements.

KPMG AZSA LLC

August 12, 2014
Nagoya, Japan

Toho Gas Group

Toho Gas Co., LTD. And Consolidated Subsidiaries
As of June 25, 2014

Gas Business

Toho Gas Customer Service Co., Ltd.

Trustee business of reading gas meter and collecting charges in gas business

Mizushima Gas Co.,Ltd.

Gas and LPG business in Okayama prefecture

Gas Appliance Sales and Related Construction

Toho Gas Techno Co., Ltd.

Construction of gas pipes, paving and road repair
Sales and installation of gas equipment etc.

LPG and other Energies

Toho Liquefied Gas Co., Ltd.

LPG business/Sale of coke and petroleum products

Others

Toho Real Estate Co., Ltd.

Leasing and management of real estate
Management of sports facilities etc.

Toho Gas Engineering Co., Ltd.

Engineering of gas production plants
Comprehensive utility service business

Toho Gas Living Co., Ltd.

Sales of housing equipment/Design and construction of residential buildings expansion and renovation

Toho Gas Information System Co., Ltd.

Data processing services/System engineering

Toho Service Co., Ltd.

Car sales, lease and maintenance/Leasing of equipment item
Insurance agency/Travel agency

Toho LNG Shipping Co., Ltd.

Lending of LNG ship

Corporate Directory

Toho Gas Co., LTD. And Consolidated Subsidiaries
As of June 25, 2014

Head Office

19-18, Sakurada-cho, Atsuta-ku, Nagoya, Aichi 456-8511, Japan
Tel: +81-52-872-9341

Technical Research Institute

507-2 Shinpou-machi, Tokai, Aichi 476-8501, Japan
Tel: +81-52-603-5311

East Nagoya District Headquarters

15-33, Hoshigaokamotomachi, Chikusa-ku, Nagoya, Aichi 464-8721, Japan
Tel: +81-52-781-6131

West Nagoya District Headquarters

5-39, Taikodori, Nakamura-ku, Nagoya, Aichi 453-8712, Japan
Tel: +81-52-471-1151

Eastern District Headquarters

53, Aza Hongou, Kugosaki-cho, Okazaki, Aichi 444-0851, Japan
Tel: +81-564-21-2231

Northern District Headquarters

2, Kanousakai-machi, Gifu, Gifu 500-8533, Japan
Tel: +81-58-272-2166

Western District Headquarters

3-8, Sakaemachi, Yokkaichi, Mie 510-0084, Japan
Tel: +81-59-353-9151

Chita LNG Terminal

23, Minamihama-cho, Chita, Aichi 478-0045, Japan
Tel: +81-562-55-4111

Chita-Midorihamama Works

1, Midorihamama-cho, Chita, Aichi 478-0000, Japan
Tel: +81-562-55-7772

Chita Calorific Value Adjustment Center

23, Kitahama-cho, Chita, Aichi 478-0046, Japan
Tel: +81-562-55-4511

Yokkaichi Works

22-5, Kasumi 1-chome, Yokkaichi, Mie 510-0011, Japan
Tel: +81-593-64-4566

Tokyo Branch Office

3F Kyobashi Daiichi Seimei Bldg., 4-12, Kyobashi 2-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: +81-3-3271-5444



TOHO GAS CO., LTD.

19-18, Sakurada-cho, Atsuta-ku, Nagoya 456-8511, Japan

Phone: +81-52-872-9341

URL: http://www.tohogas.co.jp/eng_index/