



For the Year Ended March 31 , 2016

ANNUAL REPORT 2016



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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.

The business environment surrounding the energy market has been changing drastically and rapidly. In April 2016, the power market is set to be fully liberalized, followed by complete liberalization of the gas market in April 2017. Competition is likely to intensify even further. Meanwhile, the natural gas market is expected to grow further as an environment-friendly energy source, and the expected significant changes in the business environment are likely to provide us with opportunities to reform the company for further business growth.

Under these circumstances, to ensure sustainable growth, the Toho Gas Group will work on realizing a “robust gas business” and “further growth,” both listed as major goals in the medium-term management plan (target period: FY2014 to FY2018).

To establish a “robust gas business,” we will follow the basics of the gas business, stable gas supply and safety and security, and strengthen our relationship with customers by improving our services. We also strengthen the competitiveness by promoting procurement of energy sources at reasonable costs.



Yoshiro Tominari / President

To attain “further growth” of the Group, we will redouble our efforts to steadily boost the gas business while expanding our gas business service area. We will also work to diversify our business and earnings base into the broader energy market.

The Toho Gas Group aims to become a company that continues to be trusted and chosen by customers. We will do our utmost to contribute to regional development and grow together with the region.

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

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. In addition, we started sales of electricity in April 2016. Beside the LPG (liquefied petroleum gas) sales 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.

Comparison with Tokyo Gas and Osaka Gas

(Non-Consolidated Results for FY2015)

	TOHO GAS	TOKYO GAS	OSAKA GAS
Number of Customers (thousand)	2,385 (100)	11,090 (465)	7,252 (304)
Gas Sales Volume (billions of m ³) <45MJ/m ³ >	3.8 (100)	15.2 (397)	8.0 (209)

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

► Toho Gas Service Area

The three prefectures of the Tokai area where 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.

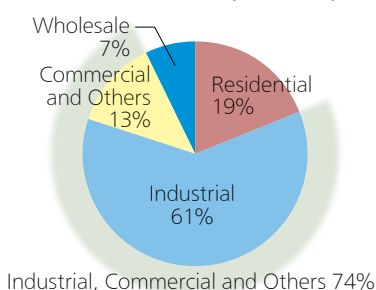
A unique feature of the Tokai area is its high concentration of superior manufacturers in a variety of categories,

including Toyota Motor Cop. 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.

► 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, the sales volumes have gradually recovered recently.

Gas Sales Volume by sector (FY2015)



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 March 31, 2016)



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**

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
	2011	2012	2013	2014	2015	2016	2016
For the year:							
Net sales	¥436,826	¥482,361	¥518,305	¥560,463	¥580,984	¥479,870	\$4,246,637
Operating income	23,907	17,504	12,621	15,751	28,761	60,725	537,389
Net income attributable to owners of the parent ⁽²⁾ ..	14,492	8,570	8,526	11,241	19,054	43,009	380,611
Capital investment (payment basis)	33,259	32,547	35,199	33,094	36,570	40,101	354,876
Depreciation	40,573	40,272	36,902	35,781	33,951	32,987	291,920
At year-end:							
Total assets	¥495,627	¥492,889	¥504,462	¥509,760	¥543,287	¥555,218	\$4,913,434
Net assets	221,502	224,365	236,470	245,890	282,827	285,186	2,523,770
Interest-bearing debt	161,401	164,325	162,016	164,518	149,704	127,163	1,125,336
Per share data (yen and U.S. dollars):							
Net income	¥26.22	¥15.68	¥15.62	¥20.61	¥34.94	¥79.41	\$0.70
Net assets	402.25	410.96	433.53	450.92	518.75	526.94	4.66
Financial Indicators:							
Return on equity (ROE) ⁽³⁾	6.6%	3.8%	3.7%	4.7%	7.2%	15.1%	
Return on assets (ROA) ⁽⁴⁾	2.9	1.7	1.7	2.2	3.6	7.8	

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, 2016, which was ¥113 to U.S.\$1.00

2. "Net income attributable to owners of the parent" has been used instead of "Net income" since FY2015 ended March 31, 2016.

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

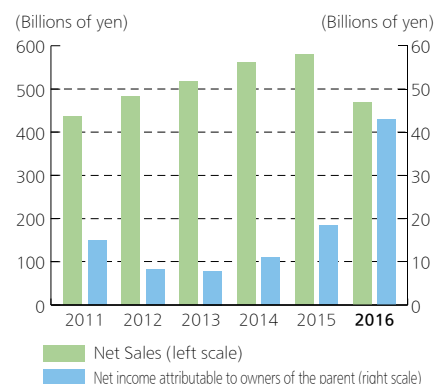
4. ROA = net income ÷ total assets (average of the beginning and end of the period) × 100

► Operating Statistics

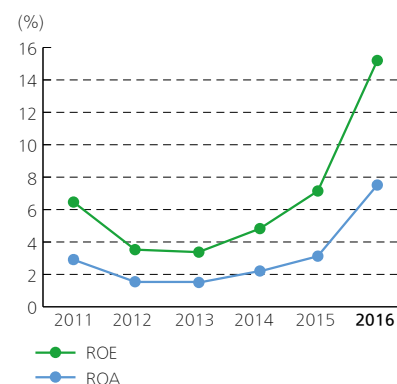
TOHO GAS CO., LTD. and Consolidated Subsidiaries Years Ended March 31

	Number of Customers/ Gas Sales Volume: Thousand m ³ (45MJ/m ³)					
	2011	2012	2013	2014	2015	2016
Number of Customers:						
Number of Customers	2,306,706	2,322,472	2,344,773	2,363,767	2,387,060	2,408,510
Gas Sales Volume:						
Residential	770,645	773,306	778,843	760,298	760,649	732,068
Industrial	2,386,925	2,407,812	2,422,642	2,463,995	2,459,484	2,402,165
Commercial and Others	553,754	534,256	538,087	543,053	519,241	499,633
Industrial, Commercial and Others	2,940,679	2,942,068	2,960,729	3,007,048	2,978,725	2,901,798
Wholesale	289,505	319,284	305,144	305,856	291,780	274,389
Total Gas Sales Volume	4,000,829	4,034,658	4,044,716	4,073,202	4,031,154	3,908,255

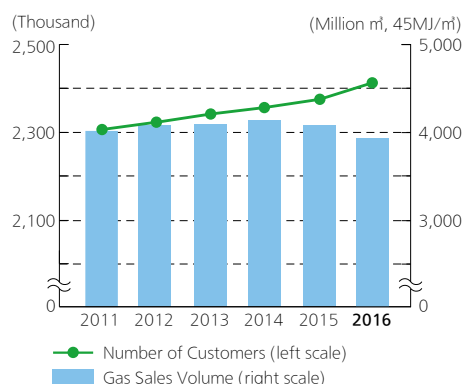
Net Sales and Net Income



ROE and ROA



Number of Customers and Gas Sales Volume



Investor Information

As of March 31, 2016

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/lang-n/en/corporate/>

Date of foundation:
June 1922

Date of establishment:
July 1922

Capital stock:
Authorized: 805,998,157 shares
Issued: 541,276,429 shares

Number of shareholders:
24,161
18,379 (Except holders of share less than one unit)

Stock transaction unit:
1,000 shares

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

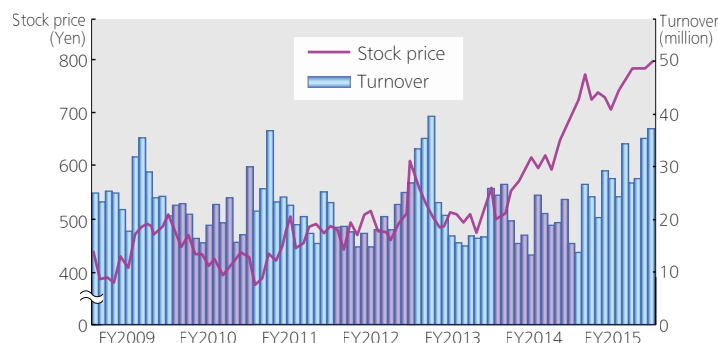
Administrator of shareholders' register:
Mitsubishi UFJ Trust and Banking Corporation
(Corporate Agency Div.)
4-5, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-8212, Japan

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

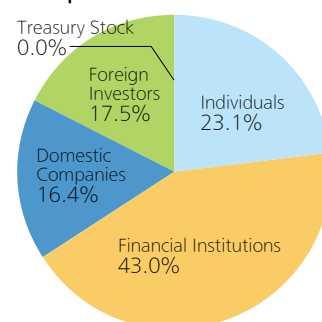
Number of employees:
5,818

Number of customers:
2,408,510

Stock Price and Traded Volume



Composition of Shareholders



Return to Shareholders

Toho Gas has adopted a basic policy of distributing stable dividends. In line with this policy, we have been actively

repurchasing our own shares as part of our efforts to pass part of our earnings on to shareholders.

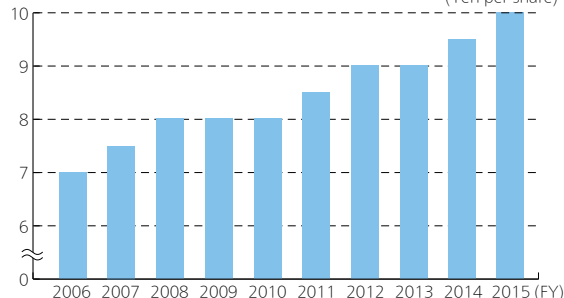
Return to Shareholders

(Billions of yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Net income attributable to owners of the parent(a)	14.4	8.5	8.5	11.2	19.0	43.0
Cash dividend (per share)	4.4 (¥8)	4.6 (¥8.5)	4.9 (¥9)	4.9 (¥9)	5.1 (¥9.5)	5.4 (¥10)
Share buy-back	2.7	—	—	—	2.9	up to 8.0
Dividend+share buy-back(b)	7.1	4.6	4.9	4.9	8.1	13.4
(b)/(a)	49%	54%	58%	44%	43%	31%

Dividend Trend

(Yen per share)



Topics Plan to repurchase own shares

In April 2016, we decided to repurchase up to 10 million shares or ¥8 billion.

Excellent Characteristics of Natural Gas

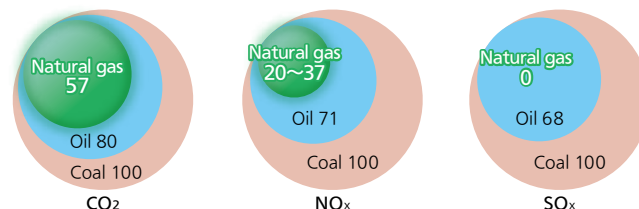
Natural gas, which is the main product of Toho Gas, is environment-friendly. It exists abundantly and can be

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 that causes photochemical smog, and sulfur oxide that is the principal cause of air pollution and acid rain is not emitted at all. 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 (1986) for NO_x and SO_x

► Stable supply

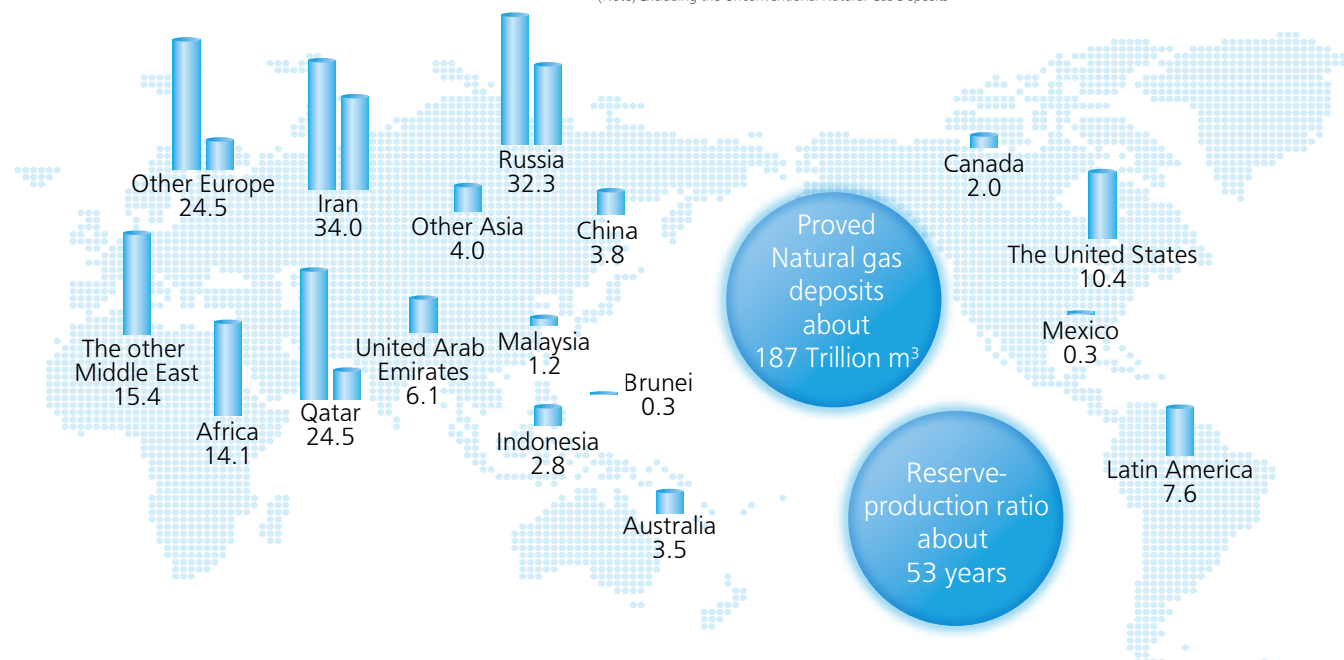
Natural gas exists abundantly around the world. It is imported by LNG tankers to Japan from Australia, Malaysia, Russia and many other countries. Recent advances in extraction technology have enabled natural gas extraction from deeper underground than was feasible using traditional technology, as well 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

Source: BP Statistical Review of World Energy 2016 (Trillion m³)
(Note) Excluding the Unconventional Natural Gas Deposits



Medium-term Management Plan

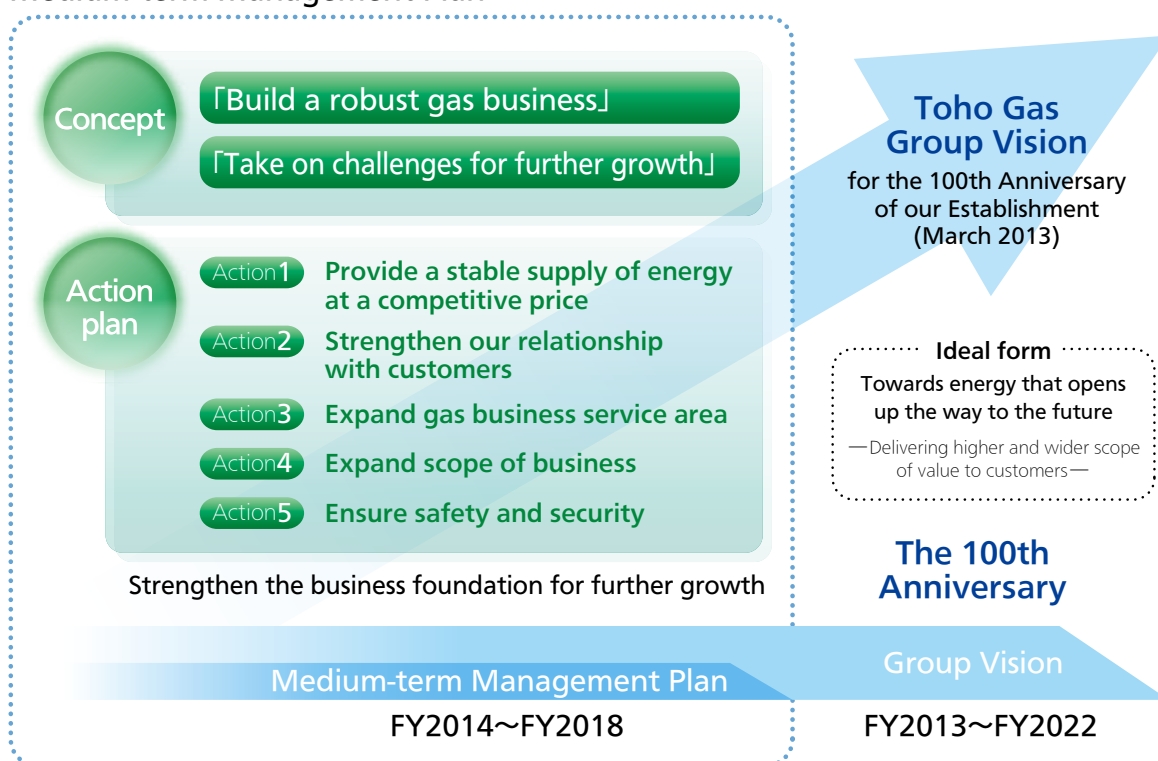
Toho Gas developed a medium-term management plan (FY2014 to FY2018) in March 2014. This Plan creates a path to realize the “Toho Gas Group Vision” for the 100th anniversary of our establishment.

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



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 m³	4.5 billion m³	2.2%	5 billion m³
	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

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 purchase 3 million tons of LNG each year from five countries (Indonesia, Australia, Malaysia, Qatar and Russia (Sakhalin)) under long-term supply contracts. By diversifying supply sources, we are working on stabilizing LNG procurement.

As part of our further efforts to diversify LNG procurement in the future, we concluded LNG purchase agreements with foreign suppliers—those under the Ichthys LNG Project in Australia, the Cameron Project in the United States and a new contract with Malaysia's Petronas LNG Ltd. Our LNG procurement under these projects will begin around 2017. Some of these contracts include the use of the Henry Hub, a price index linked to the U.S. natural gas prices, marking the first time that we will have adopted the index. Other contract features portfolio contract in which we will purchase LNG from sellers' multiple supply sources. These contracts represent our efforts to diversify the price-index and types of contracts. Under the Ichthys LNG Project, we concluded not only an LNG purchase contract but also a contract to

acquire upstream business concessions.

We will continue to redouble our efforts to diversify procurement areas, types of contracts and the price-index, with the aim of ensuring stable procurement of reasonably-priced LNG. We will also step up operations in the upstream natural gas market as a means of stabilizing LNG procurement, enhancing the economic efficiency of our business, tapping into new revenue-earning sources and launching business in new overseas markets.

Supply Sources



► Improving the infrastructure for a stable supply

LNG is transported from other countries by tanker to our works in Chita-Midorihamma, 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 odorant is added for safety reasons, it is delivered as city gas (13A).

We will make the most effective use of our facilities in the Chita and Yokkaichi areas and increase the flexibility of LNG terminal operations in view of the need to accept LNG with a low calorific value, and in response

to increasing purchases on the spot market and moves to introduce large LNG tankers. Specifically, we will effectively use Chita-Midorihamma Works No. 3 LNG tank, completed in 2016, and a gas pipeline across Ise Bay, completed in 2013.

We may have to accept LNG with low calorific value amid the diversification of supply sources. Against this background, we lowered the standard calorific value in September 2015 as part of our efforts to secure high-quality and stable supply of service gas.

Action2 Strengthen our relationship with customers

Toho Gas strengthens its relationship with customers due to realization and providing services which respond to 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 chemical reaction between hydrogen (retrieved from city gas) and oxygen in the air, has increased the number of installed units because of its environment-friendliness and economic efficiency. The cumulative sales total of ENE FARM reached 10,000 units in June 2016.

We are striving to achieve stock sales of 35,000 units by

the end of FY2018 by promoting greater efficiency and lowering costs of the system and further proposing its combined use with solar energy systems.

In February 2016, we launched a gas appliance maintenance service called “Rakuraku (easy) Maintenance.” In March 2016, we opened a membership website, “Club TOHOGAS,” through which a loyalty program enabling members to earn points by using the website was launched. Through these services, we will continue to respond to customers’ needs and demands. We will increase contacts with customers and strengthen our relationship with them by providing services that make their lives more comfortable.

Topics Launch of household-use fuel cells with the highest power generation efficiency rate in the world

We launched ENE FARM type S^{*1}, whose electricity generation efficiency rate was raised to 52%^{*2}, the highest in the world. The size of the appliance’s main component has been cut to the world’s

smallest level^{*2}, reducing the installation space required in a house by about 30%.

*1 Solid oxide fuel cell

*2 Based on research conducted by Toho Gas as of April 2016

Topics Launch of new services

“Club TOHOGAS”

We opened a membership website, “Club TOHOGAS” for mainly household customers. This website enables members to check the amount of gas and electricity consumed by them and access useful information on our services, while launching a loyalty program called “Gasteki Point” through which points earned by them can be converted into

points they can use for loyalty programs operated by other companies forming partnership with Toho Gas and be used to get selected merchandise items.

“Rakuraku (easy) Maintenance”

We launched a maintenance service for hot-water supply systems and built-in kitchen stoves, called “Rakuraku Maintenance,” to support customers’ long-term use of our products.

▶ 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 have initially introduced smart meters to the

homes of customers using automatic notification service, and evaluated equipment and system performance, and considered monitoring system, examine services, etc.

Medium-term Management Plan

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 develop thermal energy demands of industrial

furnaces and boilers, and gas air-conditioning demands. In addition, we will expand our “Comprehensive Utility Services Business” including construction of gas facilities, 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

Topics High-energy efficient gas air-conditioning system “GHP XAIR II”

We launched “GHP XAIR II,” a gas air-conditioning system featuring power and energy saving, in October 2015. The rate of energy efficiency for the

product is 25% higher than a conventional gas air-conditioning system with a similar power output capacity (45-85kW).

▶ 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 can optimize the advantage of

cogeneration systems, mainly in the Nagoya station area, including JP Tower Nagoya (Nagoya Central Post Office), where redevelopment plans have been taking shape toward the scheduled opening in 2027 of a maglev line service between Tokyo and Nagoya under the Chuo Shinkansen project.

Goal of installed capacity of distributed energy system

	End of FY2015	End of FY2018	End of FY2022
Distributed energy system (Installed capacity)	750 thousand kW	800 thousand kW	1,000 thousand kW

Action 3 Expand gas business service area

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

▶ Expanding the city-gas service area

We will adopt a medium- and long-term policy of establishing and boosting gas pipeline networks as part of our efforts to expand service areas in response to growing gas demand and as a means of ensuring stable city gas supply. As for measures to expand service areas, we will extend our gas pipeline networks to the eastern Mino regions in Gifu Prefecture and the northern Ise regions in Mie Prefecture. In addition, we will establish pipeline networks in the southern part of Aichi Prefecture. Furthermore, we will strengthen our trunk lines by

launching a plan to build Nanbu trunk line (linking Chita and Anjo) following Mie trunk line (linking Yokkaichi and Tsu), now under construction.

The length of the Toho Gas Group pipelines and branch lines totals about 29,000km, almost three-fourth the circumference of the earth.

We will continue to build and expand gas pipeline networks in line with a specific network expansion plan to ensure stable city gas supply.

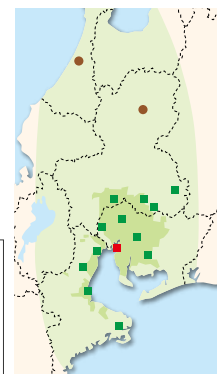
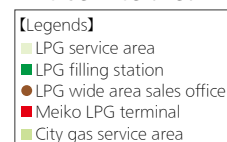
► Expanding the service area for LNG and LPG

We sell 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, one of the largest secondary terminals in Japan, is a core terminal of our group. Covering the supply of LPG in the Tokai area through the network of company-owned LPG filling stations, We boast the largest sales in the area. We are one of Japan's largest LPG providers, also selling the product across a wide region including the Hokuriku area, Shizuoka Prefecture and Shiga Prefecture. 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



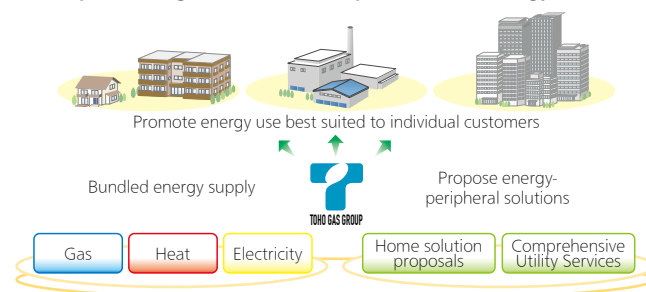
Action4 Expand scope of business

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

Full liberalization of the energy business is approaching, led by the government's initiative to reform the electric power 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.

Conceptual diagram of the comprehensive energy business



Topics Launch of the electric power business

We began to sell electricity in April 2016 as a new service to keep being a company chosen by customers. In 2016, the first year of that business, we aim to sell 20,000 kW of electricity mainly to households in Aichi, Gifu and Mie prefectures, and their surrounding regions—the main marketing areas for our city gas and LPG businesses. Over the coming five years, we aim to clinch power sales contracts equal to an output capacity of 100,000 kW.

As a way to secure power sources for the new business, we will

turn to diverse procurement sources. Specifically, we will tap the wholesale electricity market, procure power from other companies and build a facility that can serve as an auxiliary power source at the Yokkaichi works, which is scheduled to start operating in 2017 with an output capacity set at 15,000 kW.



Toho Gas mascot character for sales of electricity

► Expanding upstream business

In January 2012, we concluded an LNG sales and purchase agreement with the Ichthys LNG Project, in which we also acquired our first upstream equity interest. The project, launched in 2014, envisages building an undersea gas

pipeline up to 890 km long for completion in 2016. LNG production will begin in FY2017. In addition to this project, we are preparing to launch new upstream businesses in the LNG market.

Medium-term Management Plan

► 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.

Topics Acquisition of the stake in the natural gas distribution company in Portugal

Toho Gas, together with Marubeni Corporation, has reached an agreement with Galp Energia, SGPS, S.A., a major Portuguese energy company, to acquire a

22.5%(11.25% for each) stake of its wholly owned gas distribution company, Galp Gás Natural Distribuição, S.A.

► Developing smart towns

We will build a smart town in Minato AQUUS in Minato Ward, Nagoya City. Setting up facilities providing gas, electricity and thermal energy in an integrated manner, the smart town will act as a model area for our comprehensive energy business operations.

We will work on building the infrastructure of the

smart town and various relevant facilities toward its scheduled opening in the fall of 2018, with the Energy Center set to operate from the spring of 2017.

By building and operating new hydrogen refueling stations, we will also promote the diffusion of fuel cell vehicles with the aim of realizing a hydrogen society.

Topics Open of some facilities in Minato AQUUS

We are developing a smart town, "Minato AQUUS," which is under construction at the former site of one of our plants. The smart town will act as a model area for our comprehensive energy business operations.

In February 2016, sports facilities began operating in the smart town. In May this year, we

opened Minato AQUUS Eco Station, which consists of a hydrogen refueling station, and a natural gas and LPG station.



A map of Minato AQUUS

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. Polyethylene pipes hardly sustained any damage when a major earthquake with a magnitude of 7.3 hit the Kumamoto area in 2016.

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

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 by the end of FY2018 by 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 flexibly 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.

Transparency and Integrity of Management

The Toho Gas Group is striving to ensure transparency and soundness of its management by strengthening corporate governance and compliance. The move is part of the

Group's efforts to fulfill its corporate social responsibility and to become a company that is always trusted while operating its business activities in a sincere and fair manner.

Corporate Governance

► Organizations for Corporate Governance

(1) Management Structure

The Board of Directors of the Company comprises 10 Directors, including two Outside Directors. The Board of Directors is convened every month in accordance with the rules stipulated for the Board, and makes important decisions relating to the Toho Gas Group while supervising the execution of duties by Directors and Executive Officers.

The Company has adopted the Executive Officer System to strengthen the function of executive operations and to clarify responsibilities. The Company has also established the Management Committee to deliberate on important management issues, including important policy measures

for each division and department, in accordance with the basic policy adopted by the Board of Directors and to manage the progress of each policy measure periodically.

Various committees have been set up to deal with cross-sectional issues under the chairmanship of the President and other Directors. Each committee is tasked with grasping relevant issues and monitoring the progress of activities being undertaken in response to these issues, with the results of its meetings submitted to the Management Committee for deliberation.

(2) Audit Structure

The board of Audit & Supervisory Board Members comprises five Audit & Supervisory Board Members, including three Outside Audit & Supervisory Board Members. Each Audit & Supervisory Board Member monitors the execution of duties assigned to Directors by attending important conferences of the Company including meetings of the Board of Directors, reading important statements submitted by them and visiting business offices

related to the Directors. Each Audit & Supervisory Board Member also attends meetings of the Board of Audit & Supervisory Board Members, convened on a monthly basis, for information sharing. The Company has set up the Audit & Supervisory Board Members' Office where full-time staffers have been deployed to assist Audit & Supervisory Board Members in the execution of their duties.

(3) Outside Directors and Outside Audit & Supervisory Board Members

Outside Directors and Outside Audit & Supervisory Board Members are appointed for the purpose of strengthening the supervisory and auditing functions of the Company and ensuring the transparency and fairness of corporate management. Since the two Outside Directors and the three Outside Audit & Supervisory Board Members have no special interest with the Company, it has been determined that no conflict of interest exists or will arise between shareholders, and these Outside Directors and Outside Audit & Supervisory Board Members. Under these

circumstances, the Company designated them "independent directors," as defined by securities exchanges.

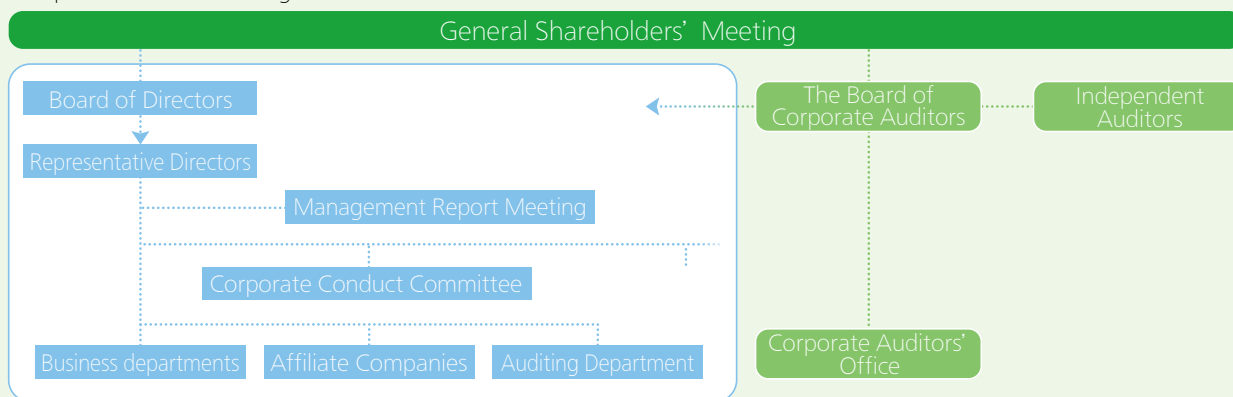
It is judged that objectivity and neutrality have been warranted in the supervision of corporate management, as the supervising and auditing functions of the Company are working due to the respective roles being played by Outside Directors and Audit & Supervisory Board Members including outside Audit & Supervisory Board Members.

(4) Response to Corporate Governance Code

In June 2015, the Corporate Governance Code began being applied to companies listed on the Tokyo Stock Exchange. To respond appropriately to the move, Toho Gas discloses a

Corporate Governance Report. The report, which states the situation of corporate governance at the Company, is accessible through the Company's website in Japanese.

【Corporate Governance Organizational Chart】



► Status of Internal Control System

To manage its business operations appropriately and efficiently, Toho Gas, at a Board of Directors meeting, resolved to establish a system aimed at ensuring appropriate business operations (an internal control system) in accordance with the Companies Act. Based on the resolution, the Company has been striving to strengthen its risk management and establishing a framework designed to reinforce compliance. The Board of Directors has since partially revised the resolution, as a means of reinforcing internal control within the Toho Gas Group and enhancing the effectiveness of auditing of Directors by Audit & Supervisory Board Members in line with the enforcement in May 2015 of the revised Companies Act. The content of the revised resolution and how the resolution was implemented in each year are disclosed via each year's business report, which is accessible through the Company's website

in Japanese.

To comply with an internal-control reporting system relating to the compilation of a financial report, which is required under the Financial Instruments and Exchange Act, relevant departments and affiliated companies conduct self-check concerning whether in-house rules are in place and whether a checking system has been implemented appropriately. Self-check is further checked by the Auditing Department, an in-house auditing organization, for evaluation, to be followed by auditing by an auditing entity. The Toho Gas Group's internal control in regard to financial report of FY2015 continued to be confirmed effective through the process mentioned above and its report has been submitted to the Financial Services Agency.

► Risk management

Based on in-house risk-management rules, we have designated the main department in charge of dealing with each business risk as a way of reducing overall business-related risks. The Toho Gas Group's risk management situation is annually evaluated by the Management Committee and the result of the evaluation is reported to the Board of Directors.

Relevant committees discuss ways to reduce risks when it comes to cross-divisional issues relating to

stable gas supply, safety and security. What is discussed by the committees regarding the progress of measures to reduce risks and pending issues is reported to the Management Committee. Risk-reduction measures on important matters for corporate management are strengthened and improved based on views and opinions expressed at meetings of the Management Committee and the Board of Directors.

Transparency and Integrity of Management

Board of Directors Audit & Supervisory Board Members



Koichi Yasui, Chairman (left) and Yoshiro Tominari, President

Representative Director,
Chairman

Koichi Yasui

Representative Director,
President

Yoshiro Tominari

Representative Directors

**Osamu Nakamura
Shinji Niwa**

Directors

**Hiromu Ohji
Takayasu Hayashi
Katsuhiko Ito**

Adviser and Member
of the Board

Takashi Saeki

Outside Directors

**Koji Miyahara
Tetsuo Hattori**

Audit &
Supervisory Board Members

**Nobuaki Matsushima
Hiroshi Yamazaki**

Outside Audit &
Supervisory Board Members

**Yoshihiro Yasui
Michiyo Hamada
Tamotsu Kokado**

Compliance

The Toho Gas Group recognizes compliance not only as observing laws and in-house rules but also as meeting expectations of customers and society by behaving and acting based on social common sense and ethics. The Group has adopted action guidelines for corporate ethics and a code of conduct regarding compliance—a set of action standards concretized based on the guidelines. By working on spreading and fully implementing the code, each employee aims to win customers' confidence and contribute to the development of the local community. In light of the changes seen in the business environment surrounding the Group, however, the guidelines and the code of conduct were modified in FY2015.

Toho Gas has set up the Compliance Committee, chaired by the President of Toho Gas and composed of managers from business divisions, representative of the labor union and others. The committee is convened twice a year to discuss compliance activity plans and the results of their implementation. Each department's head is tasked with promoting compliance, with managers and section chiefs of each business office in

charge of implementing compliance-enhancement measures.

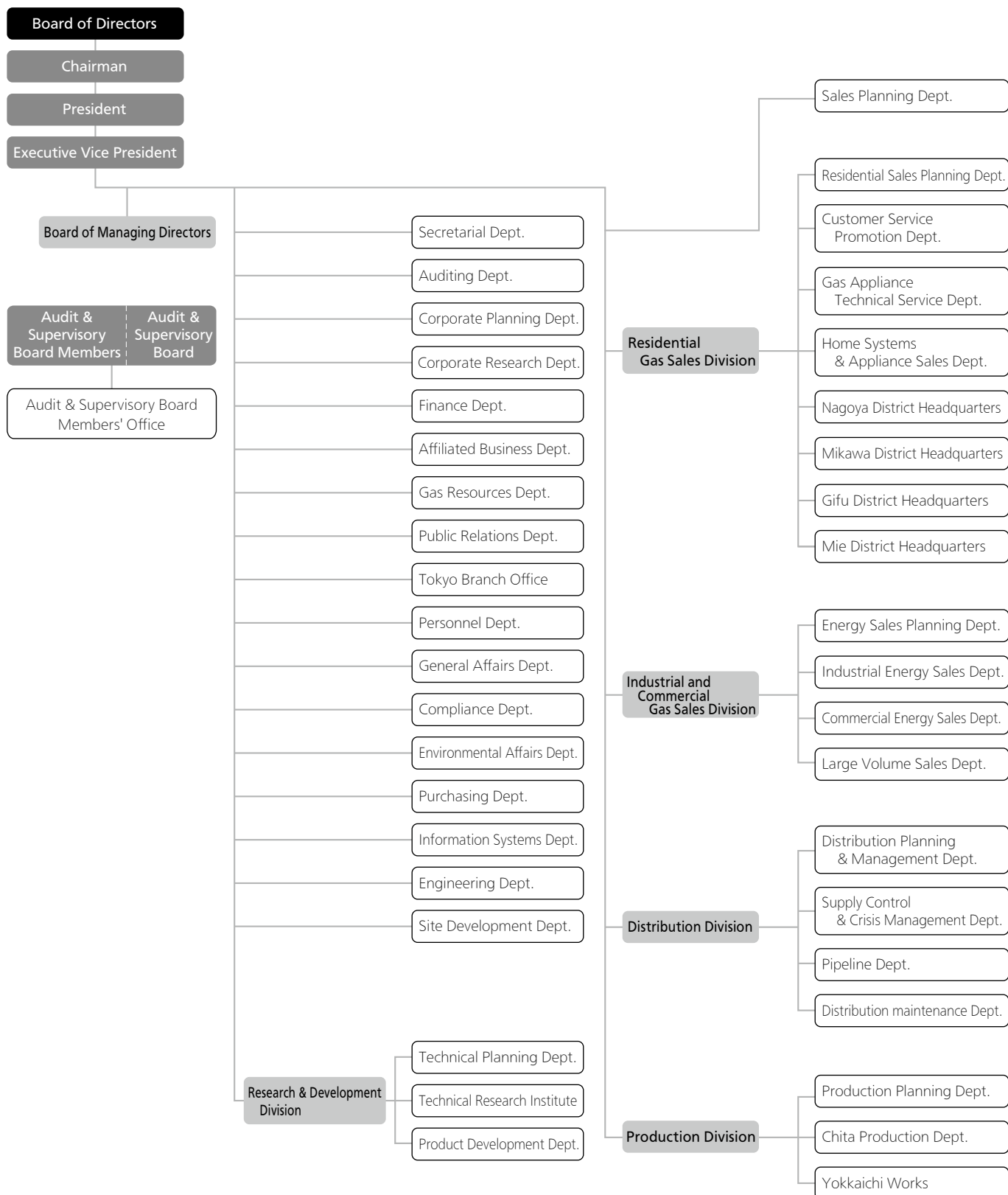
Each affiliated company appoints an executive officer in charge of compliance and has taken the initiative in promoting compliance by setting up a compliance committee as part of their efforts.

Toho Gas has set up compliance desks both inside and outside the company (at a law firm) where not only employees of Group companies, including those dispatched to these companies via manpower agencies, but also former employees and workers employed by client firms can receive advice and consultation regarding compliance.

A fact-finding investigation will be swiftly launched following Group companies' contact with the desks, in line with rules set for dealing with questions raised at compliance desks. The rules include provisions protecting information provided by those who contacted the compliance desks and prohibiting them from being treated in a manner that would result in damaging their interests.

Organization Chart

TOHO GAS CO., LTD.
As of June 27, 2016



Financial Section

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

► Consolidated Business Results

The economic condition in our service area recovered moderately during FY2015. However, vigor that would lead to full-fledged recovery had yet to be seen during the year.

Under these circumstances, as a result of diligent efforts to expand city gas use, supply stably and ensure security, the number of customers increased by 0.9% from the previous year. The consolidated sales volume of city gas decreased by 3.0% from the previous year and LPG sales volume increased by 1.1%.

Consolidated net sales decreased by 17.4% from the previous year to ¥479,870 million. Costs of sales fell by 32.2% to ¥278,074 million due to a decrease in raw material costs, following a plunge in crude oil prices. Selling, general and administrative expenses decreased by 0.5% to ¥141,071 million. Consequently, ordinary income increased by 107.1% to ¥61,132 million. Profit attributable to owners of the parent increased by 125.7% from the previous year to ¥43,009 million.

Reference

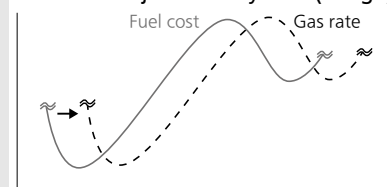
City gas is made from liquefied natural gas (LNG), whose price changes depending on the crude oil price and exchange rates. In Japan, this fluctuation in fuel costs is reflected several months later in the gas fee rates, in accordance with the Fuel Cost Adjustment System.

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

Characteristics of the Gas Rate System

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 number of customers increased by 22 thousand to 2,409 thousand during the year.

The total gas sales volume decreased 3.0% to 3,908 million m³. In the residential market, sales volume was 732 million m³, a decrease of 3.8% from the previous year, due to higher temperatures in winter, etc. In the non-residential segment, although we promote the marketing efforts to create new gas demand, sales volume was 2,902 million m³, a decrease of 2.6% from the previous year, due to a

decrease in customer facilities' operation rates and a decrease of air-conditioning demand, etc. The volume of wholesale sales to other gas utilities decreased 6.0% to 274 million m³.

Gas sales revenues decreased 19.9% from the previous year to ¥355,048 million. We have revised our gas rates to return our achievement of management efforts in September 2015. Operating income increased 119.5% to ¥55,862 million.

Gas Appliance Sales and Related Construction

Sales revenues of this segment increased by 4.6% from the previous year to ¥37,793 million due to an increase in sales of non-residential gas appliances, despite a decrease in the new

construction works. Operating income increased by ¥446 million to ¥65 million.

LPG and other energy Sales

Sales of LPG and thermal energy supply businesses decreased by 16.3% from the previous year to ¥68,665 million. Operating

income increased by 55.1%, to ¥1,970 million. LPG sales volume increased 1.1% from the previous year to 434 thousand tons.

Other

Sales of other businesses, including plant design and construction, and real estate leasing, etc., increased by 6.4% to

¥38,911 million. Operating income increased by 36.7% to ¥1,604 million.

► Financial Position

Assets, Liabilities and Net Assets

Total assets increased by ¥11,931 million from the end of the previous year. Liabilities increased by ¥9,572 million. Net assets increased by ¥2,359 million.

As a result, the equity ratio decreased from 52.1% in the previous year to 51.4%.

Cash Flows

Net cash provided by operating activities was ¥114,924 million, mainly due to recording of income before income taxes and depreciation.

Net cash used in investing activities was ¥42,196 million, which was mainly used for facilities investments.

As a result, free cash flow for the year was ¥72,728 million.

Net cash used in financing activities was ¥31,817 million, which was mainly used for reduction of interest-bearing debt.

As a result, net cash and cash equivalents as of the end of March 31, 2016 increased by ¥40,891 million from the same date of the previous year to ¥60,315 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, 2016.

(a) Impact of change in demand

The sales volume and profitability of the city gas and LPG gas businesses may be affected, positively or negatively, by economic conditions as well as by changes in temperature, such as extreme heat, warm winters, and irregular water-temperature conditions. Also potentially affecting our businesses is the changes in the competitive environment that are likely to happen in the wake of liberalization of the electricity and gas markets.

(b) Impact of fluctuating fuel 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.

The value of assets held by our group, such as stocks and pensions, may change because of possible fluctuations of stock prices and interest-rate trends. Consequently, profitability of our businesses may be affected, positively or negatively.

(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, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Assets			
Property, plant and equipment (Notes 7 and 15):			
Production facilities	¥241,623	¥237,410	\$2,138,257
Distribution facilities	876,942	856,145	7,760,549
Service and maintenance facilities	69,147	69,426	611,920
Other facilities	97,959	95,790	866,894
Construction in progress	40,405	31,592	357,566
	1,326,076	1,290,363	11,735,186
Accumulated depreciation	(1,012,794)	(986,803)	(8,962,779)
Total property, plant and equipment	313,282	303,560	2,772,407
Intangible assets (Note 7):	5,320	5,936	47,080
Investments and other assets:			
Investment securities (Notes 3, 4 and 7)	69,045	79,024	611,018
Deferred tax assets (Note 8)	14,250	7,139	126,107
Other (Note 14)	8,473	6,065	74,982
Allowance for doubtful accounts	(102)	(80)	(903)
Total investments and other assets	91,666	92,148	811,204
Current assets:			
Cash and cash equivalents (Notes 3,4 and 7)	60,315	19,423	533,761
Receivables:			
Trade notes and accounts receivable (Note 3)	47,666	61,031	421,823
Allowance for doubtful accounts	(212)	(272)	(1,876)
Lease receivables and investment assets	8,077	7,122	71,478
Inventories (Note 5)	14,256	28,298	126,159
Deferred tax assets (Note 8)	5,010	730	44,336
Other (Notes 3 and 14)	9,838	25,311	87,062
Total current assets	144,950	141,643	1,282,743
Deferred charges	—	—	—
Total assets	¥555,218	¥543,287	\$4,913,434

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Noncurrent liabilities:			
Long-term debt (Notes 3 and 7)	¥92,388	¥119,670	\$817,593
Provision for gas holder repairs	1,422	1,319	12,584
Reserve for safety measures	18,570	16,180	164,336
Deferred tax liabilities (Note 8)	905	979	8,009
Net defined benefit liability (Note 6)	26,200	21,782	231,858
Provision for gas appliance warranties	3,764	939	33,310
Other (Note 14)	7,758	7,246	68,655
Total noncurrent liabilities	151,007	168,115	1,336,345
Current liabilities:			
Short-term loans payable (Notes 3 and 7)	7,073	12,022	62,593
Current portion of noncurrent liabilities (Notes 3 and 7)	26,780	17,133	236,991
Trade notes and accounts payable (Note 3)	16,593	15,960	146,841
Income taxes payable	15,356	11,492	135,894
Deferred tax liabilities (Note 8)	—	1,855	—
Other	53,223	33,883	471,000
Total current liabilities	119,025	92,345	1,053,319
Net assets (Notes 9 and 16):			
Shareholders' equity:			
Capital stock:			
Authorized - 805,998,157 shares			
Issued - 541,276,429 shares in 2016 and 545,966,429 shares in 2015	33,073	33,073	292,682
Capital surplus	8,387	8,388	74,221
Retained earnings	222,722	188,522	1,970,991
Less treasury stock -			
68,729 shares in 2016 and 755,433 shares in 2015	(51)	(387)	(451)
Total shareholders' equity	264,131	229,596	2,337,443
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	32,481	39,473	287,443
Deferred (losses) gains on hedges	(4,213)	11,497	(37,284)
Foreign currency translation adjustments	3,009	2,786	26,628
Remeasurements of defined benefit plans	(10,222)	(525)	(90,460)
Total accumulated other comprehensive income	21,055	53,231	186,327
Total net assets	285,186	282,827	2,523,770
Total liabilities and net assets	¥555,218	¥543,287	\$4,913,434

Consolidated Statements of Income

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net sales (Note 11)	¥479,870	¥580,984	\$4,246,637
Operating costs and expenses:			
Cost of sales	278,074	410,431	2,460,832
Selling, general and administrative expenses	141,071	141,792	1,248,416
	419,145	552,223	3,709,248
Operating income (Note 11)	60,725	28,761	537,389
Other income (expenses):			
Interest and dividend income	1,673	1,362	14,805
Interest expense	(1,551)	(1,691)	(13,726)
Loss on bond retirement	(937)	—	(8,292)
Other, net	1,222	1,084	10,815
	407	755	3,602
Net income before income taxes	61,132	29,516	540,991
Income taxes (Note 8):			
Current	18,406	10,033	162,885
Deferred	(283)	429	(2,505)
Total income taxes	18,123	10,462	160,380
Net income	43,009	19,054	380,611
Net income attributable to owners of the parent	¥43,009	¥19,054	\$380,611
Per share:	Yen		U.S. dollars
Net income attributable to owners of the parent	¥79.41	¥34.94	\$0.70
Cash dividends applicable to the year (Notes 2 and 16)	10.00	9.50	0.09

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net income	¥43,009	¥19,054	\$380,611
Other comprehensive income (Note 10):			
Valuation difference on available-for-sale securities	(6,992)	9,894	(61,876)
Deferred (losses) gains on hedges	(15,710)	6,724	(139,027)
Foreign currency translation adjustments	223	1,256	1,973
Remeasurements of defined benefit plans	(9,697)	5,990	(85,814)
Total other comprehensive income	(32,176)	23,864	(284,744)
Comprehensive income	¥10,833	¥42,918	\$95,867
Comprehensive income attributable to:			
Owners of the parent	¥10,833	¥42,918	\$95,867
Non-controlling interests	—	—	—

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, 2016 and 2015

	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, 2014	545,966,429	¥33,073	¥8,387	¥175,387	(¥324)	¥216,523
Cumulative effects of changes in accounting policies (Note 2) ...				(¥1,011)		(¥1,011)
Restated balance at March 31, 2014	545,966,429	33,073	8,387	174,376	(324)	215,512
Dividends from surplus				(4,908)		(4,908)
Net income attributable to owners of the parent				19,054		19,054
Purchase of treasury stock					(65)	(65)
Disposal of treasury stock			1		2	3
Retirement of treasury stock						
Change in scope of consolidation						
Net changes in items other than shareholders' equity						
Total changes in items during the period		—	1	14,146	(63)	14,084
Balance at March 31, 2015	545,966,429	¥33,073	¥8,388	¥188,522	(¥387)	¥229,596
Cumulative effects of changes in accounting policies (Note 2) ...						
Restated balance at March 31, 2015		33,073	8,388	188,522	(387)	229,596
Dividends from surplus				(5,432)		(5,432)
Net income attributable to owners of the parent				43,009		43,009
Purchase of treasury stock					(3,042)	(3,042)
Disposal of treasury stock			0		0	0
Retirement of treasury stock	(4,690,000)		(1)	(3,377)	3,378	
Net changes in items other than shareholders' equity						
Total changes in items during the period		—	(1)	34,200	336	34,535
Balance at March 31, 2016	541,276,429	¥33,073	¥8,387	¥222,722	(¥51)	¥264,131

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2015	\$292,682	\$74,230	\$1,668,336	(\$3,425)	\$2,031,823
Cumulative effects of changes in accounting policies (Note 2)					
Restated balance at March 31, 2015	292,682	74,230	1,668,336	(3,425)	2,031,823
Dividends from surplus			(48,071)		(48,071)
Net income attributable to owners of the parent			380,611		380,611
Purchase of treasury stock				(26,920)	(26,920)
Disposal of treasury stock		0		0	0
Retirement of treasury stock		(9)	(29,885)	29,894	
Net changes in items other than shareholders' equity					
Total changes in items during the period	—	(9)	302,655	2,974	305,620
Balance at March 31, 2016	\$292,682	\$74,221	\$1,970,991	(\$451)	\$2,337,443

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen					
	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred (losses) gains on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit pension plan	Total accumulated other comprehensive income	
Balance at March 31, 2014	¥29,579	¥4,773	¥1,530	(¥6,515)	¥29,367	¥245,890
Cumulative effects of changes in accounting policies (Note 2) ..				3,182	3,182	2,171
Restated balance at March 31, 2014	29,579	4,773	1,530	(3,333)	32,549	248,061
Dividends from surplus						(4,908)
Net income attributable to owners of the parent ..						19,054
Purchase of treasury stock						(65)
Disposal of treasury stock						3
Retirement of treasury stock						
Change in scope of consolidation						
Net changes in items other than shareholders' equity ..	9,894	6,724	1,256	2,808	20,682	20,682
Total changes in items during the period	9,894	6,724	1,256	2,808	20,682	34,766
Balance at March 31, 2015	¥39,473	¥11,497	¥2,786	(¥525)	¥53,231	¥282,827
Cumulative effects of changes in accounting policies (Note 2) ..						
Restated balance at March 31, 2015	39,473	11,497	2,786	(525)	53,231	282,827
Dividends from surplus						(5,432)
Net income attributable to owners of the parent ..						43,009
Purchase of treasury stock						(3,042)
Disposal of treasury stock						0
Retirement of treasury stock						
Net changes in items other than shareholders' equity ..	(6,992)	(15,710)	223	(9,697)	(32,176)	(32,176)
Total changes in items during the period	(6,992)	(15,710)	223	(9,697)	(32,176)	2,359
Balance at March 31, 2016	¥32,481	(¥4,213)	¥3,009	(¥10,222)	¥21,055	¥285,186

	Thousands of U.S. dollars (Note 1)					
	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred (losses) gains on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit pension plan	Total accumulated other comprehensive income	
Balance at March 31, 2015	\$349,319	\$101,743	\$24,655	(\$4,646)	\$471,071	\$2,502,894
Cumulative effects of changes in accounting policies (Note 2) ..						
Restated balance at March 31, 2015	349,319	101,743	24,655	(4,646)	471,071	2,502,894
Dividends from surplus						(48,071)
Net income attributable to owners of the parent ..						380,611
Purchase of treasury stock						(26,920)
Disposal of treasury stock						
Retirement of treasury stock						
Net changes in items other than shareholders' equity ..	(61,876)	(139,027)	1,973	(85,814)	(284,744)	(284,744)
Total changes in items during the period	(61,876)	(139,027)	1,973	(85,814)	(284,744)	20,876
Balance at March 31, 2016	\$287,443	(\$37,284)	\$26,628	(\$90,460)	\$186,327	\$2,523,770

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Net income before income taxes	¥61,132	¥29,516	\$540,991
Adjustments for:			
Depreciation and amortization	32,987	33,951	291,920
Increase in net defined benefit liability and other allowances	5,280	8,263	46,726
Interest and dividend income.....	(1,673)	(1,362)	(14,805)
Interest expense	1,551	1,691	13,726
Decrease in trade notes and accounts receivable	13,365	761	118,274
Decrease (increase) in inventories.....	14,042	(5,530)	124,266
Increase (decrease) in trade notes and accounts payable	624	(3,866)	5,522
Other	895	3,270	7,920
	128,203	66,694	1,134,540
Interests and dividends received	1,673	1,361	14,805
Interests paid	(1,577)	(1,709)	(13,956)
Income taxes paid	(13,375)	(4,026)	(118,363)
Net cash provided by operating activities	114,924	62,320	1,017,026
Cash flows from investment activities:			
Purchases of investment securities	(200)	(5)	(1,770)
Proceeds from sale of investment securities	25	2	221
Purchases of noncurrent assets	(40,101)	(36,570)	(354,876)
Proceeds from sale of noncurrent assets	107	156	947
Other	(2,027)	(1,423)	(17,938)
Net cash used in investment activities	(42,196)	(37,840)	(373,416)
Cash flows from financing activities:			
Net (decrease) in short-term bank loans.....	(4,949)	(12,048)	(43,796)
Proceeds from long-term loans payable	10,736	9,258	95,009
Repayment of long-term loans payable.....	(8,176)	(12,272)	(72,354)
Proceeds from issuance from bonds	—	9,958	—
Redemption of bonds	(20,935)	(10,000)	(185,266)
Purchase of treasury stock	(3,042)	(65)	(26,920)
Cash dividends paid	(5,435)	(4,912)	(48,097)
Other	(16)	(76)	(142)
Net cash used in financing activities	(31,817)	(20,157)	(281,566)
Effect of exchange rate change on cash and cash equivalents	(19)	859	(168)
Net increase in cash and cash equivalents	40,892	5,182	361,876
Cash and cash equivalents at beginning of year	19,423	14,241	171,885
Cash and cash equivalents at end of year	¥60,315	¥19,423	\$533,761

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, 2016, which was ¥113 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 2016 and 2015). 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.

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.

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.

Provision for safety measures

The TOHO GAS Group provides an allowance for replacement of

gas appliances and pipelines by estimating future expenditures, and charging them to income to promote the replacement of old gas appliances with new ones that have safety devices and to replace the aged white galvanized branch pipes, pipes buried under the roads that are important in terms of disaster prevention, and pipes of important buildings for security reasons.

(Additional information)

The TOHO GAS Group decided to make further efforts to ensure security by replacing the gas pipelines buried under the roads that are important in terms of disaster prevention with more earthquake-resistant pipelines in a planned manner, and to provide an allowance for the expenses. As a result, it provided an additional allowance for safety measures by estimating future expenditures of ¥4,125 million (\$36,504 thousand). Therefore, operating income, ordinary income, and income before income taxes declined by ¥4,125 million (\$36,504 thousand).

Provision for gas appliance warranties

The TOHO GAS Group provides an allowance for gas appliance warranties by estimating future expenditures, and charging them to income to provide the warranty service, etc.

(Additional information)

The TOHO GAS Group decided to include the expenses for sales promotion of gas appliance based on the past warranty results. As a result, it provided an allowance for gas appliance warranties by estimating future expenditures of ¥2,915 million (\$25,796 thousand). Therefore, operating income, ordinary income, and income before income taxes declined by ¥2,915 million (\$25,796 thousand).

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 a benefit formula basis. Unrecognized actuarial differences from those which were assumed and from changes in the 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.

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 net asset.

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.

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 ¥2,156 million (\$19,080 thousand) and ¥2,083 million for the years ended March 31, 2016 and 2015, respectively.

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, 2016 or 2015.

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, 2015, The TOHO GAS Group companies have applied the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, issued on May 17, 2012, hereinafter, the "Accounting Standard for Retirement Benefits") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on March 26, 2015, hereinafter, the "Retirement Benefits Guidance") with regard to the provisions stipulated in the text from Article 35 of the Accounting Standard for Retirement Benefits and the text from Article 67 of the Retirement Benefits Guidance. Accordingly, the Company reviewed the method used to calculate retirement benefit obligation and service cost, changed the method used to attribute expected retirement benefits to periods of service from a straight-line basis to a benefit formula basis and the method used to determine the discount rate from a method based on the expected average remaining years of service of eligible employees to a method using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

In accordance with Article 37 of Statement No. 26, this accounting change has not been retroactively applied to the consolidated financial statements of prior years. In addition the effect of the change in the method used to attribute expected retirement benefits to periods of service has been recognized as an adjustment to the beginning balance of retained earnings as of April 1, 2014, and the effect of the change in the method used to determine the discount rate has been recognized as a remeasurement of defined benefit plans in other comprehensive income.

As a result of the application, liability for retirement benefits was ¥3,119 million (\$27,602 thousand) less, retained earnings were ¥1,011 million (\$8,947 thousand) less and other comprehensive income were ¥3,182 million (\$28,159 thousand) more than the amounts that would have been reported without the change at the beginning of the current fiscal year. This change has minimal impact on operating income and income before income taxes and minority interests.

The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013 (hereinafter, "Statement No.21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013 (hereinafter, "Statement No.22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013 (hereinafter, "Statement No.7")) (together, the "Business Combination Accounting Standards"), from the current consolidated fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place.

The Company also changed the presentation of net income. Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current consolidated fiscal year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current consolidated fiscal year prospectively.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities".

There is no effect on the consolidated financial statements or per share information of the current consolidated fiscal year.

Accounting standards not adopted

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter,

"Guidance No.26"))

(1) Overview

Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets", which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2017

(3) Effects of application of the Guidance

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. Securities and 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 15 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, 2016 and 2015 were as follows:

	Millions of yen		
	Carrying value	Fair value	Difference
For 2016:			
Assets:			
Cash and time deposits	¥25,393	¥25,393	¥ —
Trade notes and accounts receivable	47,666	47,666	—
Securities and investment securities	97,764	97,764	—
Total	170,823	170,823	—
Liabilities:			
Trade notes and accounts payable	16,593	16,593	—
Short-term loans payable	7,073	7,073	—
Bonds payable, including current portion	79,998	84,340	4,342
Long-term loans payable, including current portion	39,106	39,935	829
Total	142,770	147,941	5,171
Derivative transactions	(5,843)	(5,843)	—
For 2015:			
Assets:			
Cash and time deposits	¥20,722	¥20,722	¥ —
Trade notes and accounts receivable	61,031	61,031	—
Securities and investment securities	72,923	72,923	—
Total	154,676	154,676	—
Liabilities:			
Trade notes and accounts payable	15,960	15,960	—
Short-term loans payable	12,022	12,022	—
Bonds payable, including current portion	99,995	105,317	5,322
Long-term loans payable, including current portion	36,731	37,266	535
Total	164,708	170,565	5,857
Derivative transactions	16,079	16,079	—
	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
For 2016:			
Assets:			
Cash and time deposits	\$224,717	\$224,717	\$ —
Trade notes and accounts receivable	421,823	421,823	—
Securities and investment securities	865,168	865,168	—
Total	1,511,708	1,511,708	—
Liabilities:			
Trade notes and accounts payable	146,841	146,841	—
Short-term loans payable	62,593	62,593	—
Bonds payable, including current portion	707,947	746,372	38,425
Long-term loans payable, including current portion	346,071	353,407	7,336
Total	1,263,452	1,309,213	45,761
Derivative transactions	(51,708)	(51,708)	—

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) Securities and 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 is calculated by the market price.

(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 contract 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
	2016	2015	2016
Nonmarketable securities			
Unlisted equity securities	¥4,631	¥4,615	\$40,983
Investments in affiliates	1,650	1,486	\$14,602

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
	2016	2015	2016
	Due within one year	Due within one year	Due within one year
Cash and time deposits	¥25,393	¥20,722	\$224,717
Trade notes and accounts receivable	47,666	61,031	421,823
Securities and investment securities	35,000	—	309,735
	¥108,059	¥81,753	\$956,275

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 2016:						
Short-term bank loans payable.....	¥7,073	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	10,000	5,000	10,000	10,000		45,000
Long-term bank loans payable	16,716	2,607	4,479	3,328	2,503	9,473
	¥33,789	¥7,607	¥14,479	¥13,328	¥2,503	¥54,473
For 2015:						
Short-term bank loans payable.....	¥12,022	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable.....	10,000	10,000	10,000	10,000	10,000	50,000
Long-term bank loans payable	7,056	17,037	2,142	4,012	824	5,660
	¥29,078	¥27,037	¥12,142	¥14,012	¥10,824	¥55,660
	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 2016:						
Short-term bank loans payable.....	\$62,593	\$ —	\$ —	\$ —	\$ —	\$ —
Bonds payable	88,496	44,247	88,496	88,496	—	398,230
Long-term bank loans payable	147,929	23,071	39,637	29,451	22,151	83,832
	\$299,018	\$67,318	\$128,133	\$117,947	\$22,151	\$482,062

4 Securities and 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, 2016 and 2015 were as follows.

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, 2016				
Equity securities	¥15,833	¥44,513	¥ —	¥60,346
Other	5	7	—	12
	¥15,838	¥44,520	¥ —	¥60,358
March 31, 2015				
Equity securities	¥18,526	¥54,182	¥ —	¥72,708
Other	5	7	—	12
	¥18,531	¥54,189	¥ —	¥72,720
	Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2016				
Equity securities	\$140,115	\$393,920	\$ —	\$534,035
Other	44	62	—	106
	\$140,159	\$393,982	\$ —	\$534,141

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, 2016				
Equity securities	¥2,864	¥ —	(¥458)	¥2,406
Other	35,000	—	—	35,000
	¥37,864	¥ —	(¥458)	¥37,406
March 31, 2015				
Equity securities	¥238	¥ —	(¥35)	¥203
	¥238	¥ —	(¥35)	¥203
	Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2016				
Equity securities	\$25,345	\$ —	(\$4,053)	\$21,292
Other	309,735	—	—	309,735
	\$335,080	\$ —	(\$4,053)	\$331,027

Total sales of available-for-sale securities for the years ended March 31, 2016 and 2015 amounted to ¥25 million (\$221 thousand) and ¥1 million, respectively. The related gains for the years ended March 31, 2016 and 2015 amounted to ¥12 million (\$106 thousand) and ¥1 million, respectively.

5 Inventories

Inventories at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Finished products	¥3,547	¥4,911	\$31,389
Work-in-process	630	475	5,575
Raw materials and supplies	10,079	22,912	89,195
	¥14,256	¥28,298	\$126,159

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. Projected benefit obligation of certain subsidiaries was calculated using the simplified calculation method as permitted by the accounting standard for employee retirement benefits. There is also a retirement benefit trust that functions with the lump-sum retirement benefit plan.

Reconciliation of the beginning and ending balances for retirement benefit obligations at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Beginning balance of the retirement benefit obligation	¥108,308	¥108,499	\$958,478
Cumulative effects of changes in accounting policies	—	(3,118)	0
Restated balance at March 31, 2015	108,308	105,381	958,478
Service cost	2,956	2,821	26,159
Interest cost	958	1,344	8,478
Accruals of actuarial gains and losses	12,367	2,674	109,442
Payment of retirement benefits	(4,427)	(3,912)	(39,177)
Ending balance of the retirement benefit obligation	¥120,162	¥108,308	\$1,063,380

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
	2016	2015	2016
Fair value of pension plan assets at beginning of year	¥86,526	¥78,779	\$765,717
Expected return on pension plan assets	1,731	1,576	15,318
Recognized actuarial differences	(1,438)	5,695	(12,726)
Contributions from the employer	3,478	3,513	30,779
Lump-sum retirement benefit plan	7,000	—	61,947
Payment of retirement benefits	(3,335)	(3,037)	(29,513)
Fair value of pension plan assets at ending of year	¥93,962	¥86,526	\$831,522

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
	2016	2015	2016
Projected benefit obligation of funded plans	¥115,714	¥94,582	\$1,024,018
Fair value of pension plan assets	(93,962)	(86,526)	(831,522)
	21,752	8,056	192,496
Projected benefit obligation of unfunded obligation	4,448	13,726	39,362
Net of assets and liabilities	26,200	21,782	231,858
Net defined benefit liability	26,200	21,782	231,858
Net defined benefit assets	—	—	—
Net of assets and liabilities	¥26,200	¥21,782	\$231,858

Note:1. Including a system for the application of the simplified method

Note:2. Because a retirement benefit trust has been established in connection with the lump-sum plans from this fiscal year, the projected benefit obligation of the funded plans include the lump-sum payment plans. Similarly, pension assets include a retirement benefit trust.

Retirement benefit expense and amount of the detailed items

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Components of net periodic retirement benefit expense:			
Service cost	¥2,956	¥2,821	\$26,159
Interest cost	958	1,344	8,478
Expected return on pension plan assets	(1,731)	(1,576)	(15,318)
Recognized actuarial differences	382	1,033	3,380
Net periodic retirement benefit expense related to defined benefit pension plan	¥2,565	¥3,622	\$22,699

Remeasurements of defined benefit plans included in other comprehensive income (before tax effects) at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial differences	(¥13,423)	(¥8,626)	(\$118,788)

Total remeasurement of defined benefit pension plan included in other comprehensive income (before tax effects) at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial differences	(¥14,157)	(¥734)	(\$125,283)

Plan assets

	2016	2015
Bond	57%	54%
Equity securities	18%	28%
General account	17%	18%
Other	8%	0%
Total	100%	100%

For the fiscal year ended March 31, 2016, assets in the retirement benefit trust, which was established in connection with the lump-sum payment plans, accounted for 7% of the total plan assets.

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, 2016 and 2015 were as follows:

	2016	2015
Discount rate	0.2%	0.9%
Expected long-term rate of return on pension plan assets	2.0%	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 0.6% at March 31, 2016.

Long-term debt and other interest-bearing liabilities at March 31, 2016 and 2015 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Domestic unsecured notes due 2018 at a rate of 3.175%	¥5,000	¥10,000	\$44,247
Domestic unsecured notes due 2023 at a rate of 1.12%	10,000	10,000	88,496
Domestic unsecured notes due 2015 at a rate of 1.63%	—	10,000	—
Domestic unsecured notes due 2016 at a rate of 2.07%	10,000	10,000	88,496
Domestic unsecured notes due 2022 at a rate of 2.06%	4,998	9,995	44,230
Domestic unsecured notes due 2018 at a rate of 1.658%	10,000	10,000	88,496
Domestic unsecured notes due 2027 at a rate of 1.628%	10,000	10,000	88,495
Domestic unsecured notes due 2022 at a rate of 0.792%	10,000	10,000	88,496
Domestic unsecured notes due 2023 at a rate of 0.933%	10,000	10,000	88,495
Domestic unsecured notes due 2019 at a rate of 0.28%	10,000	10,000	88,496
Loans from banks, insurance companies and government agencies due through 2031 at interest rates ranging from 0.14% to 3.07% per annum at March 31, 2016	39,106	36,731	346,071
Capitalized lease obligations	979	437	8,664
	120,083	137,163	1,062,682
Less amounts due within one year	(26,777)	(17,131)	(236,965)
	¥93,306	¥120,032	\$825,717

Having entered into debt assumption agreements and having had debt transferred in fulfillment for 3.175% notes payable due in 2018 in the amount of ¥5,000 million and 2.06% notes payable due in 2022 in the amount of ¥5,000 million, the Company treated the bonds having been redeemed.

The Company remains contingently liable on the bond redemption obligation.

Assets pledged as collateral mainly for trade accounts payable and long-term debt in the aggregate amounts of ¥25 million (\$221 thousand) and ¥25 million at March 31, 2016 and 2015, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Other facilities	16	16	142
Construction in progress	5,727	3,855	50,681
Intangible assets	2,446	2,446	21,646
Investment securities	1,054	1,054	9,328
Cash and deposits	685	628	6,062
Other	3,507	690	31,035
	¥13,435	¥8,689	\$118,894

The annual maturities of long-term debt and other interest bearing liabilities at March 31, 2016 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥26,777	\$236,965
2017	7,674	67,911
2018	14,540	128,673
2019	13,388	118,478
2020	2,562	22,673
2021 and thereafter	55,142	487,982
	¥120,083	\$1,062,682

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, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Net defined benefit liability	¥9,433	¥6,432	\$83,478
Depreciation	5,223	6,565	46,221
Reserve for safety measures	5,149	4,879	45,567
Deferred gains on hedges	3,083	—	27,283
Other	11,519	9,270	101,938
Less valuation allowance	(1,981)	(2,073)	(17,531)
	32,426	25,073	\$286,956
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(11,582)	(14,681)	(102,495)
Deferred gains on hedges	(1,453)	(4,583)	(12,858)
Reserve for overseas investment loss	(859)	(635)	(7,602)
Deferred capital gains	(134)	(139)	(1,186)
Other	(43)	0	(381)
	(14,071)	(20,038)	(124,522)
Net deferred tax assets	¥18,355	¥5,035	\$162,434

The reconciliation for the year ended March 31, 2015 was as follows:

	Percentage of pretax income
Combined statutory tax rate	30.4%
Effect of tax rate change	5.2%
Permanently nondeductible expenses	0.5%
Tax exempt income	(1.1%)
Other, net	0.4%
Effective tax rate	35.4%

For the fiscal year ended March 31, 2016, 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 that the “Act for Partial Revision of the Income Tax Act, etc.” (No. 15, March 29, 2016) has been established in the National Assembly, 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 ¥451 million (\$3,991 thousand) less, the amount of income tax deferred ¥652 million (\$5,770 thousand) more, and the amount of accumulated other comprehensive income ¥201 million (\$1,779 thousand) more at March 31, 2016 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, 2016 and 2015, 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 (\$77,699 thousand) at both March 31, 2016 and 2015.

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.

During the year ended March 31, 2016, the Company retired 4,690,000 shares of the treasury stock through a reduction of retained earnings. As a result, the number of issued shares of common stock decreased from 545,966,429 shares to 541,276,429 shares for the year ended March 31, 2016.

In November 2015, the Company paid interim dividends of ¥2,706 million (\$23,947 thousand), ¥5.0 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
	2016	2015	2016
Net changes in valuation difference on available-for-sale securities			
(Decrease) increase during the year	(¥10,164)	¥12,685	(\$89,947)
Reclassification adjustments	72	—	637
Subtotal before tax	(10,092)	12,685	(89,310)
Tax benefit or (expense)	3,100	(2,791)	27,434
Subtotal net of tax	(6,992)	9,894	(61,876)
Net changes in deferred (losses) gains on hedges			
(Decrease) increase during the year	(15,318)	18,335	(135,558)
Reclassification adjustments	(6,599)	(8,595)	(58,398)
Adjustments for amounts transferred to initial carrying amount of hedged items	(5)	(518)	(44)
Subtotal before tax	(21,922)	9,222	(194,000)
Tax benefit or (expense)	6,212	(2,498)	54,973
Subtotal net of tax	(15,710)	6,724	(139,027)
Net changes in foreign currency translation adjustments			
Increase (decrease) during the year	223	1,256	1,973
Subtotal net of tax	223	1,256	1,973
Net changes in remeasurements of defined benefit plans			
(Decrease) increase during the year	(13,805)	7,593	(122,168)
Reclassification adjustments	382	1,033	3,380
Subtotal before tax	(13,423)	8,626	(118,788)
Tax benefit or (expense)	3,726	(2,636)	32,974
Subtotal net of tax	(9,697)	5,990	(85,814)
Total other comprehensive income	(32,176)	23,864	(284,744)

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.

As disclosed under Note 2, "Change in accounting policy", the Company and its domestic consolidated subsidiaries have changed the method for calculating retirement benefit obligation and service cost. The impact of this change on segment income (loss) has been immaterial.

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, 2016 and 2015 was as follows:

	Millions of yen							
	Reported segments			Total	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Gas Sales	Gas Appliance Sales and Related Construction	LPG and Other Energies					
For 2016:								
Net sales:								
External customers	¥354,970	¥34,704	¥67,944	¥457,618	¥22,252	¥479,870	¥ —	¥479,870
Intersegment	78	3,089	721	3,888	16,659	20,547	(20,547)	—
Total net sales	355,048	37,793	68,665	461,506	38,911	500,417	(20,547)	479,870
Segment income (loss)	¥55,862	¥65	¥1,970	¥57,897	¥1,604	¥59,501	¥1,224	¥60,725
Segment assets	¥380,787	¥17,190	¥40,668	¥438,645	¥72,212	¥510,857	¥44,361	¥555,218
Other itmes:								
Depreciation expenses	29,808	150	2,154	32,112	953	33,065	(78)	32,987
Capital expenditures	34,649	233	2,784	37,666	5,461	43,127	117	43,244
For 2015:								
Net sales:								
External customers	¥442,979	¥33,229	¥81,316	¥557,524	¥23,460	¥580,984	¥ —	¥580,984
Intersegment	101	2,915	684	3,700	13,115	16,815	(16,815)	—
Total net sales	443,080	36,144	82,000	561,224	36,575	597,799	(16,815)	580,984
Segment income (loss)	¥25,452	(¥381)	¥1,270	¥26,341	¥1,173	¥27,514	¥1,247	¥28,761
Segment assets	372,040	¥12,782	¥41,523	¥426,345	¥61,379	¥487,724	¥55,563	¥543,287
Other itmes:								
Depreciation expenses	30,348	108	2,097	32,553	1,478	34,031	(80)	33,951
Capital expenditures	31,329	108	2,895	34,332	2,933	37,265	(17)	37,248

	Thousands of U.S. dollars								
	Reported segments				Total	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Gas Sales	Gas Appliance Sales and Related Construction	LPG and Other Energies						
For 2016:									
Net sales:									
External customers	\$3,141,328	\$307,115	\$601,274	\$4,049,717	\$196,920	\$4,246,637	\$ —	\$4,246,637	
Intersegment	690	27,336	6,381	34,407	147,425	181,832	(181,832)	—	
Total net sales	3,142,018	334,451	607,655	4,084,124	344,345	4,428,469	(181,832)	4,246,637	
Segment income (loss)	\$494,354	\$575	\$17,434	\$512,363	\$14,195	\$526,558	\$10,831	\$537,389	
Segment assets	\$3,369,796	\$152,124	\$359,894	\$3,881,814	\$639,044	\$4,520,858	\$392,576	\$4,913,434	
Other itmes:									
Depreciation expenses	263,788	1,327	19,062	284,177	8,434	292,611	(691)	291,920	
Capital expenditures	306,628	2,062	24,637	333,327	48,328	381,655	1,035	382,690	

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, 2016 and 2015

(1) Information about products and services:

	Millions of yen			
	Gas Sales	LPG	Other	Total
For 2016:				
Net sales to external customers	¥354,970	¥48,118	¥76,782	¥479,870
	Millions of yen			
	Gas Sales	LPG	Other	Total
For 2015:				
Net sales to external customers	¥442,979	¥58,008	¥79,997	¥580,984
	Thousands of U.S. dollars			
	Gas Sales	LPG	Other	Total
For 2016:				
Net sales to external customers	\$3,141,327	\$425,823	\$679,487	\$4,246,637

(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

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:

1. Finance lease

(1) Lease investment assets (current assets)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Lease receivables	¥5,995	¥5,045	\$53,053
Estimated residual value	560	329	4,956
Interest income	(1,141)	(821)	(10,097)
Lease investment assets	¥5,414	¥4,553	47,912

(2) Recovery plans amount of lease receivables related and investment assets after the end of current fiscal year (current assets)

	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 2016:						
Lease receivables	¥427	¥400	¥366	¥349	¥333	¥1,644
Lease investment assets	1,479	1,232	958	701	496	1,129
	¥1,906	¥1,632	¥1,324	¥1,050	¥829	¥2,773
For 2015:						
Lease receivables	¥414	¥391	¥362	¥319	¥301	¥1,604
Lease investment assets	1,266	1,129	926	689	449	586
	¥1,680	¥1,520	¥1,288	¥1,008	¥750	¥2,190

	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 2016:						
Lease receivables	\$3,779	\$3,540	\$3,239	\$3,088	\$2,947	\$14,549
Lease investment assets	13,088	10,903	8,478	6,204	4,389	9,991
	\$16,867	\$14,443	\$11,717	\$9,292	\$7,336	\$24,540

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 were accounted for with accounting treatment similar to that used for operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Lease income	¥120	¥120	\$1,062
Future lease commitments to be received (inclusive of imputed interests):			
Due within one year	120	120	1,062
Due after one year	1,440	1,560	12,743
	¥1,560	¥1,680	\$13,805
	Millions of yen		Thousands of U.S. dollars
	Acquisition cost	Accumulated depreciation	Net value
For 2016:			
Other facilities	¥1,900	¥796	¥1,104
For 2015:			
Other facilities	¥1,900	¥724	¥1,176
	Thousands of U.S. dollars		Thousands of U.S. dollars
	Acquisition cost	Accumulated depreciation	Net value
For 2016:			
Other facilities	\$16,814	\$7,044	\$9,770
	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Lease depreciation	¥72	¥72	\$637

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, 2016 and 2015, these contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Guarantees for housing loans of employees	¥299	¥400	\$2,646
Guarantees for bank loans of Ichthys LNG Pty Ltd	7,594	8,281	67,204
Domestic unsecured notes due 2018 at a rate of 3.175%	5,000	—	44,247
Domestic unsecured notes due 2022 at a rate of 2.06%	5,000	—	44,247

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, 2016 and 2015 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, 2016 and 2015 are summarized as follows:

Hedge contract	Notional principal or contract amounts		
	Total	Over 1 year Millions of yen	Fair value
For 2016:			
Commodity swap contracts			
(fixed rate payment, floating rate receipt)	¥ 27,628	¥ 13,814	(¥ 11,050)
Exchange forward contracts	53,757	24,596	5,085
Interest rate swap contracts			
(floating rate payment, fixed rate receipt)	5,000	5,000	122
Interest rate swap contracts			
(fixed rate payment, floating rate receipt)	10,677	8,677	(¥ 2)
For 2015:			
Commodity swap contracts			
(fixed rate payment, floating rate receipt)	¥ —	¥ —	¥ —
Exchange forward contracts	90,742	53,757	15,940
Interest rate swap contracts			
(floating rate payment, fixed rate receipt)	5,000	5,000	139
Interest rate swap contracts			
(fixed rate payment, floating rate receipt)	10,368	5,368	(¥ 2)
	Thousands of U.S. dollars		
Commodity swap contracts	\$244,496	\$122,248	(\$97,788)
Exchange forward contracts	475,726	217,664	45,000
Interest rate swap contracts	44,248	44,248	1,080
Interest rate swap contracts	94,487	76,788	(¥ 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 2016 and 2015, in connection with those rental properties, the Company recorded rent revenues of ¥1,246 million (\$11,027 thousand) and ¥1,263 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 years ended March 31, 2016 and 2015 was 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, 2016	¥8,584	¥1,187	¥9,771	¥26,961
March 31, 2015	¥8,676	(¥92)	¥8,584	¥27,036
	Thousands of U.S. dollars			
	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, 2016	\$75,965	\$10,504	\$86,469	\$238,593

*Fair value was based principally on real estate appraisal standards.

16 Subsequent events

(a) Appropriation of retained earnings

On June 27, 2016, at the annual shareholders meeting of the Company, the following appropriations of retained earnings were approved:

	Millions of yen	Thousands of U.S. dollars
Cash dividends ¥5.00 (\$0.04) per share	¥2,706	\$23,947

(b) Share buy-back

On April 28, 2016, the Board of Directors of the Company resolved to repurchase its shares pursuant to Article 156 of the Corporation Law as applied pursuant to Article 165, paragraph 3 as follows.

- (1) Types of shares to be repurchased: Common stock
- (2) Number of shares to be repurchased: Up to 10 million shares
- (3) Value of shares to be repurchased: Up to ¥8 billion
- (4) Period of repurchase: From May 6, 2016 to December 31, 2016

Based on the resolution, the Company repurchased its shares as follows.

- (1) Period of repurchase: From May 9, 2016 to July 28, 2016 (Commitment basis)
- (2) Number of shares repurchased: 3,016 thousand shares
- (3) Total value of shares repurchased: ¥2,381 million
- (4) Method of repurchase: Market purchase on Tokyo Stock Exchange

Independent Auditor's 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, 2016 and 2015, 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 misstatement, 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, 2016 and 2015, 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, 2016 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

KPMG AZSA LLC
August 10, 2016
Nagoya, Japan

Toho Gas Group

TOHO GAS Co., LTD. and Consolidated Subsidiaries
As of June 27, 2016

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/Sales 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 ships

Corporate Directory

As of June 27, 2016

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