



ANNUAL REPORT 2011

For the Year Ended March 31 , 2011



Contents

Financial Highlights	01
About Natural Gas	02
Natural gas is expected to become a major energy resource in Japan	
About Toho Gas	04
Provides a synopsis of the Toho Gas Group and the economy of the Tokai area	
To Our Shareholders	06
Contains the message from the chairman and the president of Toho Gas	
Review of Operations	08
Highlights the achievements of the Toho Gas Group in the areas of marketing, procurement and production, supply, and research and development during the fiscal year under review	
Medium-Term Management Plan	16
Outlines the management objectives and progress of the plan	
Corporate Activities to Promote Sustainable Development	18
Explains the environmental policies and activities of the Toho Gas Group	
Corporate Governance	20
Describes the ways in which corporate governance systems are continually improved at Toho Gas	
Financial Section	23
Includes management's discussion and analysis of results of operations and financial condition as well as the consolidated financial statements of Toho Gas	
Organization Chart	46
Toho Gas Group, Corporate Directory	47
Investor Information	48

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.

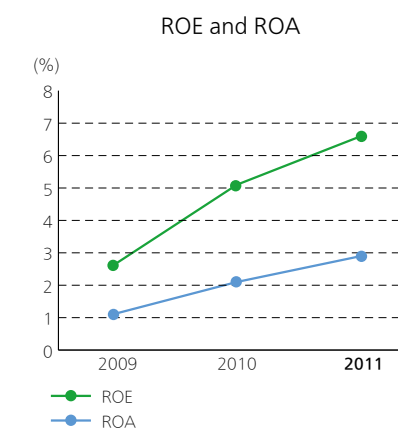
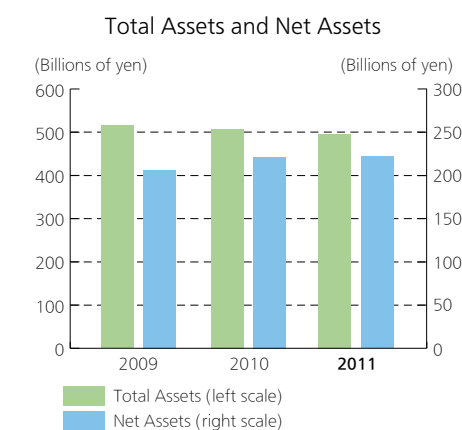
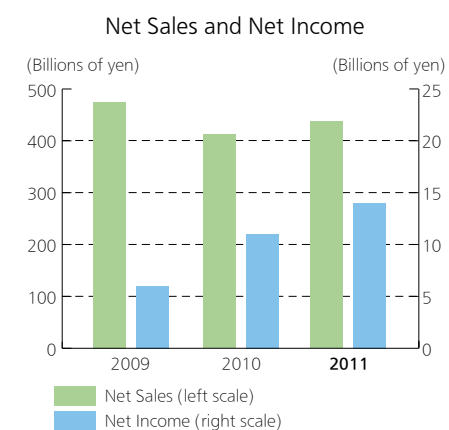
Financial Highlights

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

	Millions of yen, except per share data			Thousands of U.S. dollars ⁽¹⁾ , except per share data
	2009	2010	2011	2011
For the year:				
Net sales	¥474,560	¥411,525	¥436,826	\$5,262,964
Operating income	10,889	17,819	23,907	288,036
Net income	5,808	10,977	14,492	174,602
Capital investment (payment basis)	48,446	43,673	33,259	400,711
Depreciation	40,630	61,158	40,573	488,831
At year-end:				
Total assets	¥516,129	¥506,725	¥495,627	\$5,971,410
Net assets	205,748	220,938	221,502	2,668,699
Interest-bearing debt	193,201	171,052	161,401	1,944,590
Per share data (yen and U.S. dollars):				
Net income	¥10.38	¥19.68	¥26.22	\$0.32
Cash dividends	8.00	8.00	8.00	0.10
Net assets	367.67	399.37	402.25	4.85
Ratios:				
Return on equity (ROE) ⁽²⁾	2.6%	5.1%	6.6%	
Return on assets (ROA) ⁽³⁾	1.1	2.1	2.9	
Asset turnover (Times) ⁽⁴⁾	0.89	0.80	0.87	

Notes:

- 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, 2011, which was ¥83 to U.S.\$1.00.
- ROE = net income ÷ net assets (average of the beginning and end of the period) × 100
- ROA = net income ÷ total assets (average of the beginning and end of the period) × 100
- Asset turnover = net sales ÷ total assets (average of the beginning and end of the period)

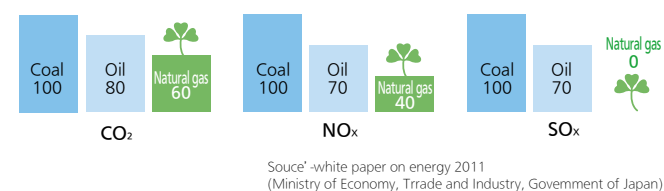


About Natural Gas

■ Clean Energy, Natural Gas

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

Emissions from combustion of fossil fuels (Coal = 100)



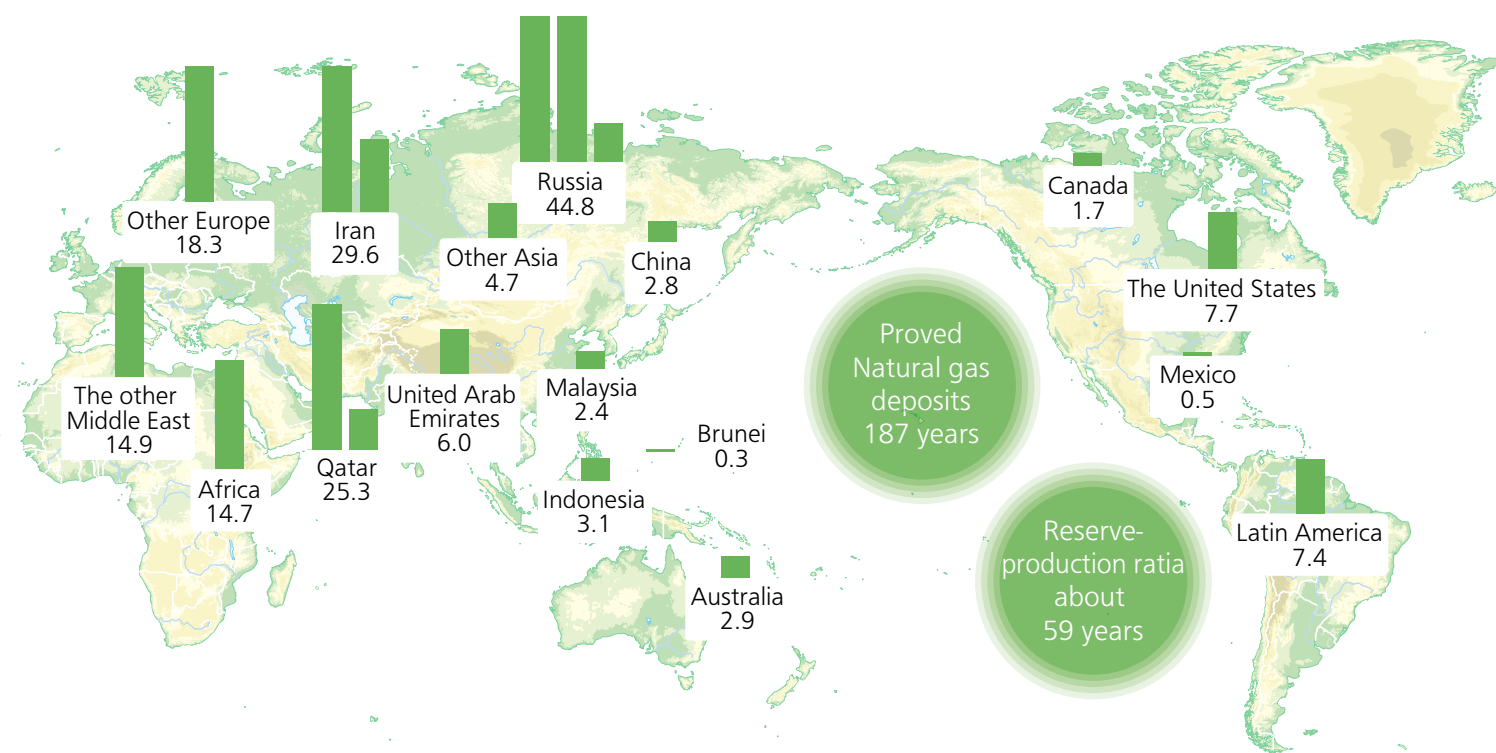
■ Natural gas reserves are abundant

Natural gas reserves are abundant and, unlike those of crude oil, are not concentrated in any specific geographical locations. Scientists estimate that current reserves are sufficient to fuel the world's energy needs for more than 60 years.

Thanks to advances in mining technology, natural gas embedded under the sea or deep underground, formerly difficult to collect using conventional methods, can now be produced efficiently, leading to expectations of a stable natural gas supply in the future.

Global Distribution of Natural Gas Deposits

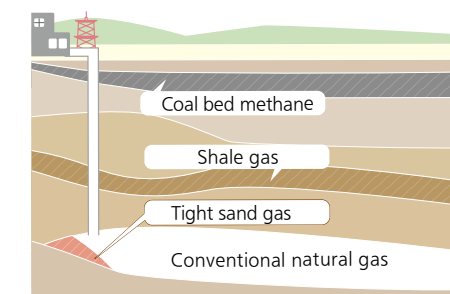
Source: BP Statistical Review of World Energy 2011 (Trillions of cubic meters)



■ Natural Gas as an Unconventional Resource

Projects for realizing use of unconventional natural gas resources (shale gas, tight sand gas and coal bed methane) have been implemented. Reserves of unconventional natural gas are estimated to be more than 300 years of conventional natural gas production. In the U.S.A., that produces about 20% of the world's natural gas, more than 50% of the natural gas produced is unconventional natural gas; this percentage is expected to increase in the future.

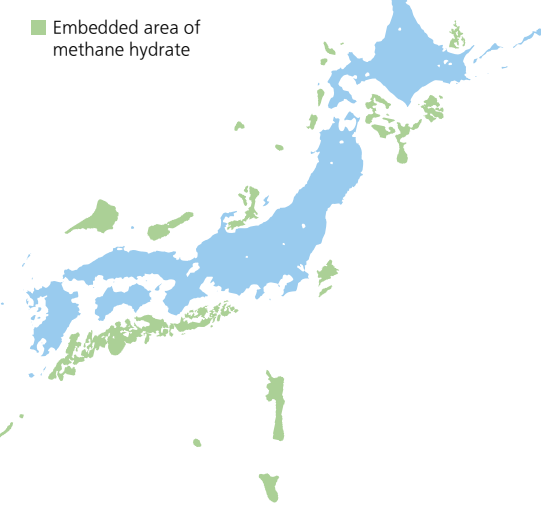
Unconventional natural gas



■ Natural Gas Embedded in Seas Close to Japan

It is said that methane hydrate sufficient to meet Japan's natural gas requirements for about 100 years is embedded under seas close to Japan.

Phase II of Japan's methane hydrate development project began in 2009. Marine production tests, economical and efficient mining technology assessments and resource volume appraisal have been implemented, targeting commercialization in fiscal 2018.



■ Uses of Natural Gas in Japan

While Japan produces very little natural gas, it imports a great deal in the form of liquefied natural gas (LNG). Because such LNG projects as gas field development and liquification plants require huge sums of capital, gas producers and importing companies make a practice of entering into long-term contracts to ensure a stable return on their capital investment over the long term.

LNG receiving terminals in Japan are chiefly built at the ports of Tokyo, Osaka and Nagoya, where demand is highest, and the gas is then supplied to power plants and these major cities and their vicinities through gas pipelines. With an abundance of mountain ranges in the country and the population disproportionately located in urban areas, there is no integrated long-distance pipeline connecting major cities, so that each natural gas market is autonomous to all others.

In Japan, the use of natural gas as a primary energy source is still quite low compared with consumption in the European Union and North America. However, in recent years, demand for natural gas in Japan has expanded owing to wider use of large-scale generators at electric power plants, as well as the proliferation and enlargement of systems with high generating efficiency that utilize city gas for such applications as cogeneration systems, gas-powered air-conditioning systems and plant furnaces.

The expansion of nuclear power generation in Japan has become difficult due to the nuclear power plant accident at Fukushima caused by the tsunami after the Great East Japan Earthquake. Since it takes a considerable time for the diffusion of renewable energy use, the importance of natural gas, which is clean and enjoys supply stability, is expected to further increase.

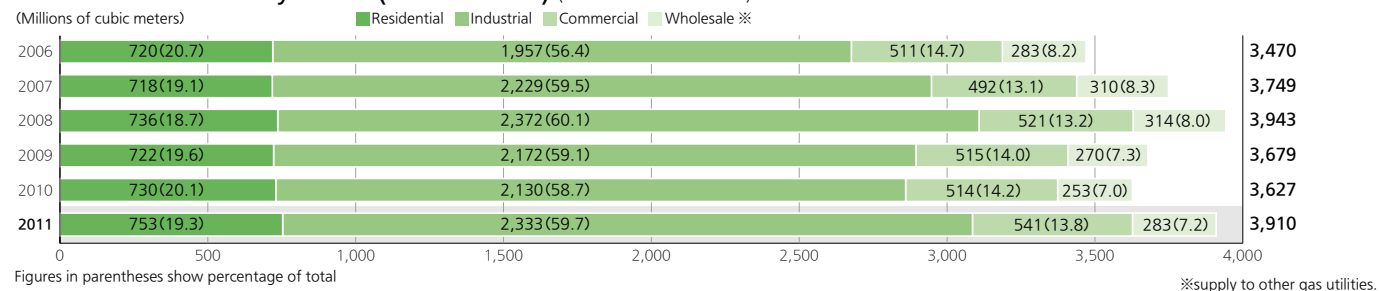
About Toho Gas

Toho Gas is the third largest city gas provider in Japan after Tokyo Gas Co., Ltd. and Osaka Gas Co., Ltd., and its service area encompasses three prefectures—Aichi, Gifu and Mie—of the Tokai area. In addition to our city gas and liquefied petroleum gas (LPG) businesses, we are also engaged in complementary activities, such as engineering and businesses that foster comfortable living environments.

As of March 31, 2011, the company distributes city gas to about 2.31 million customers, with total sales volume of city gas of 3.9 billion m³. We maintain a production and distribution network through approximately 28,000 kilometers of pipelines.



Volume of Gas Sold by sector (consolidated) (Years ended March 31)



Unique Geographical Features

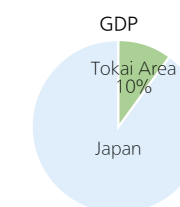
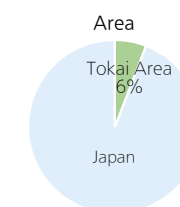
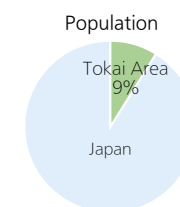
The three prefectures of the Tokai area that Toho Gas supplies (Aichi, Gifu and Mie), which are located in the central portion of the Japanese archipelago, represent 6% of the area of Japan, roughly 9% of the population and 10% of GDP. Thus, the area is sometimes called a “10% economic bloc in Japan.” 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 and its affiliated companies, manufacturers of transportation devices, steel, machines, ceramics and other high technology businesses.

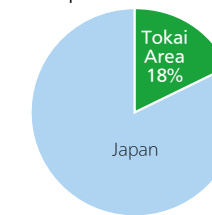
Aichi Prefecture held the No. 1 position among Japan’s 47 prefectures in terms of shipments of manufactured goods for 30 consecutive years up to 2009. Accompanied by Mie Prefecture (9th position) and Gifu Prefecture (22th position), the three prefectures accounted for about 20% of Japan’s total shipments of manufactured goods in 2009. Overall, 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.

Share of the three Tokai prefectures in Japan



Source: Prefectural Accounts for Fiscal 2008, Cabinet Office, Government of Japan (Fiscal year)

Shipment of Goods



Source: Industrial Statistics for 2009, Ministry of Economy, Trade and Industry, Government of Japan

Deregulation

1. Deregulation in the City Gas Sector

The provision of city gas is an indispensable service for comfortable living in Japan, and fair, uninterrupted access to this energy lifeline is imperative. Therefore, the national government has established various rules, such as a licensing system for companies supplying city gas to residential, industrial and commercial customers. In Japan, each city gas provider is assigned a service territory and assumes responsibility for supplying gas within that territory, in exchange for exclusive supply rights within that territory.

However, seeking to promote greater competition in this sector, and thereby broaden the choices available to consumers, the government undertook a major review of the operating conditions, with the intention of implementing changes that will gradually expand the marketing sphere for city gas providers.

To a deregulated extent, other business operators than the city gas provider may participate in the city gas business, and customers may choose which operator they wish to use.

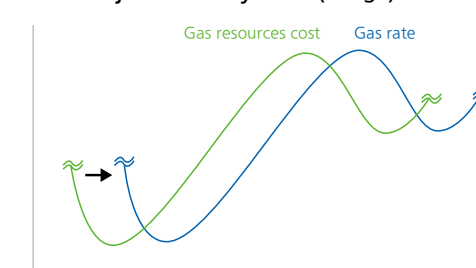
Currently, deregulation applies to customers with annual contract volumes of 100,000 cubic meters or more. Measured by sales volume, approximately 70% of demand for city gas provided by Toho Gas is now deregulated.

2. Characteristics of the Gas Rate System

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

Accordingly, the impact of gas resources cost fluctuations is offset in the long term, but they do affect the operational results of a single year. Specifically, if the LNG price increases, resources costs to the Company will increase, negatively affecting profit/loss status until the fee charged to customers is adjusted (increased). If the LNG price decreases, resources costs to the Company will decrease, positively affecting profit/loss status until the fee is adjusted (decreased).

Gas cost adjustment system (Image)



To Our Shareholders



Koutarou Mizuno, Chairman(left) and Takashi Saeki, President

Basic Management Philosophy

Toho Gas adheres to a management philosophy that values strong bonds of trust between the Company and its employees, customers and investors, including shareholders, and seeks to promote stable corporate growth through the expansion of its core business, that is, the supply of clean energy natural gas. The Company also strives to play a constructive role in regional development.

We place great importance on corporate governance and compliance, working earnestly to uphold our status as a trustworthy business enterprise. In addition, we endeavor in every aspect of our corporate activities to contribute to the realization of a society that exists in harmony with the environment.

Business Results and Returns to Shareholders

City gas customers increased 0.5% from the previous year, to 2,310,000 customers as of March 31, 2011. Gas sales volume during the year ended March 31, 2011 increased 7.8% from the previous year, to 3.9 billion m³, supported by our demand development efforts and the increased operation of existing customers' facilities. Sales volume has increased, after three years of declines, to the peak level recorded in fiscal 2007 before the Lehman crisis. We also managed to retain moderate profits with increased sales volume and decreased depreciation expenses, though gas resources costs increased due to the rise in the crude oil price.

The Great East Japan Earthquake has caused tremendous damage in extensive regions and has had a grave impact not only economically, but in many other

aspects as well.

In the Medium-term Management Plan (for fiscal 2009 to 2013), the Toho Gas Group has emphasized "stable supply with safety and security" as the core mission of our gas business. In addition to our effort to ensure stable LNG procurement, we will promote steady improvement of production and supply facilities. Gas pipeline earthquake resistance will be reinforced; moreover, the gas pipeline network will be divided into smaller blocks to minimize the impact in the event of earthquake. Disaster control systems and organizations will be reinforced and safety-type gas equipment will be introduced. Based on lessons learned from this great earthquake, we will take necessary safety measures as soon as practicable.

Though the earthquake has had a negative impact on the economy of our service areas, mainly in manufacturing industries, because the region we serve is a world-leading center of the manufacturing industry, quick recovery of production is expected; the region has great potential for business growth. Moreover, natural gas is expected to play a more important role, because it is environment-friendly and of its stable supply.

Under these circumstances, we will steadily expand natural gas demand and implement other priority issues included in our Medium-Term Management Plan. As an energy company, we will uphold our responsibility to ensure energy supply, while contributing to the realization of an environment-conscious society.

Regarding returns for shareholders, Toho Gas pursues a basic policy of distributing profits to shareholders in the form of stable dividends, while maintaining a strong business foundation. Upon comprehensively considering its performance results and other factors, the Company decided to pay year-end dividends of 4 yen per share (a total of 8 yen for the full year of fiscal 2010, including the interim dividends), the same as the previous year. The Company will continue holding to its policy of paying stable dividends of 8 yen per year while implementing share buy-back flexibly, as necessary.

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

Successive Share Buybacks

No.	Period	Number of shares acquired (Thousands)	Purchase Amount (Millions of yen)
1.	February 2001 to May 2001	9,752	2,500
2.	November 2001 to March 2002	9,741	3,000
3.	November 2002 to June 2003	18,967	5,581
4.	August 2003 ※2	1,101	345
5.	November 2003 to June 2004	11,424	4,151
6.	December 2004 to March 2005	6,785	2,508
7.	November 2005 to June 2006	3,771	1,746
8.	February 2007 ※2	4,493	2,669
9.	January 2008 to March 2008	5,000	2,784
10.	October 2009 to March 2010	5,966	2,997
11.	March 2011 to June 2011	7,000	2,751
Total		84,000	31,032

Notes: ※1 Number of outstanding shares as of March 31, 2011 is 553million.(619million as of Dec. 31, 2000)

※2 We bought the shares that our subsidiaries had possessed.

Koutarou Mizuno
Chairman

Takashi Saeki
President


1 Marketing

■ Sales of Gas for Residential Use

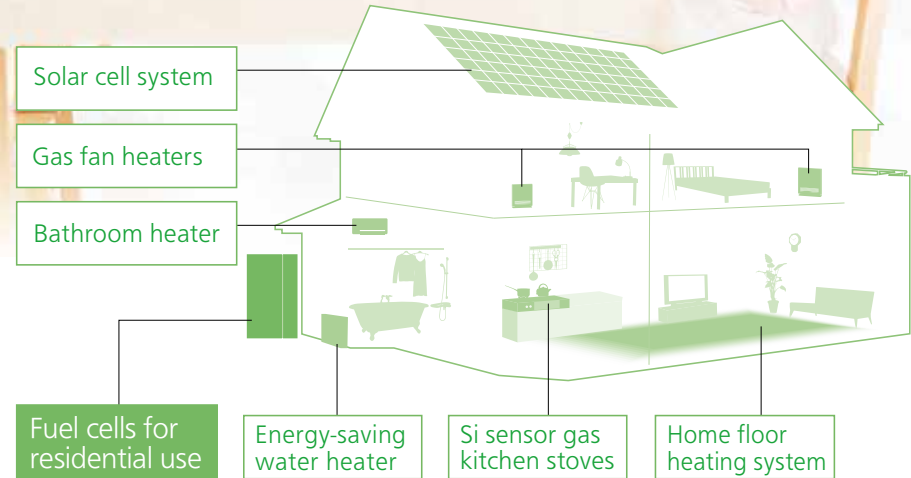

Competition with other energy businesses, including all-electrification, has intensified. Toho Gas has expanded gas demand through proposal-style marketing focused on the specific needs of individual customers, and through Oresourceful public relations programs, emphasizing the convenience, cost effectiveness and technological advantages of city gas.

To promote environmental-friendliness and

user-friendliness, we also focus on marketing advanced gas equipment, including ENE FARM (fuel cell for residential use), Si Sensor gas kitchen stoves, ECO Jozu (energy-saving water heater) and home floor heating system. In addition, we will propose a double power generation system featuring combined use of ENE-FARM and a solar cell system for further reduction of environmental burdens.



■ Strategic Products of Residential use

Residential Fuel Cell System ENE FARM Generates Electricity by Chemical Reaction

The fuel cell system ENE FARM generates both electricity and thermal energy at the customers' home. It generates electricity by the chemical reaction between hydrogen (retrieved from city gas) and oxygen in the air. Heat generated by this reaction is used to heat water. Customers can thus use hot water economically, while they use electricity as usual. ENE FARM can also be used in combination with a solar cell system. It is an advanced environment-friendly system with low CO₂ emission.

We have sold this system since fiscal 2009, with sales of 250 units in 2009 and 500 units in 2010, targeting sales of 4,000 units over the five years to fiscal 2013.



Best mix: high-efficiency gas equipment and solar cell system

Our "Double Power Generation" system uses the combination of a solar cell system and ENE FARM or ECOWILL. This system achieves significant energy saving, because electricity is generated efficiently and continuously by gas power during the night and on rainy or cloudy days. The combination of ECO Jozu (high-efficiency gas water heater) and solar cell system will also realize energy saving with low initial cost.



Si Sensor gas kitchen stoves

With its strong heating power - a unique feature of gas - and its heating uniformity, this gas kitchen stoves ensures delicious meals. Its many convenient functions are of great help in daily cooking, such as the oil temperature control, which automatically adjusts the flame; the cooking timer, which automatically turns off the flame after a set time, and the grill, which needs no water in the basin. The glass-top plate surface is flat and easy to clean. There are numerous other safety functions as well, such as burner safety shut-off and boil-dry safety turn-off functions.



Review of Operations

Marketing

Sales of Gas for Industrial and Commercial Use

With a heavy concentration of manufacturing industries in the three Tokai area prefectures, sales of gas for business use in the region, particularly for industrial use, have grown steadily over the past few years. Industrial gas sales now represents about 70% of all gas sold by the Company.

Based on our engineering and proposal capabilities, we are exploring demand mainly by promoting the conversion for heating demand (industrial furnaces and boiler); we are

also focusing on the broader use of gas air-conditioning which will help level the electricity load during peak hours, gas cogeneration systems for realizing total high energy efficiency, and commercial-use kitchens (Suzuchu). We will also promote energy service businesses focusing on city gas, including consultation of energy savings and management of peripheral facilities.

Industrial furnaces

City gas is used in the production processes of many industries, including transportation machines, steel and other metals, foods, and glasses. For instance, in industrial furnaces such as thermal treatment furnaces and drying furnaces, city gas demonstrates excellent controllability and energy-saving property. We strive to promote the use of clean natural gas, encouraging customers to change their

industrial furnace and boiler fuel from oil to city gas, to reduce their site CO₂ emissions.

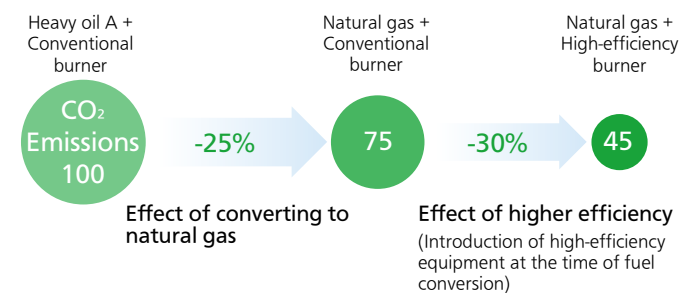
By switching from heavy oil and other types of oil to natural gas, CO₂ emissions can be reduced by about 25%.

By using high-efficiency burners with natural gas, CO₂ emissions can be reduced by about 50%.



High efficiency industrial furnace

CO₂ Reduction Effect from Using Natural Gas for Industrial Furnaces



Natural Gas Co-Generation System

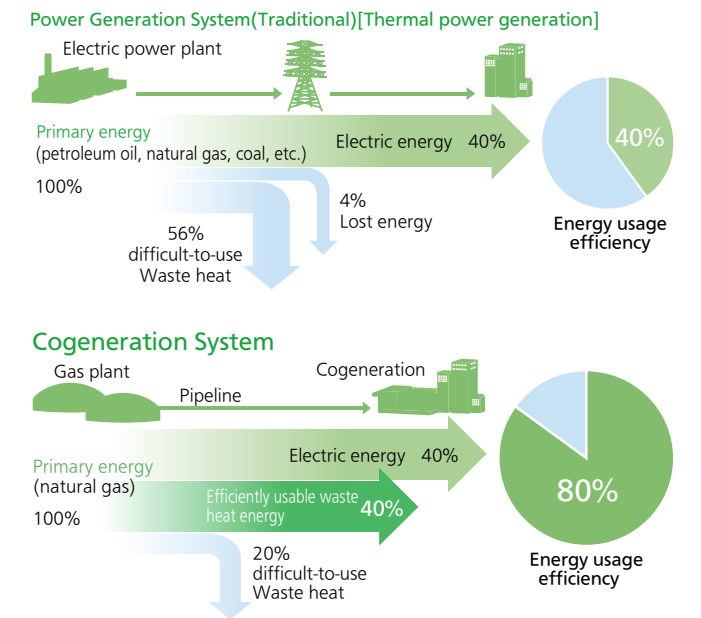
The Natural Gas Co-Generation System generates electricity at the user site. The exhaust heat discharged as a by-product can be used for air-conditioning and water heating, thereby contributing to efficient energy use. The total energy efficiency of conventional thermal power generation at the user site is low, around 40%, since it

includes power plant exhaust heat loss and transmission loss. Because co-generation systems generate power at user sites and use the exhaust heat for air conditioning and water heating, total energy efficiency can be increased to around 80%.



Gas Co-generation System

Conceptual Sketch of Cogeneration



Air Conditioning

Air-conditioning systems support a comfortable environment in various facilities. Gas-absorption water chillers/heaters are free of the CFC that destroys the ozone layer. Gas heat-pump type air-conditioning systems consume low electricity and can air-condition individual rooms. Toho Gas works to further improve the efficiency and marketability of these systems, aiming to improve the environment friendliness, comfort and convenience of all types of gas-using air-conditioning systems.



Nagoya Dome which introduces gas-absorption water chillers/heaters

Review of Operations

Marketing

LPG Business

LPG (Liquefied petroleum gas) is a fuel easily transported in cylinders. In Japan, it is chiefly used for cooking, hot water and other heating needs in homes where gas pipelines do not exist.

Toho Gas maintain a network of 12 recharging stations. The Meiko LPG Terminal, one of the largest secondary distribution points for LPG in Japan, is the Company's showcase facility and meets the needs of customers in the three prefectures of the Tokai area.

The number of customers as of March 31, 2011 was 320 thousand households, an increase by 1.0% from the previous year. The LPG sales volume increased 4.7% to 416 thousand tons from the previous year.

Perceiving the LPG business as one of its core business, Toho Gas will continue to strengthen the collaboration of LPG business with its city gas operations and increase its total share of the city gas and LPG markets.

Sales of LPG and Number of Customers
(Years ended March 31)



Meiko LPG Terminal is one of the largest integrated terminals in Japan



LPG Delivery Network



LPG Service Station

2 Procurement and Production

Procurement

Toho Gas currently imports LNG from five countries: Indonesia, Australia, Malaysia, Qatar and Russia (Sakhalin). We expect to ensure procurement of LNG by long term contracts until around 2013.

We will strive to diversify its supply sources, improve the flexibility of contract terms and obtain partial ownership of LNG vessels, in order to secure a stable supply of raw materials while continuing to strengthen its relationships with sellers. We will also look into acquiring interests in LNG upstream businesses or LNG vessels.



LNG Tanker

Toho Gas's Supply Sources



LNG Terminals

Procured LNG is gasified at three terminals: the Chita LNG Terminal, the Yokkaichi Works and the Chita-Midorihamma Works and, after energy-content adjustment via mixture with liquefied petroleum gas (LPG), and the addition of odorant, is delivered as city gas. At the Chita Midorihamma Works, No.2 in-ground LNG tank was completed in August 2009. With a 200,000-kiloliter capacity, this tank is one of the world's largest.

Toho Gas will strive to achieve a stable supply of city gas by continuing construction of gas production facilities in accordance with its plan, based on accurate forecast of future gas demand.



Chita-Midorihamma Works



One of the world's largest in-ground tanks with a capacity of 200,000 kiloliters is located at the Chita-Midorihamma Works. The amount stored here is equivalent to the annual consumption of 300,000 average households.

3 Supply

Toho Gas expands its service areas to meet increasing gas demand, and establishes and improves gas pipelines from medium- and long-term perspectives so as to ensure stable city gas supply.

The loop trunk transport line around Nagoya and other downtown districts was completed in 2009. In 2010 the Mie Trunk Line commenced operation, improving transportation capacity to the Mie Area and supply stability in the same area.

As of March 31, 2011, Toho Gas Group pipelines and branch lines totaled about 28,000 km in length. In collaboration with Chubu Electric Power, we have been constructing the "Cross Ise Bay Gas Pipeline" connecting

Chita City and Yokkaichi City (fiscal 2009 to fiscal 2013). We will strive for a stable city gas supply by improving and expanding our gas pipeline network in accordance with our plan.



Transport trunk line installed in public utility conduit

*Public utility conduit common conduit under public roads, installed to efficiently accommodate gas, electric and telephone lines and other public lines, for effective use of underground space. Since lines installed through a conduit can be repaired or replaced without road excavation, traffic congestion and excavated soil volume can be reduced.

4 Disaster Control Measures for Earthquakes

There is concern that a large-scale earthquake (the predicted Tokai Earthquake or Tonankai Earthquake) will occur in the Toho Gas service area sometime in the future. To prepare for such a large scale earthquake, the Company has been implementing steady anti-earthquake measures in the three major areas below.

Facilities

LNG tanks and other facilities installed in our city gas plants are designed to withstand quakes of the Great Hanshin Earthquake level, typhoons, and severe winds and floods.

We have also adopted quake-resistant and anti-corrosive gas piping materials and joint methods, such as polyethylene pipes, to further increase the safety of our gas facilities.

Emergency

When a large-scale earthquake occurs, we will form a disaster control headquarters at the head office, which will direct all activities of the Toho Gas Group from suspension to resumption of the gas supply. If a large-scale earthquake occurs, we will collect data from seismometers installed at about 200 locations within our service area. Based on the collected data, we will quickly stop the city gas supply by remote control, according to the damage conditions of each respective location, in order to prevent a secondary disaster.

Moreover, to ensure that the city gas supply to less-damaged areas is not interrupted, we have divided our gas pipeline network into 55 small blocks; we will further divide these blocks into much smaller blocks.

Restoration

In order to resume gas use as soon as possible if the city gas supply is disrupted over a wide area, we have placed emphasis on introducing movable gas generating facilities designed for providing a makeshift gas supply, and development and introduction of new technologies that realize quick restoration. We are also establishing a disaster restoration organization by establishing cooperative and supportive relationships with city gas operators throughout Japan and relevant government organizations.

In June 2011, the Disaster Control Project was formed. This project has reviewed the disaster control basic plan and business succession plan of the Company, taking the experience of the Great East Japan Earthquake into consideration, and will swiftly take necessary measures.



Replace aging gas pipes with polyethylene pipes



Disaster control headquarters



Movable gas generating facilities

5 Research and Development

To promote wide use of natural gas, which is environment-friendly and user-friendly and can be supplied stably, while answering the demand to reduce the burden on the environment, we implement research and development in environmental technologies, such as those that enable more efficient and advanced use of natural gas and

exploitation of renewable energies, and stable gas supply and safety and cost reduction.

The scale of R&D activities at Toho Gas is represented by a staff of some 80 researchers, most of whom are based at the Technical Research Institute, and an annual budget of about 2 billion yen.

R&D1 Highly efficient and advanced use of natural gas

In the residential field, to further improve the reliability of ENE FARM, a residential fuel cell system for home power generation that contributes to energy-saving at home, we perform technical assessments. We also conduct demonstration experiments of the solid oxide fuel cell (SOFC) system, aiming for its early commercialization. This system is expected to achieve more efficient power generation with a compact design. We also work to improve the performance of existing equipment, including the home floor heating system and the Si sensor gas kitchen stove, which gives customers a more comfortable life.

In the non-residential field, in addition to development of SOFC, we work to develop technologies for further improving

the energy efficiency of the gas-engine heat pump and other gas air-conditioning systems, and technologies for energy-saving support services. We are also pursuing the development of combustion control systems and other related technologies, mainly in the heat treatment and aluminum fusion fields, including industrial burners with high energy-saving properties.



SOFC

R&D2 Environmental Technologies

To further reduce environmental burdens, we have developed technologies for combined use of natural gas and renewable energies. Specifically, we further pursue development of a system that combines gas equipment and solar heat. We also develop technologies to link fuel cells and other cogeneration systems with solar cells and storage batteries, and technologies to control them. By integrating these technologies, we aim to establish a smart energy network for the future low-carbon society. Technologies for efficiently producing biogas from garbage will also be developed.

We also execute the verification test of the durability of hydrogen-production/filling systems, to support the hydrogen station installations needed to popularize fuel cell vehicles

(FCVs) scheduled for introduction in 2015, and the high-pressure (70 MPa) filling technologies that enable greater FCV driving distance.



Hydrogen Station at the Technical Research Institute

R&D3 Stable Supply, Safety and Reduced Cost

To ensure and increase security and safety, we work to develop technologies that support sophisticated designing of quake-resistant pipelines, using simulation and technologies that support proper maintenance and management of supply and production facilities. We develop safety sensors for fire/city

gas leakage alarms.

We also develop non-excavating technologies for more efficient piping work, leading to gas supply cost reduction and technologies that enable efficient pipe inspection and repair.

Medium-Term Management Plan

The Toho Gas Group developed a Medium-term Business Plan (for fiscal 2009 through 2013) in March 2009. The focus of the Plan is on the following four issues: "Expansion of demand for natural gas," "Maintaining of steady supply,

safety, and freedom from anxiety," "Technical development contributing to global environmental conservation," and "Strengthening of management foundation."



- Toho Gas, growing sustainably with local society, and contributing to actualizing a society in harmony with its environment
- Company continuously supported by its stakeholders (customers, shareholders, investors and employees)

Major management target FY2013

Number of customer	: 2,405 thousands	Interest-bearing debts	: About ¥180 billion
Gas sales volume	: 4.0 billion m ³	Dividend	: The basis is a stable dividend of ¥8 per year
ROA	: About 3%		

Progress of the Plan

In fiscal 2010, the second year of the Plan, city gas customers increased 0.5% to 2,310 thousand while the gas sales volume increased 7.8% to 3.9 billion m³ from the previous year.

In comparison to figures in our medium-term management plan, gas sales volume has increased due to temperatures and recovery of existing demand, although customer number growth has fallen slightly short of the plan due to the decrease in the number of housing starts.

We secured a certain level of income due to increase of gas sales volume and decrease in the depreciation cost

despite impact of time lag in fuel cost adjustment system.

In FY2009, No.2 LNG tank at the Chita Midorihama Works and the loop trunk line were completed. In addition, Mie trunk line was completed in FY2010. Other activities aiming at stable and safe gas supply have steadily progressed.

Regarding Procurement, we have received the first supply of LNG from the Sakhalin II LNG Project in February 2010, and including Russia, we are procuring LNG from five countries.

Plans for the Fiscal Year Ending March 31, 2012

Expanding demand for natural gas

In the residential market, to promote environmental-friendliness and user-friendliness, we also focus on marketing advanced gas equipment, including ENE FARM (residential fuel cell system) and Si Sensor gas kitchen stoves.

In the industrial/commercial markets, based on our engineering and proposal capabilities, we are exploring demand mainly by promoting the conversion for heating demand such as industrial furnaces and boiler, we are also

focusing on the broader use of gas air-conditioning which will help level the electricity load during peak hours, and gas cogeneration systems for realizing total high energy efficiency.

The LPG Business will strengthen its cooperation with the City Gas Business to increase demand for both energy resources.

Maintaining steady supply, safety and freedom from anxiety

In addition to our efforts to ensure stable LNG procurement, we will promote solid improvement of production and supply facilities. The earthquake resistance of gas pipelines will be reinforced. Moreover, the gas pipeline network will be divided into smaller blocks, to

minimize the impact in case of earthquake. Disaster control systems and organizations will be reinforced and the introduction of safety-type gas equipment will be promoted. Having learned from this great earthquake, we will take necessary safety measures as soon as practicable.

Technical development contributing to global environmental conservation

The Company will develop solid oxide fuel cells (SOFCs), the expected next generation of fuel cells, work toward the

realization of a smart energy network and implement demonstration testing of a hydrogen station.

Strengthening of management foundation

The Company will adapt to changes in the business environment, review the allocation of management resources and focus on human resource development. The Company will promote CSR management and conduct activities such as strengthening the internal management function to ensure compliance with laws and regulations,

so as to ensure the transparency and soundness of its business management. The Company will also focus on the reduction of CO₂ emission in its business operations, and will conduct other activities that advance energy/environmental education for the next generation. environmental conservation in the local community.

The Toho Gas Group will work diligently to attain these goals of the Plan, so as to grow sustainably with local society and help realize a society in harmony with its

environment, while advancing as a corporate group that is supported by shareholders, investors, customers and other stakeholders.

Corporate Activities to Promote Sustainable Development

In line with our environmental action guideline, the Toho Gas Group will implement environmental activities in unison, to realize an eco-conscious society.

Environmental action policy

Basic Policy

As a member of the global and local communities and concerned corporate citizen, Toho Gas recognizes that environmental protection is a matter of global importance.

All our activities, the basis of which is the provision of clean energy, make a contribution to the realization of an environmentally friendly society.

Principle

- 1 We help reduce the environmental burden at customer sites.
- 2 We reduce the environmental burden in our operations.
- 3 We cooperate with local and international communities in promoting environmental betterment.
- 4 We pursue development of environmental technologies.

Environmental action guideline

The Toho Gas Environmental Guidelines detail the Company's environmental policies and environmental activities.

Climate Change Countermeasures	<ul style="list-style-type: none"> •We control CO₂ emissions at customer sites and contribute to effective and realistic global warming countermeasures by promoting widespread use of environment-friendly natural gas and other clean energies, efficient and sophisticated use of those energies, and use of renewable energies. •We continue operational improvement with the aim of reducing CO₂ emissions in our operations.
Resources Recycling	<ul style="list-style-type: none"> •We minimize waste discharge outside our premises through effective resource use at each operation stage, scrap reduction and material reuse and recycling.
Conservation of Biodiversity	<ul style="list-style-type: none"> •We recognize the importance of biodiversity, work to understand and analyze the impact of our operations and take good care in our activities.
Social activities toward Environmental Conservation	<ul style="list-style-type: none"> •We engage social activities toward environmental conservation, including cooperation with local and international communities regarding environmental activities and projects, and provision of educational programs to coming generations.
Development of Environment-related Technologies	<ul style="list-style-type: none"> •We pursue technological development that will help reduce environmental burden, including efficient and sophisticated gas energies use and use of renewable energies.
Environmental Management System	<ul style="list-style-type: none"> •We recognize the environmental impact of our operations, strengthen our environmental management and develop personnel who can act environment-consciously and voluntarily.

1 Promoting the use of natural gas and high-efficiency gas equipment

By promoting the use of natural gas and high-efficiency gas equipment/systems, we help reduce CO₂ emission at customer

sites. In fiscal 2010, Toho Gas contributed reduction of 1.03 million tons-CO₂.

2 Recycling resources and trimming waste from pipeline construction

Toho Gas tries to minimize the amount of waste materials it produces and the quantity of dirt unearthed during gas pipeline construction. Almost all asphalt and concrete debris generated by gas pipeline construction and used polyethylene pipes are recycled. As a result of these efforts, the Company manages and minimizes "external CO₂ emissions" (the volume of CO₂ finally emitted from the premises of an enterprise to the external environment).



To reduce the amount of dirt unearthed during the installation of pipelines, Toho Gas uses a trenchless method that rips up only small parts of the road surface.

3 Corporate citizen's approach to the community

Companies are also members of the community and have a responsibility to contribute to local and international environmental protection efforts. Toho Gas fulfills its responsibilities through contact with people in the community and local government agencies.

In the area of energy/environmental education for the next generation, we will provide environmental education events in The Gas Energy Exhibit Hall, lectures to local elementary and junior high schools, and eco-cooking activities to encourage people to consider an eco-conscious dietary lifestyle through cooking.

We will also collaborate with local governments and citizen groups in providing nature tours and "satoyama" volunteer activities. We launched a forest rehabilitation project in Same Jaya Forest Park, Kuching City, Sarawak State (located in the western part of Borneo island), Malaysia, a key natural gas-producing country. The project aims to provide support for activities to restore degraded areas in the park to original forests.



Through our Visiting Teacher Program, Toho Gas employees lecture environmental issues at elementary and junior high schools as part of our next-generation environmental education initiatives.

■ Basic Policy on Corporate Governance and Enacted Measures

To be a trusted company that fulfills its corporate social responsibility (CSR) by conducting corporate activities in a fair and honest manner, Toho Gas is enhancing its corporate governance, ensuring more stringent compliance and bolstering its operational management structure as outlined below.

1. Organizations for Corporate Governance

The board of directors of the Company comprises 10 directors, including one outside director. In accordance with regulations for the board of directors, the board makes important decisions relating to group companies and the entire Group, and supervises directors' execution of duties. To strengthen the function of executive operations and clarify responsibilities, the Company uses the Executive Officer System. The Management Committee has also been established to deliberate on important management issues in accordance with the basic policy established by the Board of Directors and to strengthen coordination and cross-checking between corporate functions and business divisions.

The board of corporate auditors comprises five corporate auditors, including three outside corporate auditors. In the corporate auditors, a person with considerable knowledge of financial and accounting matters through long experience in the Company's Finance Department is included. Each corporate auditor performs their duties based on an auditing plan drafted by the Board of Corporate Auditors and monitors the management activities of directors through such measures as attending key meetings, including updates and meetings of the Board of Directors and other events. There is also a Corporate Auditors' Office with five full-time staff who supports the corporate auditors, thereby strengthening auditing functions.

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

2. Status of Internal Control System

As for improving the internal control system, having passed a Board of Directors resolution on the establishment of a framework to ensure that operations are performed appropriately, we are currently working on the establishment of such a framework.

In terms of risk management, we have devised a set of Risk Management Regulations and established a system of responsibility relating to risk management, as well as continue to assess and evaluate risks and explore possible countermeasures in an effort to minimize risks.

Meanwhile, to promote compliance and related activities, we have established a Corporate Conduct Committee chaired by the President and Compliance Department (comprised of three members). In addition to striving to publicize and enforce our Compliance Code of Conduct on an in-house basis, we are also focusing on promoting educational and awareness activities and establishing a stronger spirit of compliance and ethical awareness. We have set up a Compliance Contact Office as well in an effort to identify any issues and take corrective action as quickly as possible.

Toho Gas has a nine-member Auditing Department that acts as an internal auditing organization and conducts periodic audits as outlined in its auditing plan to assess the propriety and efficiency of operational activities within the Group, including affiliates. The results of the audits, which include advisement, are promptly issued to the Chairman, President, Managing Directors, who are in charge of the division under audit, and auditors, as well as the division under audit. Audit results are assessed in accordance with the Internal Control Reporting System for Financial Reporting under the Financial Instruments and Exchange Act, and are reported to the corporate auditors.

Our corporate auditors and Auditing Department regularly share information and work in conjunction with one another. Meanwhile, when compiling auditing plans each year, our corporate auditors and accounting audit

firm exchange opinions regarding such matters as auditing policies and the length of the auditing period. The accounting audit firm conducts year-end accounting auditing of the Company and compiles the audit results into the accounting auditor report and the audit implementation report. The Board of Corporate Auditors examines these reports and also directly receives, at its meeting, audit report and opinions from the accounting audit firm. In addition, opinions are exchanged periodically regarding account auditing-related matters and the status of audits conducted as part of the Internal Control Reporting System for Financial Reporting, in order to promote coordination with the accounting audit firm.

Corporate auditors receive reports, as needed, from the Compliance Department, regarding the Company and affiliated companies, regarding risk control status, compliance activity plans and progress. Corporate auditors also receive reports, as needed, from the Finance Department regarding financial matters such as financial statements, and exchange opinions with the Finance Department.

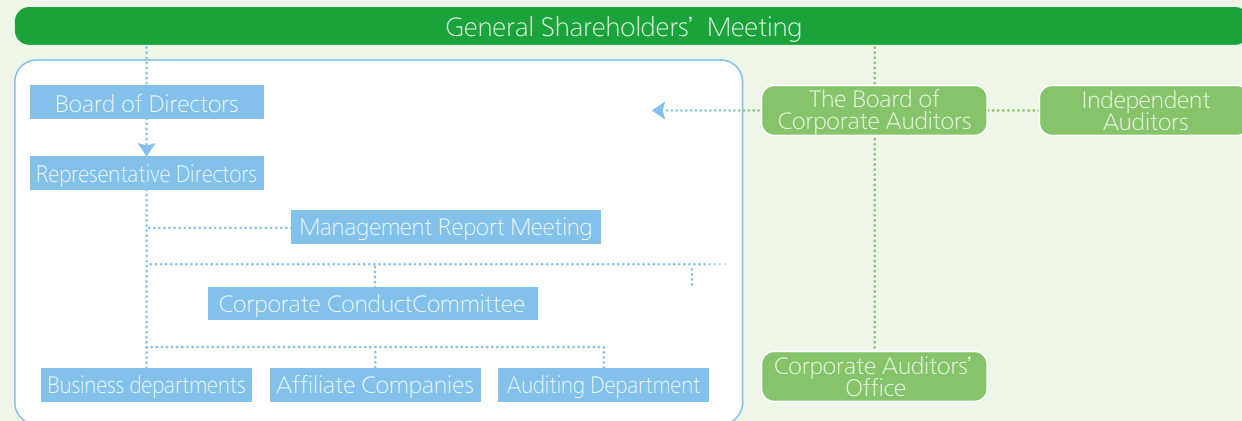
The Auditing Department and the Compliance Department exchange information regarding their respective activities, as needed.

3. Outside directors and outside corporate auditors

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

In meetings of the Board of Corporate Auditors, outside corporate auditors receive reports from full-time corporate auditors regarding the content of Management Committee meetings and other important meetings, the independent accounting firm's audits results, results of site inspection by full-time corporate auditors, and reports from departments, and provide advice and recommendations. In addition, at Board of Corporate Auditor meetings, outside corporate auditors hear directly from the independent auditing firm details of audits conducted by the auditing firm at the end of each fiscal year, and exchange opinions for mutual coordination.

【Corporate Governance Organizational Chart】



Board of Directors and Corporate Auditors

Chairman

Koutarou Mizuno

Directors

Koichi Yasui

Nobuaki Matsushima

Yoshiharu Sago

Nobuhisa Matsuda

Osamu Nakamura

Representative Directors

Yukio Ohari

Masaaki Motokawa

Outside Director

Katsuaki Watanabe

Corporate Auditors

Yasushi Kanda

Susumu Hotta

Outside Auditors

Hideo Ogasawara

Yoshihiro Yasui

Gyoji Kusuda

Consolidated Six-year Summary

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
	2006	2007	2008	2009	2010	2011	2011
For the year:							
Net sales	¥361,581	¥411,647	¥441,145	¥474,560	¥411,525	¥436,826	\$5,262,964
Operating income	16,270	20,484	18,598	10,889	17,819	23,907	288,036
Income before income taxes and minority interests	20,170	22,788	19,471	10,136	17,351	23,268	280,337
Net income	12,491	14,063	12,130	5,808	10,977	14,492	174,602
At year-end:							
Total assets	¥554,801	¥547,411	¥546,508	¥516,129	¥506,725	¥495,627	\$5,971,410
Net assets	229,659	244,504	238,415	205,748	220,938	221,502	2,668,699
Per share data (yen and U.S.dollars):							
Net income	¥21.71	¥24.71	¥21.51	¥10.38	¥19.68	¥26.22	\$0.32
Ratios:							
Cost of sales as a percentage of net sales	61.8%	63.9%	66.9%	67.5%	59.9%	59.8%	
Selling, general and administrative expenses as a percentage of net sales	33.7	31.1	28.9	30.3	35.7	34.8	
Operating margin ⁽²⁾	4.5	5.0	4.2	2.3	4.3	5.5	
Return on equity (ROE) ⁽³⁾	5.8	5.8	5.0	2.6	5.1	6.6	
Return on assets (ROA) ⁽⁴⁾	2.3	2.6	2.2	1.1	2.1	2.9	

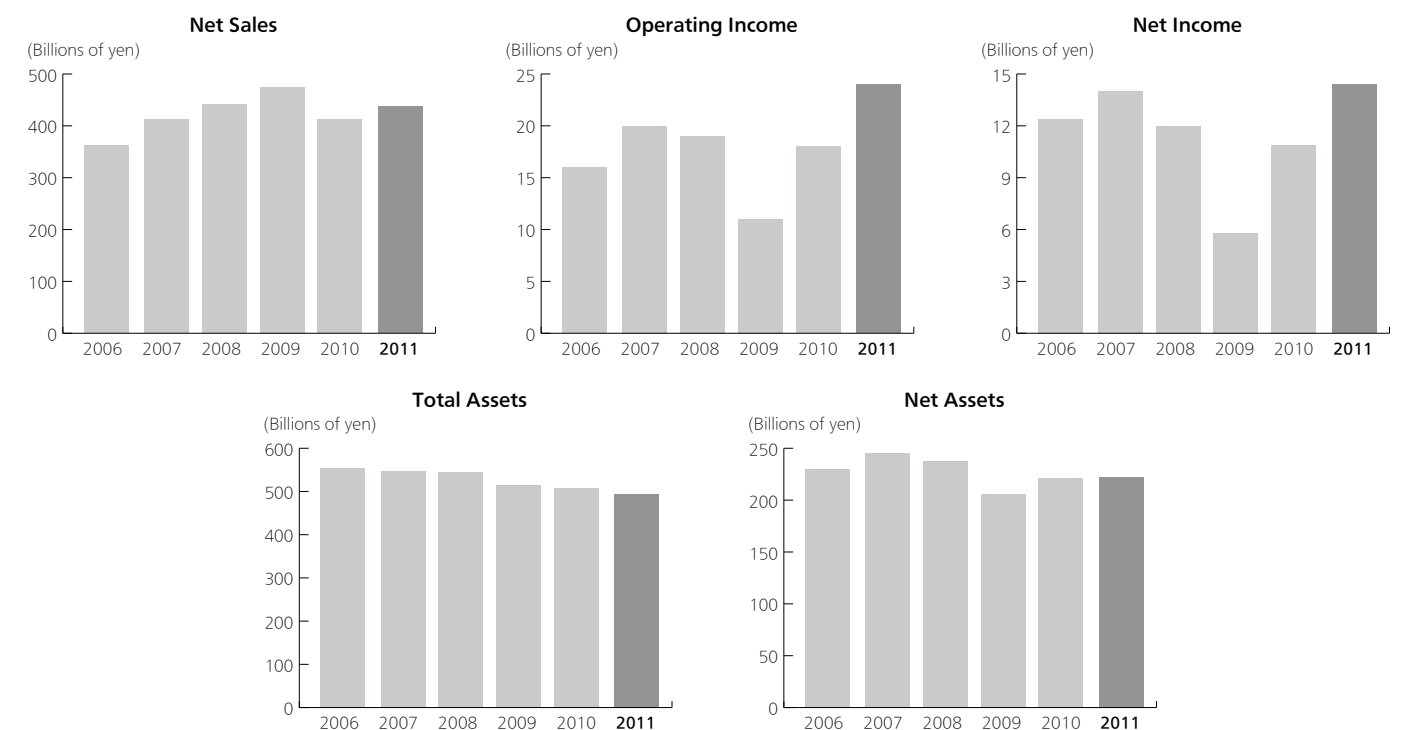
Notes:

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, 2011, which was ¥83 to U.S.\$1.00.

2. Operating margin = operating income ÷ net sales × 100

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



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

■ Consolidated Business Results

As a result of diligent efforts to expand city gas use, the consolidated sales volume of city gas increased by 7.8% from the previous year and LPG sales volume increased by 4.7%.

Sales revenue increased by 6.1% from the previous year to ¥436,826 million, due to increase of gas sales volume.

Ordinary income increased by 40.2% to 24,334 million yen, due to increase of gas sales volume and decrease of depreciation cost, etc. despite negative impact of time lag in fuel cost adjustment system. Net income increased by 32.0% to 14,492 million yen. Earnings per share increased 33.2% from the previous year to 26.22 yen.

■ Segment Information

Gas sales

The customer base increased by 12 thousand households, or 0.5%, to 2,307 thousand households during the year.

The total gas sales volume increased by 7.8% to 3,910 million m³. In the residential market, sales volume increased 3.2% to 753 million m³ due to lower temperature in winter than the previous year. In the non-residential market, sales volume increased 8.7% to 2,874 million m³ due to our efforts to create new demands, increase in operation rate of existing customer facilities, and impact of temperatures which caused increase of air-conditioning demand. The volume of wholesale to other gas utilities increased by 11.9% to 283 million m³.

Gas sales revenues increased 6.5% from the previous year to 311,881 million yen, due to increase of gas sales volume. Operating income was increased 58.4% to 17,631 million yen.

Gas appliance sales and related construction

Sales of the "Gas appliance sales and related construction" segment decreased by 6.4% to 33,507 million yen compared with the previous year, due to the decrease in new construction. Operating income decreased by 25.2%, to 719 million yen.

LPG and other energy sales

Sales of LPG, LNG and thermal energy supply businesses increased by 14.4% from the previous year to ¥73,699 million. Operating income increased by 17.4%, to 1,793

million yen. LPG sales volume increased to 416 thousand tons by 4.7% from the previous year.

Other

Sales of other businesses, including real estate leasing and plant design and construction, decreased by 3.4% to ¥36,882 million. Operating income decreased by 24.6% to 2,418 million yen.

■ Financial Position

Assets, Liabilities and Net Assets

Total assets decreased by 11,098 million yen from the end of the previous year. This decrease was mainly due to the tangible fixed assets decrease resulting from the depreciation of assets.

Liabilities decreased by ¥11,662 million from March 31, 2010, mainly due to the reduction of interest-bearing liabilities.

Net assets, including minority interest, increased by 564 million yen.

As a result, the equity ratio increased from 43.6% in the previous year to 44.7%.

Cash Flows

Net cash provided by operating activities decreased by 23,349 million yen from the previous year to 53,930 million yen, due to decreased depreciation expenses.

Net cash used for investment activities totaled ¥33,844 million, a decrease of ¥10,146 million from the previous year, during which the second LNG tank was constructed in the Chita Midorihama Works. As a result, free cash flow for the year was ¥20,085 million.

Net cash used in financing activities decreased by 14,675 million yen from the previous year to 15,184 million yen, mainly as a result of payments made to reduce interest-bearing liabilities.

As a result, net cash and cash equivalents as of the end of March 31, 2011 increased by 4,902 million yen from the same date of the previous year to 21,807 million yen.

■ 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, 2011.

The Weather and the Economy

The city gas and LPG businesses form the core of Toho Gas Group operating activities. The volume of gas and LPG sold can rise or fall depending on climatic conditions, such as changes in atmospheric and water temperatures, as well as in response to economic trends. Therefore, changes in the weather and the economy may have an effect on the Group's results of operations in the gas business.

Fluctuating Gas Resource Costs

LNG is the primary resource for gas production. Supply-demand balance as well as fluctuating crude oil prices and exchange rates can impact the cost of LNG and other resources. In the gas business, changes in the price of resources are reflected in gas rates through the application of the prevailing fuel cost adjustment system. Therefore, the time lag between a change in gas resource prices and its reflection in gas rates may have a short-term impact on income and expenses. Operating results and financial conditions may be affected by the development of the negotiation of LNG prices.

Changing Interest Rates and Other Market Conditions

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

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

Natural Disasters

Group-wide business results could be negatively affected if a large-scale natural disaster, such as an earthquake, causes damage to facilities or equipment used by Group companies or installed on customers' premises.

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. Quake-

resistance of gas pipes and supply and production facilities has also been improved.

Deregulation and Other Influences

Toho Gas Group operational results may be affected by deregulation of gas business-related regulations and correspondingly intensifying competition among energy companies, additional obligations that may be imposed by new environmental laws and regulations, serious difficulty in procuring gas resources, production or supply process or mission-critical information system, unexpected large-scale electricity failure, and pandemic of new-type influenza or other infectious disease.

There is also the possibility of both tangible and intangible damage, including in terms of social responsibility, in the event of any serious problems involving customers' gas equipment and appliances or in the event of any issues arising as a result of the leakage of customers' personal information.

Consolidated Balance Sheets

TOHO GAS CO., LTD. and Consolidated Subsidiaries
March 31, 2011 and 2010

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Property, plant and equipment (Notes 7 and 15):			
Production facilities	¥220,389	¥220,657	\$2,655,289
Distribution facilities.....	782,940	755,752	9,433,012
Service and maintenance facilities	68,257	67,320	822,373
Other facilities.....	93,311	92,434	1,124,230
Construction in progress.....	19,298	21,248	232,506
	1,184,195	1,157,411	14,267,410
Accumulated depreciation.....	(863,959)	(828,982)	(10,409,144)
Total property, plant and equipment	320,236	328,429	3,858,266
Intangible assets	2,179	2,981	26,253
Investments and other assets:			
Investment securities (Notes 3, 4 and 7)	50,560	58,942	609,157
Deferred tax assets (Note 8).....	14,201	9,125	171,096
Other	6,887	7,310	82,976
Allowance for doubtful accounts.....	(20)	(138)	(241)
Total investments and other assets.....	71,628	75,239	862,988
Current assets:			
Cash and cash equivalents (Note 3).....	21,807	16,905	262,735
Receivables:			
Trade notes and accounts receivable (Note 3)	44,644	42,133	537,880
Allowance for doubtful accounts.....	(275)	(246)	(3,313)
Inventories (Note 5).....	19,617	17,842	236,349
Deferred tax assets (Note 8).....	7,239	9,605	87,217
Other (Note 3).....	7,795	12,646	93,915
Total current assets.....	100,827	98,885	1,214,783
Deferred charges	757	1,191	9,120
Total assets	¥495,627	¥506,725	\$5,971,410

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Noncurrent liabilities:			
Long-term debt (Notes 3 and 7).....	¥117,601	¥126,976	\$1,416,880
Employees' retirement benefits liability (Note 6).....	20,343	20,017	245,096
Provision for gas holder repairs	1,672	1,652	20,145
Reserve for safety measures.....	12,992	7,140	156,530
Deferred tax liabilities (Note 8).....	640	904	7,711
Other (Notes 3 and 7).....	10,804	14,796	130,168
Total noncurrent liabilities	164,052	171,485	1,976,530
Current liabilities:			
Short-term loans payable (Notes 3 and 7).....	13,150	13,868	158,434
Current portion of noncurrent liabilities (Notes 3 and 7)	26,122	22,327	314,723
Trade notes and accounts payable (Note 3).....	24,343	30,896	293,289
Income taxes payable	8,751	5,205	105,434
Other	37,195	41,277	448,132
Total current liabilities	109,561	113,573	1,320,012
Provision:			
Provision for calorie change.....	512	729	6,169
Net assets (Notes 9, 15 and 16):			
Capital stock:			
Authorized — 805,998,157 shares			
Issued — 553,037,689 shares in 2011 and 559,792,197 shares in 2010	33,073	33,073	398,470
Capital surplus	8,387	8,387	101,048
Retained earnings.....	164,362	157,709	1,980,265
Less treasury stock —			
2,563,343 shares in 2011 and 6,780,784 shares in 2010	(1,053)	(3,429)	(12,687)
Total shareholders' equity.....	204,769	195,740	2,467,096
Valuation difference on available-for-sale securities	16,901	21,816	203,628
Deferred (losses) gains on hedges.....	(243)	3,299	(2,929)
Total accumulated other comprehensive income.....	16,658	25,115	200,699
Minority interests.....	75	83	904
Total net assets.....	221,502	220,938	2,668,699
Total liabilities and net assets	¥495,627	¥506,725	\$5,971,410

Consolidated Statements of Income

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
Net sales (Note 11)	¥436,826	¥411,525	¥474,560	\$5,262,964
Operating costs and expenses:				
Cost of sales	261,072	246,622	320,091	3,145,446
Selling, general and administrative expenses	151,847	147,084	143,580	1,829,482
	412,919	393,706	463,671	4,974,928
Operating income (Note 11)	23,907	17,819	10,889	288,036
Other income (expenses):				
Interest and dividend income	1,007	998	1,461	12,133
Interest expense	(2,061)	(2,389)	(2,675)	(24,831)
Other, net	415	923	461	4,999
	(639)	(468)	(753)	(7,699)
Income before income taxes and minority interests	23,268	17,351	10,136	280,337
Income taxes (Note 8):				
Current	7,240	6,532	7,533	87,229
Deferred	1,542	(144)	(3,192)	18,578
Total income taxes	8,782	6,388	4,341	105,807
Income before minority interests	14,486	10,963	5,795	174,530
Minority interests in net loss of consolidated subsidiaries	(6)	(14)	(13)	(72)
Net income	¥14,492	¥10,977	¥5,808	\$174,602
		Yen		U.S. dollars
Per share:				
Net income	¥26.22	¥19.68	¥10.38	\$0.32
Cash dividends applicable to the year (Notes 2 and 16)	8.00	8.00	8.00	0.10

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	2011
Income before minority interests	¥14,486	\$174,530
Other comprehensive income (Note 10):		
Net changes in valuation difference on available-for-sale securities	(4,916)	(59,228)
Net changes in deferred losses on hedges	(3,542)	(42,675)
Total other comprehensive income	(8,458)	(101,903)
Comprehensive income (Note 10)	¥6,028	\$72,627
Comprehensive income attributable to (Note 10):		
Owners of the parent	¥6,035	\$72,711
Minority interests	(7)	(84)

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, 2011, 2010 and 2009

	Number of shares of common stock	Millions of yen				Total shareholders' equity
		Capital stock	Capital surplus	Retained earnings	Treasury stock	
Balance at March 31, 2008	559,792,197	¥33,073	¥8,387	¥147,498	¥(63)	¥188,895
Dividends declared				(4,477)		(4,477)
Net income				5,808		5,808
Purchase of treasury stock and fractional shares, net of sales				(1)	(195)	(196)
Increase in cash and cash equivalents from newly consolidated subsidiary				2,328		2,328
Changes in items other than shareholders' equity						
Balance at March 31, 2009	559,792,197	¥33,073	¥8,387	¥151,156	¥(258)	¥192,358
Dividends declared				(4,474)		(4,474)
Net income				10,977		10,977
Purchase of treasury stock and fractional shares, net of sales				(2)	(3,171)	(3,173)
Increase in cash and cash equivalents from newly consolidated subsidiary				52		52
Changes in items other than shareholders' equity						
Balance at March 31, 2010	559,792,197	¥33,073	¥8,387	¥157,709	¥(3,429)	¥195,740
Dividends declared				(4,423)		(4,423)
Net income				14,492		14,492
Purchase of treasury stock and fractional shares, net of sales				(1)	(1,039)	(1,040)
Retirement of treasury stock		(6,754,508)		(3,415)	3,415	—
Changes in items other than shareholders' equity						
Balance at March 31, 2011	553,037,689	¥33,073	¥8,387	¥164,362	¥(1,053)	¥204,769

	Millions of yen				
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2008	¥31,472	¥17,937	¥49,409	¥111	¥238,415
Dividends declared					(4,477)
Net income					5,808
Purchase of treasury stock and fractional shares, net of sales					(196)
Increase in cash and cash equivalents from newly consolidated subsidiary					2,328
Changes in item other than shareholders' equity	(15,598)	(20,516)	(36,114)	(16)	(36,130)
Balance at March 31, 2009	¥15,874	¥(2,579)	¥13,295	¥95	¥205,748
Dividends declared					(4,474)
Net income					10,977
Purchase of treasury stock and fractional shares, net of sales					(3,173)
Increase in cash and cash equivalents from newly consolidated subsidiary					52
Changes in item other than shareholders' equity	5,942	5,878	11,820	(12)	11,808
Balance at March 31, 2010	¥21,816	¥3,299	¥25,115	¥83	¥220,938
Dividends declared					(4,423)
Net income					14,492
Purchase of treasury stock and fractional shares, net of sales					(1,040)
Retirement of treasury stock					—
Changes in item other than shareholders' equity	(4,915)	(3,542)	(8,457)	(8)	(8,465)
Balance at March 31, 2011	¥16,901	¥(243)	¥16,658	¥75	¥221,502

	Thousands of U.S. dollars (Note 1)				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2010	\$398,470	\$101,048	\$1,900,108	\$(41,313)	\$2,358,313
Dividends declared			(53,288)		(53,288)
Net income			174,602		174,602
Purchase of treasury stock and fractional shares, net of sales			(12)	(12,519)	(12,531)
Retirement of common stock			(41,145)	41,145	—
Changes in items other than shareholders' equity					
Balance at March 31, 2011	\$398,470	\$101,048	\$1,980,265	\$(12,687)	\$2,467,096

	Thousands of U.S. dollars (Note 1)				
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2010	\$262,844	\$39,747	\$302,591	\$1,000	\$2,661,904
Dividends declared					(53,288)
Net income					174,602
Purchase of treasury stock and fractional shares, net of sales					(12,531)
Retirement of common stock					—
Changes in items other than shareholders' equity	(59,216)	(42,676)	(101,892)	(96)	(101,988)
Balance at March 31, 2011	\$203,628	\$(2,929)	\$200,699	\$904	\$2,668,699

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
Cash flows from operating activities:				
Income before income taxes and minority interests	¥23,268	¥17,351	¥10,136	\$280,337
Adjustments for:				
Depreciation and amortization	40,573	61,158	40,630	488,831
Increase (decrease) in employees' retirement benefit liability and other allowances	5,892	(1,902)	2,731	70,988
Interest and dividend income	(1,007)	(998)	(1,461)	(12,133)
Interest expense	2,061	2,389	2,675	24,831
Loss on valuation of investment securities	1,067	—	1,232	12,855
(Increase) decrease in trade notes and accounts receivable	(2,511)	4,735	4,212	(30,253)
(Increase) decrease in inventories	(1,775)	(1,760)	6,720	(21,386)
(Decrease) increase in trade notes and accounts payable	(6,551)	589	(8,992)	(78,928)
Other	(2,092)	7,128	1,855	(25,203)
	58,925	88,690	59,738	709,939
Interests and dividends received	1,007	1,000	1,460	12,133
Interests paid	(2,113)	(2,478)	(2,827)	(25,458)
Income taxes paid	(3,889)	(9,932)	(7,494)	(46,855)
Net cash provided by operating activities	53,930	77,280	50,877	649,759
Cash flows from investment activities:				
Purchases of investment securities	(51)	(612)	(483)	(614)
Proceeds from sale of investment securities	0	3	1,124	0
Purchases of noncurrent assets	(33,259)	(43,673)	(44,569)	(400,711)
Proceeds from sale of noncurrent assets	146	37	101	1,759
Payments for acquisition of business	—	—	(3,878)	—
Other	(680)	255	(804)	(8,193)
Net cash used in investment activities	(33,844)	(43,990)	(48,509)	(407,759)
Cash flows from financing activities:				
Net (decrease) increase in short-term bank loans	(718)	(43)	318	(8,651)
Proceeds from long-term loans payable	13,445	1,600	17,473	161,988
Repayment of long-term loans payable	(9,042)	(10,371)	(18,522)	(108,940)
Purchase of treasury stock	(1,046)	(3,187)	(245)	(12,602)
Cash dividends paid	(4,423)	(4,468)	(4,479)	(53,289)
Dividends to minority interests	(0)	(0)	(1)	(0)
Other	(13,400)	(13,390)	6,580	(161,446)
Net cash (used in) provided by financing activities	(15,184)	(29,859)	1,124	(182,940)
Net increase in cash and cash equivalents	4,902	3,431	3,492	59,060
Cash and cash equivalents at beginning of year	16,905	13,209	8,593	203,675
Increase in cash and cash equivalents from newly consolidated subsidiary	—	265	1,124	—
Cash and cash equivalents at end of year	¥21,807	¥16,905	¥13,209	\$262,735

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 follows the GAS Business Law and 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, 2011, which was ¥83 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 (19 in 2011 and 2010, and 18 in 2009.) From the year ended March 31, 2010, the Company has consolidated all of its subsidiaries.

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-ends 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 year-ends. Significant transactions for the period between a subsidiary's year-end and the Company's year-end are for adjusted 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.

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 were carried as net assets on the balance sheets until the gain and loss on the related hedged item is realized. According to the special treatment permitted by the accounting standard for financial instruments, hedging interest rate swaps are accounted for on an accrual basis and recorded net of interest expenses generated from the hedged borrowings if certain conditions are met.

Inventories

Inventories are mostly stated at the moving average cost (balance sheet prices are calculated using the book value reduction method based on reduction in profitability.) The Accounting Standard of Japan ("ASBJ") Statement No. 9 "Accounting Standard for Measurement of Inventories," issued on July 5, 2006, was adopted from the year ended March 31, 2009. The impact of this change on business performance was minimal for the year ended March 31, 2009.

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 doubtful or troubled receivables and a general reserve for other receivables based on the historical loss experience of a certain past period.

Deferred charges

Deferred charges consisted of development costs. Amortization of development costs is computed by the straight-line method over five years.

Bond issuance costs are charged to income as incurred.

Employees' retirement benefits

In accordance with the accounting standard for employee retirement benefits, the TOHO GAS Group has principally recognized retirement benefits, including pension cost and related liabilities, based on the actuarial present value of the projected benefit obligation using the actuarial appraisal approach and the fair value of pension plan assets available for benefits at the fiscal year-end. Unrecognized actuarial differences from that which was assumed and from changes in assumptions 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. Prior service costs are charged or credited to income in the year in which they occur.

ASBJ Statement No. 19 "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)", issued on July 31, 2008, has been adopted effective from March 31, 2010. This change had no effect on profit/loss for the year ended March 31, 2010.

Provision for gas holder repairs

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

Reserve for safety measures

The TOHO GAS Group provides for expenses necessary to secure safety for gas customers by estimating the total amount expected to be incurred after the year-end. In relation to the replacement plan for white galvanized branch pipes, the TOHO GAS Group revised its earthquake countermeasures plan based on the reconsideration of the new countermeasures policies for earthquake protection by Cabinet office of Japanese Government during the year ended March 31, 2011. As a result, the additional reserve for safety measures of ¥7,936 million (\$95,614 thousand) was provided for the year ended March 31, 2011. The TOHO GAS Group also provided an additional reserve for replacement of gas appliances and pipelines by estimating future expenditures in the amounts of ¥1,290 million and ¥6,183 for the years ended March 31, 2010 and 2009, respectively, and charging them to income in order to promote the replacement of new gas appliances that have safety devices and to replace the aged gray cast iron pipes and white galvanized branch pipes and pipes of important buildings for security reasons.

Provision for calorie change

Pursuant to Article 27 of the Gas Business Law, the TOHO GAS Group provides an allowance for calorie change based on the department instructions about calorie change in Article 3.

Lease transactions

The accounting treatment of finance lease transactions that do not transfer ownership of the lease assets previously followed the methods used for operating lease transactions. However, from the year ended March 31, 2009 with the application of ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," originally issued by the Business Accounting Council of Japan on June 17, 1993 and revised by ASBJ on March 30, 2007, and ASBJ Guidance No. 16, "Guidance on

Accounting Standard for Lease Transactions" originally issued by the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by ASBJ on March 30, 2007, these finance lease transactions are accounted for by methods used for ordinary sales or purchase transactions, except for lease transactions commenced before April 1, 2008. The impact of this change for the year ended March 31, 2009 was minimal.

Income taxes

Income taxes are accounted for by the asset and 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.

Enterprise tax

Enterprise tax normally constitutes income taxes. However, in gas and certain other businesses, enterprise tax is levied not on income but on net sales. In the accompanying consolidated statements of income, enterprise tax levied on net sales for the Company is recorded as selling, general and administrative expenses.

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 ¥2,083 million (\$25,096 thousand), ¥2,122 million and ¥2,137 million for the years ended March 31, 2011, 2010 and 2009, respectively.

Translation of foreign currency accounts

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

Appropriation of retained earnings

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

Revenue recognition for construction contracts

Until the year ended March 31, 2009, the TOHO GAS Group recognized revenue on construction contracts using the completed contract method. However, effective from the year ended March 31, 2010, ASBJ Statement No. 15, "Accounting Standard for Construction Contracts," issued on December 27, 2007, and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts," issued on December 27, 2007, have been applied. The new accounting standards require that the construction contracts apply the percentage-of-completion method when the work completed on individual contracts can be estimated reliably. This change had no effect on profit/loss for the year ended March 31, 2010.

Asset retirement obligations

Effective April 1, 2010, the TOHO GAS Group has adopted ASBJ Statement No. 18, "Accounting Standards for Asset Retirement Obligations," issued on March 31, 2008 and ASBJ Guidance No. 21, "Guidance on Accounting Standards for Assets Retirement Obligations," issued on March 31, 2008. This change has no effect on profit/loss for the year ended March 31, 2011.

Consolidated statements of comprehensive income

Effective March 31, 2011, the TOHO GAS Group has adopted ASBJ Statement No. 25, "Accounting Standard for Presentation of Comprehensive Income," issued on June 30, 2010. As a result of the adoption of this standard, the TOHO GAS Group presented the consolidated statement of comprehensive income in the consolidated financial statements for the year ended March 31, 2011. The consolidated balance sheet and the consolidated statement of changes in net assets as of and for the year ended March 31, 2010 have been modified to conform with the new presentation rules of 2011.

3 Fair values of financial instruments

Effective from the fiscal year ended March 31, 2010, the Company has adopted ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," revised on March 10, 2008 and ASBJ Guidance, "Guidance on disclosure about Fair Value of Financial Instruments," issued on March 10, 2008.

Information on fair value of financial instruments required pursuant to these standards is as follows:

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, commercial paper and financing from banks and other financial institutions.

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

Trade notes and accounts receivable, which are operational credits, are exposed to customers' credit risk. Investment securities are 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 debts, are within one year. Corporate bonds and loans payable are used to procure working capital and cash for capital investments. The longest redemption date is 13 years after the end of the current fiscal year. Long-term loans payable with variable interest rates are exposed to the risk of interest rate fluctuations. Variable interest rates on some of these liabilities are hedged by derivative contracts (interest rate swap 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.

Amounts per share data

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 diluted common shares for the years ended March 31, 2011, 2010 or 2009.

Cash dividends per share present 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.

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 checking the due dates and balances of receivables of individual customers, quickly identifying any deterioration in the financial position of customers and reducing 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 risks of fluctuations in purchase prices of raw materials and interest rates, the Company uses commodity swap contracts and 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 current price reflects variable factors, the current

price may vary if different factors and assumptions are used for calculation. Contract prices of derivative contracts or other amounts indicated in the table below "Derivative transactions," 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, 2011 and 2010 were as follows:

	Millions of yen		
	Carrying value	Fair value	Differences
For 2011:			
Assets:			
Cash and time deposits	¥22,058	¥22,058	¥ —
Trade notes and accounts receivable	44,644	44,644	—
Investment securities	44,573	44,573	—
Total	111,275	111,275	—
Liabilities:			
Trade notes and accounts payable	24,343	24,343	—
Short-term loans payable	13,150	13,150	—
Bonds payable, including current portion	99,993	103,570	3,577
Long-term loans payable, including current portion	40,340	41,291	951
Long-term deposits received, including current portion	7,918	8,051	133
Total	185,744	190,405	4,661
Derivative transactions	(380)	(380)	—
For 2010:			
Assets:			
Cash and time deposits	¥17,157	¥17,157	¥ —
Trade notes and accounts receivable	42,133	42,133	—
Investment securities	53,016	53,016	—
Total	112,306	112,306	—
Liabilities:			
Trade notes and accounts payable	30,896	30,896	—
Short-term loans payable	13,868	13,868	—
Bonds payable, including current portion	109,991	113,415	3,424
Long-term loans payable, including current portion	35,937	36,783	846
Long-term deposits received, including current portion	11,255	11,499	244
Total	201,947	206,461	4,514
Derivative transactions	5,130	5,130	—
	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
For 2011:			
Assets:			
Cash and time deposits	\$265,759	\$265,759	\$ —
Trade notes and accounts receivable	537,880	537,880	—
Investment securities	537,024	537,024	—
Total	1,340,663	1,340,663	—
Liabilities:			
Trade notes and accounts payable	293,289	293,289	—
Short-term loans payable	158,434	158,434	—
Bonds payable, including current portion	1,204,735	1,247,831	43,096
Long-term loans payable, including current portion	486,024	497,481	11,458
Long-term deposits received, including current portion	95,398	97,000	1,602
Total	2,237,880	2,294,036	56,156
Derivative transactions	(4,578)	(4,578)	—

Notes:

The calculation method for fair value of financial instruments

1. Assets

(1) Cash and time deposits and trade notes and accounts receivable

Since these items are settled in a short period of time, their fair value is approximate to the carrying value. Accordingly, the carrying value is used as the fair value.

(2) Investment securities

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

2. Liabilities

(1) Trade notes and accounts payable and short-term loans payable

Since these items are settled in a short period of time, their fair value is approximate to the carrying value. Accordingly, the carrying value is used as the fair value.

(2) Bonds payable

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

(3) Long-term debt and long-term deposits received

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

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Nonmarketable securities			
Unlisted equity securities	¥4,499	¥4,439	\$54,205
Investments in affiliates	1,486	1,486	17,904
Investments in investment partnerships	—	2	—
Other	2	—	24

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
	Due within one year	Due within one year	Due within one year
Cash and time deposits	¥22,058	¥17,157	\$265,759
Trade notes and accounts receivable	44,644	42,133	537,880
Total	¥66,702	¥59,290	\$803,639

A contractual 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 2011:					
Bonds payable	¥20,000	¥10,000	¥10,000	¥ —	¥10,000	¥50,000
Long-term bank loans payable	2,732	6,646	9,834	7,287	5,888	7,954
Total	¥22,732	¥16,646	¥19,834	¥7,287	¥15,888	¥57,954
For 2010:						
Bonds payable	¥10,000	¥20,000	¥10,000	¥10,000	¥ —	¥60,000
Long-term bank loans payable	8,953	2,527	2,521	1,521	7,099	13,317
Total	¥18,953	¥22,527	¥12,521	¥11,521	¥7,099	¥73,317
	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 2011:						
Bonds payable	\$240,964	\$120,482	\$120,482	\$ —	\$120,482	\$602,410
Long-term bank loans payable	32,916	80,072	118,482	87,795	70,940	95,831
Total	\$273,880	\$200,554	\$238,964	\$87,795	\$191,422	\$698,241

4 Investments

In accordance with the accounting standard for financial instruments, investment securities include equity securities, bonds and other of which the aggregate cost, gross unrealized gains/losses and fair value pertaining to available-for-sale securities at March 31, 2011 and 2010 were as follows.

(a) Available-for-sale securities

Securities with fair and carrying value exceeding cost:

	Millions of yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2011				
Equity securities	¥15,412	¥25,640	¥—	¥41,052
Other	5	1	—	6
	¥15,417	¥25,641	¥—	¥41,058
March 31, 2010				
Equity securities	¥17,028	¥33,518	¥—	¥50,546
Other	5	1	—	6
	¥17,033	¥33,519	¥—	¥50,552
	Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2011				
Equity securities	\$185,687	\$308,916	\$—	\$494,603
Other	60	12	—	72
	\$185,747	\$308,928	\$—	\$494,675

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, 2011				
Equity securities	¥3,618	¥—	¥(103)	¥3,515
	¥3,618	¥—	¥(103)	¥3,515
March 31, 2010				
Equity securities	¥2,979	¥—	¥(516)	¥2,463
	¥2,979	¥—	¥(516)	¥2,463
	Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2011				
Equity securities	\$43,590	\$—	\$(1,241)	\$42,349
	\$43,590	\$—	\$(1,241)	\$42,349

Total sales of available-for-sale securities for the years ended March 31, 2010 and 2009 amounted to ¥257 million and ¥1,128 million, respectively. The related gains for the years ended March 31, 2010 and 2009 amounted to ¥1 million and ¥325 million, respectively. The related losses for the years ended March 31, 2010 and 2009 amounted to ¥27 million and ¥6 million, respectively. For the year ended March 31, 2011, there was no material sale transaction of available-for-sale securities.

5 Inventories

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Finished products	¥5,099	¥4,173	\$61,435
Work-in-process	841	961	10,133
Raw materials and supplies	13,677	12,708	164,783
	¥19,617	¥17,842	\$236,349

6 Employees' retirement benefits liability

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

Reconciliation of the benefit obligation at March 31, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	¥92,117	¥90,888	\$1,109,843
Fair value of pension plan assets at end of year	(63,122)	(62,610)	(760,506)
Projected benefit obligation in excess of fair value of pension plan assets	28,995	28,278	349,337
Less unrecognized actuarial differences (loss)	(8,652)	(8,261)	(104,241)
Net amount of employees' retirement benefits liability recorded on the consolidated balance sheets	¥20,343	¥20,017	\$245,096

Notes:

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

Net periodic retirement benefit expense for the years ended March 31, 2011, 2010 and 2009 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Components of net periodic retirement benefit expense:				
Service cost	¥2,584	¥2,609	¥2,521	\$31,132
Interest cost	1,778	1,757	1,729	21,421
Expected return on pension plan assets	(1,252)	(1,141)	(1,293)	(15,084)
Recognized actuarial differences	1,733	2,097	1,098	20,880
Net periodic retirement benefit expense	¥4,843	¥5,322	¥4,055	\$58,349

Major assumptions used in the calculations above for the years ended March 31, 2011, 2010 and 2009 were as follows:

	2011	2010	2009
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method	Straight-line method
Discount rate	2.0%	2.0%	2.0%
Expected rate of return on pension plan assets	2.0%	2.0%	2.0%
Amortization of unrecognized actuarial differences	10 years	10 years	10 years

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 0.7% per annum at March 31, 2011.

Long-term debt and other interest-bearing liabilities at March 31, 2011 and 2010 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Domestic unsecured notes due 2018 at a rate of 3.175%.....	¥10,000	¥10,000	\$120,482
Domestic unsecured notes due 2010 at a rate of 2.45%.....	—	10,000	—
Domestic unsecured notes due 2012 at a rate of 2.12%.....	10,000	10,000	120,482
Domestic unsecured notes due 2012 at a rate of 1.5%.....	10,000	10,000	120,482
Domestic unsecured notes due 2023 at a rate of 1.12%.....	10,000	10,000	120,482
Domestic unsecured notes due 2015 at a rate of 1.63%.....	10,000	10,000	120,482
Domestic unsecured notes due 2016 at a rate of 2.07%.....	9,999	9,999	120,470
Domestic unsecured notes due 2022 at a rate of 2.06%.....	9,993	9,992	120,398
Domestic unsecured notes due 2011 at a rate of 1.4%.....	10,000	10,000	120,482
Domestic unsecured notes due 2018 at a rate of 1.658%.....	10,000	10,000	120,482
Domestic unsecured notes due 2013 at a rate of 1.218%.....	10,000	10,000	120,482
Loans from banks, insurance companies and government agency due through 2023 at interest rates ranging from 0.84% to 2.8% per annum at March 31, 2011.....	40,340	35,937	486,024
Capitalized lease obligations.....	203	161	2,445
Others.....	6,923	10,245	83,409
	147,458	156,334	1,776,602
Less amounts due within one year.....	(26,122)	(22,328)	(314,723)
	¥121,336	¥134,006	\$1,461,879

Assets pledged as collateral mainly for trade accounts payable and long-term debt in the aggregate amounts of ¥80 million (\$964 thousand) and ¥94 million at March 31, 2011 and 2010, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Property plant and equipment.....	¥1,009	¥1,178	\$12,156
Investment securities.....	39	39	470
Others.....	16	16	193
	¥1,064	¥1,233	\$12,819

The annual maturities of long-term debt and other interest bearing liabilities at March 31, 2011 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2012.....	¥26,122	\$314,723
2013.....	20,035	241,386
2014.....	20,155	242,831
2015.....	7,304	88,000
2016.....	5,906	71,157
2017 and thereafter.....	67,936	818,505
	¥147,458	\$1,776,602

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.

The statutory tax rate for income taxes is approximately 36% for the gas business and 41% for other businesses in Japan.

Components of deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Employees' retirement benefit liability.....	¥7,352	¥7,209	\$88,578
Depreciation.....	4,135	4,247	49,819
Reserve for safety measures.....	4,680	2,586	56,386
Deferred charges.....	1,511	1,510	18,205
Other.....	14,887	17,998	179,362
Less valuation allowance.....	(2,875)	(2,522)	(34,639)
	29,690	31,028	357,711
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities.....	(8,637)	(11,186)	(104,060)
Deferred gains on hedging instruments.....	—	(1,832)	—
Deferred capital gains.....	(176)	(178)	(2,120)
Other.....	(77)	(6)	(929)
	(8,890)	(13,202)	(107,109)
Net deferred tax assets	¥20,800	¥17,826	\$250,602

Reconciliation of the differences between the Japanese combined statutory tax rate and the effective tax rate on pretax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2011 and 2010 was not disclosed as such differences were not material.

The reconciliation for the year ended March 31, 2009 was as follows:

	Percentage of pretax income
Combined statutory tax rate.....	36.0%
Change in valuation allowance.....	6.7%
Permanently nondeductible expenses.....	2.7%
Tax exempt income.....	(0.8%)
Other, net.....	(1.8%)
Effective tax rate	42.8%

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 where 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, 2011 and 2010, respectively, capital surplus principally consisted of additional paid-in capital. In addition, retained earnings included legal earnings reserve in the amount of ¥8,780 million (\$105,771 thousand) at March 31, 2011 and 2010, respectively.

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, 2011, the Company retired 6,654,508 shares of the treasury stock through a reduction of retained earnings. As a result, the number of issued shares of common stock decreased from 559,792,197 shares to 553,037,689 shares for the year ended March 31, 2011.

In November 2010, the Company paid interim dividends of ¥2,212 million (\$26,651 thousand), ¥4 per share. For year-end dividends, see also Note 16(a).

10 Statements of comprehensive income

Comprehensive income for the year ended March 31, 2010 was as follows:

Comprehensive income	
Attributable to owners of the parent	¥22,796
Attributable to minority interests	(13)
Total	¥22,783

Other comprehensive income for the year ended March 31, 2010 was as follows:

Other comprehensive income	
Net changes in valuation difference on available-for-sale securities	¥5,942
Net changes in deferred gains on hedges	5,878
Total	¥11,820

11 Segment information

Effective April 1, 2010, the Company adopted ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," issued on March 27, 2009 and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segment of an Enterprise and Related Information," issued on March 21, 2008. Information about industry segments as of and for the year ended March 31, 2010 has been restated in conformity with the new standard in the table below.

1. General information about reportable segments

The TOHO GAS Group defines a reportable segment as constituent business units of the TOHO GAS Group for which discrete financial information is available and which are reviewed regularly by the Board of Directors to determine the best allocation of managerial resources and to evaluate business performance. The reportable segments of the TOHO GAS Group are composed of three segments: "Gas sales," "Gas appliance sales and related construction" and "LPG and other Energies." They are determined based on the GAS Business Law and related accounting regulations.

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

Gas sales: Products, supplies and sales of the 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 and 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 within group companies, and calculated based on market value.

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

Information about reported segment as of and for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen							
	Reported segments				Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
Gas sales	Gas appliance sales and related construction	LPG and other Energies	Total					
For 2011:								
Net sales:								
External customers	¥311,807	¥31,562	¥72,654	¥416,023	¥20,803	¥436,826	¥—	¥436,826
Intersegment	74	1,945	1,045	3,064	16,079	19,143	(19,143)	—
Total net sales	311,881	33,507	73,699	419,087	36,882	455,969	(19,143)	436,826
Segment income (loss)	¥17,631	¥719	¥1,793	¥20,143	¥2,418	¥22,561	¥1,346	¥23,907
Segment assets	¥367,302	¥11,273	¥43,889	¥422,464	¥44,100	¥466,564	¥29,063	¥495,627
Other items:								
Depreciation expenses	36,645	147	2,416	39,208	1,428	40,636	(63)	40,573
Capital expenditures	29,448	143	1,919	31,510	947	32,457	—	32,457
For 2010:								
Net sales:								
External customers	¥292,893	¥34,032	¥63,166	¥390,091	¥21,434	¥411,525	¥—	¥411,525
Intersegment	66	1,785	1,271	3,122	16,751	19,873	(19,873)	—
Total net sales	292,959	35,817	64,437	393,213	38,185	431,398	(19,873)	411,525
Segment income (loss)	¥11,132	¥961	¥1,527	¥13,620	¥3,207	¥16,827	¥992	¥17,819
Segment assets	¥369,027	¥11,597	¥42,595	¥423,219	¥44,443	¥467,662	¥39,063	¥506,725
Other items:								
Depreciation expenses	57,132	162	2,408	59,702	1,522	61,224	(66)	61,158
Capital expenditures	38,884	168	2,775	41,827	954	42,781	(142)	42,639

	Thousands of U.S. dollars							
	Reported segments			Total	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
Gas sales	Gas appliance and related construction	LPG and other Energies						
For 2011:								
Net sales:								
External customers	\$3,756,711	\$380,265	\$875,349	\$5,012,325	\$250,639	\$5,262,964	\$—	\$5,262,964
Intersegment	892	23,434	12,590	36,916	193,723	230,639	(230,639)	—
Total net sales	3,757,603	403,699	887,939	5,049,241	444,361	5,493,602	(230,638)	5,262,964
Segment income (loss)	\$212,422	\$8,663	\$21,602	\$242,687	\$29,132	\$271,819	\$16,217	\$288,036
Segment assets	\$4,425,325	\$135,819	\$528,784	\$5,089,928	\$531,325	\$5,621,253	\$350,157	\$5,971,410
Other items:								
Depreciation expenses	441,506	1,771	29,108	472,385	17,205	489,590	(759)	488,831
Capital expenditures	354,795	1,723	23,120	379,638	11,410	391,048	—	391,048

Notes:

- The "Other" segment incorporates operations not included in reported segment, including LNG processing under contract, leasing of buildings, data processing services, design and construction and other leasing the other business.
- The "Adjustments" column in "Segment income" denotes eliminations of intersegment transactions. The "Adjustments" column in "Segment assets" denotes unallocated general corporate items which were not assigned to specific segments such as long-term investments in securities.
- 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, 2011

(1) Information about products and services:

	Millions of yen			
	Gas sales	LPG	Other	Total
For 2011:				
Net sales to external customers	¥311,807	¥49,034	¥75,985	¥436,826
For 2010:				
Net sales to external customers				
	\$3,756,711	\$590,771	\$915,482	\$5,262,964

(2) Information about geographic areas:

Geographic information is not shown because the Company had no overseas consolidated subsidiaries.

(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

Industry segment information as of and for the year ended March 31, 2009, in conformity with the former standard applicable to the year 2009 is as follows:

	Millions of yen					
	Gas sales	Gas appliance sales and related construction	LPG sales	Other	Elimination or corporate	Consolidated
For 2009:						
Net sales:						
External customers	¥337,638	¥38,268	¥66,346	¥32,308	¥—	¥474,560
Intersegment	75	843	1,255	16,807	(18,980)	—
Total net sales	337,713	39,111	67,601	49,115	(18,980)	474,560
Operating costs and expenses	332,785	37,700	66,233	46,873	(19,920)	463,671
Operating income	¥4,928	¥1,411	¥1,368	¥2,242	¥940	¥10,889
Identifiable assets	¥389,977	¥11,564	¥35,697	¥48,696	¥30,195	¥516,129
Depreciation	36,106	194	1,542	2,840	(52)	40,630
Capital expenditures	42,999	131	1,961	3,101	(103)	48,089

Notes:

- General corporate assets not allocated to specific segments and included in the "Elimination or corporate" column were limited to mainly investment securities, which amounted to 44,504 million at March 31, 2009.
- Geographic segment information is not shown because the Company had no overseas consolidated subsidiaries. Information for overseas sales is not applicable as the TOHO GAS Group had no overseas operations.

12 Certain lease transactions

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

As lessee:

The Company uses certain service and maintenance facilities and other assets as lessee.

A summary of the contracts under finance leases on a pro forma basis is as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Lease payments	¥79	¥83	\$952
Future minimum lease payments (inclusive of imputed interests):			
Due within one year	¥78	¥79	\$940
Due after one year	247	326	2,976
Total	¥325	¥405	\$3,916
	Millions of yen		Thousands of U.S. dollars
	Acquisition cost	Accumulated depreciation	Net value
For 2011:			
Other facilities	¥775	¥450	¥325
For 2010:			
Other facilities	783	378	405
	Thousands of U.S. dollars		Thousands of U.S. dollars
	Acquisition cost	Accumulated depreciation	Net value
For 2011:			
Other facilities	\$9,337	\$5,422	\$3,916
	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Amount representing lease depreciation	¥79	¥83	\$952

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 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Lease income	¥120	¥120	\$1,446
Future lease commitments to be received (inclusive of imputed interests):			
Due within one year	120	120	1,446
Due after one year	2,040	2,160	24,578
	¥2,160	¥2,280	\$26,024
	Millions of yen		Thousands of U.S. dollars
	Acquisition cost	Accumulated depreciation	Net value
For 2011:			
Other facilities	¥1,900	¥437	¥1,463
For 2010:			
Other facilities	¥1,900	¥365	¥1,535
	Thousands of U.S. dollars		Thousands of U.S. dollars
	Acquisition cost	Accumulated depreciation	Net value
For 2011:			
Other facilities	\$22,892	\$5,265	\$17,627
	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Lease depreciation	¥72	¥72	\$867

13 Contingent liabilities

The TOHO GAS Group was contingently liable for bank loans with respect to guarantees for joint and several liabilities upon the default of others and for bank loans with respect to guarantees for housing loans of employees. At March 31, 2011 and 2010, these contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Guarantees for joint and several liabilities upon default of others	¥37	¥44	\$446
Guarantees for housing loans of employees	936	1,141	11,277

14 Derivative transactions

The TOHO GAS Group has adopted policies restricting the use of derivatives and requiring the reporting of such transactions to responsible officials of the Company. All derivative transactions outstanding at March 31, 2011 and 2010 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 transactions
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, 2011 are summarized as follows:

Hedge contract	Notional principal or contract amounts		Fair value
	Total	Over 1 year	
	Millions of yen		
Commodity swap contracts (fixed rate payment, floating rate receipt)	¥22,516	¥4,667	¥87
Exchange forward contracts	38,734	32,056	(583)
Interest rate swap contracts (floating rate payment, fixed rate receipt)	5,000	5,000	117
Interest rate swap contracts (fixed rate payment, floating rate receipt)	13,000	13,000	(*2)
	Thousands of U.S. dollars		
Commodity swap contracts	\$271,277	\$56,229	\$1,048
Exchange forward contract	466,675	386,217	(7,024)
Interest rate swap contracts	60,241	60,241	1,410
Interest rate swap contracts	156,627	156,627	(*2)

Notes:

*1. Fair value was based principally on the 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

Effective from the year ended March 31, 2010, the Company adopted "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property (ASBJ Statement No. 20, issued on November 28, 2008) and the "Guidance on Accounting Standard for Disclosure about Fair Value of Investment and Rental Property (ASBJ Guidance No.23, issued on November 28, 2008).

The Company and some of its subsidiaries own land lots and office buildings for rent in Aichi and other prefectures. For the years ended March 2011 and 2010, in connection with those rental property, the Company recorded rent revenues of ¥1,147 million (\$13,819 thousand) and ¥1,245 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 at and for the year ended March 31, 2011 and 2010 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, 2011.....	¥8,862	¥(103)	¥8,759	¥29,301
March 31, 2010.....	¥8,980	¥(118)	¥8,862	¥30,807

	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, 2011.....	\$106,771	\$(1,241)	\$105,530	\$353,024

※Fair value was measured at reasonable estimated value based principally on real estate appraisal standards.

16 Subsequent events

(a) Appropriation of retained earnings

On June 24, 2011, at the annual general meeting of shareholders of the Company, the following appropriations of retained earnings were approved:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥4.00 (\$0.05) per share).....	¥2,202	\$26,530

(b) Retirement of treasury stock

On June 24, 2011, the Board of Directors of the Company resolved to retire 7,071,260 shares of the Company's treasury stock as of June 30, 2011, pursuant to Article 178 of the Corporate Law of Japan. In advance of this retirement of treasury stock, the Company purchased up to 4,555,000 additional shares in the aggregate amount of ¥1,751 million (\$21,096 thousand) during the period from April 1, 2011 to June 24, 2011.

Independent Auditors' Report

TOHO GAS CO., LTD. and Consolidated Subsidiaries

To the Board of Directors of TOHO GAS CO., LTD.:

We have audited the accompanying consolidated balance sheets of TOHO GAS CO., LTD. and its consolidated subsidiaries as of March 31, 2011 and 2010, the related consolidated statements of income for each of the three years in the period ended March 31, 2011, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of changes in net assets and cash flows for each of the three years in the period ended March 31, 2011, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOHO GAS CO., LTD. and its consolidated subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

As described in Note 16(b) of the Notes to Consolidated Financial Statements, on June 24, 2011, the Board of Directors of the Company resolved the retirement of the Company's treasury stock.

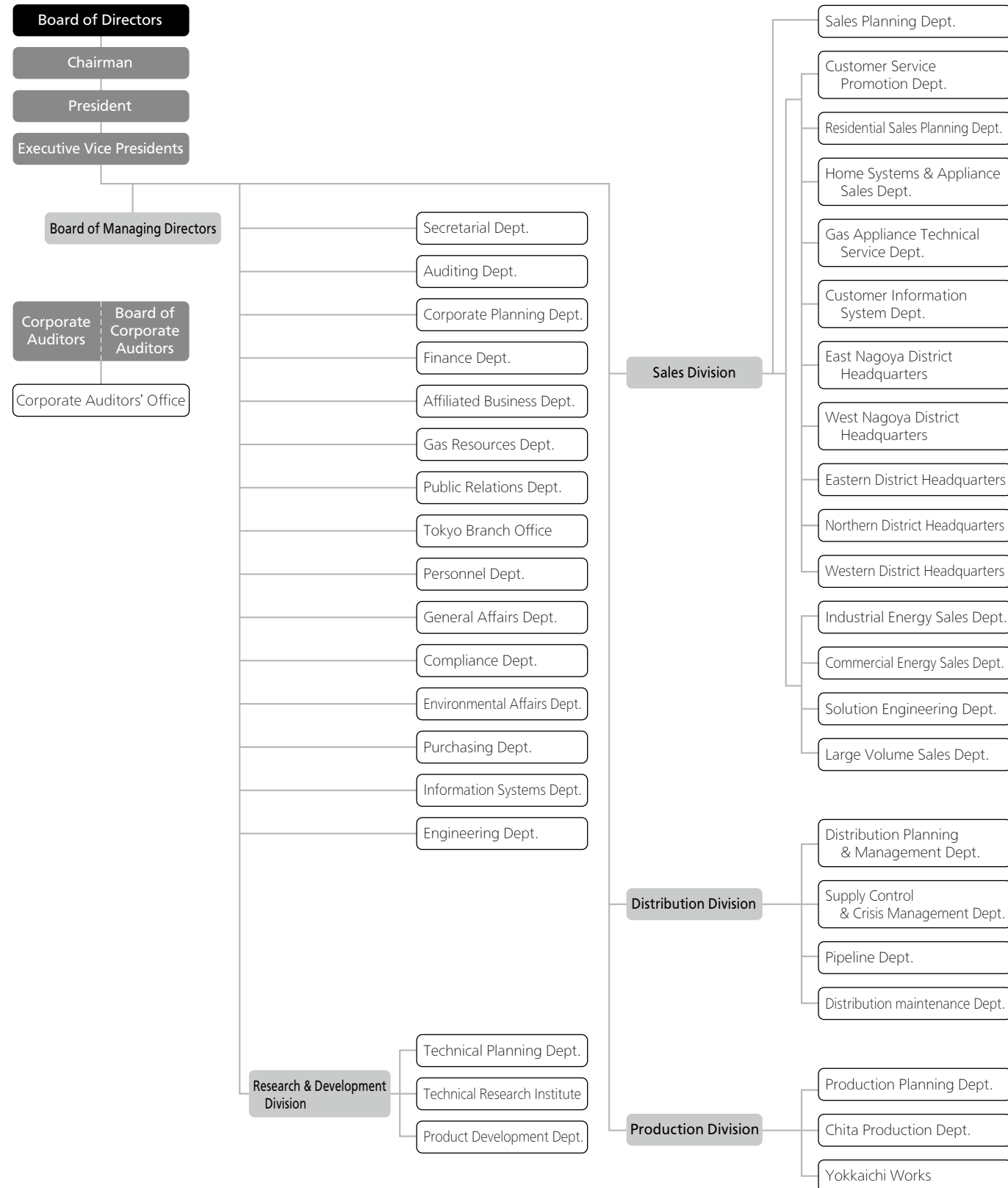
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of the Notes to Consolidated Financial Statements.

KPMG AZSA LLC

KPMG AZSA LLC
Nagoya, Japan
June 24, 2011

Organization Chart

TOHO GAS CO., LTD. and Consolidated Subsidiaries
As of June 24, 2011



Toho Gas Group

TOHO GAS CO., LTD. and Consolidated Subsidiaries
As of June 24, 2011

Gas Distribution

Toho Gas Customer Service Co., Ltd.

Trustee business of reading gas meter and collecting charges

Mizushima Gas Co.,Ltd.

Gas distribution in Okayama Prefecture

Gas Appliance Sales and Related Construction

Toho Gas Techno Co.,Ltd.

Construction of gas pipes
Paving and road repair

LPG Distribution

Toho Liquefied Gas Co.,Ltd.

Wholesale and retail of LPG
Wholesale of coke

Others

Toho Real Estate Co.,Ltd.

Lease of buildings
Management of sports facilities, restaurants and buildings, etc.

Toho Service Co.,Ltd.

Car sales, lease and maintenance
Lease for equipment item
Insurance agency
Tour business

Toho Gas Living Co.,Ltd.

Sales of housing equipment
Design and construction for residential buildings,
expansion and renovation

Toho Gas Information System Co.,Ltd.

Data processing services
System engineering

Toho Gas Engineering Co.,Ltd.

Engineering of gas production plants

Toho LNG Shipping Co., Ltd.

Lending of LNG ship

Corporate Directory

TOHO GAS CO., LTD. and Consolidated Subsidiaries
As of June 24, 2011

Head Office

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

Technical Research Institute

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

East Nagoya District Headquarters

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

West Nagoya District Headquarters

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

Eastern District Headquarters

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

Northern District Headquarters

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

Western District Headquarters

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

Chita LNG Terminal

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

Chita-Midorihama Works

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

Chita Calorific Value Adjustment Center

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

Yokkaichi Works

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

Tokyo Branch Office

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

Investor Information

TOHO GAS CO., LTD and Consolidated Subsidiaries
As of March 31, 2011

TOHO GAS CO., LTD. (Head Office)

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

Date of foundation:

June 1922

Date of establishment:

July 1922

Capital stock:

Authorized: 805,998,157 shares
Issued: 553,037,689 shares

Number of shareholders:

23,737

Stock transaction unit:

1,000 shares

Stock listing:

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

Independent auditors:

KPMG AZSA&Co.

Transfer agent:

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

Shareholders' meeting:

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

Number of employees:

5,654

Number of customers:

2,306,706

Capital stock price range:

(Tokyo Stock Exchange, yen)

	2011		2010	
	High	Low	High	Low
First quarter.....	¥516	¥446	¥484	¥379
Second quarter.....	474	411	438	367
Third quarter.....	425	385	525	406
Fourth quarter.....	452	319	526	456

Cash dividends per share:

(Years ended March 31, yen)

	2011	2010
Total for the year.....	¥8.00	¥8.00
Interim.....	4.00	4.00

Composition of shareholders:

	March 31, 2011	
	Percentage of total	Thousands of shares
Financial institutions.....	43.25%	237,043
Securities companies.....	0.58%	3,202
Other corporations.....	17.94%	98,349
Foreign investors.....	10.01%	54,861
Individual and others.....	28.22%	154,673



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