



TOHO GAS CO., LTD.

ANNUAL REPORT 2013

For the Year Ended March 31 , 2013

Contents

Financial Highlights 01

Excellent Characteristics of 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

Operations 08

Highlights the operations of the Toho Gas Group in the areas of marketing, procurement, production and supply, disaster control measures for earthquakes, research and development

Corporate Governance 12

Describes the ways in which corporate governance systems are continually improved at Toho Gas

Financial Section 15

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 39

Toho Gas Group, Corporate Directory 40

Investor Information 41

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.

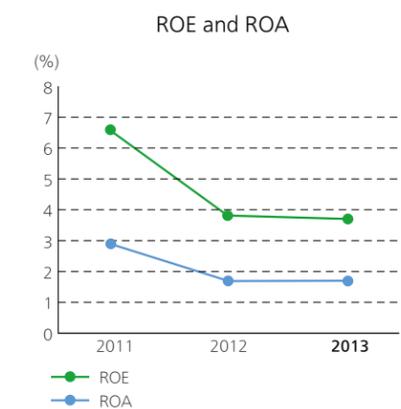
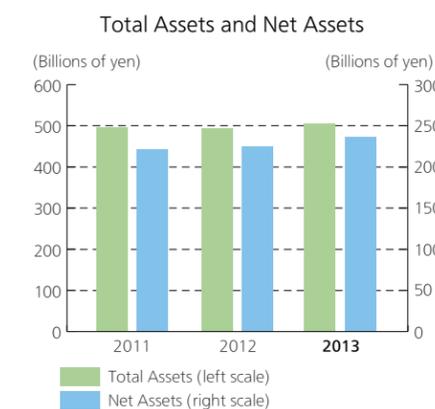
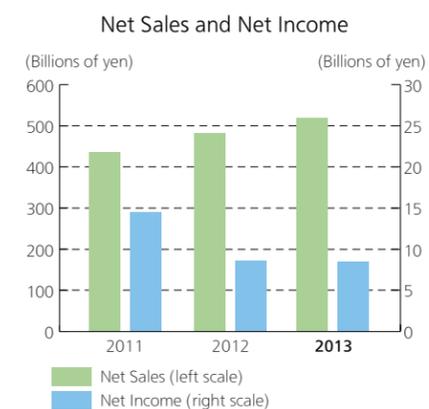
Financial Highlights

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
	2011	2012	2013	2013
For the year:				
Net sales	¥436,826	¥482,361	¥518,305	\$5,513,883
Operating income	23,907	17,504	12,621	134,266
Net income	14,492	8,570	8,526	90,702
Capital investment (payment basis)	33,259	32,547	35,198	374,447
Depreciation	40,573	40,272	36,902	392,574
At year-end:				
Total assets	¥495,627	¥492,889	¥504,462	\$5,366,617
Net assets	221,502	224,365	236,470	2,515,639
Interest-bearing debt	161,401	164,325	162,016	1,723,574
Per share data (yen and U.S. dollars):				
Net income	¥26.22	¥15.68	¥15.62	\$0.19
Cash dividends	8.00	8.50	9.00	0.11
Net assets	402.25	410.96	433.53	4.61
Ratios:				
Return on equity (ROE) ⁽²⁾	6.6%	3.8%	3.7%	
Return on assets (ROA) ⁽³⁾	2.9	1.7	1.7	
Asset turnover (Times) ⁽⁴⁾	0.87	0.98	1.04	

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, 2013, which was ¥94 to U.S. \$1.00.
2. ROE = net income ÷ net assets (average of the beginning and end of the period) × 100
3. ROA = net income ÷ total assets (average of the beginning and end of the period) × 100
4. Asset turnover = net sales ÷ total assets (average of the beginning and end of the period)



Excellent Characteristics of Natural Gas

Natural gas has excellent characteristics, such as environment-friendliness, supply stability, economic efficiency and convenience. Toho Gas endeavors, in its

► Environment friendly

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

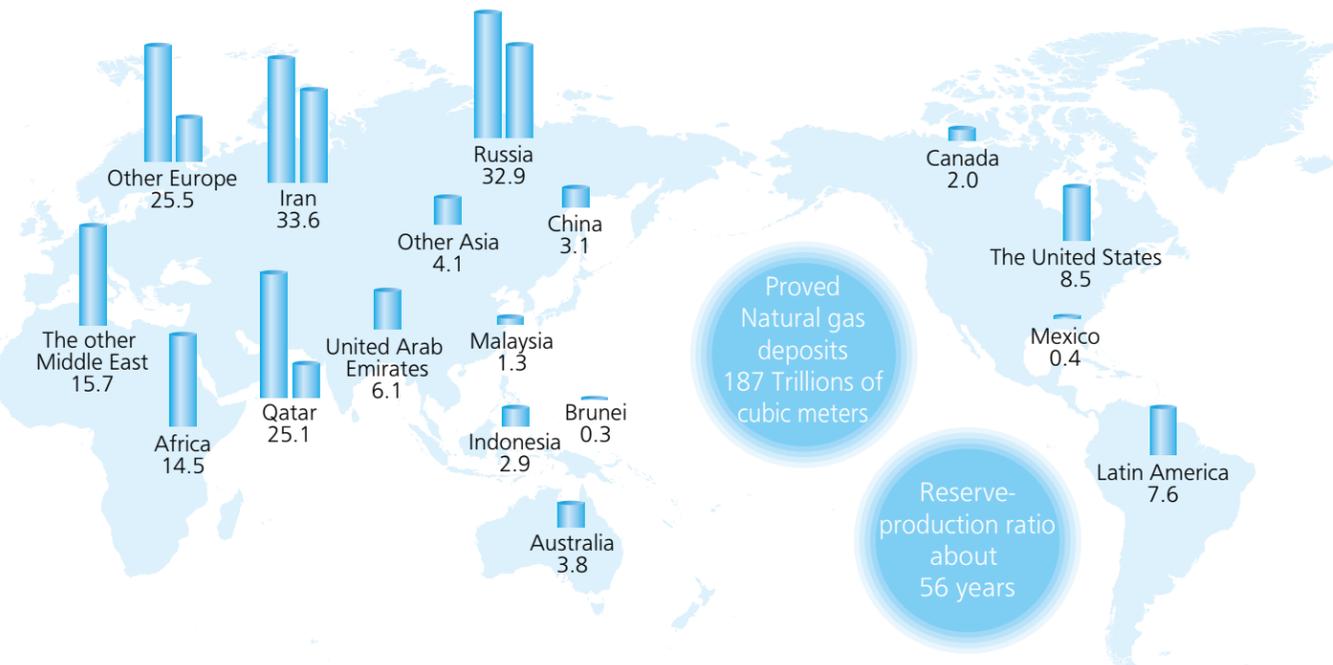
► Stable supply

Natural gas exists abundantly around the world. It is imported by LNG tankers to Japan from Australia, Malaysia, Russia and many other countries.

Recent advances in extraction technology have enabled natural gas extraction from deeper underground than was feasible using traditional technology, as well as the extraction of unconventional natural gas resources (shale gas, tight sand gas and coal bed methane). These circumstances

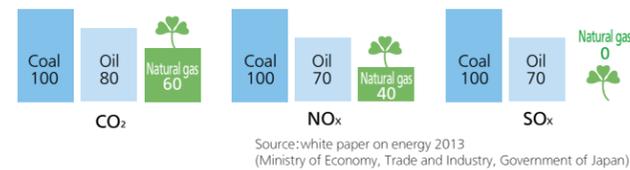
Global Distribution of Natural Gas Deposits

Source:BP Statistical Review of World Energy 2013(Trillions of cubic meters)



business activities, to deliver natural gas most efficiently to customers by taking full advantage of the outstanding potential of natural gas.

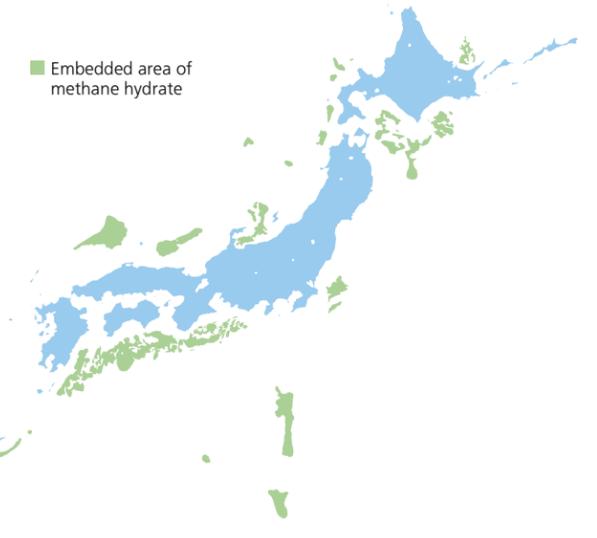
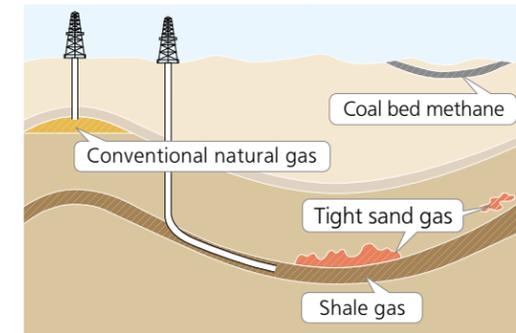
Emissions of combustion by-products from fossil fuels (Coal = 100)



will support the stable supply of natural gas.

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

Unconventional natural gas



► Economic efficiency

Natural gas is delivered from city gas plant to customer via gas pipeline. The energy production efficiency in city gas plants is almost 100%; moreover, there is almost no energy

loss when city gas is transported via pipeline. In economic terms, natural gas is very efficient.

► Convenience

Natural gas is used as city gas in various fields, from residential to industrial/commercial uses. Natural gas supports a comfortable life for the public, and the development of cities and industries, including kitchen and hot water supply, gas cogeneration, gas air-conditioning,

fuel-cell vehicles and many other uses. In addition, since natural gas can be used in combination with solar energy or bio-gas, the convenience of a best mix with another energy source will promote the adoption of renewable energies.



Industrial furnace



Si Sensor gas kitchen stove



Fuel-cell vehicle

About Toho Gas

Toho Gas's service area encompasses three prefectures—Aichi, Gifu and Mie—in the Tokai area. We are the third largest city gas provider in Japan after Tokyo Gas and Osaka Gas. In addition to our city gas, we are also involved in complementary fields, such as the LPG (liquefied petroleum gas) business, engineering, and businesses that foster

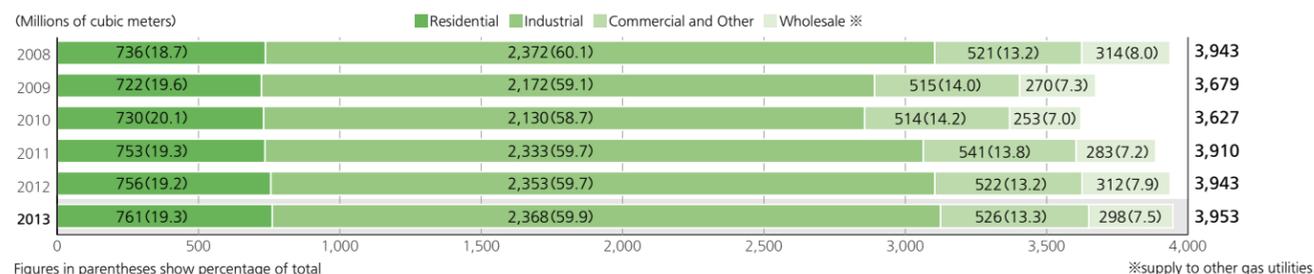
a comfortable living environment.

As of March 31, 2013, the company distributes city gas to about 2.34 million customers, with total sales volume of city gas of about 4 billion m³. We maintain a production and distribution network through approximately 28,000 kilometers of pipelines.

Toho Gas Service Area and Pipeline Network (As of April 1, 2013)



Gas Sales Volume by sector (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.

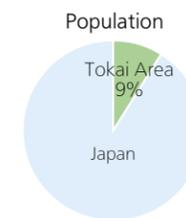
Aichi Prefecture held the No.1 position among Japan's 47 prefectures in terms of shipments of manufactured goods for 30 consecutive years up to 2011. Accompanied by Mie Prefecture (9th position) and Gifu Prefecture (21th

position), the three prefectures accounted for about 20% of Japan's total shipments of manufactured goods in 2011. 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.

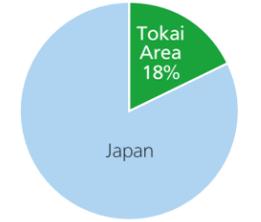
The Tokai area also has several of the best trading ports in Japan. Nagoya Port boasts the highest amount of exports, largest quantity of freight handled and the highest amount of car exports, while Mikawa Port boasts the highest amount of car imports.

Moreover, the project to build a maglev line called Linear Chuo Shinkansen line between Tokyo and Nagoya by 2027 is in progress. This project is expected to have great favorable effect on the social and business activities in the Tokai region.

Share of the three Tokai prefectures in Japan



Shipment of Goods



Source: Prefectural Accounts for FY 2010, Cabinet Office, Government of Japan

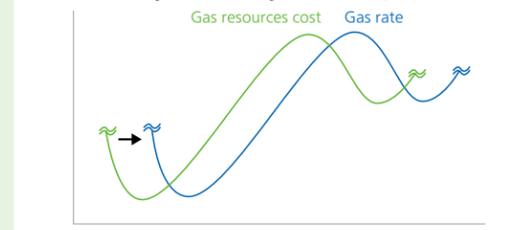
Source: Industrial Statistics for 2011, Ministry of Economy, Trade and Industry, Government of Japan

Topic 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 in the short term. Specifically, if the LNG price increases, the resources costs to the Company will increase, negatively affecting the Company's profit/loss until the fee charged to customers is adjusted (increased). If the LNG price

Fuel cost adjustment system (Image)



decreases, resources costs to the Company will decrease, positively affecting profit/loss status until the fee is adjusted (decreased).

To Our Shareholders



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

► President's Message

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

Although the business environment is changing drastically, including the economic conditions in our service area and the government's energy policy, we believe that expectations will further increase for natural gas because of its supply stability and environmental friendliness. We will respond quickly and appropriately to these changes and tackle the following priority issues.

To increase demand for natural gas in the residential market, we will strengthen the marketing of "ENE FARM (fuel cell for residential-use cogeneration)" and the "Double Power Generation" system, which combines gas and solar energy; we will also propose house renovations incorporating optimal energy use. In the industrial/commercial market, we will emphasize the development of thermal demand, including industrial furnaces and boilers, as well as the "Comprehensive Utility Service," which covers a broad range of energy-related businesses including construction of gas facilities and related equipment as well as their operation and maintenance. Moreover, by promoting the use of gas cogeneration systems and other gas-based energy services, we will contribute to energy saving, CO₂ emission reduction and

control of power consumption at peak times.

In the LNG procurement area, we will pursue diversification of geographical areas of supply sources, type of contracts and price-index to secure stable procurement of LNG at competitive prices. To secure a stable supply of natural gas, we will continue constructing the Cross Ise Bay Gas Pipeline (operation to commence in 2013), establishing a gas pipeline network and constructing No.3 LNG tank at the Chita-Midorihamma Works.

The Toho Gas Group will celebrate its 100th anniversary in 2022. To set goals to be achieved by 2022 and plan activities to achieve those goals, we developed Toho Gas Group Vision. The Toho Gas Group will work diligently to achieve the goals of this vision.

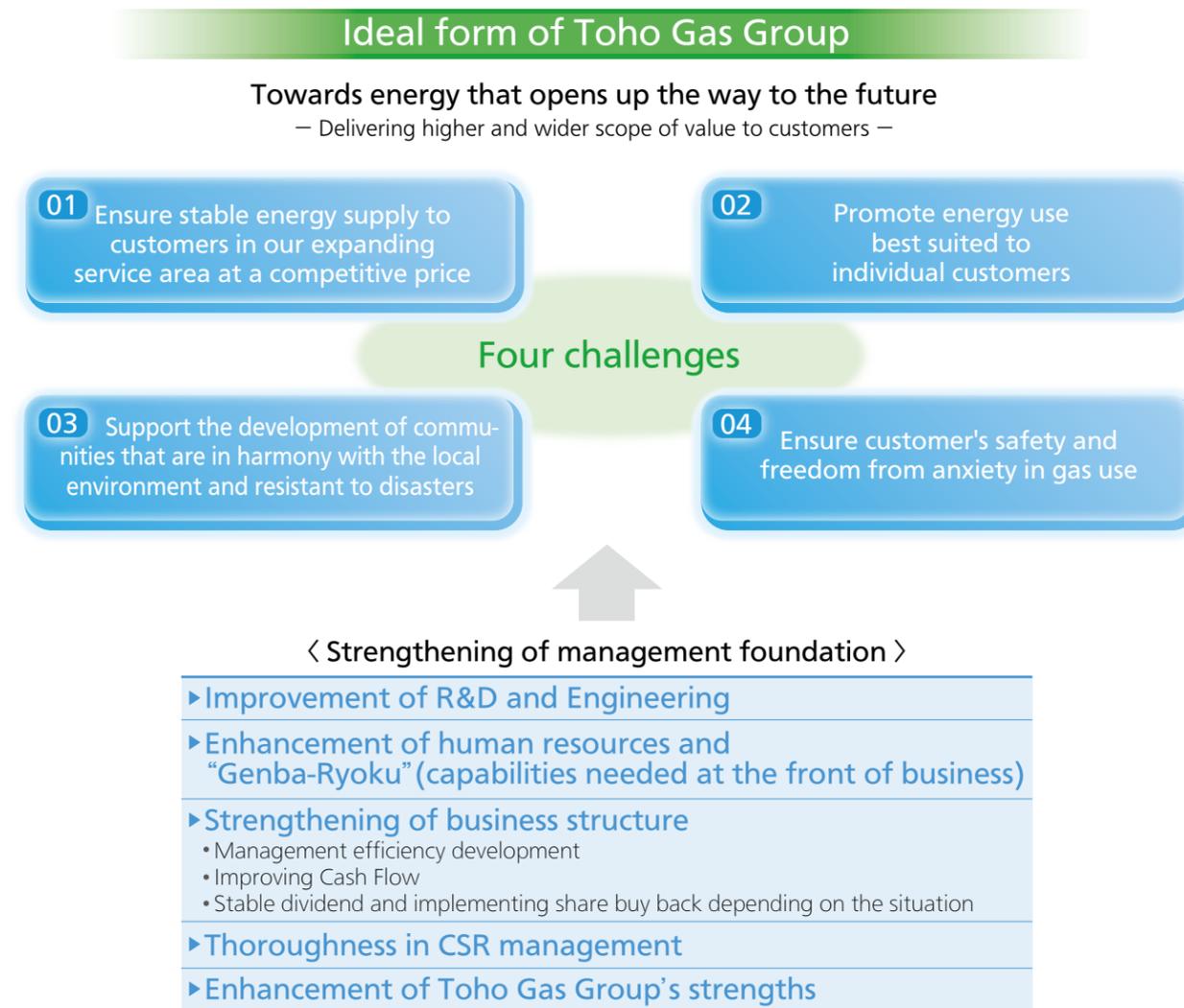
As for returns to shareholders, Toho Gas pursues a basic policy of distributing stable dividends while pursuing the creation of a strong business foundation, as a public utility company responsible for the long-term stable supply of city gas. Giving comprehensive consideration to its performance results and other factors, the Company decided to pay year-end dividends of ¥4.5 per share (total of ¥9 for the full year of FY 2012, including interim dividends (¥4.5), as same as the previous year.

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

Takashi Saeki
Chairman

Koichi Yasui
President

► Toho Gas Group Vision — For the 100th Anniversary of our Establishment —



〈 City gas/LPG business 〉

		FY2012	100th Anniversary (FY2022)	Average Annual Rate of Increase
Number of Customers	Natural Gas	2.34 million	2.5 million	0.6%
	LPG*	0.43 million	0.5 million	1.5%
Gas Sales Volume	Natural Gas	4 billion m ³	5 billion m ³	2.2%
	LPG	420 thousand tons	500 thousand tons	1.7%

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

〈 Financial performance indicators 〉

	100th Anniversary (FY2022)
Operating Cash Flow	60 billion yen and over /year
D/E Ratio*1	1.0 and under
ROA*2	3% and over

*1 D/E Ratio : Debt Equity Ratio (Interest-bearing debt/Equity)
*2 ROA : Return On Assets (Net income/Total assets × 100)

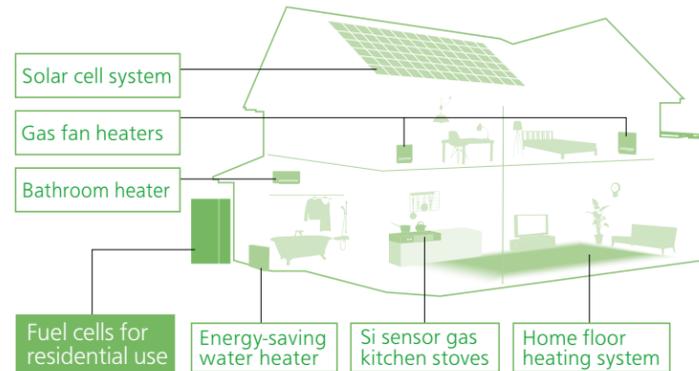
Marketing

► 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 resourceful 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



Home floor heating system

Residential Fuel Cell System ENE FARM

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.



ENE FARM

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 (residential gas engine cogeneration system). 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 and solar cell system will also realize energy saving with low initial cost.

► 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.

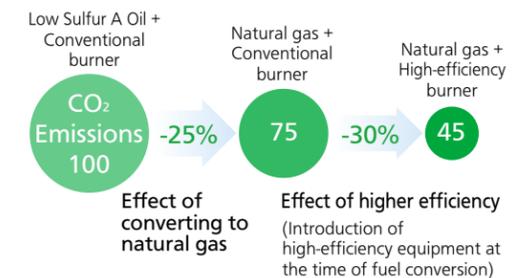
We will emphasize the development of thermal demand, including industrial furnaces and boilers, as well as the "Comprehensive Utility Service," which covers a broad

range of energy-related businesses including construction of gas facilities and related equipment as well as their operation and maintenance. Moreover, by promoting the use of gas cogeneration systems and other gas-based energy services, we will contribute to energy saving, CO₂ emission reduction and control of power consumption at peak times.

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.

CO₂ Reduction Effect from Using Natural Gas for Industrial Furnaces



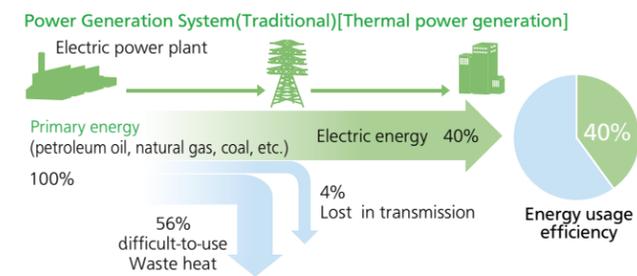
Fuel conversion in an industrial furnace

Natural Gas Cogeneration System

The Natural Gas Cogeneration System generates electricity at the user site. The exhaust heat discharged as a by-product can be used for air-conditioning and water heating, thereby contributing to efficient energy use. 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 cogeneration 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%.

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 (Chlorofluorocarbon)

that destroys the ozone layer. Gas engine heat pump type air-conditioning systems consume low electricity and can air-condition individual rooms.

Review of Operations

2 Procurement, Production and Supply

▶ Stable LNG Procurement

Toho Gas purchases three million tons of LNG each year from five countries (Indonesia, Australia, Malaysia, Qatar and Russia (Sakhalin)) under long-term supply contracts. By diversifying the supply sources, we secure a stable supply of LNG. Moreover, in January 2012, we concluded an LNG sales and purchase agreement with the Ichthys LNG Project, in which Toho Gas also acquired its first upstream equity interest.

We will continue to pursue diversification of supply sources, type of contracts and price-index to secure stable procurement of LNG at a competitive price. To ensure stable procurement of LNG, we will actively participate in

upstream natural gas businesses to strengthen its relationship with sellers, and improve its capability for information-gathering and negotiation.



LNG Tanker

Toho Gas's Supply Sources



▶ Stable Operation of City Gas Production Plants

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

The city gas production plants are automated with the latest control systems. Operators monitor the systems from a central control room 24 hours a day.

Toho Gas established and expanded its gas production facilities in response to the increase in gas demand and changes in the LNG procurement environment.

Topic Construction of No.3 LNG tank in Progress at Chita-Midorihamma Works

The construction of the third in-ground LNG tank is under way in the Chita-Midorihamma Works, which is scheduled for completion in FY 2016. Once completed, it will be one of the largest LNG tanks in the world, with a capacity of 220,000 kl, which will flexibly and efficiently support our LNG storage requirements.

Chita-Midorihamma Works. No.3 LNG tank will be constructed at the place surrounded by red line.



▶ Establishment and Expansion of Pipelines

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

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

We have been constructing the "Cross Ise Bay Gas

Pipeline" connecting Chita City and Yokkaichi City. We will strive for a stable city gas supply by improving and expanding our gas pipeline network, in accordance with our plan.



Constructing the "Cross Ise Bay Gas Pipeline"

3 Disaster Control Measures for Earthquakes

▶ Safety measures for gas facilities

To further increase the safety of our gas facilities, we are now replacing gas pipes with quake-resistant and anti-corrosive gas piping materials (such as polyethylene pipes), in accordance with our plan. To secure effective disaster control in case of a giant earthquake - expected in the Nankai Trough, as discussed in the government-led Central Disaster Prevention Council - Toho Gas will carry out a plan to take additional measures against tsunami, ground liquefaction, extended

power failure and other emergencies, based on its findings and experience from the Great East Japan Earthquake.



Replace aging gas pipes with polyethylene pipes.

▶ Disaster Control Measures

If a public warning for Tokai Earthquake is announced or a large-scale earthquake occurs, a disaster control headquarters will be formed in the head office. This headquarters will direct all disaster control activities, from initial actions and emergency measures to restoration from damage.

If a large-scale earthquake occurs, we will immediately collect data from seismometers installed at some 210 locations within our service area, and via our own wireless communication network, pressures and flow rates in our gas pipelines. On the basis of collected data and other

information, we will estimate damage in the gas pipelines and determine whether to stop or continue the city gas supply.

We also have a system that can quickly stop city gas supply by remote control in accordance with the damage conditions at each respective location, so as to prevent secondary disaster. Moreover, to minimize inconvenience to gas consumers and ensure no interruption of the city gas supply to less-damaged areas, we have divided our gas pipeline network into 67 small blocks, which we will further divide into much smaller blocks.

▶ Disaster Restoration System

To resume gas supply as early as possible after extensive stoppage due to disaster, we are establishing disaster restoration systems, including building cooperative and supportive relationship with city gas operators throughout Japan.

Our disaster control measures cover both physical and

systematic programs, including strengthened storage of materials, equipment and fuels that will become necessary for disaster control; revising the BCP (business continuity plan), establishing a disaster restoration system in collaboration with affiliates, and employee education and training.

4 Research and Development

In residential use, we will continue to evaluate for Photovoltaic (PV)/Fuel Cell (FC)/Battery Power Storage System. We will also promote development of HEMS (*1) for covering gas equipments. In industrial/commercial use, we will strive to make cogeneration systems, gas engine heat pumps (GHP), burners and boilers in industrial furnaces more efficient, reduce their operational costs. To promote wide spread of fuel-cell vehicles, we will validate quick-charging technologies at a hydrogen refueling station.

(*1) HEMS stands for Home Energy Management System. It is a system aimed at promoting power and other energy saving by displaying operational status of energy equipment and devices installed at residential use and automatically controlling their operations.



Hydrogen refueling station

Corporate Governance

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

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.

The Company adopts the systems of supervising by outside directors and auditing by corporate auditors (including outside corporate auditors) and believes that these systems guarantee its objectivity and neutrality regarding monitoring of corporate management.

2. Status of Internal Control System

The board of directors of the Company resolved on a "system to ensure the adequacy of operations (internal control system)" and is working to establish the following systems:

<system to ensure the adequacy of operations>

- (a) The board of directors shall decide establishment of necessary systems to ensure the adequacy of operations of the Toho Gas Group. The board of directors shall establish "Regulations for the Board of Directors," and make decisions on important matters and supervise the performance of directors and executive officers in accordance with the regulations. Directors shall perform their duties faithfully and properly in compliance with the "Policy for Corporate Ethics" and social common sense. To prevent any connection with antisocial forces, a controlling department and other necessary systems shall be established to cooperate with outside specialized organizations. "Regulations to control the internal control reporting system for financial reports" shall be established to ensure the reliability of the financial report.
- (b) "Regulations for document management" shall be established regarding proper creation, retention and management of minutes of meetings, applications for approvals, contracts and other documents so that the performance of directors' duties can be confirmed.
- (c) 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. To prepare for and address natural disasters, troubles in production/supply facilities and other risks, "regulations for disaster actions" shall be established. If a disaster or trouble occurs, a dedicated organization shall be formed to address the problem quickly and properly.
- (d) The decision-making/supervising functions of the board of directors shall be strengthened. The executive officer system shall be adopted to strengthen the execution of operations. A "management committee" shall be established and operated to deliberate on important matters relating to the corporate management in accordance with the basic policy established by the board of directors.
- (e) A compliance committee shall be established to develop a basic policy for compliance activities within the Toho Gas Group. Compliance action standards shall be established and communicated fully to employees. Education and training shall be provided to ensure employees' compliance. A compliance counseling section shall be established to promote detection and correction of problems in their early stages.

- (f) Toho Gas shall manage affiliated companies. To this end, important matters of affiliated companies shall be referred to and approved by the board of directors of Toho Gas and Toho Gas shall establish "regulations for managing affiliated companies."
- (g) The internal audit department shall audit, in a systematic manner, compliance within the Group and adequacy of operations of affiliated companies.
- (h) A corporate auditors' office shall be established and full-time staff members shall be posted. The staff members shall assist corporate auditors in performing their duties in accordance with directions of corporate auditors.
- (i) Corporate auditors shall obtain necessary information by attending important meetings of the board of directors and the management committee and inspecting applications for approvals, minutes of meetings and other documents. Directors, executive officers and employees shall periodically report their major duties to corporate auditors.

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).

Toho Gas has a eight-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 Investigation Department about the Company and affiliated

companies regarding their risk control status, and receive reports from the Compliance Department about compliance activity plans and their 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, the Compliance Department and the Investigation Department exchange information regarding their respective activities, as needed.

3. Outside directors and outside corporate auditors

- (a) Outside directors/corporate auditors and their roles and functions

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.

- (b) Personal/capital/business/other relationship with outside directors/corporate auditors

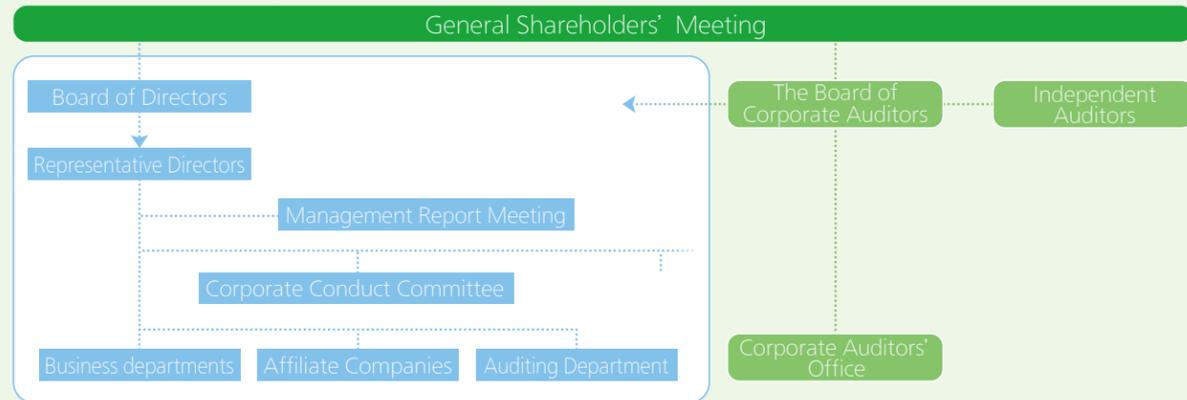
As described in "5. Officer Status," outside corporate auditors own shares of Toho Gas Co., Ltd. No outside directors have interest in the Company.

Mr. Hideo Ogasawara is an outside corporate auditor of Toho Gas and concurrently serves as an honorary advisor to Bank of Tokyo-Mitsubishi UFJ, Ltd. Bank of Tokyo-Mitsubishi UFJ is one of the major shareholders of Toho Gas and has loans and other monetary transactions with Toho Gas. Companies for which other outside corporate auditors/directors formerly served are not major shareholders of Toho Gas and do not have substantial transactions with or interest in Toho Gas.

- (c) Independence standards or policy for selecting outside directors/corporate auditors

The Company designates independent officers based on the independency standards established by the securities exchanges.

【Corporate Governance Organizational Chart】



▶ Board of Directors and Corporate Auditors

Chairman

Takashi Saeki

Directors

Yoshiharu Sago
Nobuhisa Matsuda
Osamu Nakamura
Yoshiro Tominari

Corporate Auditors

Yasushi Kanda
Hiroshi Yamazaki

President

Koichi Yasui

Outside Auditors

Hideo Ogasawara
Yoshihiro Yasui
Gyouji Kusuda

Representative Directors

Masaaki Motokawa
Nobuaki Matsushima

Outside Managing Executive Officer

Katsuaki Watanabe

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
	2008	2009	2010	2011	2012	2013	2013
For the year:							
Net sales	¥441,145	¥474,560	¥411,525	¥436,826	¥482,361	¥518,305	\$5,513,883
Operating income	18,598	10,889	17,819	23,907	17,504	12,621	134,266
Income before income taxes and minority interests	19,471	10,136	17,351	23,268	18,165	13,043	138,755
Net income	12,130	5,808	10,977	14,492	8,570	8,526	90,702
At year-end:							
Total assets	¥546,508	¥516,129	¥506,725	¥495,627	¥492,889	¥504,462	\$5,366,617
Net assets	238,415	205,748	220,938	221,502	224,365	236,470	2,515,639
Per share data (yen and U.S. dollars):							
Net income	¥21.51	¥10.38	¥19.68	¥26.22	¥15.68	¥15.62	\$0.19
Ratios:							
Cost of sales as a percentage of net sales	66.9%	67.5%	59.9%	59.8%	66.3%	70.3%	
Selling, general and administrative expenses as a percentage of net sales	28.9	30.3	35.7	34.8	30.1	27.2	
Operating margin ⁽²⁾	4.2	2.3	4.3	5.5	3.6	2.4	
Return on equity (ROE) ⁽³⁾	5.0	2.6	5.1	3.8	3.8	3.7	
Return on assets (ROA) ⁽⁴⁾	2.2	1.1	2.1	1.7	1.7	1.7	

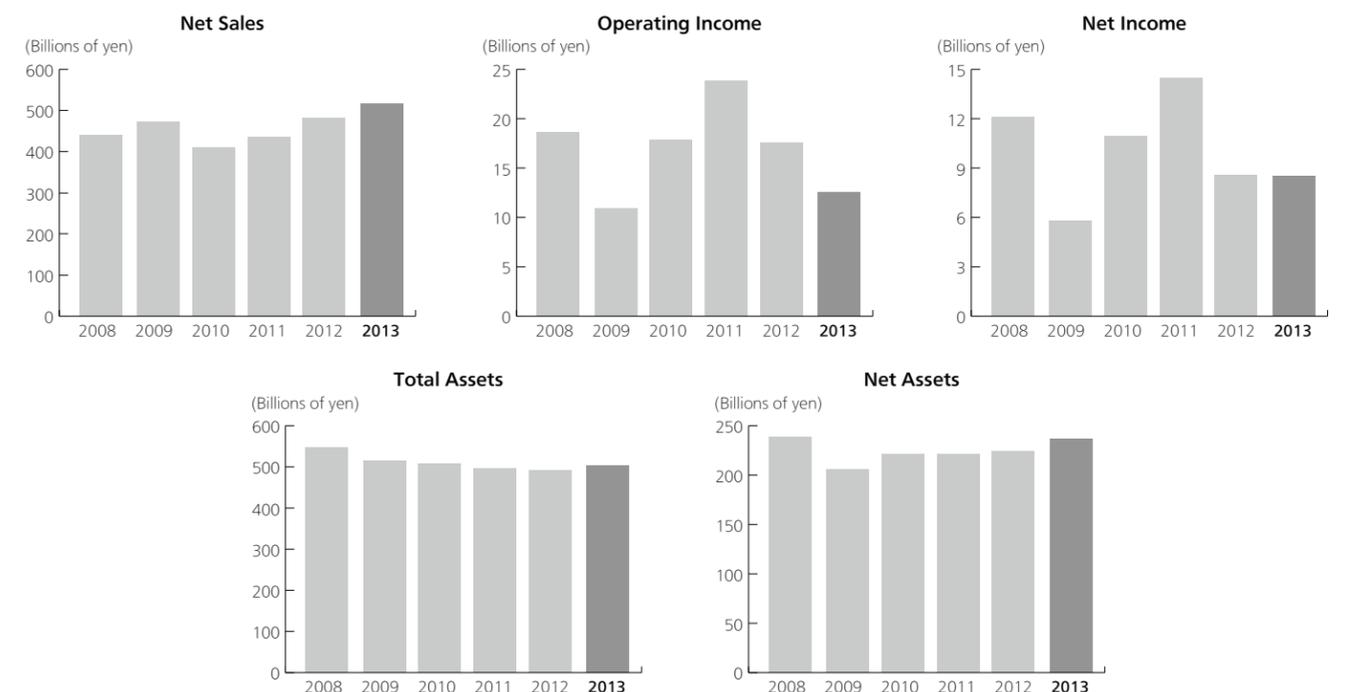
Notes:

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, 2013, which was ¥94 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

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 0.2% from the previous year and LPG sales volume increased by 0.7%.

Consolidated net sales increased by 7.5% from the previous year to ¥518,305 million. Costs of sales increased by 14.1% to ¥364,553 million due to the increased gas resources costs. Selling, general and administrative expenses decreased by 2.9% to ¥141,131 million. Consequently, ordinary income decreased by 26.3% to ¥13,382 million. Net income decreased by 0.5% from the previous year to ¥8,526 million.

► Segment Information

Gas Sales

The customer base increased by 23 thousand households, to 2,345 thousand households during the year.

The total gas sales volume increased 0.2% to 3,953 million m³. In the residential market, sales volume increased 0.7% to 761 million m³. In the non-residential segment, although customer facilities' operation rates decreased, the gas sales volume to industrial customers increased by 0.6% and the sales volume to commercial and other business customers increased by 0.7% due to our marketing efforts to create new gas demand. As a result, in the non-residential market, sales volume was 2,894 million m³, an increase of 0.6% from the previous year. The volume of wholesale sales to other gas utilities decreased 4.4% to 298 million m³.

Gas sales revenues increased 8.3% from the previous year to ¥380,861 million. Operating income decreased 34.8% to ¥8,375 million.

Gas Appliance Sales and Related Construction

Sales revenues of this segment increased by 5.5% from the previous year to ¥36,942 million supported by the increase in the new installations, etc. Operating income increased by 3.1%, to ¥530 million.

LPG and other energy Sales

Sales of LPG and thermal energy supply businesses increased by 1.4% from the previous year to ¥79,429 million. Operating income decreased by 31.1%, to ¥739

million. LPG sales volume increased 0.7% from the previous year to 423 thousand tons.

Other

Sales of other businesses, including leasing of real estate and engineering of gas plants, increased by 5.8% to ¥39,141 million. Operating income decreased by 5.4% to ¥1,793 million.

► Financial Position

Assets, Liabilities and Net Assets

Total assets increased by ¥11,573 million from the end of the previous year. This was mainly due to an increase in the market value of stock investments as a result of an upward trend in the stock market.

Liabilities decreased by ¥532 million from the end of the previous year.

Net assets increased by ¥12,105 million. This was mainly due to an increase in unrealized gain on other securities, as a result of the increase in the market value of stock investments.

As a result, the equity ratio increased from 45.5% in the previous year to 46.9%.

Cash Flows

Net cash provided by operating activities increased by ¥8,098 million from the previous year to ¥40,262 million, mainly due to the decrease in operating funds.

Net cash used in investing activities increased by ¥4,767 million from the previous year to ¥38,358 million which was mainly used for facilities investments.

As a result, free cash flow for the year was ¥1,904 million. Net cash used in financing activities increased by ¥3,707 million from the previous year to ¥7,358 million which was mainly used for dividend payments.

As a result, net cash and cash equivalents as of the end of March 31, 2013 decreased by ¥5,132 million from the same date of the previous year to ¥11,597 million.

► Risks

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

(a) Impact of change in demand

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

(b) Impact of Fluctuating Gas Resource Costs

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

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

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

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

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

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

(e) Impact of Natural Disasters

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

To prepare for large-scale natural disaster and to minimize resulting damage, the Company has installed

in-house power generation facilities, fire-fighting equipment and other disaster control facilities and systems. The earthquake resistance of gas pipes and supply and production facilities has also been improved.

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

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

(g) Impact of mission-critical information system

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

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

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

(i) Impact of irrecoverable investments in upstream businesses

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

(j) Impact of non-compliance

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

(k) Impact of information leak

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

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

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

Consolidated Balance Sheets

TOHO GAS CO., LTD. and Consolidated Subsidiaries
March 31, 2013 and 2012

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Property, plant and equipment (Notes 7 and 15):			
Production facilities	¥221,072	¥220,799	\$2,351,830
Distribution facilities	822,572	806,214	8,750,766
Service and maintenance facilities	69,808	69,014	742,638
Other facilities	93,776	94,790	997,618
Construction in progress	26,134	19,092	278,021
	1,233,362	1,209,909	13,120,873
Accumulated depreciation	(927,625)	(898,608)	(9,868,351)
Total property, plant and equipment	305,737	311,301	3,252,522
Intangible assets (Note 7):	3,854	2,208	41,000
Investments and other assets:			
Investment securities (Notes 3, 4 and 7)	60,600	49,217	644,681
Deferred tax assets (Note 8)	13,804	14,162	146,851
Other	6,280	6,462	66,808
Allowance for doubtful accounts	(187)	(88)	(1,989)
Total investments and other assets	80,497	69,753	856,351
Current assets:			
Cash and cash equivalents (Notes 3 and 7)	11,597	16,729	123,372
Receivables:			
Trade notes and accounts receivable (Note 3)	56,451	55,397	600,543
Allowance for doubtful accounts	(324)	(344)	(3,447)
Inventories (Note 5)	31,198	23,145	331,894
Deferred tax assets (Note 8)	3,204	4,904	34,085
Other (Note 3)	12,180	9,417	129,574
Total current assets	114,306	109,248	1,216,021
Deferred charges	68	379	723
Total assets	¥504,462	¥492,889	\$5,366,617

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Noncurrent liabilities:			
Long-term debt (Notes 3 and 7)	¥118,351	¥128,873	\$1,259,053
Employees' retirement benefits liability (Note 6)	20,694	20,632	220,149
Provision for gas holder repairs	1,199	1,247	12,755
Reserve for safety measures	11,463	12,829	121,947
Deferred tax liabilities (Note 8)	619	575	6,585
Other (Note 7)	7,177	7,411	76,351
Total noncurrent liabilities	159,503	171,567	1,696,840
Current liabilities:			
Short-term loans payable (Notes 3 and 7)	21,880	13,930	232,766
Current portion of noncurrent liabilities (Notes 3 and 7)	20,873	20,338	222,053
Trade notes and accounts payable (Note 3)	26,586	22,742	282,830
Income taxes payable	6,797	7,668	72,309
Other	32,185	31,956	342,394
Total current liabilities	108,321	96,634	1,152,352
Provision:			
Provision for calorie change	168	323	1,787
Net assets (Notes 9 and 16):			
Shareholders' equity:			
Capital stock:			
Authorized — 805,998,157 shares			
Issued — 545,966,429 shares in 2013 and 2012	33,073	33,073	351,840
Capital surplus	8,387	8,387	89,223
Retained earnings	169,375	165,761	1,801,862
Less treasury stock -			
507,436 shares in 2013 and 185,265 shares in 2012	(249)	(85)	(2,649)
Total shareholders' equity	210,586	207,136	2,240,276
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	24,666	17,245	262,404
Deferred (losses) gains on hedges	897	(88)	9,543
Foreign currency translation adjustments	321	0	3,415
Total accumulated other comprehensive income	25,884	17,157	275,362
Minority interests	—	72	—
Total net assets	236,470	224,365	2,515,638
Total liabilities and net assets	¥504,462	¥492,889	\$5,366,617

Consolidated Statements of Income

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net sales (Note 11)	¥518,305	¥482,361	\$5,513,883
Operating costs and expenses:			
Cost of sales	364,553	319,583	3,878,223
Selling, general and administrative expenses	141,131	145,274	1,501,394
	505,684	464,857	5,379,617
Operating income (Note 11)	12,621	17,504	134,266
Other income (expenses):			
Interest and dividend income	1,090	1,158	11,596
Interest expense	(1,712)	(1,961)	(18,213)
Other, net	1,044	1,464	11,106
	422	661	4,489
Income before income taxes and minority interests	13,043	18,165	138,755
Income taxes (Note 8):			
Current	5,725	5,650	60,904
Deferred	(1,202)	3,947	(12,787)
Total income taxes	4,523	9,597	48,117
Income before minority interests	8,520	8,568	90,638
Minority interests in net loss of consolidated subsidiaries	(6)	(2)	(64)
Net income	¥8,526	¥8,570	\$90,702
		Yen	U.S. dollars
Per share:			
Net income	¥15.62	¥15.68	\$0.17
Cash dividends applicable to the year (Notes 2 and 16)	9.00	8.50	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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Income before minority interests	¥8,520	¥8,568	\$90,638
Other comprehensive income (Note 10):			
Net changes in valuation difference on available-for-sale securities	7,421	344	78,947
Net changes in deferred gains (losses) on hedges	985	155	10,478
Foreign currency translation adjustment	321	0	3,415
Total other comprehensive income	8,727	499	92,840
Comprehensive income	¥17,247	¥9,067	\$183,478
Comprehensive income attributable to:			
Owners of the parent	¥17,253	¥9,070	\$183,542
Minority interests	(6)	(3)	(64)

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Shareholders' equity			
Capital stock			
Balance at the beginning of current period	¥33,073	¥33,073	\$351,840
Changes in items during the period			
Total changes in items during the period	—	—	—
Balance at the end of current period	33,073	33,073	351,840
Capital surplus			
Balance at the beginning of current period	8,387	8,387	89,223
Changes in items during the period			
Disposal of treasury stock	0	0	0
Retirement of treasury stock	—	(0)	—
Total changes in items during the period	0	—	0
Balance at the end of current period	8,387	8,387	89,223
Retained earnings			
Balance at the beginning of current period	165,761	164,362	1,763,415
Changes in items during the period			
Dividends from surplus	(4,912)	(4,385)	(52,255)
Net income	8,526	8,570	90,702
Disposal of treasury stock	—	—	—
Retirement of treasury stock	—	(2,786)	—
Total changes in items during the period	3,614	1,399	38,447
Balance at the end of current period	169,375	165,761	1,801,862
Treasury stock			
Balance at the beginning of current period	(85)	(1,053)	(904)
Changes in items during the period			
Purchase of treasury stock	(166)	(1,824)	(1,766)
Disposal of treasury stock	2	6	21
Retirement of treasury stock	—	2,786	—
Total changes in items during the period	(164)	968	(1,745)
Balance at the end of current period	(249)	(85)	(2,649)
Total shareholders' equity			
Balance at the beginning of current period	207,136	204,769	2,203,574
Changes in items during the period			
Dividends from surplus	(4,912)	(4,385)	(52,255)
Net income	8,526	8,570	90,702
Purchase of treasury stock	(166)	(1,824)	(1,766)
Disposal of treasury stock	2	6	21
Retirement of treasury stock	—	—	—
Total changes in items during the period	3,450	2,367	36,702
Balance at the end of current period	210,586	207,136	2,240,276

Consolidated Statements of Cash Flows

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	¥17,245	¥16,901	\$183,457
Changes in items during the period			
Net changes in items other than shareholders' equity	7,421	344	78,947
Total changes in items during the period	7,421	344	78,947
Balance at the end of current period	24,666	17,245	262,404
Deferred (losses) gains on hedges			
Balance at the beginning of current period	(88)	(243)	(935)
Changes in items during the period			
Net changes in items other than shareholders' equity	985	155	10,478
Total changes in items during the period	985	155	10,478
Balance at the end of current period	897	(88)	9,543
Foreign currency translation adjustments			
Balance at the beginning of current period	0	—	0
Changes in items during the period			
Net changes in items other than shareholders' equity	321	0	3,415
Total changes in items during the period	321	0	3,415
Balance at the end of current period	321	0	3,415
Total accumulated other comprehensive income			
Balance at the beginning of current period	17,157	16,658	182,522
Changes in items during the period			
Net changes in items other than shareholders' equity	8,727	499	92,840
Total changes in items during the period	8,727	499	92,840
Balance at the end in current period	25,884	17,157	275,362
Minority interests			
Balance at the beginning of current period	72	75	766
Changes in items during the period			
Net changes in items other than shareholders' equity	(72)	(3)	(766)
Total changes in items during the period	(72)	(3)	(766)
Balance at the end of current period	—	72	—
Total net assets			
Balance at the beginning of current period	224,365	221,502	2,386,862
Changes in items during the period			
Dividends from surplus	(4,912)	(4,385)	(52,255)
Net income	8,526	8,570	90,702
Purchase of treasury stock	(166)	(1,824)	(1,766)
Disposal of treasury stock	2	6	21
Net changes in items other than shareholders' equity	8,655	496	92,074
Total changes in items during the period	12,105	2,863	128,776
Balance at the end of current period	236,470	224,365	2,515,638

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥13,043	¥18,165	\$138,755
Adjustments for:			
Depreciation and amortization	36,902	40,272	392,574
(Decrease) increase in employees' retirement benefit liability and other allowances	(1,429)	(397)	(15,202)
Interest and dividend income	(1,090)	(1,158)	(11,596)
Interest expense	1,712	1,961	18,213
Gain on sale of investment securities	(444)	—	(4,723)
Loss on valuation of investment securities	436	—	4,638
(Increase) decrease in trade notes and accounts receivable	(1,053)	(10,654)	(11,202)
(Increase) decrease in inventories	(8,053)	(3,475)	(85,670)
(Decrease) increase in trade notes and accounts payable	3,849	(1,639)	40,947
Other	3,734	(2,903)	39,723
	47,607	40,172	506,457
Interests and dividends received	1,090	1,162	11,596
Interests paid	(1,799)	(1,980)	(19,138)
Income taxes paid	(6,636)	(7,190)	(70,596)
Net cash provided by operating activities	40,262	32,164	428,319
Cash flows from investment activities:			
Purchases of investment securities	(2,051)	(344)	(21,819)
Proceeds from sale of investment securities	476	1	5,064
Purchases of noncurrent assets	(35,199)	(32,547)	(374,457)
Proceeds from sale of noncurrent assets	165	69	1,755
Other	(1,749)	(770)	(18,607)
Net cash used in investment activities	(38,358)	(33,591)	(408,064)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	7,950	595	84,574
Proceeds from long-term loans payable	6,605	18,299	70,266
Repayment of long-term loans payable	(13,534)	(12,854)	(143,979)
Purchase of treasury stock	(34)	(1,825)	(362)
Cash dividends paid	(4,915)	(4,382)	(52,287)
Dividends to minority interests	(0)	(0)	(0)
Other	(3,430)	(3,484)	(36,489)
Net cash used in financing activities	(7,358)	(3,651)	(78,277)
Effect of exchange rate change on cash and cash equivalents	322	0	3,426
Net (decrease) increase in cash and cash equivalents	(5,132)	(5,078)	(54,596)
Cash and cash equivalents at beginning of year	16,729	21,807	177,968
Cash and cash equivalents at end of year	¥11,597	¥16,729	123,372

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, 2013, which was ¥94 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 (21 in 2013 and 22 in 2012).

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.

Property, plant, and equipment that are capitalized under finance lease arrangements and that do not transfer ownership of the leased asset to the lessee are depreciated using the straight-line method over the term of the lease with the assumption of no residual value. For finance lease transactions that do not transfer ownership to the lessee, those that started on or before April 1, 2008 continue to be accounted for as operating lease transactions.

In accordance with revision of the Corporation Tax Act of Japan, from the year under review, the Company and its domestic consolidated subsidiaries have switched to the depreciation method based on the revised Corporation Tax Act of Japan for tangible fixed assets acquired on and after April 1, 2012. The impact of this on profit or loss is minimal.

Cash and cash equivalents

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

Investments

The TOHO GAS Group classifies certain investments in debt and equity securities as "held-to-maturity," "trading" or "available-for-sale." The classification determines the respective accounting method as stipulated by the accounting standard for financial instruments. Investments in debt securities that are classified as held-to-maturity are carried at amortized cost. Available-for-sale securities with available market quotations are stated at fair value, and net unrealized gain or loss on these securities is reported as a separate component of net assets or shareholders' equity, net of applicable income taxes. Available-for-sale securities without available market quotations are carried at cost determined by the moving average method. Adjustments in carrying values from write-downs are charged to income when a decline in value is deemed other than temporary.

Derivatives

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

Inventories

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

Allowance for doubtful accounts

An allowance for doubtful accounts has been provided for at the aggregate amount of estimated credit loss based on an individual financial review of 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 recognized retirement benefits, including pension cost and related liabilities, based principally 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 were assumed and from changes in assumptions themselves are amortized on a straight-line basis over ten years, which is within the average remaining service years of employees, from the year following the year in which they arise.

Provision for gas holder repairs

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

Reserve for safety measures

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

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.

Income taxes

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

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 of 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 ¥1,812 million (\$19,277 thousand) and ¥1,914 million for the years ended March 31, 2013 and 2012, respectively.

Translation of foreign currency accounts

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

Appropriation of retained earnings

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

Amounts per share

Net income per share is computed by dividing income available to shareholders by the weighted average number of shares of common stock outstanding during the respective year. Diluted net income per share is not disclosed as the TOHO GAS had no dilutive common shares for the years ended March 31, 2013 or 2012.

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.

Accounting standards not adopted

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

(1) Outline

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

(2) Scheduled implementation date

Except for amendments related to the calculation of retirement benefit obligations and current service costs, the scheduled implementation date is the end of the year ending March 31, 2014. However, the scheduled implementation date for amendments related to calculation methods of retirement benefit obligations and current service costs will be the beginning of the year ending March 31, 2015.

(3) Impact of the implementation of these accounting standards

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

3 Fair values of financial instruments

1. Qualitative information on financial instruments

① Policies for using financial instruments

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

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

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

The due dates for most trade notes and accounts payable, which are operational 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 14 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, mainly 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. 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 the uncollectability of receivables. When derivative contracts are used, the TOHO GAS Group enters into derivative contracts only with highly rated financial institutions in order to reduce the credit risk of counterparty default.

2) Management of market risk

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

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

3) Management of liquidity risk in funding

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

④ Supplemental information on fair values

The current price of a financial product is based on its market price or a price calculated using an alternative method if the product does not have an available market price. Since the calculation of 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, do not necessarily reflect the market risk of the derivative contracts themselves.

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

	Millions of yen		
	Carrying value	Fair value	Difference
For 2013:			
Assets:			
Cash and time deposits	¥11,890	¥11,890	¥ —
Trade notes and accounts receivable	56,451	56,451	—
Investment securities	53,063	53,063	—
Total	121,404	121,404	—
Liabilities:			
Trade notes and accounts payable	26,586	26,586	—
Short-term loans payable	21,880	21,880	—
Bonds payable, including current portion	99,993	105,719	5,726
Long-term loans payable, including current portion	38,887	39,612	725
Total	187,346	193,797	6,451
Derivative transactions	1,330	1,330	—
For 2012:			
Assets:			
Cash and time deposits	¥17,041	¥17,041	¥ —
Trade notes and accounts receivable	55,397	55,397	—
Investment securities	43,236	43,236	—
Total	115,674	115,674	—
Liabilities:			
Trade notes and accounts payable	22,742	22,742	—
Short-term loans payable	13,930	13,930	—
Bonds payable, including current portion	99,993	104,117	4,124
Long-term loans payable, including current portion	45,816	46,669	853
Total	182,481	187,458	4,977
Derivative transactions	(137)	(137)	—
		Thousands of U.S. dollars	
	Carrying value	Fair value	Difference
For 2013:			
Assets:			
Cash and time deposits	\$126,489	\$126,489	\$ —
Trade notes and accounts receivable	600,543	600,543	—
Investment securities	564,500	564,500	—
Total	1,291,532	1,291,532	—
Liabilities:			
Trade notes and accounts payable	282,830	282,830	—
Short-term loans payable	232,766	232,766	—
Bonds payable, including current portion	1,063,756	1,124,670	60,914
Long-term loans payable, including current portion	413,691	421,404	7,713
Total	1,993,043	2,061,670	68,627
Derivative transactions	14,149	14,149	—

Note: The calculation methods for fair value of financial instruments

1. Assets

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Nonmarketable securities			
Unlisted equity securities	¥4,869	¥4,493	\$51,798
Investments in affiliates	2,667	1,486	28,372
Other	1	2	11

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
	2013	2012	2013
	Due within one year	Due within one year	Due within one year
Cash and time deposits	¥11,890	¥17,041	\$126,489
Trade notes and accounts receivable	56,451	55,397	600,543
	¥68,341	¥72,438	\$727,032

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 2013:						
Short-term bank loans payable	¥21,880	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	10,000	10,000	10,000	10,000	10,000	50,000
Long-term bank loans payable	10,531	12,037	6,500	6,877	1,591	1,351
	¥42,411	¥22,037	¥16,500	¥16,877	¥11,591	¥51,351
For 2012:						
Short-term bank loans payable	¥13,930	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	10,000	10,000	10,000	10,000	10,000	50,000
Long-term bank loans payable	6,937	10,115	14,026	6,081	6,451	2,206
	¥30,867	¥20,115	¥24,026	¥16,081	¥16,451	¥52,206
	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 2013:						
Short-term bank loans payable	\$232,766	\$ —	\$ —	\$ —	\$ —	\$ —
Bonds payable	106,383	106,383	106,383	106,383	106,383	531,915
Long-term bank loans payable	112,032	128,053	69,149	73,160	16,925	14,372
	\$451,181	\$234,436	\$175,532	\$179,543	\$123,308	\$546,287

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, 2013 and 2012 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, 2013				
Equity securities	¥15,610	¥34,729	¥ —	¥50,339
Other	5	3	—	8
	¥15,615	¥34,732	¥ —	¥50,347
March 31, 2012				
Equity securities	¥15,102	¥24,489	¥ —	¥39,591
Other	5	2	—	7
	¥15,107	¥24,491	¥ —	¥39,598
	Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2013				
Equity securities	\$166,064	\$369,457	\$ —	\$535,521
Other	53	32	—	85
	\$166,117	\$369,489	\$ —	\$535,606

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, 2013				
Equity securities	¥3,065	¥ —	¥(349)	¥2,716
	¥3,065	¥ —	¥(349)	¥2,716
March 31, 2012				
Equity securities	¥3,991	¥ —	¥(353)	¥3,638
	¥3,991	¥ —	¥(353)	¥3,638
	Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2013				
Equity securities	\$32,606	\$ —	\$(3,712)	\$28,894
	\$32,606	\$ —	\$(3,712)	\$28,894

For the years ended March 31, 2013 and 2012, there were no material sale transactions of available-for-sale securities.

5 Inventories

Inventories at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Finished products	¥5,294	¥5,565	\$56,319
Work-in-process	505	116	\$5,373
Raw materials and supplies	25,399	17,464	\$270,202
	¥31,198	¥23,145	\$331,894

6 Employees' retirement benefits liability

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

Reconciliation of the benefit obligation at March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥ 108,173	¥ 93,303	\$ 1,150,777
Fair value of pension plan assets at end of year	(72,652)	(65,405)	(772,894)
Projected benefit obligation in excess of fair value of pension plan assets	35,521	27,898	377,883
Less unrecognized actuarial differences (loss)	(14,827)	(7,266)	(157,734)
Net amount of employees' retirement benefits liability recorded on the consolidated balance sheets	¥ 20,694	¥ 20,632	\$ 220,149

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

Net periodic retirement benefit expense for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Components of net periodic retirement benefit expense:			
Service cost	¥ 2,629	¥ 2,592	\$ 27,968
Interest cost	1,826	1,803	19,425
Expected return on pension plan assets	(1,308)	(1,262)	(13,915)
Recognized actuarial differences	1,444	1,576	15,362
Net periodic retirement benefit expense	¥ 4,591	¥ 4,709	\$ 48,840

Major assumptions used in the calculations above for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	1.0%	2.0%
Expected rate of return on pension plan assets	2.0%	2.0%
Amortization of unrecognized actuarial differences	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 0.5% at March 31, 2013.

Long-term debt and other interest-bearing liabilities at March 31, 2013 and 2012 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Domestic unsecured notes due 2018 at a rate of 3.175%	¥10,000	¥10,000	\$106,383
Domestic unsecured notes due 2012 at a rate of 1.5%	—	10,000	—
Domestic unsecured notes due 2023 at a rate of 1.12%	10,000	10,000	106,383
Domestic unsecured notes due 2015 at a rate of 1.63%	10,000	10,000	106,383
Domestic unsecured notes due 2016 at a rate of 2.07%	10,000	10,000	106,383
Domestic unsecured notes due 2022 at a rate of 2.06%	9,994	9,993	106,319
Domestic unsecured notes due 2018 at a rate of 1.658%	10,000	10,000	106,383
Domestic unsecured notes due 2013 at a rate of 1.218%	10,000	10,000	106,383
Domestic unsecured notes due 2014 at a rate of 0.3%	10,000	10,000	106,383
Domestic unsecured notes due 2027 at a rate of 1.628%	10,000	10,000	106,383
Domestic unsecured notes due 2022 at a rate of 0.792%	10,000	—	106,383
Loans from banks, insurance companies and government agencies due through 2025 at interest rates ranging from 0.34% to 2.3% per annum at March 31, 2013	38,887	45,816	413,691
Capitalized lease obligations	166	183	1,766
Others	277	3,599	2,947
	139,324	149,591	1,482,170
Less amounts due within one year	(20,873)	(20,338)	(222,053)
	¥118,451	¥129,253	\$1,260,117

Assets pledged as collateral mainly for trade accounts payable and long-term debt in the aggregate amounts of ¥55 million (\$585 thousand) and ¥67 million at March 31, 2013 and 2012, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Production facilities	¥28	¥33	\$298
Distribution facilities	674	806	7,170
Service and maintenance facilities	25	26	266
Other facilities	16	16	170
Construction in progress	551	—	5,862
Intangible assets	1,757	—	18,691
Investment securities	768	39	8,170
Cash and deposits	161	—	1,713
Other	1,112	—	11,830
	¥5,092	¥920	\$54,170

The annual maturities of long-term debt and other interest bearing liabilities at March 31, 2013 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥20,873	\$222,053
2015	22,078	234,872
2016	16,528	175,830
2017	16,893	179,713
2018	11,602	123,425
2019 and thereafter	51,350	546,277
	¥139,324	\$1,482,170

8 Income tax

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

Components of deferred tax assets and liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Employees' retirement benefit liability.....	¥6,717	¥6,656	\$71,457
Reserve for safety measures.....	3,597	4,046	38,266
Depreciation.....	3,089	3,297	32,862
Deferred charges.....	1,223	1,265	13,011
Other.....	14,903	12,805	158,542
Less valuation allowance.....	(2,284)	(2,407)	(24,298)
	27,245	25,662	289,840
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities.....	(9,718)	(6,894)	(103,383)
Reserve for overseas investment loss.....	(380)	0	(4,043)
Deferred capital gains.....	(151)	(152)	(1,606)
Other.....	(607)	(125)	(6,457)
	(10,856)	(7,171)	(115,489)
Net deferred tax assets	¥ 16,389	¥ 18,491	\$ 174,351

The reconciliation for the year ended March 31, 2013 and 2012 was as follows:

	Percentage of pretax income	
	2013	2012
Combined statutory tax rate.....	33.0%	36.0%
Effect of tax rate change.....	—	17.2%
Permanently nondeductible expenses.....	1.7%	1.4%
Tax exempt income.....	(2.5%)	(2.3%)
Other, net.....	2.5%	0.5%
Effective tax rate	34.7%	52.8%

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, 2013 and 2012, 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 (\$93,404 thousand) at both March 31, 2013 and 2012.

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

For the year ended March 31, 2013, the number of issued shares of common stock was 545,966,429 shares, unchanged from fiscal 2011.

In November 2012, the Company paid interim dividends of ¥2,456 million (\$26,128 thousand), ¥4.5 per share. For year-end dividends, see Note 16(a).

10 Statements of comprehensive income

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net changes in valuation difference on available-for-sale securities			
Increase (decrease) during the year.....	¥10,243	¥ (1,419)	\$108,968
Reclassification adjustments.....	3	20	32
Subtotal before tax.....	10,246	(1,399)	109,000
Tax (expense) or benefit.....	(2,825)	1,743	(30,053)
Subtotal net of tax.....	7,421	344	78,947
Net changes in deferred (losses) gains on hedges			
Increase (decrease) during the year.....	1,412	(1,158)	15,021
Reclassification adjustments.....	200	1,387	2,128
Adjustments for amounts transferred to initial carrying amount of hedge items.....	(144)	13	(1,532)
Subtotal before tax.....	1,468	242	15,617
Tax (expense) or benefit.....	(483)	(87)	(5,139)
Subtotal net of tax.....	985	155	10,478
Net changes in foreign currency translation adjustments			
Increase (decrease) during the year.....	321	0	3,415
Total other comprehensive income	8,727	499	92,840

11 Segment information

1. General information about reportable segments

The TOHO GAS Group defines reportable segments as constituent business units of the TOHO GAS Group for which discrete financial information is available and 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 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 among group companies and calculated based on market value.

In accordance with revision of the Corporation Tax Act of Japan, from the year under review, the Company and its domestic consolidated subsidiaries have switched to the depreciation method based on the revised Corporation Tax Act of Japan for tangible fixed assets acquired on and after April 1, 2012. The impact of this on profit or loss is minimal.

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

Information for reported segment as of and for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen							
	Reported segments				Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Gas sales	Gas Appliance Sales and Related Construction	LPG and Other Energies	Total				
For 2013:								
Net sales:								
External customers	¥380,771	¥34,800	¥78,400	¥493,971	¥24,334	¥518,305	¥—	¥518,305
Intersegment	90	2,142	1,029	3,261	14,807	18,068	(18,068)	—
Total net sales	380,861	36,942	79,429	497,232	39,141	536,373	(18,068)	518,305
Segment income (loss)	¥8,375	¥530	¥739	¥9,644	¥1,793	¥11,437	¥1,184	¥12,621
Segment assets	¥360,580	¥11,510	¥44,083	¥416,173	¥50,588	¥466,761	¥37,701	¥504,462
Other itmes:								
Depreciation expenses	33,230	168	2,302	35,700	1,290	36,990	(88)	36,902
Capital expenditures	28,307	118	1,794	30,219	3,721	33,940	(173)	33,767
For 2012:								
Net sales:								
External customers	¥351,529	¥32,983	¥77,104	¥461,616	¥20,745	¥482,361	¥—	¥482,361
Intersegment	83	2,032	1,205	3,320	16,255	19,575	(19,575)	—
Total net sales	351,612	35,015	78,309	464,936	37,000	501,936	(19,575)	482,361
Segment income (loss)	¥12,838	¥514	¥1,074	¥14,426	¥1,896	¥16,322	¥1,182	¥17,504
Segment assets	¥363,885	¥11,485	¥45,478	¥420,848	¥44,573	¥465,421	¥27,468	¥492,889
Other itmes:								
Depreciation expenses	36,384	170	2,411	38,965	1,357	40,322	(50)	40,272
Capital expenditures	28,159	224	2,450	30,833	970	31,803	(29)	31,774

	Thousands of U.S. dollars							
	Reported segments				Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Gas sales	Gas Appliance Sales and Related Construction	LPG and Other Energies	Total				
For 2013:								
Net sales:								
External customers	\$4,050,755	\$370,213	\$834,043	\$5,255,011	\$258,872	\$5,513,883	\$—	\$5,513,883
Intersegment	957	22,788	10,947	34,692	157,521	192,213	(192,213)	—
Total net sales	4,051,712	393,001	844,990	5,289,703	416,393	5,706,096	(192,213)	5,513,883
Segment income (loss)	\$89,096	\$5,638	\$7,862	\$102,596	\$19,074	\$121,670	\$12,596	\$134,266
Segment assets	\$3,835,957	\$122,447	\$468,968	\$4,427,372	\$538,171	\$4,965,543	\$401,074	\$5,366,617
Other itmes:								
Depreciation expenses	353,511	1,787	24,489	379,787	13,723	393,510	(936)	392,574
Capital expenditures	301,138	1,256	19,085	321,479	39,585	361,064	(1,841)	359,223

Notes:

- The "Other" segment incorporates operations not included in reported segment, including LNG processing under contract, leasing of buildings, engineering of gas production plants, comprehensive utility service business, sales of housing equipment, data processing services, and other leasing and other business.
- The "Adjustments" column in "Segment income" denotes eliminations of intersegment transactions. "Segment assets" in the "Adjustments" column denotes unallocated general corporate items which were not assigned to specific segments such as long-term investments in securities.
- 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, 2013 and 2012

(1) Information about products and services:

	Millions of yen			
	Gas sales	LPG	Other	Total
	For 2013:			
Net sales to external customers	¥380,771	¥54,942	¥82,592	¥518,305
For 2012:				
Net sales to external customers	¥351,529	¥51,641	¥79,191	¥482,361
	Thousands of U.S. dollars			
	Gas sales	LPG	Other	Total
	For 2013:			
Net sales to external customers	\$4,050,755	\$584,490	\$878,638	\$5,513,883

(2) Information about geographic areas:

Not applicable

(3) Information about major customers:

Not applicable

Information about impairment losses on fixed assets in reportable segments:

Not applicable

Information about goodwill in reportable segments:

Not applicable

12 Certain lease transactions

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

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
	2013	2012	2013
Lease payments	¥—	¥78	\$—
Future minimum lease payments (inclusive of imputed interests):			
Due within one year	¥—	¥78	\$—
Due after one year	¥—	171	\$—
Total	—	¥249	—

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net value
For 2013:			
Other facilities	¥—	¥—	¥—
For 2012:			
Other facilities	¥775	¥526	¥249

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net value
For 2013:			
Other facilities	\$—	\$—	\$—

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Amount representing lease depreciation	¥1	¥78	\$11

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
	2013	2012	2013
Lease income	¥120	¥120	\$1,277
Future lease commitments to be received (inclusive of imputed interests):			
Due within one year	¥120	¥120	\$1,277
Due after one year	¥1,800	¥1,920	\$19,149
Total	¥1,920	¥2,040	\$20,426

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net value
For 2013:			
Other facilities	¥1,900	¥581	¥1,319
For 2012:			
Other facilities	¥1,900	¥509	¥1,391

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net value
For 2013:			
Other facilities	\$20,213	\$6,181	\$14,032

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Lease depreciation	¥72	¥72	\$766

13 Contingent liabilities

The TOHO GAS Group was contingently liable for bank loans with respect to guarantees for joint and several liability upon the default of others and for bank loans with respect to guarantees for housing loans of employees. At March 31, 2013 and 2012, these contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Guarantees for joint and several liability upon default of others	¥—	¥29	\$—
Guarantees for housing loans of employees	620	776	6,596
Guarantees for bank loans of Ichthys LNG Pty Ltd	1,619	—	\$17,223

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, 2013 and 2012 were accounted for by hedge accounting in accordance with the accounting standard for financial instruments. The effectiveness of a hedge is evaluated by confirming the relationship between the hedge contract and the transaction hedged by that contract.

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

Derivative transactions to which hedge accounting was applied that were outstanding as of March 31, 2013 and 2012 are summarized as follows:

Hedge contract	Notional principal or contract amounts		Fair value
	Total	Over 1 year	
	Millions of yen		
For 2013:			
Commodity swap contracts			
(fixed rate payment, floating rate receipt)	¥ 39,974	¥ 19,987	¥ (453)
Exchange forward contracts	50,597	26,481	1,575
Interest rate swap contracts			
(floating rate payment, fixed rate receipt)	5,000	5,000	208
Interest rate swap contracts			
(fixed rate payment, floating rate receipt)	13,000	13,000	(*2)
For 2012:			
Commodity swap contracts			
(fixed rate payment, floating rate receipt)	¥ 4,667	¥ —	¥ 137
Exchange forward contracts	22,706	6,678	(451)
Interest rate swap contracts			
(floating rate payment, fixed rate receipt)	5,000	5,000	176
Interest rate swap contracts			
(fixed rate payment, floating rate receipt)	13,000	13,000	(*2)
	Thousands of U.S. dollars		
Commodity swap contracts	\$425,255	\$212,628	\$(4,819)
Exchange forward contracts	538,266	281,713	16,755
Interest rate swap contracts	53,191	53,191	2,213
Interest rate swap contracts	138,298	138,298	(*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

The Company and some of its subsidiaries own land and office buildings for rent in Aichi and other prefectures. For the years ended March 2013 and 2012, in connection with those rental properties, the Company recorded rent revenues of ¥1,205 million (\$12,819 thousand) and ¥1,149 million, respectively. Rent revenues were included in the net sales account and the non-operating income account in the accompanying consolidated statements of income. Major rent expenses were included in the selling, general and administrative expenses account.

Information about fair value of rental property as of and for the year ended March 31, 2013 and 2012 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, 2013	¥8,649	¥164	¥8,813	¥29,181
March 31, 2012	¥8,759	(¥110)	¥8,649	¥28,547

	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, 2013	\$92,010	\$1,745	\$93,755	\$310,436

Fair value was based principally on real estate appraisal standards.

16 Subsequent events

(a) Appropriation of retained earnings

On June 25, 2013, at the annual general meeting of shareholders of the Company, the following appropriations of retained earnings were approved:

	Millions of yen	Thousands of U.S. dollars
Cash dividends ¥4.50 (\$0.05) per share	¥ 2,455	\$26,117

(b) The issuance of corporate bonds

The Company issued unsecured straight bonds in accordance with the resolution of the meeting of Board of Directors held on June 25, 2013. The purpose and overview of the issuance are outlined below:

- Issue date: July 12, 2013
- Amount of issue: ¥10,000 million (\$106,383 thousand)
- Issue price: ¥100 per ¥100 rate value
- Interest rate: 0.933% per annum
- Redemption date: July 12, 2023
- Security: Unsecured
- Use of funds procured by the issuance: Bond retirement

Independent Auditors' Report

TOHO GAS CO., LTD. and Consolidated Subsidiaries

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

We have audited the accompanying consolidated financial statements of TOHO GAS Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TOHO GAS Co., Ltd. and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

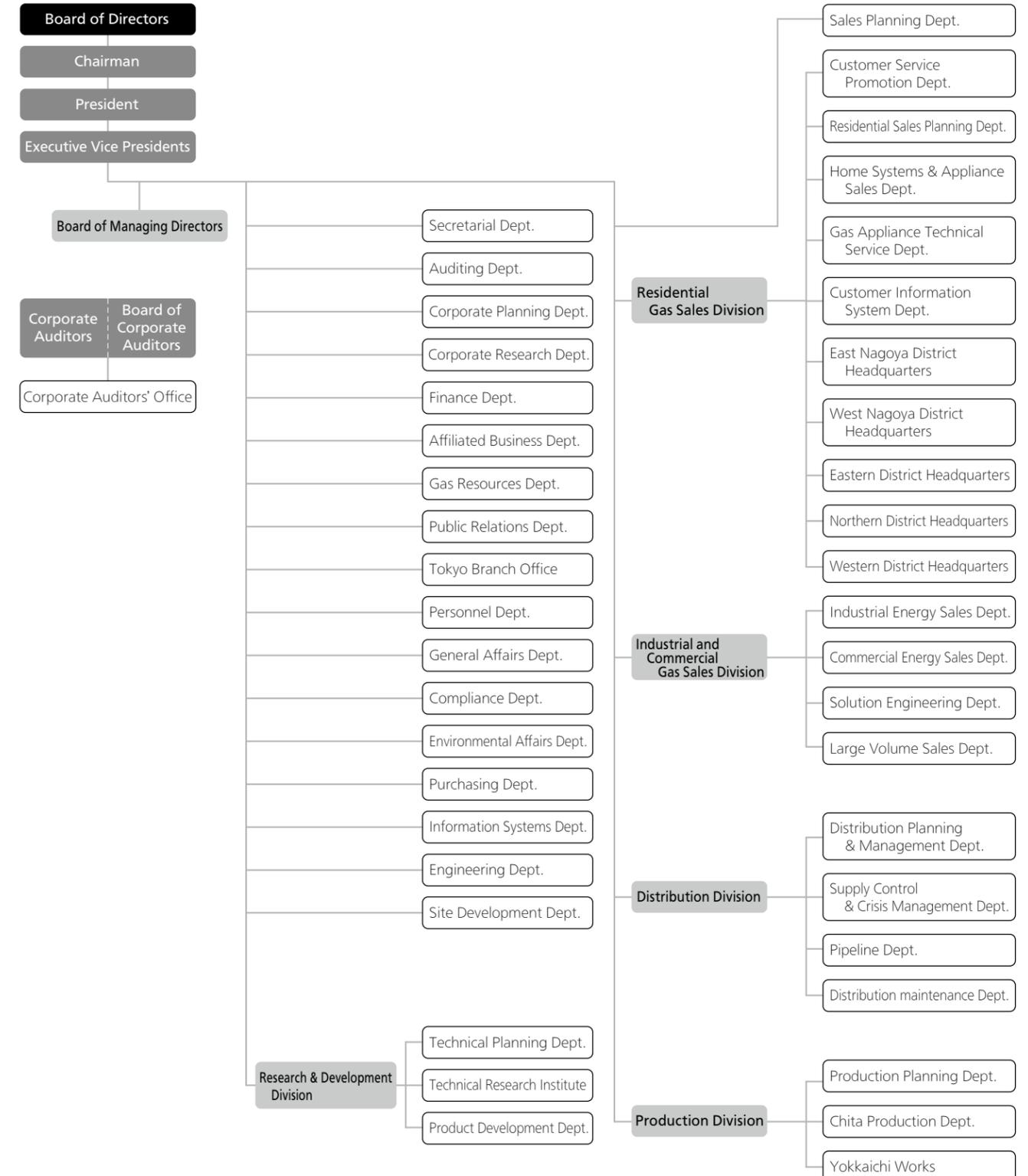
Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of the Notes to the Consolidated Financial Statements.

KPMG AZSA LLC
 KPMG AZSA LLC
 AUGUST 12, 2013
 Nagoya, Japan

Organization Chart

TOHO GAS CO., LTD. and Consolidated Subsidiaries
 As of June 25, 2013



Toho Gas Group

TOHO GAS CO., LTD. and Consolidated Subsidiaries
As of June 25, 2013

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 25, 2013

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
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East Nagoya District Headquarters

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Tel: +81-52-781-6131

West Nagoya District Headquarters

5-39, Taikodori, Nakamura-ku, Nagoya, Aichi 453-8712, Japan
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Eastern District Headquarters

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Tel: +81-564-21-2231

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Tel: +81-58-272-2166

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Chita LNG Terminal

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

Chita-Midorihamama Works

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

Chita Calorific Value Adjustment Center

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

Yokkaichi Works

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

Tokyo Branch Office

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

Investor Information

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

TOHO GAS CO., LTD. (Head Office)

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

Date of foundation:

June 1922

Date of establishment:

July 1922

Capital stock:

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

Number of shareholders:

21,688

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:

5,662

Number of customers:

2,344,773

Capital stock price range:

	2013		2012	
	High	Low	High	Low
First quarter	¥505	¥437	¥440	¥357
Second quarter	528	464	513	394
Third quarter	525	460	512	437
Fourth quarter	614	463	508	464

(Tokyo Stock Exchange, yen)

Cash dividends per share:

	2013	2012
	Total for the year	¥9.00
Interim	4.50	4.50

(Years ended March 31, yen)

Composition of shareholders:

	March 31, 2013	
	Percentage of total	Thousands of shares
Financial institutions	41.80%	226,396
Securities companies	0.35%	1,884
Other corporations	18.08%	97,907
Foreign investors	13.20%	71,491
Individual and others	26.57%	143,934
Public bodies	—	—



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