



**TOHO GAS Co., Ltd.**

**Audited Consolidated Financial Statements**

**March 31, 2019 and 2018**

**KPMG AZSA LLC**



## Independent Auditor's Report

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, 2019 and 2018, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TOHO GAS Co., Ltd. and its consolidated subsidiaries as at March 31, 2019 and 2018, 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, 2019 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  
July 29, 2019  
Nagoya, Japan

## Consolidated Balance Sheets

TOHO GAS CO., LTD. and Consolidated Subsidiaries

March 31, 2019 and 2018

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Property, plant and equipment (Notes 7 and 15):</b>			
Production facilities -----	¥268,473	¥268,498	\$2,418,676
Distribution facilities -----	951,569	924,393	8,572,694
Service and maintenance facilities -----	71,272	69,943	642,090
Other facilities -----	115,549	104,506	1,040,982
Construction in progress -----	9,694	26,234	87,333
	1,416,557	1,393,574	12,761,775
Accumulated depreciation -----	(1,099,071)	(1,069,705)	(9,901,541)
Total property, plant and equipment -----	317,486	323,869	2,860,234
<b>Intangible assets (Note 7): -----</b>	6,617	4,249	59,613
<b>Investments and other assets:</b>			
Investment securities (Notes 3, 4 and 7) -----	83,493	92,020	752,189
Long-term loans receivable -----	6,733	5,701	60,658
Deferred tax assets (Note 8) -----	10,139	9,030	91,342
Other (Note 14) -----	8,852	7,144	79,748
Allowance for doubtful accounts -----	(65)	(83)	(586)
Total investments and other assets -----	109,152	113,812	983,351
<b>Current assets:</b>			
Cash and cash equivalents (Notes 3, 4 and 7) -----	19,260	17,877	173,514
Receivables:			
Trade notes and accounts receivable (Note 3) -----	57,834	48,874	521,027
Allowance for doubtful accounts -----	(204)	(228)	(1,838)
Lease receivables and investment assets -----	11,159	9,825	100,531
Inventories (Note 5) -----	24,258	18,609	218,541
Other (Notes 3 and 14) -----	5,038	4,201	45,387
Total current assets -----	117,345	99,158	1,057,162
<b>Deferred charges -----</b>	-	-	-
<b>Total assets -----</b>	<b>¥550,600</b>	<b>¥541,088</b>	<b>\$4,960,360</b>

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Noncurrent liabilities:</b>			
Long-term debt (Notes 3 and 7) -----	¥93,441	¥79,943	\$841,811
Provision for gas holder repairs -----	1,751	1,653	15,775
Reserve for safety measures -----	17,106	18,211	154,108
Deferred tax liabilities (Note 8) -----	690	608	6,216
Net defined benefit liability (Note 6) -----	6,530	8,535	58,829
Provision for gas appliance warranties -----	3,297	3,933	29,703
Other (Note 14) -----	9,461	8,870	85,234
Total noncurrent liabilities -----	132,276	121,753	1,191,676
<b>Current liabilities:</b>			
Short-term loans payable (Notes 3 and 7) -----	17,829	5,383	160,622
Current portion of noncurrent liabilities (Notes 3 and 7) -	14,799	23,577	133,324
Trade notes and accounts payable (Note 3) -----	20,009	20,285	180,261
Income taxes payable -----	4,970	7,068	44,775
Other -----	33,378	36,742	300,702
Total current liabilities -----	90,985	93,055	819,684
<b>Net assets (Notes 9 and 16):</b>			
<b>Shareholders' equity:</b>			
Capital stock:			
Authorized - 160,000,000 shares			
Issued - 106,351,285 shares in 2019 and			
106,351,285 shares in 2018 -----	33,073	33,073	297,955
Capital surplus -----	8,387	8,387	75,559
Retained earnings -----	248,694	240,123	2,240,486
Less treasury stock -			
16,095 shares in 2019 and 12,002 shares in 2018 -----	(63)	(45)	(568)
Total shareholders' equity -----	290,091	281,538	2,613,432
<b>Accumulated other comprehensive income:</b>			
Valuation difference on available-for-sale securities -----	35,177	42,111	316,910
Deferred gains (losses) on hedges -----	600	(21)	5,405
Foreign currency translation adjustments -----	2,186	3,200	19,694
Remeasurements of defined benefit plans -----	(715)	(548)	(6,441)
Total accumulated other comprehensive income -----	37,248	44,742	335,568
Total net assets -----	327,339	326,280	2,949,000
Total liabilities and net assets -----	¥550,600	¥541,088	\$4,960,360

## Consolidated Statements of Income

TOHO GAS CO., LTD. and Consolidated Subsidiaries

Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Net sales (Note 11)</b> -----	¥461,199	¥428,869	\$4,154,946
<b>Operating costs and expenses:</b>			
Cost of sales -----	315,325	271,686	2,840,765
Selling, general and administrative expenses -----	128,042	133,199	1,153,532
	443,367	404,885	3,994,297
<b>Operating income (Note 11)</b> -----	17,832	23,984	160,649
<b>Other income (expenses):</b>			
Interest and dividend income -----	1,839	1,965	16,568
Interest expense -----	(672)	(822)	(6,054)
Loss on bond retirement -----	-	(1,463)	-
Gain on sales of investment securities (Note 4) -----	-	900	-
Impairment loss (Note 2) -----	-	(511)	-
loss on valuation of investment securities -----	(421)	-	(3,793)
Other, net -----	2,487	1,544	22,405
	3,233	1,613	29,126
<b>Net income before income taxes</b> -----	21,065	25,597	189,775
<b>Income taxes (Note 8):</b>			
Current -----	4,605	6,695	41,486
Deferred -----	1,639	879	14,766
Total income taxes -----	6,244	7,574	56,252
<b>Net income</b> -----	14,821	18,023	133,523
<b>Net income attributable to owners of the parent</b> -----	¥14,821	¥18,023	\$133,523
	Yen		U.S. dollars
<b>Per share:</b>			
Net income attributable to owners of the parent -----	¥139.37	¥169.28	\$1.26
Cash dividends applicable to the year (Notes 2 and 16) -----	55.00	32.50	0.50

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Comprehensive Income

TOHO GAS CO., LTD. and Consolidated Subsidiaries

Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Net income</b> -----	¥14,821	¥18,023	\$133,523
<b>Other comprehensive income (Note 10):</b>			
Valuation difference on available-for-sale securities -----	(6,952)	3,901	(62,631)
Deferred gains on hedges -----	617	426	5,559
Foreign currency translation adjustments -----	(675)	(189)	(6,081)
Remeasurements of defined benefit plans -----	(167)	5,152	(1,505)
Share of other comprehensive income of entities accounted for using equity method -----	(317)	520	(2,856)
Total other comprehensive income -----	(7,494)	9,810	(67,514)
<b>Comprehensive income</b> -----	¥7,327	¥27,833	\$66,009
<b>Comprehensive income attributable to:</b>			
Owners of the parent -----	¥7,327	¥27,833	\$66,009
Noncontrolling interests -----	-	-	-

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Changes in Net Assets

TOHO GAS CO., LTD. and Consolidated Subsidiaries

Years ended March 31, 2019 and 2018

	Number of shares of common stock	Millions of yen				
		Shareholders' equity				
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2017 -----	538,196,429	¥33,073	¥8,387	¥232,642	(¥2,232)	¥271,870
Dividends from surplus -----				(5,336)		(5,336)
Net income attributable to owners of the parent -----				18,023		18,023
Purchase of treasury stock -----					(3,021)	(3,021)
Disposal of treasury stock -----				(0)	2	2
Retirement of treasury stock -----	(6,440,000)			(5,206)	5,206	-
Net changes in items other than shareholders' equity -----						
Consolidation of shares -----	(425,405,144)					
Total changes in items during the period -----		-	-	7,481	2,187	9,668
Balance at March 31, 2018 -----	106,351,285	¥33,073	¥8,387	¥240,123	(¥45)	¥281,538
Dividends from surplus -----				(5,849)		(5,849)
Net income attributable to owners of the parent -----				14,821		14,821
Purchase of treasury stock -----					(18)	(18)
Disposal of treasury stock -----				(0)	0	0
Other -----				(401)		(401)
Net changes in items other than shareholders' equity -----						
Total changes in items during the period -----		-	-	8,571	(18)	8,553
Balance at March 31, 2019 -----	106,351,285	¥33,073	¥8,387	¥248,694	(¥63)	¥290,091

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2018 -----	\$297,955	\$75,559	\$2,163,270	(\$406)	\$2,536,378
Dividends from surplus -----			(52,694)		(52,694)
Net income attributable to owners of the parent -----			133,523		133,523
Purchase of treasury stock -----				(162)	(162)
Disposal of treasury stock -----			(0)	0	0
Other -----			(3,613)		(3,613)
Net changes in items other than shareholders' equity -----					
Total changes in items during the period -----	-	-	77,216	(162)	77,054
Balance at March 31, 2019 -----	\$297,955	\$75,559	\$2,240,486	(\$568)	\$2,613,432

See accompanying Notes to Consolidated Financial Statements.

Millions of yen						
	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit pension plan	Total accumulated other comprehensive income	
Balance at March 31, 2017 -----	¥38,214	(¥444)	¥2,868	(¥5,706)	¥34,932	¥306,802
Dividends from surplus -----						(5,336)
Net income attributable to owners of the parent -----						18,023
Purchase of treasury stock -----						(3,021)
Disposal of treasury stock -----						2
Retirement of treasury stock -----						-
Net changes in items other than shareholders' equity -----	3,897	423	332	5,158	9,810	9,810
Total changes in items during the period -----	3,897	423	332	5,158	9,810	19,478
Balance at March 31, 2018 -----	¥42,111	(¥21)	¥3,200	(¥548)	¥44,742	¥326,280
Dividends from surplus -----						(5,849)
Net income attributable to owners of the parent -----						14,821
Purchase of treasury stock -----						(18)
Disposal of treasury stock -----						0
Other -----						(401)
Net changes in items other than shareholders' equity -----	(6,934)	621	(1,014)	(167)	(7,494)	(7,494)
Total changes in items during the period -----	(6,934)	621	(1,014)	(167)	(7,494)	1,059
Balance at March 31, 2019 -----	¥35,177	¥600	¥2,186	(¥715)	¥37,248	¥327,339

Thousands of U.S. dollars (Note 1)						
	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit pension plan	Total accumulated other comprehensive income	
Balance at March 31, 2018 -----	\$379,378	(\$189)	\$28,829	(\$4,937)	\$403,081	\$2,939,459
Dividends from surplus -----						(52,694)
Net income attributable to owners of the parent -----						133,523
Purchase of treasury stock -----						(162)
Disposal of treasury stock -----						0
Other -----						(3,613)
Net changes in items other than shareholders' equity -----	(62,468)	5,594	(9,135)	(1,504)	(67,513)	(67,513)
Total changes in items during the period -----	(62,468)	5,594	(9,135)	(1,504)	(67,513)	9,541
Balance at March 31, 2019 -----	\$316,910	\$5,405	\$19,694	(\$6,441)	\$335,568	\$2,949,000

See accompanying Notes to Consolidated Financial Statements.



# Consolidated Statements of Cash Flows

TOHO GAS CO., LTD. and Consolidated Subsidiaries

Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Cash flows from operating activities:</b>			
Net income before income taxes -----	¥21,065	¥25,597	\$189,775
Adjustments for:			
Depreciation and amortization -----	36,075	35,973	325,000
Impairment loss -----	-	511	-
Gain on sales of investment securities -----	-	(900)	-
Increase (decrease) in other allowances -----	(1,686)	902	(15,189)
Interest and dividend income -----	(1,839)	(1,965)	(16,568)
Interest expense -----	672	822	6,054
Loss on valuation of investment securities -----	421	-	3,793
(Increase) in trade notes and accounts receivable -----	(8,960)	(3,100)	(80,721)
(Increase) in inventories -----	(5,649)	(1,293)	(50,892)
(Decrease) in trade notes and accounts payable -----	(272)	(1,202)	(2,450)
Other -----	(1,505)	5,109	(13,559)
	38,322	60,454	345,243
Interests and dividends received -----	1,839	1,965	16,568
Interests paid -----	(668)	(825)	(6,018)
Income taxes paid -----	(6,878)	(4,546)	(61,964)
Net cash provided by operating activities -----	32,615	57,048	293,829
<b>Cash flows from investment activities:</b>			
Purchases of investment securities -----	(3,210)	(3,307)	(28,919)
Proceeds from sale of investment securities -----	521	1,233	4,694
Purchases of noncurrent assets -----	(34,611)	(39,630)	(311,811)
Proceeds from sale of noncurrent assets -----	290	196	2,613
Other -----	(3,002)	(1,838)	(27,045)
Net cash used in investment activities -----	(40,012)	(43,346)	(360,468)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term bank loans -----	12,446	(190)	112,126
Increase (decrease) in commercial papers -----	(2,000)	2,000	(18,018)
Proceeds from long-term loans payable -----	18,045	10,061	162,568
Repayment of long-term loans payable -----	(13,671)	(4,266)	(123,162)
Proceeds from issuance from bonds -----	9,938	-	89,532
Redemption of bonds -----	(10,000)	(11,462)	(90,090)
Purchase of treasury stock -----	(18)	(3,022)	(162)
Cash dividends paid -----	(5,848)	(5,334)	(52,685)
Other -----	(57)	(27)	(514)
Net cash provided by (used in) financing activities -----	8,835	(12,240)	79,595
Effect of exchange rate change on cash and cash equivalents -----	(55)	(82)	(496)
Net increase in cash and cash equivalents -----	1,383	1,380	12,460
Cash and cash equivalents at beginning of year -----	17,877	16,497	161,054
<b>Cash and cash equivalents at end of year -----</b>	<b>¥19,260</b>	<b>¥17,877</b>	<b>\$173,514</b>

See accompanying Notes to Consolidated Financial Statements.

## Notes to Consolidated Financial Statements

TOHO GAS CO., LTD. and Consolidated Subsidiaries

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### 1. Basis of presenting consolidated financial statements

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

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

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing approximate exchange rate at March 31, 2019, which was ¥111 to U.S. \$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of significant accounting policies

### *Consolidation*

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (22 in March 31, 2019 and March 31, 2018). Note that its consolidated subsidiaries include Yokkaichi Air Conditioning Engineering Co., Ltd., which was newly established during the current fiscal year, while Eco Life Co., Ltd., a consolidated subsidiary in the previous fiscal year, was merged to Toho Gas Techno Co., Ltd. in April, 2018. All significant intercompany transactions and accounts are eliminated in consolidation. The difference between the cost of investments in consolidated subsidiaries and the underlying equity in the net assets adjusted based on the fair value at the time of acquisition is charged to income as incurred.

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

### *Property, plant and equipment*

Depreciation of property, plant and equipment is computed mainly by the declining balance method over the estimated useful life of the asset. However, buildings (excluding facilities attached to buildings), which were acquired since April 1, 1998 and facilities attached to buildings and structures, which were acquired since April 1, 2016 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.

### *Impairment loss*

For 2019, there is no impairment loss.

For 2018, details are as follows.

#### (1) Grouping

For its calculation of impairment loss, the Group categorizes assets into the smallest units that generate independent cash flow effectively separate from the cash flow of other assets or asset groups. Idle assets are grouped individually in their respective asset groups.

#### (2) Details of impairment loss

In accordance with the grouping described in (1) above, an impairment loss of ¥511 million was recognized in the year ended March 31, 2018. Significant properties included in this loss are listed in the table below.

Asset	Location	Type	Impairment loss (Millions of yen)
District heating and cooling equipment	Nagoya-city, Aichi Prefecture	Property, plant and equipment (Machinery)	¥ 318

For a portion of the district heating and cooling equipment for which the related profitability is expected to deteriorate due to changes in the business environment, the book value is reduced to the memorandum value after calculating the recoverable amount based on the value in use, and the decrease is recorded as extraordinary loss in impairment loss.

#### ***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.

#### ***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).

#### ***Deferred charges***

Bond issue costs are charged to income as incurred.

#### ***Allowance for doubtful accounts***

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

#### ***Provision for gas holder repairs***

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

#### ***Provision for safety measures***

The TOHO GAS Group provides an allowance for replacement of pipelines by estimating future expenditures and charging them to income to replace the aged white galvanized branch pipes, pipes buried under the roads that are important in terms of disaster prevention, and pipes connected with important buildings for security reasons.

#### ***Provision for gas appliance warranties***

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

***Employees' retirement benefits***

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

***Translation of foreign currency accounts***

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

***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, interest rate swaps and foreign currency borrowings are accounted for under a deferral method in which unrealized gains and losses on the hedging instruments are carried as net assets on the balance sheets until the gain or loss on the related hedged item is realized. According to the special treatment permitted by the accounting standards for financial instruments, hedging interest rate swaps are accounted for on an accrual basis and recorded net of interest expense generated from the hedged borrowings if certain conditions are met.

***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.

***Income taxes***

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

***Research and development expenses***

Research and development expenses are charged to income as incurred. In the accompanying consolidated statements of income, research and development expenses included in cost of sales and selling, general and administrative expenses amounted to ¥1,658 million (\$14,937 thousand) and ¥1,842 million for the years ended March 31, 2019 and 2018, respectively.

### ***Appropriation of surplus***

Cash dividends are recorded in the fiscal year when the proposed appropriation of surplus 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 Company had no dilutive common shares for the years ended March 31, 2019 or 2018.

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

### ***Reclassifications***

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

### ***Standards and guidance not yet adopted***

The following standard and guidance were issued but not yet adopted.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

#### **(1) Overview**

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

- Identify contract(s) with customers.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligation in the contract.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

#### **(2) Effective date**

Effective from the beginning of the fiscal year ending March 31, 2022.

#### **(3) Effects of the application of the standards**

The Company and its consolidated domestic subsidiaries are in the process of determining the effects of these new standards on the consolidated financial statements.

### ***Changes in presentation method***

Changes due to adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting"

Upon application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018 (hereinafter, "Statement No. 28")) from the beginning of the fiscal year ended March 31, 2019, the Company and its domestic subsidiaries changed the presentation and related notes for deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of 'investments and other assets' and 'noncurrent liabilities,' respectively.

As a result, deferred tax assets of ¥ 3,082 million classified as “current assets” have been included in deferred tax assets (¥ 9,030 million) in “investments and other assets” in the balance sheet as of the end of the fiscal year ended March 31, 2018.

### 3. Fair values of financial instruments

#### 1. Qualitative information on financial instruments

##### (1) Policies for using financial instruments

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

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

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

The due dates for most trade notes and accounts payable, which are operational debt, are within one year. Corporate bonds and loans payable are used to procure working capital and cash for capital investments. The longest redemption date is 29 years after the end of the current fiscal year. Long-term loans payable with variable interest rates are exposed to the risk of interest rate fluctuations. Variable interest rates on some of these liabilities mainly interest rate swap contracts, are hedged by derivative contracts.

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

##### (3) Policies and processes for managing risk

###### (i) Management of credit risk

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

###### (ii) Management of market risk

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

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

###### (iii) Management of liquidity risk in funding

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

##### (4) Supplemental information on fair values

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

Carrying values and fair values of the financial instruments included in the consolidated balance sheets at March 31, 2019 and 2018 were as follows:

	Millions of yen		
	Carrying value	Fair value	Difference
<b>For 2019:</b>			
Assets:			
Cash and time deposits -----	¥19,339	¥19,339	¥ -
Trade notes and accounts receivable -----	57,834	57,834	-
Securities and investment securities -----	69,629	69,629	-
Total -----	146,802	146,802	-
Liabilities:			
Trade notes and accounts payable -----	20,009	20,009	-
Short-term loans payable -----	17,829	17,829	-
Bonds payable, including current portion -----	60,000	61,869	1,869
Long-term loans payable, including current portion -----	48,075	48,623	548
Total -----	145,913	148,330	2,417
Derivative transactions -----	707	707	-
<b>For 2018:</b>			
Assets:			
Cash and time deposits -----	¥17,955	¥17,955	¥ -
Trade notes and accounts receivable -----	48,874	48,874	-
Securities and investment securities -----	77,745	77,745	-
Total -----	144,574	144,574	-
Liabilities:			
Trade notes and accounts payable -----	20,285	20,285	-
Short-term loans payable -----	5,383	5,383	-
Bonds payable, including current portion -----	60,000	60,784	784
Long-term loans payable, including current portion -----	43,398	43,710	312
Total -----	129,066	130,162	1,096
Derivative transactions -----	(24)	(24)	-



	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
For 2019:			
Assets:			
Cash and time deposits -----	\$ 174,225	\$ 174,225	\$ -
Trade notes and accounts receivable -----	521,027	521,027	-
Securities and investment securities -----	627,288	627,288	-
Total -----	1,322,540	1,322,540	-
Liabilities:			
Trade notes and accounts payable -----	180,261	180,261	-
Short-term loans payable -----	160,622	160,622	-
Bonds payable, including current portion -----	540,541	557,378	16,837
Long-term loans payable, including current portion -----	433,108	438,045	4,937
Total -----	1,314,532	1,336,306	21,774
Derivative transactions -----	6,369	6,369	-

Note: The calculation methods for fair value of financial instruments

1. Assets

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

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

(2) Securities and investment securities

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

2. Liabilities

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

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

(2) Bonds payable

The fair value of corporate bonds issued by the Company is calculated by the market price.

(3) Long-term debt

The fair value of these accounts is calculated by the sum of the principal and interest discounted by the interest rate applicable to a similar new loan or transaction.

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

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Nonmarketable securities			
Unlisted equity securities -----	¥ 6,162	¥ 5,828	\$ 55,514
Investments in affiliates -----	7,702	8,447	69,387

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
	Due within one year	Due within one year	Due within one year
Cash and time deposits -----	¥ 19,339	¥ 17,955	\$ 174,225
Trade notes and accounts receivable -----	57,834	48,874	521,027
	¥ 77,173	¥ 66,829	\$ 695,252

A maturity analysis for short-term bank loans payable, 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 2019:						
Short-term bank loans payable -----	¥ 17,829	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds payable -----	10,000	-	-	20,000	10,000	20,000
Long-term bank loans payable -----	4,634	13,290	1,856	4,616	2,291	21,388
	¥ 32,463	¥ 13,290	¥ 1,856	¥ 24,616	¥ 12,291	¥ 41,388
For 2018:						
Short-term bank loans payable -----	¥ 5,383	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds payable -----	10,000	10,000	-	-	20,000	20,000
Long-term bank loans payable -----	13,455	3,936	3,084	1,219	3,829	17,875
	¥ 28,838	¥ 13,936	¥ 3,084	¥ 1,219	¥ 23,829	¥ 37,875

  

	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 2019:						
Short-term bank loans payable -----	\$ 160,622	\$ -	\$ -	\$ -	\$ -	\$ -
Bonds payable -----	90,090	-	-	180,180	90,090	180,180
Long-term bank loans payable -----	41,747	119,730	16,721	41,586	20,640	192,684
	\$ 292,459	\$ 119,730	\$ 16,721	\$ 221,766	\$ 110,730	\$ 372,864

#### 4. Securities and investments

In accordance with the accounting standard for financial instruments, investment securities include equity securities, bonds and other of which the aggregate cost, gross unrealized gains/losses and fair value pertaining to available-for-sale securities at March 31, 2019 and 2018 were as follows.

##### Available-for-sale securities

Securities with fair and carrying value exceeding cost:

		Millions of yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value	
March 31, 2019					
Equity securities -----	¥ 18,801	¥ 48,076	¥ -	¥ 66,877	
Other -----	4	6	-	10	
	¥ 18,805	¥ 48,082	¥ -	¥ 66,887	
March 31, 2018					
Equity securities -----	¥ 19,180	¥ 57,490	¥ -	¥ 76,670	
Other -----	5	8	-	13	
	¥ 19,185	¥ 57,498	¥ -	¥ 76,683	
		Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value	
March 31, 2019					
Equity securities -----	\$ 169,378	\$ 433,117	\$ -	\$ 602,495	
Other -----	36	54	-	90	
	\$ 169,414	\$ 433,171	\$ -	\$ 602,585	

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, 2019					
Equity securities -----	¥ 3,038	¥ -	¥ (296)	¥ 2,742	
	¥ 3,038	¥ -	¥ (296)	¥ 2,742	
March 31, 2018					
Equity securities -----	¥ 1,190	¥ -	¥ (128)	¥ 1,062	
	¥ 1,190	¥ -	¥ (128)	¥ 1,062	
		Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value	
March 31, 2019					
Equity securities -----	\$ 27,369	\$ -	\$ (2,666)	\$ 24,703	
	\$ 27,369	\$ -	\$ (2,666)	\$ 24,703	

Total sales of available-for-sale securities for the years ended March 31, 2019 and 2018 amounted to ¥523 million (\$4,712 thousand) and ¥1,233million, respectively. The related gains for the years ended March 31, 2019 and 2018 amounted to ¥404 million (\$3,640 thousand) and ¥900million, respectively.

## 5. Inventories

Inventories at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Finished products -----	¥ 5,207	¥ 4,587	\$ 46,910
Work-in-process -----	1,026	699	9,243
Raw materials and supplies -----	18,025	13,323	162,388
	¥ 24,258	¥ 18,609	\$ 218,541

## 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. The projected benefit obligation of certain subsidiaries was calculated using the simplified method as permitted by the accounting standard for employee retirement benefits. The Company has established a retirement benefit trust for its lump-sum retirement benefit plan and corporate pension plan.

Reconciliation of the beginning and ending balances for retirement benefit obligations at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Beginning balance of the retirement benefit obligation -----	¥ 112,801	¥ 116,159	\$ 1,016,225
Service cost -----	3,322	3,399	29,928
Interest cost -----	332	457	2,991
Accruals of actuarial gains and losses -----	264	(2,542)	2,378
Payment of retirement benefits -----	(5,970)	(4,672)	(53,783)
Ending balance of the retirement benefit obligation -----	¥ 110,749	¥ 112,801	\$ 997,739

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

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Fair value of pension plan assets at beginning of year -----	¥ 104,266	¥ 100,213	\$ 939,333
Expected return on pension plan assets -----	2,085	2,004	18,784
Accruals of actuarial gains and losses -----	(1,109)	2,191	(9,991)
Contributions from the employer -----	3,298	3,354	29,712
Payment of retirement benefits -----	(4,321)	(3,496)	(38,928)
Fair value of pension plan assets at ending of year -----	¥ 104,219	¥ 104,266	\$ 938,910

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Projected benefit obligation of funded plans -----	¥ 105,823	¥ 108,051	\$ 953,360
Fair value of pension plan assets -----	(104,219)	(104,266)	(938,910)
Projected benefit obligation of unfunded obligation -----	1,604	3,785	14,450
Net of assets and liabilities -----	4,926	4,750	44,379
	6,530	8,535	58,829
Net defined benefit liability -----	6,530	8,535	58,829
Net defined benefit assets -----	-	-	-
Net of assets and liabilities -----	¥ 6,530	¥ 8,535	\$ 58,829

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

Note 2: Because a retirement benefit trust was established for the lump-sum retirement benefit plans, the projected benefit obligation of funded plans include lump-sum payment plans. Similarly, pension assets include a retirement benefit trust.

Retirement benefit expense and amount of the detailed item:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Components of net periodic retirement benefit expense			
Service cost -----	¥ 3,322	¥ 3,399	\$ 29,928
Interest cost -----	332	457	2,991
Expected return on pension plan assets -----	(2,085)	(2,004)	(18,784)
Recognized actuarial differences -----	1,140	2,404	10,270
Net periodic retirement benefit expense related to defined benefit pension plan -----	¥ 2,709	¥ 4,256	\$ 24,405

Remeasurements of defined benefit plans included in other comprehensive income (before tax effects) at March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actuarial differences -----	(¥233)	¥7,137	(\$2,099)

Total remeasurement of defined benefit pension plan included in other comprehensive income (before tax effects) at March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actuarial differences -----	(¥950)	(¥717)	(\$8,559)

Plan assets

	2019	2018
Bond -----	52%	51%
Equity securities -----	31%	30%
General account -----	15%	15%
Other -----	2%	4%
Total -----	100%	100%

For the fiscal year ended March 31, 2019 and 2018, assets in the retirement benefit trust, which was established for the lump-sum payment plans accounted for 12% and 11% of the total pension plan assets.

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

Major assumptions used in the calculations above for the years ended March 31, 2019 and 2018 were as follows

	2019	2018
Discount rate -----	0.2%	0.3%
Expected long-term rate of return on pension plan assets ----	2.0%	2.0%

## 7. Bank loans and long-term debt

Short-term bank loans consisted of short-term notes payable bearing interest at an annual average rate of **0.5%** at March 31, 2019.

Long-term debt and other interest-bearing liabilities at March 31, 2019 and 2018 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Domestic unsecured notes due 2023 at a rate of 1.12% -----	¥ 10,000	¥ 10,000	90,090
Domestic unsecured notes due 2022 at a rate of 2.06% -----	-	-	-
Domestic unsecured notes due 2018 at a rate of 1.658% -----	-	10,000	-
Domestic unsecured notes due 2027 at a rate of 1.628% -----	-	-	-
Domestic unsecured notes due 2022 at a rate of 0.792% -----	10,000	10,000	90,090
Domestic unsecured notes due 2023 at a rate of 0.933% -----	10,000	10,000	90,090
Domestic unsecured notes due 2019 at a rate of 0.28% -----	10,000	10,000	90,090
Domestic unsecured notes due 2046 at a rate of 0.804% -----	10,000	10,000	90,090
Domestic unsecured notes due 2048 at a rate of 1.026% -----	10,000	-	90,090
Loans from banks, insurance companies and government agencies due through 2047 at interest rates ranging from 0.14% to 3.39525% per annum at March 31, 2019 -----	48,075	43,398	433,108
Capitalized lease obligations -----	2,450	1,862	22,072
Others -----	-	2,000	-
	110,525	107,260	995,720
Less amounts due within one year -----	(14,796)	(25,574)	(133,297)
	¥95,729	¥81,686	\$ 862,423

The Company entered into debt assumption agreements for 2.06% notes payable due in 2022 in the amount of 10,000 million, and 1.628% notes payable due in 2027 in the amount of 10,000 million, and treated the bonds as having been redeemed. The Company remains contingently liable on the bond redemption obligation.

Assets pledged as collateral mainly for trade accounts payable and long-term debt in the aggregate amounts of ¥25 million (\$225 thousand) and ¥25 million at March 31, 2019 and 2018, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Other facilities -----	¥8,860	¥16	\$79,820
Construction in progress -----	108	7,925	973
Intangible assets -----	2,243	2,294	20,207
Investment securities -----	3,647	2,630	32,856
Cash and deposits -----	251	624	2,261
Other -----	7,199	5,631	64,856
	¥22,308	¥19,120	\$200,973

The annual maturities of long-term debt and other interest bearing liabilities at March 31, 2019 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019 -----	¥14,796	\$133,297
2020 -----	13,454	121,207
2021 -----	2,025	18,243
2022 -----	24,788	223,315
2023 -----	12,466	112,306
2024 and thereafter -----	42,996	387,352
	¥110,525	\$995,720

## 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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
<b>Deferred tax assets:</b>			
Net defined benefit liability -----	¥ 5,124	¥ 5,902	\$ 46,162
Reserve for safety measures -----	4,764	5,071	42,919
Depreciation -----	4,766	4,411	42,937
Accrued bonus for employee-----	1,230	1,250	11,081
Other -----	9,846	10,436	88,703
Less valuation allowance -----	(1,975)	(1,842)	(17,793)
	23,755	25,228	214,009
<b>Deferred tax liabilities:</b>			
Unrealized gains on available-for-sale securities -----	(12,623)	(15,255)	(113,721)
Reserve for overseas investment loss -----	(1,027)	(1,417)	(9,252)
Other -----	(657)	(133)	(5,919)
	(14,307)	(16,805)	(128,892)
<b>Net deferred tax assets -----</b>	<b>¥ 9,448</b>	<b>¥ 8,423</b>	<b>\$ 85,117</b>

The reconciliation for the year ended March 31, 2019 was as follows:

	Percentage of pretax income	
	2019	2018
Combined statutory tax rate -----	27.7%	27.9%
(adjustment)		
Difference in tax rate applied to subsidiaries -	1.1%	0.9%
Permanently nondeductible expenses -----	0.9%	0.7%
Tax credit for R&D expenses -----	(0.7%)	(0.6%)
Other, net -----	0.6%	0.7%
Effective tax rate -----	29.6%	29.6%

## 9. Net assets

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

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

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. At March 31, 2019 and 2018, respectively, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included legal earnings reserve in the amount of ¥8,780 million (\$79,099 thousand) at both March 31, 2019 and 2018.

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.

The number of issued shares of common stock is 106,351,285 shares for the year ended March 31, 2019.

In November 2018, the Company paid interim dividends of ¥2,924 million (\$26,342 thousand), ¥27.5 per share, For year-end dividends, see Note 16.



## 10. Statements of comprehensive income

The amount of reclassification adjustments and the tax effects concerning other comprehensive income at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net changes in valuation difference on available-for-sale securities:			
Increase (decrease) during the year -----	(¥9,608)	¥6,471	(\$86,559)
Reclassification adjustments -----	24	(900)	216
Subtotal before tax -----	(9,584)	5,571	(86,343)
Tax benefit or (expense) -----	2,632	(1,670)	23,712
Subtotal net of tax -----	(6,952)	3,901	(62,631)
Net changes in deferred gains on hedges			
Increase (decrease) during the year -----	999	(71)	9,000
Reclassification adjustments -----	(235)	630	(2,117)
Adjustments for amounts transferred to initial carrying amount of hedged items -----	56	33	505
Subtotal before tax -----	820	592	7,388
Tax benefit or (expense) -----	(203)	(166)	(1,829)
Subtotal net of tax -----	617	426	5,559
Net changes in foreign currency translation adjustments			
Increase (decrease) during the year -----	(675)	(189)	(6,081)
Subtotal net of tax -----	(675)	(189)	(6,081)
Net changes in remeasurements of defined benefit plans			
Increase (decrease) during the year -----	(1,373)	4,733	(12,369)
Reclassification adjustments -----	1,140	2,404	10,270
Subtotal before tax -----	(233)	7,137	(2,099)
Tax benefit or (expense) -----	66	(1,985)	594
Subtotal net of tax -----	(167)	5,152	(1,505)
Net changes in share of other comprehensive income of entities accounted for using equity method			
Increase (decrease) during the year -----	(317)	520	(2,856)
Subtotal net of tax -----	(317)	520	(2,856)
Total other comprehensive income -----	(7,494)	9,810	(67,514)

## 11. Segment information

### 1. General information about reportable segments

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

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

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, Electricity business, District heating and cooling, and sales of coke and petroleum products

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

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

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

Information for reported segments as of and for the years ended March 31, 2019 and 2018 was as follows:

Millions of yen								
Reported segments								
	Gas Sales	Gas Appliance Sales and Related Construction	LPG and Other Energies	Total	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
For 2019:								
Net sales:								
External customers -----	¥312,090	¥33,221	¥91,680	¥436,991	¥24,208	¥461,199	¥ -	¥461,199
Intersegment -----	97	1,423	1,026	2,546	16,948	19,494	(19,494)	-
Total net sales -----	312,187	34,644	92,706	439,537	41,156	480,693	(19,494)	461,199
Segment income -----	¥12,250	¥799	¥1,568	¥14,617	¥1,891	¥16,508	¥1,324	¥17,832
Segment assets -----	¥349,872	¥12,825	¥51,865	¥414,562	¥79,172	¥493,734	¥56,866	¥550,600
Other items:								
Depreciation expense -----	31,992	132	2,816	34,940	1,198	36,138	(63)	36,075
Investment in entities accounted for using equity method -----	-	-	-	-	-	-	5,794	5,794
Capital expenditures -----	27,706	269	2,571	30,546	2,929	33,475	(676)	32,799
For 2018:								
Net sales:								
External customers -----	¥294,781	¥33,986	¥78,412	¥407,179	¥21,690	¥428,869	¥ -	¥428,869
Intersegment -----	72	1,768	970	2,810	18,763	21,573	(21,573)	-
Total net sales -----	294,853	35,754	79,382	409,989	40,453	450,442	(21,573)	428,869
Segment income (loss) -----	¥19,850	¥231	¥1,343	¥21,424	¥1,465	¥22,889	¥1,095	¥23,984
Segment assets -----	¥336,258	¥13,705	¥49,262	¥399,225	¥77,512	¥476,737	¥64,351	¥541,088
Other items:								
Depreciation expense -----	31,954	141	2,653	34,748	1,269	36,017	(44)	35,973
Investment in entities accounted for using equity method -----	-	-	-	-	-	-	6,539	6,539
Capital expenditures -----	28,456	93	5,909	34,458	1,867	36,325	(168)	36,157
Thousands of U.S. dollars								
Reported segments								
	Gas Sales	Gas Appliance Sales and Related Construction	LPG and Other Energies	Total	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
For 2019:								
Net sales:								
External customers -----	\$2,811,622	\$299,288	\$825,946	\$3,936,856	\$218,090	\$4,154,946	\$ -	\$4,154,946
Intersegment -----	874	12,820	9,243	22,937	152,685	175,622	(175,622)	-
Total net sales -----	2,812,496	312,108	835,189	3,959,793	370,775	4,330,568	(175,622)	4,154,946
Segment income -----	\$110,361	\$7,198	\$14,126	\$131,685	\$17,036	\$148,721	\$11,928	\$160,649
Segment assets -----	\$3,152,000	\$115,541	\$467,252	\$3,734,793	\$713,261	\$4,448,054	\$512,306	\$4,960,360
Other items:								
Depreciation expense -----	288,216	1,189	25,370	314,775	10,793	325,568	(568)	325,000
Investment in entities accounted for using equity method -----	-	-	-	-	-	-	52,198	52,198
Capital expenditures -----	249,604	2,423	23,162	275,189	26,387	301,576	(6,090)	295,486

#### Notes:

1. The "Other" segment incorporates operations not included in reported segments, including LNG processing under contract, leasing of buildings, engineering of gas production plants, comprehensive utility service business, sales of housing equipment, data processing services, and other leasing and other business.

2. The "Adjustments" column in "Segment income" denotes eliminations of intersegment transactions. "Segment assets" in the "Adjustments" column denotes unallocated general corporate items which were not assigned to specific segments, such as long-term investments in securities.

3. Segment income in the table above is reconciled to operating income on the accompanying consolidated statements of income.

Enterprise-wide information for the year ended March 31, 2019 and 2018:

(1) Information about products and services

Millions of yen				
	Gas sales	LPG	Other	Total
For 2019:				
Net sales to external customers -----	¥312,090	¥53,765	¥95,344	¥461,199
Millions of yen				
	Gas sales	LPG	Other	Total
For 2018:				
Net sales to external customers -----	¥294,781	¥53,122	¥80,966	¥428,869
Thousands of U.S. dollars				
	Gas sales	LPG	Other	Total
For 2019:				
Net sales to external customers	\$2,811,622	\$484,369	\$858,955	\$4,154,946

(2) Information about geographic areas

•Operating revenues

Not applicable

•Property, plant and equipment

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

(3) Information about major customers

Not applicable

Information about impairment losses on fixed assets in reportable segment

Not applicable for 2019

Millions of yen								
Reported segments								
	Gas Sales	Gas Appliance Sales and Related Construction	LPG and Other Energies	Total	Other	Total	Adjustments (Note)	Consolidated
For 2018:								
Impairment loss -----	-	-	¥397	¥397	-	¥397	¥ 114	¥511

Information about goodwill in reportable segment

Not applicable

## 12. Certain lease transactions

### As lessor:

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

#### 1. Finance lease

##### (1) Lease investment assets (current assets)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Lease receivables -----	¥8,575	¥7,787	\$77,252
Estimated residual value -----	1,158	873	10,432
Interest income -----	(1,561)	(1,471)	(14,063)
Lease investment assets -----	¥8,172	¥7,189	\$73,621

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

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
For 2019:						
Lease receivables -----	¥ 527	¥ 511	¥ 468	¥ 447	¥ 380	¥ 1,349
Lease investment assets -----	1,655	1,424	1,114	882	707	2,793
	¥ 2,182	¥ 1,935	¥ 1,582	¥ 1,329	¥ 1,087	¥ 4,142
For 2018:						
Lease receivables -----	¥ 425	¥ 408	¥ 393	¥ 350	¥ 329	¥ 1,483
Lease investment assets -----	1,615	1,344	1,110	821	615	2,282
	¥ 2,040	¥ 1,752	¥ 1,503	¥ 1,171	¥ 944	¥ 3,765

	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 2019:						
Lease receivables -----	\$ 4,748	\$ 4,604	\$ 4,216	\$ 4,027	\$ 3,423	\$ 12,153
Lease investment assets -----	14,910	12,828	10,036	7,946	6,370	25,162
	\$ 19,658	\$ 17,432	\$ 14,252	\$ 11,973	\$ 9,793	\$ 37,315

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Lease income -----	¥120	¥120	\$1,081
Future lease commitments to be received (inclusive of imputed interests):			
Due within one year -----	120	120	1,081
Due after one year -----	1,080	1,200	9,730
	¥1,200	¥1,320	\$10,811

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net value
For 2019:			
Other facilities -----	¥1,900	¥1,011	¥889
For 2018:			
Other facilities -----	¥1,900	¥940	¥960

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net value
For 2019:			
Other facilities -----	\$17,117	\$9,108	\$8,009

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Lease depreciation -----	¥72	¥72	\$649

### 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, 2019 and 2018, these contingent liabilities were as follows:

	<u>Millions of yen</u>		<u>Thousands of U.S. dollars</u>
	2019	2018	2019
Guarantees for housing loans of employees	¥ 115	¥ 158	\$ 1,036
Guarantees for bank loans of Ichthys LNG Pty Ltd.	6,677	7,141	60,153
Guarantees for bank loans of MEET Europe Natural Gas, Lda. —	2,989	3,134	26,928
Domestic unsecured notes due 2022 at a rate of 2.06%	10,000	10,000	90,090
Domestic unsecured notes due 2027 at a rate of 1.628%	10,000	10,000	90,090

#### 14. Derivative transactions

The TOHO GAS Group has adopted policies restricting the use of derivatives and requiring the reporting of such transactions to the responsible officials of the Company. All derivative transactions outstanding at March 31, 2019 and 2018 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

Foreign exchange forward contract

Purchase price of raw materials

Interest rate swap

Bank loans

Foreign currency borrowing

Equity of foreign subsidiary

Derivative transactions to which hedge accounting was applied that were outstanding as of March 31, 2019 and 2018 are summarized as follows:

Hedge contract	Notional principal or		Fair value
	contract amounts		
	Total	Over 1 year	
	Millions of yen		
<b>For 2019:</b>			
Commodity swap contracts			
(fixed rate payment, floating rate receipt)	¥ 15,695	¥ -	¥ 707
Exchange forward contracts	-	-	-
Interest rate swap contracts			
(fixed rate payment, floating rate receipt)	10,661	8,662	(*2)
<b>For 2018:</b>			
Commodity swap contracts			
(fixed rate payment, floating rate receipt)	¥ -	¥ -	¥ -
Exchange forward contracts	2,932	-	(24)
Interest rate swap contracts			
(fixed rate payment, floating rate receipt)	10,376	10,376	(*2)

	Thousands of U.S. dollars		
Commodity swap contracts			
(fixed rate payment, floating rate receipt)	\$ 141,396	\$ -	\$ 6,369
Exchange forward contracts	-	-	-
Interest rate swap contracts			
(fixed rate payment, floating rate receipt)	96,045	78,036	(*2)

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

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

## 15. Fair value of investment and rental property

The Company and some of its subsidiaries own land and office buildings for rent in Aichi and other prefectures. For the years ended March 2019 and 2018, in connection with those rental properties, the Company recorded rent revenues of ¥1,486 million (\$13,387 thousand) and ¥1,447 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 cost of sales and selling, general and administrative expenses account.

Information about fair value of rental property as of and for the years ended March 31, 2019 and 2018 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, 2019 -----	¥10,319	(¥235)	¥10,084	¥37,578
March 31, 2018 -----	¥10,325	(¥6)	¥10,319	¥28,569

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, 2019 -----	\$92,964	(\$2,117)	\$90,847	\$338,541

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



**16. Subsequent events**

## Appropriation of surplus

On June 25, 2019, at the annual general meeting of shareholders of the Company, the following appropriations of surplus were approved:

	Millions of yen	Thousands of U.S. dollars
Cash dividends    ¥27.50 (\$0.25) per share	¥   2,924	\$   26,342