



TOHO GAS Co., Ltd.

Audited Consolidated Financial Statements

March 31, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 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 26, 2018

Nagoya, Japan

Consolidated Balance Sheets

TOHO GAS CO., LTD. and Consolidated Subsidiaries

March 31, 2018 and 2017

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Property, plant and equipment (Notes 7 and 15):			
Production facilities -----	¥268,498	¥262,830	\$2,533,000
Distribution facilities -----	924,393	905,058	8,720,689
Service and maintenance facilities -----	69,943	70,050	659,840
Other facilities -----	104,506	101,843	985,905
Construction in progress -----	26,234	28,896	247,491
	1,393,574	1,368,677	13,146,925
Accumulated depreciation -----	(1,069,705)	(1,043,361)	(10,091,557)
Total property, plant and equipment -----	323,869	325,316	3,055,368
Intangible assets (Note 7): -----	4,249	4,806	40,085
Investments and other assets:			
Investment securities (Notes 3, 4 and 7) -----	92,020	82,706	868,113
Long-term loans receivable -----	5,701	5,060	53,783
Deferred tax assets (Note 8) -----	6,113	10,879	57,670
Other (Note 14) -----	7,144	6,060	67,396
Allowance for doubtful accounts -----	(83)	(80)	(783)
Total investments and other assets -----	110,895	104,625	1,046,179
Current assets:			
Cash and cash equivalents (Notes 3, 4 and 7) -----	17,877	16,497	168,651
Receivables:			
Trade notes and accounts receivable (Note 3) -----	48,874	45,774	461,075
Allowance for doubtful accounts -----	(228)	(217)	(2,151)
Lease receivables and investment assets -----	9,825	8,567	92,689
Inventories (Note 5) -----	18,609	17,316	175,557
Deferred tax assets (Note 8) -----	3,083	3,222	29,085
Other (Notes 3 and 14) -----	4,200	7,025	39,622
Total current assets -----	102,240	98,184	964,528
Deferred charges -----	-	-	-
Total assets -----	¥541,253	¥532,931	\$5,106,160

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Noncurrent liabilities:			
Long-term debt (Notes 3 and 7) -----	¥79,943	¥105,240	\$754,179
Provision for gas holder repairs -----	1,653	1,518	15,594
Reserve for safety measures -----	18,211	17,309	171,802
Deferred tax liabilities (Note 8) -----	773	953	7,292
Net defined benefit liability (Note 6) -----	8,535	15,946	80,519
Provision for gas appliance warranties -----	3,933	4,082	37,104
Other (Note 14) -----	8,870	8,079	83,680
Total noncurrent liabilities -----	121,918	153,127	1,150,170
Current liabilities:			
Short-term loans payable (Notes 3 and 7) -----	5,383	5,573	50,783
Current portion of noncurrent liabilities (Notes 3 and 7) -	23,577	2,807	222,425
Trade notes and accounts payable (Note 3) -----	20,285	21,488	191,368
Income taxes payable -----	7,068	4,732	66,679
Other -----	36,742	38,402	346,622
Total current liabilities -----	93,055	73,002	877,877
Net assets (Notes 9 and 16):			
Shareholders' equity:			
Capital stock:			
Authorized - 160,000,000 shares			
Issued - 106,351,285 shares in 2018 and			
538,196,429 shares in 2017 -----	33,073	33,073	312,009
Capital surplus -----	8,387	8,387	79,123
Retained earnings -----	240,123	232,642	2,265,312
Less treasury stock -			
12,002 shares in 2018 and 2,765,221 shares in 2017 -----	(45)	(2,232)	(425)
Total shareholders' equity -----	281,538	271,870	2,656,019
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities -----	42,111	38,214	397,273
Deferred losses on hedges -----	(21)	(444)	(198)
Foreign currency translation adjustments -----	3,200	2,868	30,189
Remeasurements of defined benefit plans -----	(548)	(5,706)	(5,170)
Total accumulated other comprehensive income -----	44,742	34,932	422,094
Total net assets -----	326,280	306,802	3,078,113
Total liabilities and net assets -----	¥541,253	¥532,931	\$5,106,160

Consolidated Statements of Income

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales (Note 11) -----	¥428,869	¥390,434	\$4,045,934
Operating costs and expenses:			
Cost of sales -----	271,686	230,491	2,563,076
Selling, general and administrative expenses -----	133,199	136,754	1,256,594
	404,885	367,245	3,819,670
Operating income (Note 11) -----	23,984	23,189	226,264
Other income (expenses):			
Interest and dividend income -----	1,965	1,636	18,538
Interest expense -----	(822)	(1,010)	(7,755)
Loss on bond retirement -----	(1,463)	(675)	(13,802)
Gain on sales of investment securities (Note 4) -----	900	-	8,491
Impairment loss (Note 2) -----	(511)	-	(4,821)
Other, net -----	1,544	1,350	14,566
	1,613	1,301	15,217
Net income before income taxes -----	25,597	24,490	241,481
Income taxes (Note 8):			
Current -----	6,695	6,745	63,160
Deferred -----	879	(4)	8,293
Total income taxes -----	7,574	6,741	71,453
Net income -----	18,023	17,749	170,028
Net income attributable to owners of the parent -----	¥18,023	¥17,749	\$170,028
		Yen	U.S. dollars
Per share:			
Net income attributable to owners of the parent -----	¥169.28	¥32.97	\$1.60
Cash dividends applicable to the year (Notes 2 and 16) -----	32.50	10.00	0.31

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

TOHO GAS CO., LTD. and Consolidated Subsidiaries

Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	(Note 1) 2018
Net income -----	¥18,023	¥17,749	\$170,028
Other comprehensive income (Note 10):			
Valuation difference on available-for-sale securities -----	3,901	5,733	36,802
Deferred gains on hedges -----	426	3,769	4,019
Foreign currency translation adjustments -----	(189)	(436)	(1,783)
Remeasurements of defined benefit plans -----	5,152	4,551	48,604
Share of other comprehensive income of entities accounted for using equity method ----	520	260	4,905
Total other comprehensive income -----	9,810	13,877	92,547
Comprehensive income -----	¥27,833	¥31,626	\$262,575
Comprehensive income attributable to:			
Owners of the parent -----	¥27,833	¥31,626	\$262,575
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, 2018 and 2017

	Millions of yen					
	Number of shares of common stock	Shareholders' equity				Total shareholders' equity
		Capital stock	Capital surplus	Retained earnings	Treasury stock	
Balance at March 31, 2016 -----	541,276,429	¥33,073	¥8,387	¥222,722	(¥51)	¥264,131
Dividends from surplus -----				(5,396)		(5,396)
Net income attributable to owners of the parent -----				17,749		17,749
Purchase of treasury stock -----					(4,614)	(4,614)
Disposal of treasury stock -----				(0)	0	0
Retirement of treasury stock -----	(3,080,000)			(2,433)	2,433	-
Net changes in items other than shareholders' equity -----						
Total changes in items during the period -----		-	-	9,920	(2,181)	7,739
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

	Thousands of U.S. dollars (Note 1)				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2017 -----	\$312,009	\$79,123	\$2,194,736	(\$21,057)	\$2,564,811
Dividends from surplus -----			(50,339)		(50,339)
Net income attributable to owners of the parent -----			170,028		170,028
Purchase of treasury stock -----				(28,500)	(28,500)
Disposal of treasury stock -----			(0)	19	19
Retirement of treasury stock -----			(49,113)	49,113	-
Net changes in items other than shareholders' equity -----					
Total changes in items during the period -----	-	-	70,576	20,632	91,208
Balance at March 31, 2018 -----	\$312,009	\$79,123	\$2,265,312	(\$425)	\$2,656,019

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen					
	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit pension plan	Total accumulated other comprehensive income	
Balance at March 31, 2016 -----	¥32,481	(¥4,213)	¥3,009	(¥10,222)	¥21,055	¥285,186
Dividends from surplus -----						(5,396)
Net income attributable to owners of the parent -----						17,749
Purchase of treasury stock -----						(4,614)
Disposal of treasury stock -----						0
Retirement of treasury stock -----						-
Net changes in items other than shareholders' equity -----	5,733	3,769	(141)	4,516	13,877	13,877
Total changes in items during the period -----	5,733	3,769	(141)	4,516	13,877	21,616
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

	Thousands of U.S. dollars (Note 1)					
	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit pension plan	Total accumulated other comprehensive income	
Balance at March 31, 2017 -----	\$360,509	(\$4,189)	\$27,057	(\$53,830)	\$329,547	\$2,894,358
Dividends from surplus -----						(50,339)
Net income attributable to owners of the parent -----						170,028
Purchase of treasury stock -----						(28,500)
Disposal of treasury stock -----						19
Retirement of treasury stock -----						-
Net changes in items other than shareholders' equity -----	36,764	3,991	3,132	48,660	92,547	92,547
Total changes in items during the period -----	36,764	3,991	3,132	48,660	92,547	183,755
Balance at March 31, 2018 -----	\$397,273	(\$198)	\$30,189	(\$5,170)	\$422,094	\$3,078,113

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

TOHO GAS CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Net income before income taxes -----	¥25,597	¥24,490	\$241,481
Adjustments for:			
Depreciation and amortization -----	35,973	35,482	339,368
Impairment loss -----	511	-	4,821
Gain on sales of investment securities -----	(900)	-	(8,491)
Increase (decrease) in other allowances -----	902	(864)	8,509
Interest and dividend income -----	(1,965)	(1,636)	(18,538)
Interest expense -----	822	1,010	7,755
(Increase) decrease in trade notes and accounts receivable -----	(3,100)	1,892	(29,245)
(Increase) in inventories -----	(1,293)	(3,060)	(12,198)
(Decrease) increase in trade notes and accounts payable -----	(1,202)	4,893	(11,340)
Other -----	5,109	(8,054)	48,199
	60,454	54,153	570,321
Interests and dividends received -----	1,965	1,636	18,538
Interests paid -----	(825)	(1,060)	(7,783)
Income taxes paid -----	(4,546)	(17,465)	(42,887)
Net cash provided by operating activities -----	57,048	37,264	538,189
Cash flows from investment activities:			
Purchases of investment securities -----	(3,307)	(5,840)	(31,198)
Proceeds from sale of investment securities -----	1,233	185	11,632
Purchases of noncurrent assets -----	(39,630)	(49,298)	(373,868)
Proceeds from sale of noncurrent assets -----	196	11	1,849
Other -----	(1,838)	(3,026)	(17,340)
Net cash used in investment activities -----	(43,346)	(57,968)	(408,925)
Cash flows from financing activities:			
Net (decrease) in short-term bank loans -----	(190)	(1,500)	(1,792)
Increase in commercial papers -----	2,000	-	18,868
Proceeds from long-term loans payable -----	10,061	15,605	94,915
Repayment of long-term loans payable -----	(4,266)	(16,717)	(40,245)
Proceeds from issuance from bonds -----	-	9,939	-
Redemption of bonds -----	(11,462)	(20,673)	(108,132)
Purchase of treasury stock -----	(3,022)	(4,614)	(28,509)
Cash dividends paid -----	(5,334)	(5,396)	(50,321)
Other -----	(27)	394	(255)
Net cash used in financing activities -----	(12,240)	(22,962)	(115,471)
Effect of exchange rate change on cash and cash equivalents -----	(82)	(152)	(774)
Net increase (decrease) in cash and cash equivalents -----	1,380	(43,818)	13,019
Cash and cash equivalents at beginning of year -----	16,497	60,315	155,632
Cash and cash equivalents at end of year -----	¥17,877	¥16,497	\$168,651

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

TOHO GAS CO., LTD. and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

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

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

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing approximate exchange rate at March 31, 2018, which was ¥106 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, 2018 and March 31, 2017). 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

(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 (\$4,821 thousand) 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	Thousands of U.S. dollars
District heating and cooling equipment	Nagoya-city, Aichi Prefecture	Property, plant and equipment (Machinery)	¥ 318	\$ 3,000

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).

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 ¥1,842 million (\$17,377 thousand) and ¥1,876 million for the years ended March 31, 2018 and 2017, 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, 2018 or 2017.

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.

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, 2018 and 2017 were as follows:

	Millions of yen		
	Carrying value	Fair value	Difference
For 2018:			
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)	-
For 2017:			
Assets:			
Cash and time deposits -----	¥16,576	¥16,576	¥ -
Trade notes and accounts receivable -----	45,774	45,774	-
Securities and investment securities -----	70,502	70,502	-
Total -----	132,852	132,852	-
Liabilities:			
Trade notes and accounts payable -----	21,488	21,488	-
Short-term loans payable -----	5,573	5,573	-
Bonds payable, including current portion -----	70,000	72,074	2,074
Long-term loans payable, including current portion -----	37,971	38,448	477
Total -----	135,032	137,583	2,551
Derivative transactions -----	(616)	(616)	-

	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
For 2018:			
Assets:			
Cash and time deposits	\$ 169,387	\$ 169,387	\$ -
Trade notes and accounts receivable	461,075	461,075	-
Securities and investment securities	733,443	733,443	-
Total	1,363,905	1,363,905	-
Liabilities:			
Trade notes and accounts payable	191,368	191,368	-
Short-term loans payable	50,783	50,783	-
Bonds payable, including current portion	566,038	573,434	7,396
Long-term loans payable, including current portion	409,415	412,358	2,943
Total	1,217,604	1,227,943	10,339
Derivative transactions	(226)	(226)	-

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
	2018	2017	2018
Nonmarketable securities			
Unlisted equity securities	¥ 5,828	¥ 4,570	\$ 54,981
Investments in affiliates	8,447	7,634	79,689

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
	2018	2017	2018
	Due within one year	Due within one year	Due within one year
Cash and time deposits	¥ 17,955	¥ 16,576	\$ 169,387
Trade notes and accounts receivable	48,874	45,774	461,075
Total	¥ 66,829	¥ 62,350	\$ 630,462

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 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
Total	¥ 28,838	¥ 13,936	¥ 3,084	¥ 1,219	¥ 23,829	¥ 37,875
For 2017:						
Short-term bank loans payable	¥ 5,573	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds payable	-	10,000	10,000	-	-	50,000
Long-term bank loans payable	2,731	13,558	3,446	2,629	671	14,936
Total	¥ 8,304	¥ 23,558	¥ 13,446	¥ 2,629	¥ 671	¥ 64,936
	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 2018:						
Short-term bank loans payable	\$ 50,783	\$ -	\$ -	\$ -	\$ -	\$ -
Bonds payable	94,340	94,340	-	-	188,679	188,679
Long-term bank loans payable	126,934	37,132	29,094	11,500	36,123	168,632
Total	\$ 272,057	\$ 131,472	\$ 29,094	\$ 11,500	\$ 224,802	\$ 357,311

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, 2018 and 2017 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, 2018				
Equity securities -----	¥ 19,180	¥ 57,490	¥ -	¥ 76,670
Other -----	5	8	-	13
	¥ 19,185	¥ 57,498	¥ -	¥ 76,683
March 31, 2017				
Equity securities -----	¥ 17,436	¥ 51,887	¥ -	¥ 69,323
Other -----	5	7	-	12
	¥ 17,441	¥ 51,894	¥ -	¥ 69,335
	Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2018				
Equity securities -----	\$ 180,944	\$ 542,358	\$ -	\$ 723,302
Other -----	47	76	-	123
	\$ 180,991	\$ 542,434	\$ -	\$ 723,425

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, 2018				
Equity securities -----	¥ 1,190	¥ -	¥ (128)	¥ 1,062
	¥ 1,190	¥ -	¥ (128)	¥ 1,062
March 31, 2017				
Equity securities -----	¥ 1,262	¥ -	¥ (95)	¥ 1,167
	¥ 1,262	¥ -	¥ (95)	¥ 1,167
	Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
March 31, 2018				
Equity securities -----	\$ 11,226	\$ -	\$ (1,208)	\$ 10,018
	\$ 11,226	\$ -	\$ (1,208)	\$ 10,018

Total sales of available-for-sale securities for the years ended March 31, 2018 and 2017 amounted to ¥1,233 million (\$11,632 thousand) and ¥186 million, respectively. The related gains for the years ended March 31, 2018 and 2017 amounted to ¥900 million (\$8,491 thousand) and ¥56 million, respectively.

5. Inventories

Inventories at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Finished products -----	¥ 4,587	¥ 4,321	\$ 43,274
Work-in-process -----	699	715	6,594
Raw materials and supplies -----	13,323	12,280	125,689
	¥ 18,609	¥ 17,316	\$ 175,557

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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Beginning balance of the retirement benefit obligation -----	¥ 116,159	¥ 120,162	\$ 1,095,840
Service cost -----	3,399	3,543	32,066
Interest cost -----	457	237	4,311
Accruals of actuarial gains and losses -----	(2,542)	(3,344)	(23,981)
Payment of retirement benefits -----	(4,672)	(4,439)	(44,076)
Ending balance of the retirement benefit obligation -----	¥ 112,801	¥ 116,159	\$ 1,064,160

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
	2018	2017	2018
Fair value of pension plan assets at beginning of year -----	¥ 100,213	¥ 93,962	\$ 945,406
Expected return on pension plan assets -----	2,004	1,879	18,906
Accruals of actuarial gains and losses -----	2,191	377	20,669
Contributions from the employer -----	3,354	3,461	31,642
Lump-sum retirement benefit plan -----	-	4,000	-
Payment of retirement benefits -----	(3,496)	(3,466)	(32,982)
Fair value of pension plan assets at ending of year -----	¥ 104,266	¥ 100,213	\$ 983,641

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
	2018	2017	2018
Projected benefit obligation of funded plans -----	¥ 108,051	¥ 111,571	\$ 1,019,349
Fair value of pension plan assets -----	(104,266)	(100,213)	(983,641)
	3,785	11,358	35,708
Projected benefit obligation of unfunded obligation -----	4,750	4,588	44,811
Net of assets and liabilities -----	8,535	15,946	80,519
Net defined benefit liability -----	8,535	15,946	80,519
Net defined benefit assets -----	-	-	-
Net of assets and liabilities -----	¥ 8,535	¥ 15,946	\$ 80,519

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
	2018	2017	2018
Components of net periodic retirement benefit expense			
Service cost -----	¥ 3,399	¥ 3,543	\$ 32,066
Interest cost -----	457	237	4,311
Expected return on pension plan assets -----	(2,004)	(1,879)	(18,906)
Recognized actuarial differences -----	2,404	2,582	22,680
Net periodic retirement benefit expense related to defined benefit pension plan -----	¥ 4,256	¥ 4,483	\$ 40,151

Remeasurements of defined benefit plans included in other comprehensive income (before tax effects) at March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Actuarial differences -----	¥7,137	¥6,303	\$67,330

Total remeasurement of defined benefit pension plan included in other comprehensive income (before tax effects) at March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Actuarial differences -----	(¥717)	(¥7,854)	(\$6,764)

Plan assets

	2018	2017
	Bond -----	51%
Equity securities -----	30%	22%
General account -----	15%	16%
Other -----	4%	4%
Total -----	100%	100%

For the fiscal year ended March 31, 2018 and 2017, assets in the retirement benefit trust, which was established for the lump-sum payment plans accounted for 11% 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, 2018 and 2017 were as follows

	2018	2017
Discount rate -----	0.3%	0.4%
Expected long-term rate of return on pension plan assets ----	2.0%	2.0%

7. Bank loans and long-term debt

Short-term bank loans consisted of short-term notes payable bearing interest at an annual average rate of **0.6%** at March 31, 2018.

Long-term debt and other interest-bearing liabilities at March 31, 2018 and 2017 comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Domestic unsecured notes due 2018 at a rate of 3.175% -----	¥ -	¥ -	\$ -
Domestic unsecured notes due 2023 at a rate of 1.12% -----	10,000	10,000	94,340
Domestic unsecured notes due 2022 at a rate of 2.06% -----	-	-	-
Domestic unsecured notes due 2018 at a rate of 1.658% -----	10,000	10,000	94,340
Domestic unsecured notes due 2027 at a rate of 1.628% -----	-	10,000	-
Domestic unsecured notes due 2022 at a rate of 0.792% -----	10,000	10,000	94,339
Domestic unsecured notes due 2023 at a rate of 0.933% -----	10,000	10,000	94,340
Domestic unsecured notes due 2019 at a rate of 0.28% -----	10,000	10,000	94,340
Domestic unsecured notes due 2046 at a rate of 0.804% -----	10,000	10,000	94,339
Loans from banks, insurance companies and government agencies: due through 2047 at interest rates ranging from 0.14% to 3.15% per annum at March 31, 2018 -----	43,398	37,971	409,415
Capitalized lease obligations -----	1,862	960	17,566
Others -----	2,000	-	18,868
	107,260	108,931	1,011,887
Less amounts due within one year -----	(25,574)	(2,804)	(241,264)
	¥81,686	¥106,127	\$ 770,623

The Company entered into debt assumption agreements for 3.175% notes payable due in 2018 in the amount of 10,000 million, 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 (\$236 thousand) and ¥25 million at March 31, 2018 and 2017, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Other facilities -----	¥16	¥16	\$151
Construction in progress -----	7,925	6,866	74,764
Intangible assets -----	2,294	2,365	21,642
Investment securities -----	2,630	1,121	24,811
Cash and deposits -----	624	319	5,887
Other -----	5,631	5,541	53,122
	¥19,120	¥16,228	\$180,377

The annual maturities of long-term debt and other interest bearing liabilities at March 31, 2018 were as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars
			2018
2018 -----	¥25,574		\$241,264
2019 -----	14,056		132,604
2020 -----	3,204		30,226
2021 -----	1,341		12,651
2022 -----	23,953		225,972
2023 and thereafter -----	39,132		369,170
	¥107,260		\$1,011,887

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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Deferred tax assets:			2018
Net defined benefit liability -----	¥ 5,902	¥ 7,808	\$ 55,679
Reserve for safety measures -----	5,071	4,819	47,840
Depreciation -----	4,411	5,631	41,613
Prepaid expenses -----	2,300	1,937	21,698
Other -----	9,386	10,409	88,547
Less valuation allowance -----	(1,842)	(1,977)	(17,377)
	25,228	28,627	238,000
Deferred tax liabilities:			
Unrealized gains on			
available-for-sale securities -----	(15,255)	(13,585)	(143,915)
Reserve for overseas investment loss -----	(1,417)	(1,178)	(13,368)
Deferred capital gains -----	(130)	(131)	(1,226)
Other -----	(3)	(585)	(28)
	(16,805)	(15,479)	(158,537)
Net deferred tax assets -----	¥ 8,423	¥ 13,148	\$ 79,463

The reconciliation for the year ended March 31, 2018 was as follows:

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

For the fiscal year ended March 31, 2017, the disclosure was omitted because the difference between the tax rate after application of tax effect accounting and the statutory tax rate was below 5% of the statutory tax rate.

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, 2018 and 2017, 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 (\$82,830 thousand) at both March 31, 2018 and 2017.

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

During the year ended March 31, 2018, the Company retired 6,440,000 shares of the treasury stock through a reduction of retained earnings. As a result, the number of issued shares of common stock decreased from 538,196,429 shares to 106,351,285 shares* for the year ended March 31, 2018.

In November 2017, the Company paid interim dividends of ¥2,659 million (\$25,085 thousand), ¥5.0 per share, which is equal to ¥25 per share after reflecting the impact of the consolidation of the common shares at the ratio of five shares to one share on the effective date of October 1, 2017. For year-end dividends, see Note 16.

*The common shares were consolidated at the ratio of five shares to one share with an effective date of October 1, 2017.

10. Statements of comprehensive income

The amount of reclassification adjustments and the tax effects concerning other comprehensive income at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net changes in valuation difference on available-for-sale securities			
Increase (decrease) during the year -----	¥6,471	¥7,789	\$61,047
Reclassification adjustments -----	(900)	(52)	(8,490)
Subtotal before tax -----	5,571	7,737	52,557
Tax benefit or (expense) -----	(1,670)	(2,004)	(15,755)
Subtotal net of tax -----	3,901	5,733	36,802
Net changes in deferred gains on hedges			
Increase (decrease) during the year -----	(71)	2,012	(670)
Reclassification adjustments -----	630	3,152	5,943
Adjustments for amounts transferred to initial carrying amount of hedged items -----	33	63	312
Subtotal before tax -----	592	5,227	5,585
Tax benefit or (expense) -----	(166)	(1,458)	(1,566)
Subtotal net of tax -----	426	3,769	4,019
Net changes in foreign currency translation adjustments			
Increase (decrease) during the year -----	(189)	(436)	(1,783)
Subtotal net of tax -----	(189)	(436)	(1,783)
Net changes in remeasurements of defined benefit plans			
Increase (decrease) during the year -----	4,733	3,721	44,651
Reclassification adjustments -----	2,404	2,582	22,679
Subtotal before tax -----	7,137	6,303	67,330
Tax benefit or (expense) -----	(1,985)	(1,752)	(18,726)
Subtotal net of tax -----	5,152	4,551	48,604
Net changes in share of other comprehensive income of entities accounted for using equity method			
Increase (decrease) during the year -----	520	260	4,905
Subtotal net of tax -----	520	260	4,905
Total other comprehensive income -----	9,810	13,877	92,547

11. Segment information

1. General information about reportable segments

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

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

Gas Sales: Products, supplies and sales of gas

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

LPG and Other Energies: LPG sales, LPG appliance sales, LNG sales, 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 items

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

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

Information for reported segments as of and for the years ended March 31, 2018 and 2017 was as follows:

	Millions of yen							Consolidated (Note 3)
	Reported segments				Other (Note 1)	Total	Adjustments (Note 2)	
	Gas Sales	Gas Appliance Sales and Related Construction	LPG and Other Energies	Total				
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	¥19,850	¥231	¥1,343	¥21,424	¥1,465	¥22,889	¥1,095	¥23,984
Segment assets	¥336,361	¥13,709	¥49,277	¥399,347	¥77,535	¥476,882	¥64,371	¥541,253
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
For 2017:								
Net sales:								
External customers	¥268,684	¥35,025	¥65,689	¥369,398	¥21,036	¥390,434	¥ -	¥390,434
Intersegment	64	1,836	768	2,668	16,511	19,179	(19,179)	-
Total net sales	268,748	36,861	66,457	372,066	37,547	409,613	(19,179)	390,434
Segment income (loss)	¥18,795	(¥169)	¥1,534	¥20,160	¥1,737	¥21,897	¥1,292	¥23,189
Segment assets	¥342,424	¥14,496	¥45,470	¥402,390	¥71,415	¥473,805	¥59,126	¥532,931
Other items:								
Depreciation expense	31,758	166	2,253	34,177	1,366	35,543	(61)	35,482
Investment in entities accounted for using equity method	-	-	-	-	-	-	5,730	5,730
Capital expenditures	39,483	133	5,685	45,301	2,917	48,218	(69)	48,149
Thousands of U.S. dollars								
Reported segment:								
	Gas Sales	Gas Appliance Sales and Related Construction	LPG and Other Energies	Total	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
For 2018:								
Net sales:								
External customers	\$2,780,953	\$320,623	\$739,736	\$3,841,312	\$204,622	\$4,045,934	\$ -	\$4,045,934
Intersegment	679	16,679	9,151	26,509	177,010	203,519	(203,519)	-
Total net sales	2,781,632	337,302	748,887	3,867,821	381,632	4,249,453	(203,519)	4,045,934
Segment income	\$187,264	\$2,179	\$12,670	\$202,113	\$13,821	\$215,934	\$10,330	\$226,264
Segment assets	\$3,173,217	\$129,330	\$464,877	\$3,767,424	\$731,462	\$4,498,886	\$607,274	\$5,106,160
Other items:								
Depreciation expense	301,453	1,330	25,028	327,811	11,972	339,783	(415)	339,368
Investment in entities accounted for using equity method	-	-	-	-	-	-	61,689	61,689
Capital expenditures	268,453	877	55,745	325,075	17,614	342,689	(1,585)	341,104

Notes:

- 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.
- 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, 2018 and 2017

(1) Information about products and services:

	Millions of yen			
	Gas sales	LPG	Other	Total
For 2018:				
Net sales to external customers -----	¥294,781	¥53,122	¥80,966	¥428,869
	Millions of yen			
	Gas sales	LPG	Other	Total
For 2017:				
Net sales to external customers -----	¥268,684	¥46,166	¥75,584	¥390,434
	Thousands of U.S. dollars			
	Gas sales	LPG	Other	Total
For 2018:				
Net sales to external customers	\$2,780,953	\$501,151	\$763,830	\$4,045,934

(2) Information about geographic areas:

•Operating revenues

Not applicable

•Property, plant and equipment

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

(3) Information about major customers:

Not applicable

Information about impairment losses on fixed assets in reportable segments

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

	Thousands of U.S. dollars								
	Reported segments					Other	Total	Adjustments (Note)	Consolidated
	Gas Sales	Gas Appliance Sales and Related Construction	LPG and Other Energies	Total	Total				
For 2018:									
Impairment loss -----	-	-	\$3,745	\$3,745	-	\$3,745	\$	1,076	\$4,821

Notes: The "Adjustments" column denotes impairment loss related to companywide assets that do not belong to the reportable segments.

Information about goodwill in reportable segments

Not applicable

12. Certain lease transactions

As lessor:

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

1. Finance lease

(1) Lease investment assets (current assets)

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Lease receivables -----	¥7,787	¥6,340	\$73,462
Estimated residual value -----	873	760	8,236
Interest income -----	(1,471)	(1,182)	(13,877)
Lease investment assets -----	¥7,189	¥5,918	\$67,821

(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 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
For 2017:						
Lease receivables -----	¥ 430	¥ 396	¥ 378	¥ 362	¥ 320	¥ 1,582
Lease investment assets -----	1,510	1,239	964	744	525	1,358
	¥ 1,940	¥ 1,635	¥ 1,342	¥ 1,106	¥ 845	¥ 2,940

	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 2018:						
Lease receivables -----	\$ 4,009	\$ 3,849	\$ 3,708	\$ 3,302	\$ 3,104	\$ 13,991
Lease investment assets -----	15,236	12,679	10,472	7,745	5,802	21,528
	\$ 19,245	\$ 16,528	\$ 14,180	\$ 11,047	\$ 8,906	\$ 35,519

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
	2018	2017	2018
Lease income -----	¥120	¥120	\$1,132
Future lease commitments to be received (inclusive of imputed interests):			
Due within one year -----	120	120	1,132
Due after one year -----	1,200	1,320	11,321
	¥1,320	¥1,440	\$12,453

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net value
For 2018:			
Other facilities -----	¥1,900	¥940	¥960
For 2017:			
Other facilities -----	¥1,900	¥868	¥1,032

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net value
For 2018:			
Other facilities -----	\$17,925	\$8,868	\$9,057

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Lease depreciation -----	¥72	¥72	\$679

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, 2018 and 2017, these contingent liabilities were as follows:

	<u>Millions of yen</u>		<u>Thousands of U.S. dollars</u>
	2018	2017	2018
Guarantees for housing loans of employees	¥ 158	¥ 232	\$ 1,491
Guarantees for bank loans of Ichthys LNG Pty Ltd.	7,141	7,541	67,368
Guarantees for bank loans of MEET Europe Natural Gas, Lda.	3,134	2,875	29,566
Domestic unsecured notes due 2018 at a rate of 3.175%	-	10,000	-
Domestic unsecured notes due 2022 at a rate of 2.06%	10,000	10,000	94,340
Domestic unsecured notes due 2027 at a rate of 1.628%	10,000	-	94,340

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, 2018 and 2017 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, 2018 and 2017 are summarized as follows:

Hedge contract	Notional principal or contract amounts		Fair value
	Total	Over 1 year	(*1)
	Millions of yen		
For 2018:			
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)
For 2017:			
Commodity swap contracts			
(fixed rate payment, floating rate receipt)	¥ 13,814	¥ -	(¥ 2,703)
Exchange forward contracts	24,596	-	2,087
Interest rate swap contracts			
(fixed rate payment, floating rate receipt)	9,161	9,161	(*2)

	Thousands of U.S. dollars		
Commodity swap contracts			
(fixed rate payment, floating rate receipt)	\$	-	\$ -
Exchange forward contracts		27,660	(226)
Interest rate swap contracts			
(fixed rate payment, floating rate receipt)		97,887	(*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 2018 and 2017, in connection with those rental properties, the Company recorded rent revenues of ¥1,447 million (\$13,651 thousand) and ¥1,340 million, respectively. Rent revenues were included in the net sales account and the non-operating income account in the accompanying consolidated statements of income. Major rent expenses were included in the selling, general and administrative expenses account.

Information about fair value of rental property as of and for the years ended March 31, 2018 and 2017 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, 2018 -----	¥10,325	(¥6)	¥10,319	¥28,569
March 31, 2017 -----	¥9,771	¥554	¥10,325	¥28,031

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, 2018 -----	\$97,406	(\$57)	\$97,349	\$269,519

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

16. Subsequent events

Appropriation of surplus

On June 25, 2018, 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 (\$0.26) per share*	¥ 2,924	\$ 27,585

* The common shares were consolidated at the ratio of five shares to one share with an effective date of October 1, 2017.