

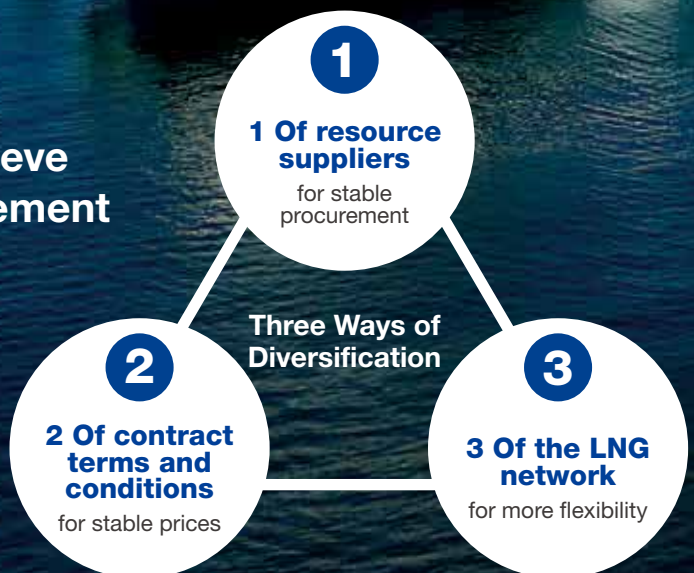
GAS BUSINESS

Outline and Strength

The Tokyo Gas Group began its gas business with supply of gas for lighting and since then has expanded applications of its gas to residential cooking, heating, and hot water; commercial air conditioning; industrial use; power generation; and other usage, by which we have increased the number of customers to over 11 million. In fiscal 2015, our consolidated gas sales volume was 15.4 billion m³, representing about 45% of Japan's gas sales volume. The Kanto Region, our Group's service area, accounts for about 40% of Japan's gross domestic products (GDP) and is expected to have vigorous production and consumption activities. We therefore anticipate sales volume growth particularly in the industrial sector. These two aspects will continue to support our growth. Our Group strengths include achievement in delivering "reliability" through stable supply of gas, and ensuring its safety. While the completion of the deregulation program for retail gas in April 2017 is likely to further intensify competition in the Tokyo area, the Tokyo Gas Group is carefully confident in facing increased competition by making best use of its base of over 11 million customers, which have been accumulated over 130 years since its foundation, and relationship of trust with those customers, the majority of which have been our customers for years. This will be supplemented by benefits from the group's safety-related know-how and energy solution technology.

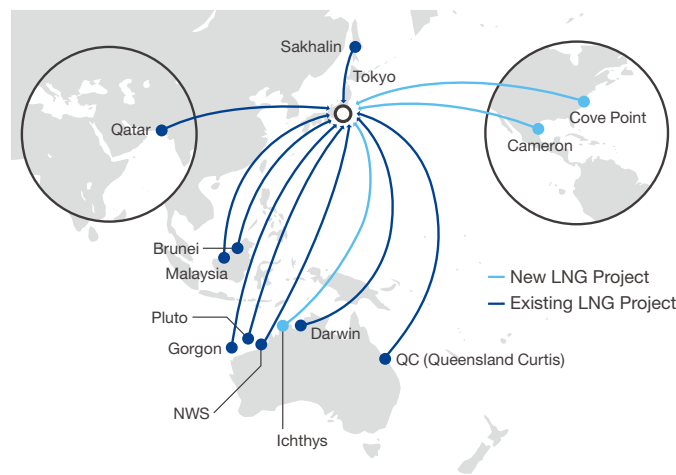
Anticipatory diversification to achieve stable and affordable LNG procurement

Japan heavily relies on imports for natural gas procurements. Prices for LNG imported are generally set under a framework that is linked to the price of crude oil. Aiming for stable and affordable LNG procurement with these given conditions in the background, the Tokyo Gas Group has been using an LNG procurement strategy that calls for diversified procurement sources, varying contract terms and conditions, and developing its LNG network.



1 Diversify resource suppliers

Tokyo Gas began to receive LNG from the Gorgon LNG Project in Australia, which resulted in increasing the number of LNG suppliers to 12 projects in 5 countries, and making Tokyo Gas one of the foremost purchasers with diversified contracts in Japan. In our striving to enhance procurement stability we will be considering widening LNG procurement from Southeast Asia and Australia to include North America and Africa. We will also study adopting non-conventional gas such as shale gas.



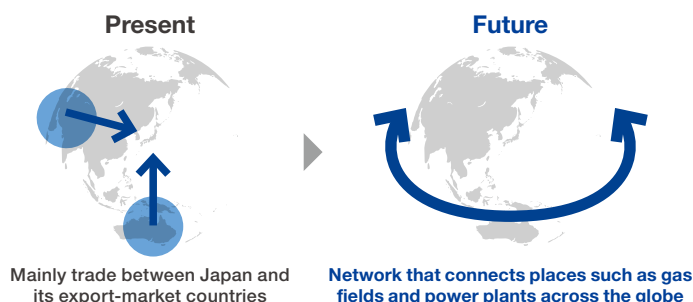
2 Diversify contract terms and conditions

By adding contracts linked to the United States natural gas prices and other benchmarks, in addition to conventional crude oil price-linked contracts, we aim to have a better balanced portfolio of contracts and thereby to stabilize procurement costs. We also intend to increase the number of contracts which allow us freedom to determine shipment destinations and other matters to enhance our flexibility.



3 Diversify our LNG network

By establishing an LNG network that connects the markets in Europe, Asia, and North America, we aim to reduce cost differentials among regions and to position ourselves to flexibly adjust demand and supply.



Enhance and expand alliances with other LNG players for enhanced flexibility and economic efficiency

Tokyo Gas will enhance and expand alliances with LNG players in Japan and overseas to achieve price-competitive LNG procurement and ensured flexibility.

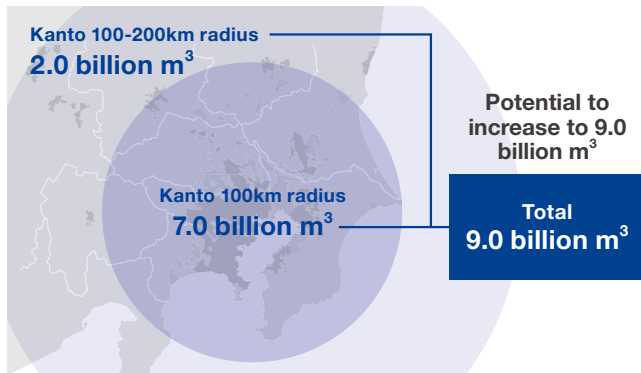
September 2014	Signed a memorandum of understanding on a strategic alliance with Korea Gas Corporation, South Korea
August 2015	Signed a memorandum of understanding on a strategic alliance with CPC Corporation, Taiwan
April 2016	Agreed on a strategic alliance with Kansai Electric Power concerning LNG procurement and know-how in power plant operation



Expansion of Natural Gas Usage through Infrastructure Development

Investment of ¥730 billion in nine years in domestic infrastructure

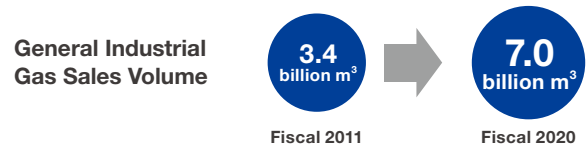
Under the Challenge 2020 Vision, Tokyo Gas plans to invest around ¥730 billion, equivalent to 35% of its total investment budget, in domestic infrastructure upgrades over the nine-year period from fiscal 2012 to fiscal 2020.



Northern Kanto, a region of significant potential demand

Tokyo Gas puts particular strategic emphasis on Northern Kanto which has strong potential demand growth for natural gas owing to large-scale industrial zones.

We aim to expand gas sales volume from 15.0 billion m³ in fiscal 2011 to 22.0 billion m³ in fiscal 2020 by advancing on two fronts: 1) further enhancing the stability of supply through expanded supply capacity for the development of potential demand and the completion of its pipeline loop; and 2) promoting fuel conversion from heavy oil and kerosene as fuel to natural gas and advanced utilization of natural gas. In particular, we aim to double the sales volume of gas used by general industry, from 3.4 billion m³ in fiscal 2011 to 7.0 billion m³.



Advantages of natural gas, superior in eco-friendliness and earthquake resistance

Benefits of fuel conversion

Eco-friendly; no need for storage; improved operability (no clean-up); labor saving; stable supply

CO₂ emission reduction by fuel conversion

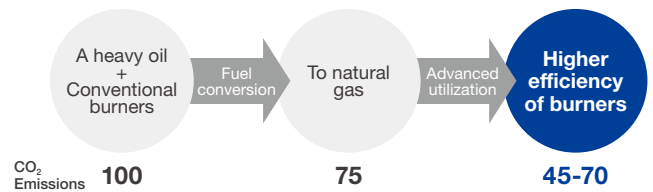
Comparison of CO₂ Emissions (Coal=100)

Natural gas	Oil	Coal
60	80	100

CO₂ emission reduction by use of advanced (high efficiency) facilities

Gas processing facilities designed for high efficiency require less energy for industrial heat sources and emit less CO₂

CO₂ emission reduction by conversion from A heavy oil to natural gas



Examples of advanced utilization measures

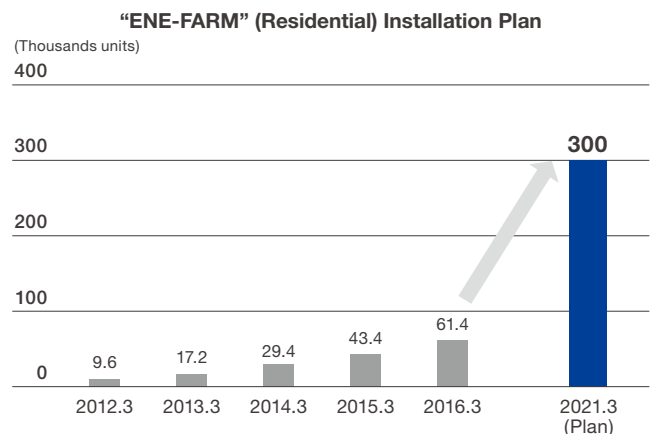
Adoption of high efficiency burners; collection of exhaust heat; improved heat insulation and reduced heat loss at openings; improved combustible air ratio

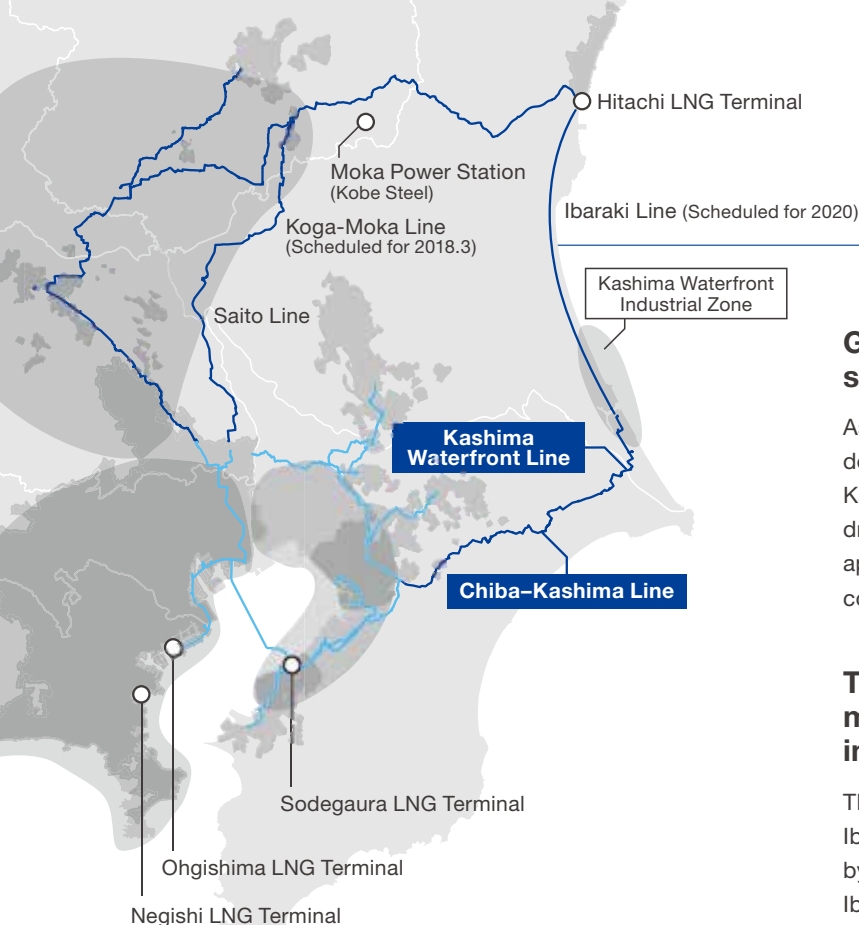
Promoting the widespread use and expansion of distributed energy systems

Tokyo Gas will promote diversification in use of natural gas by providing energy solutions centered on natural gas and continue to improve its LNG value chain.

Residential fuel cell system “ENE-FARM”

The “ENE-FARM” residential fuel cell system is a type of distributed energy system that is installed onsite at customers’ homes. This highly efficient system uses city gas to generate electricity while also utilizing the heat created through the generation process to heat water. “ENE-FARM” is an important strategic product in residential gas sales as customers using this system also consume greater volumes of city gas. Since the first unit was launched in 2009, “ENE-FARM” has continued to evolve to introduce smaller, lower-priced models. In March 2016, our “ENE-FARM” installed base had risen to approximately 61,000 units.



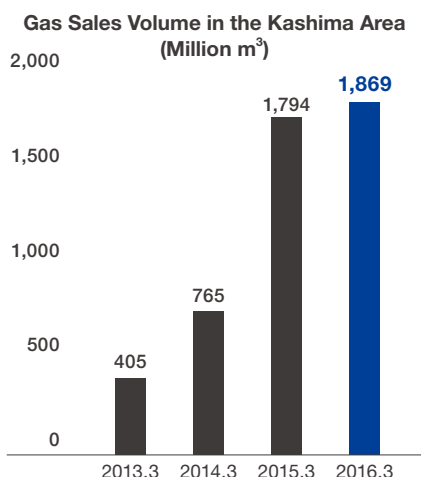


Gas sales volume in the Kashima area surged to represent 10% of total

As a first step toward capturing potent demand through the development of infrastructure, we completed the Chiba-Kashima Line in March 2012. Gas sales volume increased dramatically in the Kashima Waterfront Industrial Zone to approximately 1.8 billion m³, representing about 10% of our consolidated gas sales volume in fiscal 2015.

Tap Northern Kanto's greater potential market for gas by another fuel conversion initiative

The Saito Line (Soka City, Saitama Prefecture–Koga City, Ibaraki Prefecture) started service in October 2015, followed by the start of service of the Hitachi LNG Terminal and the Ibaraki-Tochigi Line (Hitachi City, Ibaraki Prefecture-Moka City, Tochigi Prefecture) in March 2016. By linking with our existing three terminals in Tokyo Bay and our high-pressure trunk line network, our supply infrastructure has become more stable. Given our infrastructure building in Northern Kanto, Kobe Steel has decided to construct a gas-fueled thermal power plant in Moka City, Tochigi Prefecture. In addition to the projection of an increased gas sales volume by supplying gas to this power plant, we anticipate that it will enable us to tap into more potential demand. In order to complete our infrastructure base in Northern Kanto, we have decided to construct an Ibaraki Line between Hitachi City and Kamisu City. This will enable us to develop further demand in the Kashima area and increase use of natural gas in the Kanto Region.



Commercial and industrial cogeneration systems

Cogeneration systems supply electricity and heat through power generators and other means. In addition to the installation of facilities at the point of demand, cogeneration systems help to enhance energy efficiency, reduce the amount of CO₂ emissions, and improve economic efficiency through the conservation of energy by effectively utilizing both electricity and waste heat. Against the backdrop of increased demand for energy security and business continuity plans, we have been promoting sales of commercial and industrial cogeneration systems, and the scale of our cumulative installed base of these systems has reached 1,850 MW. Aiming at widespread adoption, we are increasing the product line-up by having commercialized 1MW gas engines with reduced low maintenance costs as well as an easy-to-install package type of co-generation.

