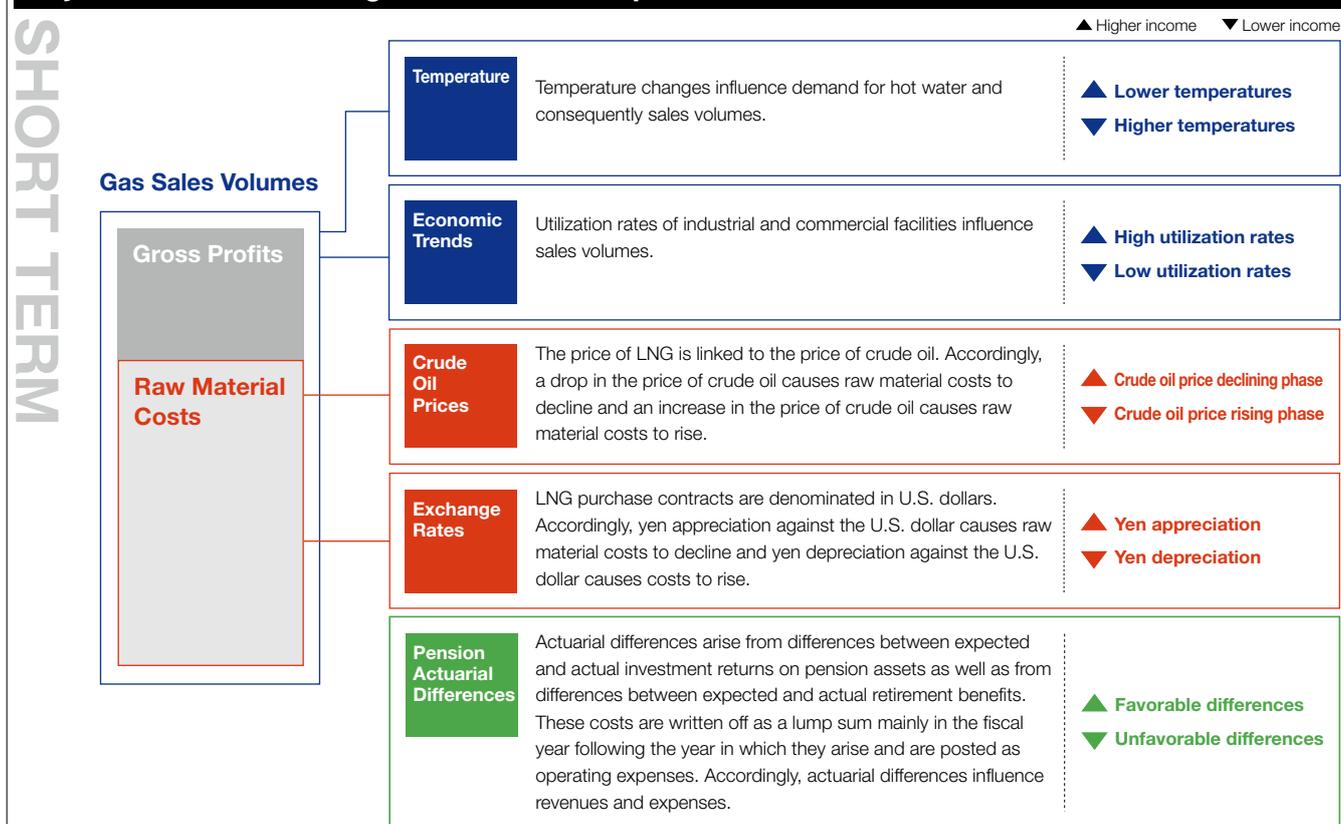


# Factors Influencing Revenues and Expenses

Revenues and expenses in the gas business are determined by the increase or the decrease in gas sales volumes (volume difference) and the gap between the selling price and the purchase price (price difference). It is necessary to distinguish between factors that exert influence in the short term and those that exert influence in the medium-to-long term.

## Major Factors Influencing Revenues and Expenses in the Short Term



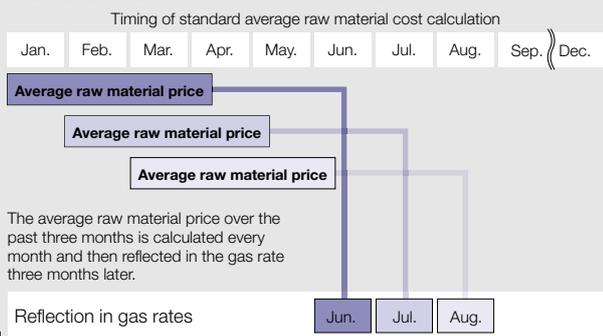
## POINT

### Gas Rate Adjustment System's Medium-to-Long-Term Neutralizing Effect on Crude Oil Price and Exchange Rate Fluctuations

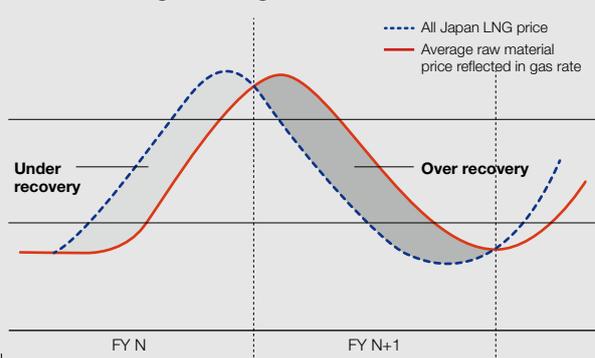
Gas prices are determined using the gas rate adjustment system. Through this system, average raw material prices over a three-month period according to trade statistics are compared with the raw material cost that is used as the standard (standard average raw material cost), and the gas rates are adjusted using a defined calculation method based on the differences. A time lag of four months on average (called a sliding time lag) exists between the

payment of raw material costs and the reflection of such changes in gas rates. Consequently, fluctuations in crude oil prices and exchange rates may result in the under-recovery or over-recovery of raw material costs if this lag cuts across a fiscal year, thereby affecting income. Looking at the medium-to-long term, however, the gas rate adjustment system has a neutralizing effect on the income impacts of fluctuations in raw material costs.

#### Timing of the Standard Average Raw Material Cost Calculation and Reflection in Gas Rates



#### How the Sliding Time Lag in Rates Works



## Major Factors Influencing Revenues and Expenses in the Medium-to-Long Term

MEDIUM-TO-LONG TERM

### Government Policies and Regulations Relating to Energy ▶ For details, see P.37

Tokyo Gas is involved in the city gas business and the electric power business, both of which are subject to regulations. Revisions to regulations governing these businesses could influence the Company's earnings.

### Fluctuations in Raw Material Prices

Raw material price trends could influence our cost-competitiveness in comparison with other gas providers or suppliers of other forms of energy. The Company is taking steps to hedge risks related to a decrease or stabilization of raw material prices, such as resolving to import natural gas at prices based on the Henry Hub index.

### Competition with Other Energy Sources

Competition between energy sources occurs with regard to such factors as eco-friendliness and efficiency, and this competition could possibly influence demand for natural gas.

Tokyo Gas is actively promoting fuel conversion from heavy fuel oil to natural gas through such means as soliciting the environmental benefits of natural gas.

### Population Movements and Industrial Development within the Company's Service Area

Long-term trends, such as population movements and industrial development, within the Kanto region, the Company's service area, have the potential of influencing medium-to-long-term earnings.

Population influx into the Kanto region continues, and the number of houses is expected to rise into the future.

### Demand and Infrastructure Development by Tokyo Gas

Tokyo Gas is simultaneously developing infrastructure and demand in the Kanto region, its service area.

We are also focusing on nationwide wholesale efforts. Our ability to develop demand could influence medium-to-long-term earnings.

## POINT

### Expansion of Industrial Gas Sales Volumes ▶ For details, see P.23

Tokyo Gas aims to increase industrial gas sales volumes going forward. The causes of this expected rise can be categorized based on the abovementioned factors as follows.

#### ① Competition with Other Energy Sources

Fuel conversion from heavy fuel oil to natural gas is proceeding due to the following benefits of natural gas.

- Natural gas has a very small impact on the environment. During combustion, it emits no sulfur oxide (SOx). Further, nitrogen oxide (NOx) emissions are 60% less than those from coal, and carbon dioxide (CO<sub>2</sub>) emissions are 40% lower than when using coal and 30% lower than when using heavy fuel oil.
- There is no need to store city gas in tanks, which contributes to improved operational efficiency at factories.
- Dirtying by soot is low when burning natural gas, thereby reducing equipment cleaning requirements along with associated costs.

#### ② Demand and Infrastructure Development by Tokyo Gas

Northern Kanto is ripe with latent demand, at the North Kanto Industrial Zone for example. However, this area currently lacks pipeline networks, necessitating the use of heavy fuel oil or other non-gas energy sources. For this reason, the Company is undertaking capital expenditures targeting northern Kanto. In March 2016, the construction of the Hitachi LNG Terminal will be completed, allowing us to open a pipeline that will run from a terminal to Moka City, Tochigi Prefecture. Going forward, we will progressively construct pipelines and develop demand, and we anticipate expanded gas sales volumes in northern Kanto to result.