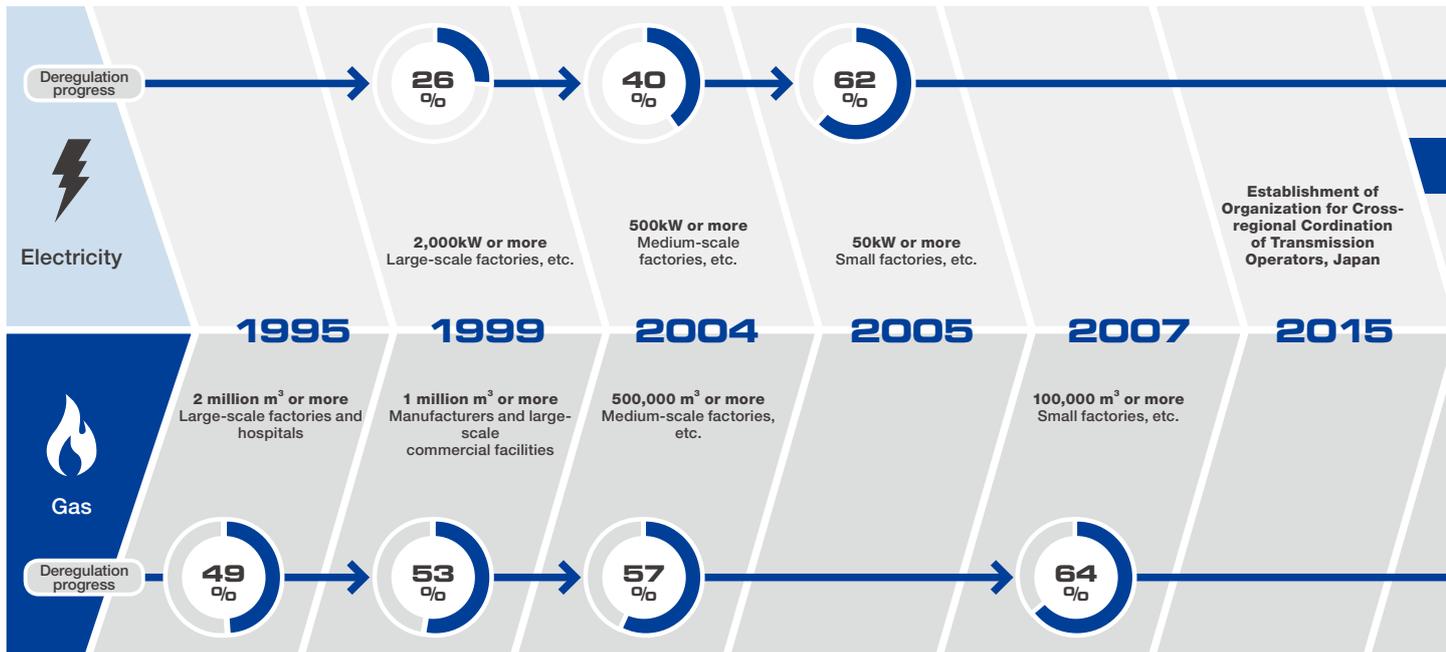


Deregulation of the Electric Power and Gas Markets

Meaning and Objectives of Electricity and Gas System Reforms and Schedule Milestones



Gas System Reforms

Since April 2017, regional monopolies and regulation on prices for small-scale gas retail have been abolished. In the past, general gas business operators provided a one-stop service from production to supply and sales. The gas system reform has separated the gas industry into three types: gas pipeline business (general and dedicated); gas retail business; and gas production business. Retail operators (new entrants) are now able to use the pipelines of the pipeline business operator, upon payment of usage rates, and to sell gas to residential and small-scale business customers.

Tokyo Gas Group's Actions

In fiscal 2016, we made a good start by entering the electricity retail business and getting prepared for the full deregulation of the retail gas business of April 2017, as a priority issue.

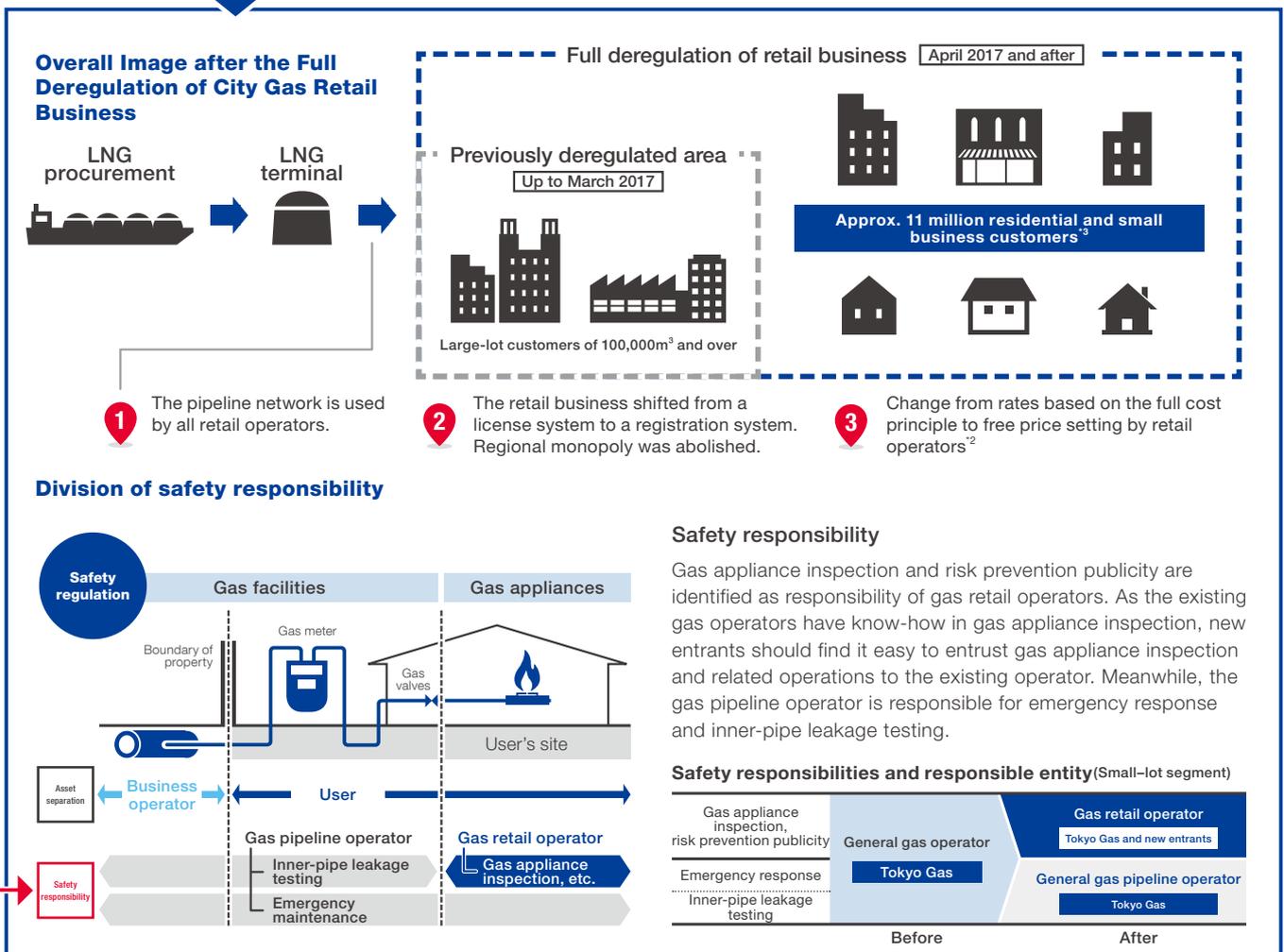
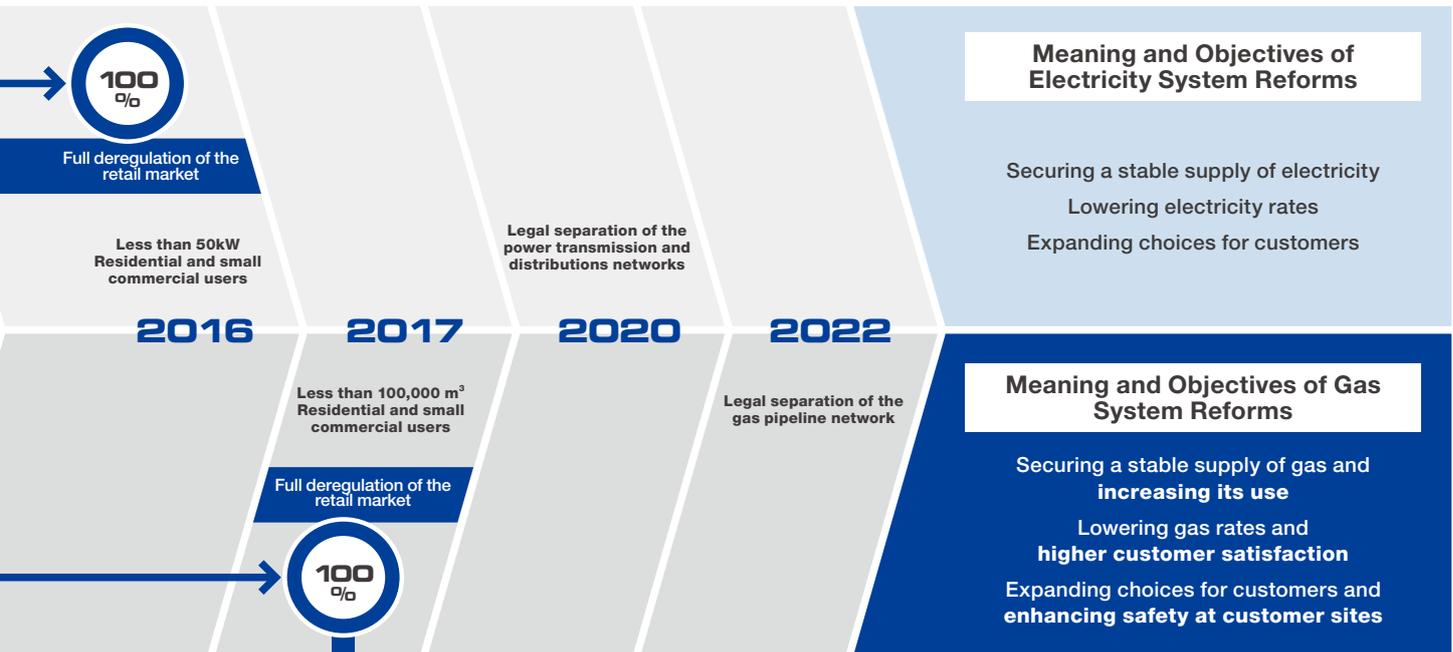
Small-lot segment



Business Operators' Major Roles, Major Changes from the Gas System Reform, and Tokyo Gas Group's Strengths

Type of business	LNG terminal business (gas production business) [Notification system]	General gas pipeline business [License system]	Gas retail business [Registration system]
Major roles of each business operator	Production of gas, based on request from own-company's retail division and contracts with other companies	<ul style="list-style-type: none"> Transportation service for delivery to specified service points via pipelines that the service provider maintains and operates Fair management as a pipeline operator available to all retail operators Last resort service obligation 	Securing and supplying the supply capacity needed to deliver to own customers
Major institutional measures triggered from the gas system reform	Provisions on the use of LNG terminal by third parties within the extent of excess capacity → Provisions to promote entry of various retail operators	<ol style="list-style-type: none"> The pipeline is commonly used by all retail operators. 	<ol style="list-style-type: none"> Retail gas business shift from a license system to a registration system → Abolition of regional monopoly Enabling all customers, large and small, select a retail operator out of those with various services and rate schemes
Tokyo Gas Group's Strengths	Stable and efficient terminal operation	<ul style="list-style-type: none"> Stable and reliable management of gas pipeline network Expansion of optimal new infrastructure to improve supply capacity Emergency safety measures 	<ol style="list-style-type: none"> From rates based on the full cost principle to free price setting by retail operators → Realizing competition-driven decline in rates <ul style="list-style-type: none"> Community-based sales structure Capacity to propose energy solutions LNG procurement capability of 14 million tons per year

After the phased and subsequent full deregulation of the electric power retail market in April 2016 and of the retail gas market in April 2017, Japan's energy market has become fully deregulated.



*1 "Transportation service" means to receive gas from the gas supply operator (who requests transportation service) in the pipeline of the gas operator and to supply the same amount at a different spot through the same pipeline to the gas supply operator. The transportation rate is the pipeline usage rate that the gas retail operator uses in gas supply and is approved by the government.

*2 As a transitional measure so that the amendment would not result in increased gas retail prices due to insufficient competition with other gas retail operators, LP gas, all-electric operators and other players, the designated former general gas operator is required to provide retail price menus reviewed and approved by the Ministry of Economy, Trade and Industry ("METI").

*3 Number of customers of Tokyo Gas