

## CEO's message



# Carving out Energy Frontiers with Innovation

Having taken up the baton and responsibility of managing Tokyo Gas, it is my role to achieve the goals of The Tokyo Gas Group FY2018-2020 Management Plan (GPS2020) as far ahead of schedule as possible, and to ensure further advancement and breakthroughs for the Tokyo Gas Group into the 2020s.

By making innovations based primarily around natural gas, which is superior in terms of stability of supply, economic value and environmental friendliness, we will move forward in improving our corporate value, by evolving from the top city gas supplier in the Greater Tokyo Area into a truly global “energy frontier” company.

Representative Director, President and CEO

**Takashi Uchida**

## Achieving the goals of GPS2020 as far ahead of schedule as possible

I was appointed President and CEO of Tokyo Gas this April (2018). My appointment comes at a time when not only the city gas industry but the energy industry as a whole is experiencing major changes, and I feel tense to take on the role of managing the Tokyo Gas Group. Since joining the company in 1979, I have experienced working in both field and management positions in a wide range of areas, including gas transportation (pipelines), human resources, corporate planning, raw materials procurement, overseas business operations and household (consumer-oriented) services. Going forward, I will seek to make effective use of my past experiences in improving the corporate value of the Tokyo Gas Group.

In November 2011, in the aftermath of the Great East Japan Earthquake, we developed the Challenge 2020 Vision; a roadmap for achieving our vision of what kind of company we want to become in the long-term. I was involved in developing the plan in my position as General Manager of the Corporate Planning Department.

The vision outlines our corporate stance of contributing to society—specifically the energy industry, which is a key element of basic infrastructure supporting the lives of the public and all industrial activities—by advancing our LNG value chain. Following on from our previous “Hop” (FY2012-2014) and “Step” (FY2015-2017) management plans implemented over the past six years, the greatest role that has been entrusted to me in taking up the management baton is to ensure the sure and steady implementation of the policies raised in our GPS2020 medium-term management plan, which represents the final three-year “Jump” stage of our Challenge 2020 Vision; and to solidify our foundation for future advancements and breakthroughs in the 2020s by achieving the plan’s targets as far ahead of schedule as possible. What we aspire to achieve is not only to be the top city gas supplier in the Greater Tokyo Area, but to remain a company that carves out new energy frontiers globally, as a total energy corporation. Achieving the goals of GPS2020 represents achieving the realization of our corporate philosophy of becoming an “energy frontier” company. Now that the full

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deregulation of the electric power and city gas retail markets has begun, securing electric power supply agreements with as many customers as possible will also play a role in protecting the foundations of our core gas business. Promoting and expanding the use of natural city gas through our electric power and gas operations will contribute to improving convenience for customers and to achieving a low-carbon society overall. I therefore want us to achieve these targets as far ahead of schedule as we possibly can.

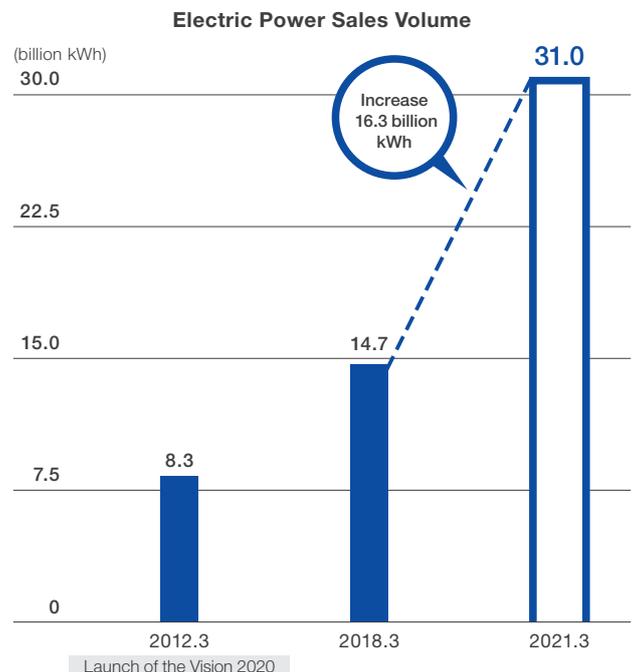
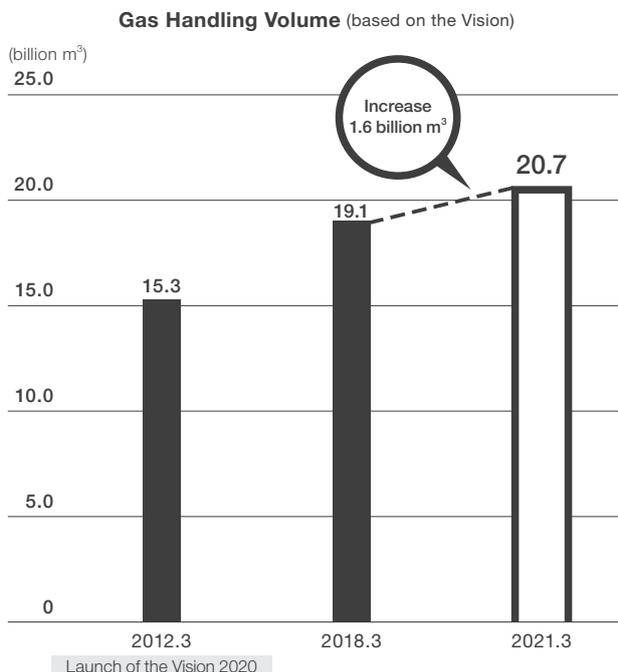
### We recorded an increase in sales and profits for the previous fiscal year, and achieved targets for securing electric power contracts ahead of schedule

In fiscal 2017 (the year ended March 31, 2018), which was the final year of the "Step" stage of our Challenge 2020 Vision, we posted operating profit of ¥116.3 billion. With this figure we greatly exceeded the original planned figure of ¥82 billion, and achieved a 99.3% increase in comparison with the previous year. We also achieved increases in profits for our city gas, electric power and overseas business operations. Although the alleviation of temporary factors that caused a decrease in profits for the previous year (which included sliding time lag effects and actuarial differences) contributed partly to the increase in profits for the year, we recognize the fact that we were able to achieve an increase in sales and profits despite the loss of some major wholesale gas supply contracts as the result of great efforts on the part of all our employees. For fiscal 2018 (the year ending March 31, 2019), assuming an exchange rate of ¥110 per U.S. dollar and an oil price of \$65/bbl, we plan to achieve operating profit of ¥93 billion (a decrease of 20% y-o-y). The main factors behind this decreased profit plan are time lags in the reflection of crude oil prices and gas rates, and transient cost increases such as those associated with data transfers due to the startup of new

core mission-critical systems. We ask that shareholders understand that it does not indicate a decline in our basic earning capacity. (Please refer to page 55.) Naturally, this does not mean that we are satisfied with this profit level, and we will endeavor to enable the addition of extra profits, and work to improve this profit level in the medium-term. With regard to the retail sale of electric power, at the end of March 2017 we set the target of receiving applications from 1 million customers during fiscal 2017. This target was achieved ahead of schedule in October 2017, and as the end of March 2018 this figure had reached 1.25 million customers and is still rising. In our overseas business operation, too, we are steadily making investments midstream and downstream business, such as power plants and city gas distribution businesses.

### Evolving into a global total energy corporation with our GPS2020 medium-term management plan

Tokyo Gas Group currently stands at a turning point, an age of change unlike any that it has experienced before during its history of over 130 years. Although the city gas business was originally a regulated industry, since the time of our founding we have competed intensely with the electric power industry in areas such as lighting, hot water, heating and kitchen utilities. With the progression of the full deregulation of the electric power and gas retail markets, competition with electric power companies has become more directly, and we believe that market participation by other major energy companies and competitors from other non-energy industries is likely to increase in the future. Tokyo Gas has summarized its awareness of the coming new era in terms of the following three perspectives—which also constitute prerequisites for the GPS2020 management plan—



# In order to carve out energy frontiers with innovation, we will create a Silicon Valley location, and advance a program of digital innovation

as “The Era of Natural Gas,” “The Era of Single-Source Providers of Electricity and Gas,” and “The Era of Next-Dimensional Innovation Fueled by the Rapid Digital Evolution.” GPS2020 is a plan that aims to deliver gas (G), electric power (P), and services (S) to customers as a total package. We plan to deploy this system not only in the Greater Tokyo Area, but on a nationwide and—ultimately—global scale. What we are aiming for is to evolve from being “the Greater Tokyo city gas company” or “Japan’s leading city gas company” to being “a global total energy corporation.” In terms of financial aspects, in fiscal 2020 (the year ending March 31, 2021), we aim to achieve a total of ¥130 billion in operating profit and equity income of subsidiaries, operating cash flow of ¥280 billion—an upward adjustment from the original figure of ¥250 billion set in the Challenge 2020 Vision—and ROE of approximately 8%.

## **GPS×G: Strengthening our gas (G), electric power (P) and services (S) operations globally (G)**

The most significant background difference between the new management plan and past medium-term management plans is that we are now able to deliver not only gas but also electric power to our customers in a set package, due to the full deregulation of the electric power and city gas retail markets. This allows us to propose optimal energy solutions to our 11 million customers to match their actual state of energy usage. By 2020, we aim to deliver Tokyo Gas Group electric power to 2.2 million customers (equivalent to approximately 10% of the Greater Tokyo Area), and will be investing in power stations to match this target. Through these investments, we will aim to expand our current power generation capacity of 1.6 million kW to 3.0 million kW by fiscal 2020, and to a scale of around 5.0 million kW during the 2020s. With regard to renewable energy sources, too, we will aim to develop 0.4 million kW during the early half of the 2020s. In terms of promoting and expanding widespread use of natural gas, we have completed our Ibaraki Line for developing demand in the Northern Kanto area, and are strengthening our partnerships with nearby city gas and LP gas suppliers, who are our wholesale customers. We will also be building alliances with energy suppliers and other partners across our entire LNG value chain, and engaging in activities such as LNG financing and trading of raw materials with these partners, in order to create an optimal energy supply structure. One service that we will be offering to residential customers, as a priority business, is the provision of support services for various problems faced around the home—including plumbing, house cleaning and other such services—in combination with gas and electric power.

For commercial customers, we will offer support with regard to optimal supply of gas and electric power, such as in the installation

of commercial-use fuel cells aimed at convenience stores, family-oriented restaurant chains and other such customers.

For industrial customers, we will aim to supply not only gas and electric power, but batch supply of all necessary utilities, including heat and water for industrial use.

In North America and other such markets, where there is great demand for energy, and where deregulation and energy market transactions are progressing ahead of Japan, we will continue to participate in upstream business operations, with a primary focus on shale gas, and midstream and downstream operations such as power stations; seeking to acquire and utilize expertise that will contribute to future operations both in Japan and overseas, while at the same time strengthening our revenue base. In the Southeast Asia region, where rising demand for natural gas and growth of LNG imports are expected as a result of rapid economic growth, we will seek to contribute to the construction of LNG value chains in local regions by building energy infrastructure and introducing natural gas, while working in partnership with national governments and local companies.

## **Creating a Silicon Valley location and advancing a program of digital innovation**

As we head towards the era of next-dimensional innovation, we have established a Digital Innovation Division, for the two key purposes of (1) improving operational efficiency and labor saving and (2) creating new businesses.

Firstly, in terms of efficiency and labor saving, there are several areas in which there is significant room for improving efficiency, saving labor and reducing costs through the effective use of ICT. For example, these include improvements that will enable regular maintenance patrol visits when customers are at home (improving work rates for maintenance inspections with approximately 1,000 personnel), improving work efficiency for telephone-based contract-acquisitions (efficient operation with approximately 1,000 operators), and improving capacity utilization rates for thermal power stations.

We believe that this will also have major benefits in terms of passing on skills—which until now have depended on individual experience and intuition—and improving work quality.

With regard to creating new business operations, we will work to link new technologies on to achieving the realization of new possibilities; such as by improving the performance of ENEFARM residential fuel cells by leveraging the power of IoT, achieving efficient operation of heating appliances by integration of floor heating and air-conditioning systems, selling electricity generated using photovoltaic (solar) power generation to other households, and payment settlement using blockchains.

Currently, we are investing in venture capital and engaging in information gathering and open innovation through the activities

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of seven to eight overseas representatives based in Silicon Valley. Through these activities, we seek to deepen the level of collaboration between our head office technical division and other business divisions, in areas such as the development of IoT sensors.

### Our strength is in our invisible assets

I believe that Tokyo Gas's strength lies in the fact that we possess a wide range of tangible and intangible assets, from top-level upstream natural gas assets (i.e. gas fields) to the downstream assets (installation and maintenance of household equipment). In particular, I think that our greatest strength is the trust of our customers and business partners, who believe that "if Tokyo Gas says so then it must be right." This trusting relationship was developed by our predecessors over the course of our approximately over 130-year history, through a track record of safe and stable supply. This relationship, along with the human resources and technologies that support it, are a major advantage for Tokyo Gas.

One thing that is important in order to prevent our GPS2020 strategy from ending as a "pie in the sky" vision is the power of the workplace. For our business operations, which constitute a lifeline supporting people's everyday lives and vital infrastructure for industrial activities, achieving a safe and stable supply is something that is taken for granted, but the day-to-day activities in the field that support this supply are not visible to our end users.

With my experiences of gas transportation (pipelines), both in the field and in management, I truly understand and appreciate the importance of on-site capabilities.

When I was involved with reconstruction and recovery work in the aftermath of the 2004 Niigata Chuetsu Earthquake, I saw gas providers come together and join forces to achieve the recovery of city gas supplies in the region within the short space of around one month. Seeing that made me feel and appreciate strongly

the importance of capabilities in the field. I am particularly struck by, and proud of, the strength of Tokyo Gas's on-site capabilities, and our ability to come together when it is necessary.

This is the kind of strength that does not appear in our financial statements. By continuing to refine this strength, we will create a more robust foundation for sustainable growth, and utilize it in improving our corporate value.

### ESG: We believe that developing energy frontiers is a form of social contribution

In his book *Rongo to Soroban (The Analects of Confucius and the Abacus)*, the Meiji-period industrialist Eiichi Shibusawa—who built the foundation of our business—advocated the importance of achieving a balance between both moral philosophy and profit. LNG is the cleanest source of energy amongst fossil fuels. Tokyo Gas is driving an energy shift away from fuels such as petroleum and coal, and contributing to society through the stable supply of clean energy that is essential to everyday life. At the same time, we are achieving sustainable growth of our own profits. This sentiment, which is instilled in all of our employees, is the starting point for our ESG activities, and the source of our corporate value. Moving forward, we will continue to contribute to the creation of a low-carbon society through our business operations, by not only supplying city gas, but utilizing LNG thermal power generation, heat-recycling cogeneration systems, district heating and cooling, fuel cells and renewable energy.

Working on the basis that active and energetic work by each and every employee increases corporate value, we are promoting diversity and advancing a program of workflow and workstyle reforms leveraging the power of IT. In the past, our gas business operations have involved extensive on-site maintenance work, and our workforce has consisted primarily of male employees. However, through revisions to our work

## What we are aiming for is to evolve from being "the Greater Tokyo city gas company" or "Japan's leading city gas company" to being "a global total energy corporation."

### What I want to tell you

- We will aim to achieve the goals of our GPS2020 medium-term management plan as far ahead of schedule as possible.
- We are already achieving our targets for numbers of electric power contracts after deregulation of the electric power retail market ahead of schedule.
- GPS×G: We will strengthen our gas (G), electric power (P) and services (S) operations globally (G) and evolve from being "the Greater Tokyo city gas company" or "Japan's leading city gas company" to being "a global total energy corporation."
- We will carve out energy frontiers with innovation. We will create a Silicon Valley location, and advance a program of digital innovation.
- Our strength lies in our invisible assets, such as the trust of our customers and business partners, and the human resources and technologies that support it.
- ESG: We believe that developing energy frontiers is a form of social contribution.



practices and our proactive promotion of female employees, for two consecutive years we have been selected as a Nadeshiko Brand—an enterprise that actively promotes and encourages the empowerment for women—in a joint scheme run by Ministry of Economy Trade and Industry (METI) and the Tokyo Stock Exchange (TSE).

With regard to corporate governance, we have modified the balance between executive and monitoring functions by increasing our ratio of outside to internal directors, with 5 internal directors—one of whom does not have executive authority—and three outside directors (compared with eight internal and three outside directors up until last year.) Although Tokyo Gas is not a “Company with Committees” (as provided for under the Companies Act), we do have an Advisory Committee which deliberates on personnel and remuneration for company officers. The Advisory Committee consists of five members: two outside directors, one outside Audit and Supervisory Board member, the Chairman (executive director with no additional role) and myself (executive director with additional role). In this way, we maintain a balance by having the majority of members as outsiders, and everyone besides myself as non-executive officers.

### **Riding out the waves of deregulation and aiming to achieve breakthroughs as a total energy corporation**

One historical figure that I am particularly drawn to is Toshiakira Kawaji, kanjo-bugyo (the Commissioner of

Finance in the Edo period), who played an active role in the signing of the Treaty of Commerce and Navigation between Japan and Russia during the Bakumatsu period, which marked the final days of the Tokugawa Shogunate.

Despite being part of the historical organization that was the Shogunate, and in the face of demands from foreign powers for opening up Japan to foreign trade and the signing of treaties with harsh terms and conditions, Kawaji made valid and justifiable arguments from the perspective of ensuring the survival of his country that earned him the respect of his negotiation partners, and built new relationships by diplomatic means. I think that there are many things that we can learn from him.

For my part, even in the face of the massive surging waves of deregulation, I want us to push through without losing sight of our pride and mission as a public utility company, developed over our 130+ year history, and to build a foundation for future development and advancement as a total energy corporation.

Finally, I want to say that I regard the run-up to 2020 as a period for preparing for future breakthroughs in the coming decade. We are still in the investment stage, but we will still continue to generate solid profit and maintain a total payout ratio of at least 60%. Through dialogues with our stakeholders, we will aim to achieve further improvements in our corporate value.

I ask that our stakeholders will continue to support the Tokyo Gas Group, as we continue in our challenge to become a total energy corporation.