



We will develop into a genuine, integrated energy company with a pioneering spirit that has been passed on from generation to generation.

Representative Director, President and CEO

Takashi Uchida

Getting the blue sky back in Tokyo

This year marks the 50th anniversary of the Tokyo Gas Group's first import of liquefied natural gas (LNG), when we became the first Japanese company to import LNG. When deciding to implement a large project that could shape the future of the company, the management team at that time devised the slogan: *Getting the blue sky back in Tokyo*. As it suggested, the introduction of LNG eliminated sulfur oxide (SOx) emissions, reduced nitrogen oxide (NOx) emissions from the levels of conventional coal- and oil-based fuel, and curbed photochemical smog, a social issue. It also cut carbon dioxide (CO₂) emissions.

The spirit of carving out new energy frontiers with innovation is an intangible asset of Tokyo Gas that should be passed on to the next generation. During the period of rapid economic growth in the Showa era, natural gas gained attention as a source of clean energy with high calorific value to replace oil-based energy sources amid mounting energy demand and environmental deterioration. Our Group subsequently attempted to liquefy overseas natural gas and import it by ship. At that time, natural gas rarely used on a practical level and this attempt was considered technically challenging. We cleared a number of difficult hurdles, one after another, including refrigerated

liquefaction technology. In November 1969, we welcomed the first ship from Alaska, *Polar Alaska*, to our Negishi LNG terminal, ushering in the era of LNG.

The introduction of LNG followed a change in calorific value, which took 17 years. We replaced the gas supplied with one that had a higher calorific value. This low-profile effort of visiting individual customers one by one to adjust their gas appliances involved 7.8 million employees. As a result, today natural gas is widely used and it supports Japan's development as a major energy source. This process helped to build close relationships of trust with customers. Now they are another invisible asset that provides an advantage over our competitors in today's deregulated energy market.

The shift to LNG coincided with our management stance of contributing to society through our core business. The change in calorific value was helpful in our subsequent growth. It is largely unknown that natural gas is so high in calorific value and supply efficiency that our Group's investment in pipeline construction was minimized. Before the change, the calorific value of the gas varied from region to region and from operator to operator. At least 10 different kinds of gas were supplied. Since the change, a single type of gas is supplied, which is beneficial for both customers and gas appliance manufacturers.





CEO's Message

The spirit of carving out energy frontiers with innovation is an invisible asset of Tokyo Gas that should be passed on to the next generation.

We will continue to supply energy in a safe and reassuring manner to enhance consumer confidence.

Almost a year has passed since I became Representative Director and President in April 2018. Looking back on the past 12 months, I feel that the circumstances surrounding the energy industry became increasingly tougher.

Especially following the deregulation of the electricity and gas utility markets, competition among energy companies has intensified. The Tokyo Gas Group saw more of its city gas customers than expected switch to other operators while gaining electricity customers at a higher than expected pace. Overall, we have managed to benefit from deregulation. Some of our gas customers who had switched to other suppliers are slowly returning.

Pricing is not the only factor that draws consumers to a particular energy company. It is important to build trust by constantly supplying energy in a safe and reassuring manner. In 2018, Japan experienced a series of natural disasters in different locations, including earthquakes to the north of Osaka and in eastern Hokkaido as well as typhoons and heavy rain in Western Japan. These incidents renewed our awareness of our responsibility toward the stable supply of energy and disaster control, compelling us to reconfirm that we would work on them as high priority matters.

In addition, the call for carbon reduction is growing in Japan and around the world. Last year, I realized this through direct experience. Our Group considered building a coal-fired power plant in Sodegaura, Chiba Prefecture, with Idemitsu Kosan Co., Ltd. and Kyushu Electric Power Co., Inc.; however, we decided to withdraw from the joint development, because it was not feasible from the perspective of additional environmental measures. Local communities and investors in Japan and abroad praised us for that decision from an ESG perspective.

We were also greatly admired for our leadership in the joint procurement of LNG from Mozambique with UK-based Centrica plc in the world's first innovative

action between Japanese and European businesses. This also applies to our expansion of LNG import sources to Canada, Mexico and other countries as well as the joint introduction with Shell Eastern Trading Pte Ltd of a revolutionary pricing system based on coal prices to ensure the long-term, stable procurement of more competitive LNG. We are delighted that our Group's sincere actions for LNG, which have continued since we started importing it in 1969, are recognized globally.

We will carve out new market as energy frontiers with our continued long-term mindset.

The general public may think that the city gas industry is protected by regulation. However, it is often exposed to fierce competition, for example, when gas lamps and rice cookers were replaced with electric versions. Our Group started to hold cooking classes more than 100 years ago to help participants use gas with ease of mind and learn how to make full use of gas appliances along with cooking techniques. To survive that tough competition, our Group has created new markets by addressing people's lifestyles and fulfilling its social responsibility to attain continued growth.

ENE-FARM consists of residential fuel cells and is the result of our low-profile research and development efforts over more than 20 years. Despite the common belief that the commercialization of ENE-FARM was difficult, our Group managed to release it in 2009, with 110,000 units sold by last year. While LNG transport traditionally depended on trading companies, as an energy firm, we acquired LNG tankers to acquire more freedom in transactions. Our Group started to supply energy at low prices before our competitors. We are also proud that our Group made floor heating common as we see it today.

In the second year of the Jump stage in GPS2020, we will continue to achieve steady development.

In November 2011, the Tokyo Gas Group announced its long-term management vision ending in fiscal 2020, *The Tokyo Gas Group's Vision for Energy and*

the Future: Challenge 2020 Vision. It was aimed at achieving continued growth of the Group.

In the Hop stage (fiscal 2012-2014) and the Step stage (fiscal 2015-2017), we worked to significantly expand our business domains and areas, establish seven business domains and construct a new group formation, with the aim of becoming a global, integrated energy corporate group.

Taking over the managerial leadership, it is my duty to steadily implement the GPS2020 medium-term management plan for fiscal 2018-2020, which coincides with the final Jump stage of the vision, achieving targets ahead of schedule if possible, and pushing ahead with considerations for the next long-term management vision.

For fiscal 2018, which was the first year in the Jump stage, we successfully increased both net sales and profit and saw remarkable results in the electric power segment. We worked towards the goal of supplying the Tokyo Gas Group's electricity to 2.2 million customers by the end of fiscal 2020, and consequently attained a steady hike in electricity customers in the first fiscal year. We therefore revised the target upwards from 2.2 million to 2.4 million, and revised the target date to the end of fiscal 2019, one year ahead of the initial schedule, which has boosted the confidence of our employees.

We also made healthy progress in the energy-related segment. Tokyo Gas Engineering Solutions Corporation (TGES), a subsidiary of Tokyo Gas, and

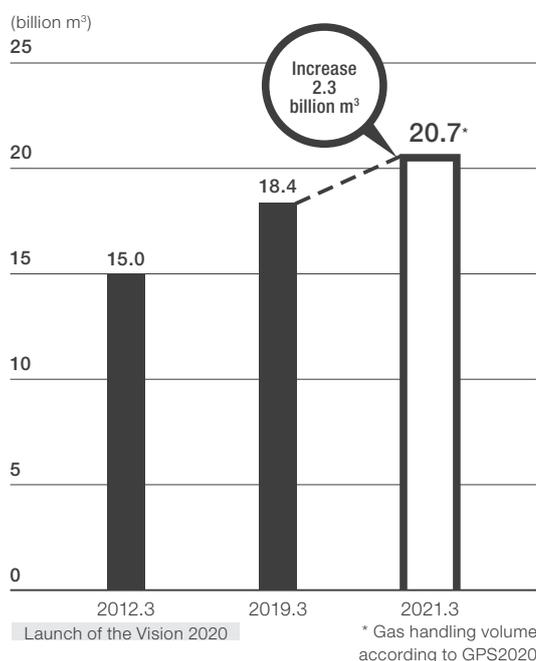
other companies expanded their service areas and now serve the entire country, from Hokkaido to Okinawa. They engage in the construction and operation of LNG terminals, energy supply, fuel shifts, energy-saving services and offer wide-ranging value. In addition, they are expanding operations to Thailand, Bangladesh, the US and other countries.

In the real estate segment, we also made good progress, including redevelopment of the land that we own, which is directly linked to the east gate of JR Tamachi Station, acquisition of a new property in Toranomon in Minato-ku, and leasing operations at medium- and small-sized land lots. In addition, we integrated our three related subsidiaries into one to create a structure for more active operations.

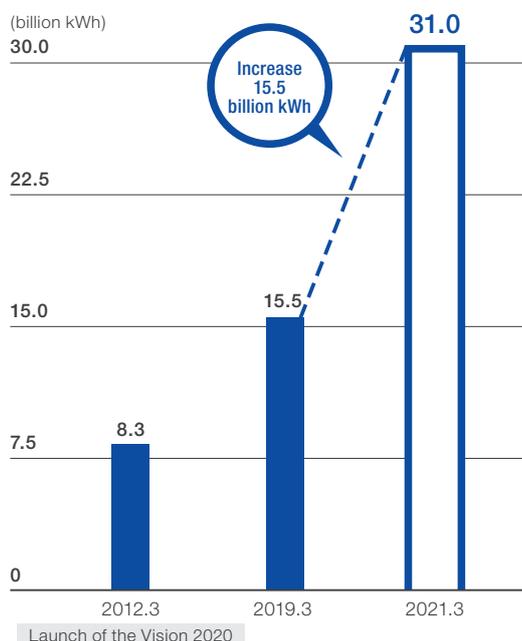
We will overcome harsh business circumstances by taking a long-term perspective.

Meanwhile, our overseas expansion is lagging. Regrettably, no massive growth in energy supply volume is likely in Japan, because of the aging and shrinking population with the decline in the birth rate, the decrease in households and improvement in heat insulation and draft-free characteristics of buildings. However, it is possible to expand business mainly to countries in Southeast Asia, where natural gas is becoming widely used. While striving to obtain a larger market share in the mature domestic market, we will focus on the expansion of overseas business.

Gas Sales Volume (based on the Vision)



Electric Power Sales Volume





CEO's Message

The next long-term management vision will target 2030.

Towards a target of achieving an environmentally-friendly energy supply, mainly for natural gas, in overseas markets, we will enter new markets and contribute to the enhancement of customers' lifestyles and industrial development.

Our most important target is to stop the decrease in gas retail customers from surpassing the preset limit. New market entrants include not only TEPCO Energy Partner, Inc., but also CD Energy Direct Co., Ltd., in which CHUBU Electric Power Co., Inc. and Osaka Gas Co., Ltd. are stakeholders, in addition to JXTG Nippon Oil & Energy Corporation, the largest oil distributor in Japan. Today, we are competing with at least 20 companies, making it difficult to maintain our market share in the gas retail market. We think we need a long-term perspective with an eye toward the future of energy to restore the business.

We will address EaaS with a focus on the four Ds.

In our next long-term management vision that will serve as the guidelines for our actions, we will define 2030 as a target and emphasize how the business structure may change in the future, paying attention to the four Ds for gaining insights into changes in the surrounding business circumstances.

The first D stands for deregulation. We will study how to respond and establish unbeatable operations. The second D refers to decarbonization. We must consider how to respond to the demand and prepare. The third D pertains to the decentralization of energy. This trend is already gathering momentum in society. We will explore how to combine gas cogeneration systems, storage batteries, photovoltaic and wind power generation and suchlike in addition to the traditional one-way energy transmission from large power plants. The fourth and final D means digitalization. It offers a perspective on what business should be created by using the latest digital technologies and how conventional business and work can change through digitalization.

We are planning to consider the balance of energy supplied in view of the four Ds and to create and develop Energy as a Service (EaaS) for the domestic market, where demand growth will be limited.

The smart energy network is an example of EaaS.

It has already been implemented in projects in Tamachi and Nihombashi Muromachi. Using clean city gas as fuel, its cogeneration system produces electricity, and at the same time the heat generated is supplied for cooling, heating, hot water supply and steam supply. The network also features ICT-based energy management. It is not only helpful for energy conservation and environmental preservation, but also delivers reassurance in the sense that electricity is available even in the event of a disaster.

We will take steady steps towards evolving into a genuine, integrated energy company.

We are increasingly asked by investors about our actions towards complete freedom from carbon, transcending low-carbon society. I do not think that a society only built on unstable renewable energy sources, such as photovoltaic and wind power, can be built in a day, because a low-carbon society has yet to be achieved. The fastest path to building a low-carbon society will be to make effective and intensive use of natural gas, which will also pave the way for meeting the target set by the government for cutting greenhouse gas emissions by 26% (from the fiscal 2013 level) by fiscal 2030. This explains why we are focusing on natural gas and constructing a system for supplying it in combination with renewable energy.

Subsequently, we may see a carbon-free society created with the use of hydrogen or other means. Meanwhile, we will carry on with our research and development efforts.

Our Group has an entrepreneurial spirit, and more importantly, we are supported by more than 11 million customers. We will overcome the challenges that arise from deregulation and liberalization and steadily take steps toward evolving into a genuine, integrated energy company. We will thus work to construct foundations for supplying energy to the world.

We define the period until 2020 as an investment stage. However, we will firmly boost profit in a bid to maintain a total payout ratio of 60%. For the fiscal year ended March 31, 2019, we increased dividends per share by 5 yen to 60 yen. I hope that our stakeholders will look forward to the Tokyo Gas Group's future developments and continue to support it for years to come.

For the next 50 years

LNG50th 

TOKYO GAS INTEGRATED REPORT 2019



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 will evolve from a gas company serving the greater Tokyo area into a global, integrated energy company.

We will formulate the next long-term management vision towards 2030.

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.

Use of renewable energy and LNG is the best path towards the creation of a low-carbon society. We will contribute to society through our core business.

While making growth investments, we increased dividends per share by 5 yen.