
## In preparation for the tumultuous time ahead, the Tokyo Gas Group is accelerating efforts to realize the "Challenge 2020 Vision."

Michiaki Hirose was appointed the new president of Tokyo Gas Co., Ltd., in April 2014. In this section, President Hirose explains his views on "The Tokyo Gas Group's Vision for Energy and the Future ~Challenge 2020 Vision~," also referred to as the "Challenge 2020 Vision." He also discusses his thoughts on system reform and other aspects of the competitive landscape and on the Company's growth strategies. For an overview of performance in fiscal 2013 and information on the progress of the "Challenge 2020 Vision," please refer to the following pages.


- Overview of Performance in Fiscal 2013 P.6
- Summary of the "Challenge 2020 Vision" P.13
  http://www.tokyo-gas.co.jp/IR/english/manage/vision_e.html
- Financial and Industry Data: *Investors' Guide 2014*
  http://www.tokyo-gas.co.jp/IR/english/library/invguid_e.html


### Q What do you see as your mission with regard to realizing this vision?

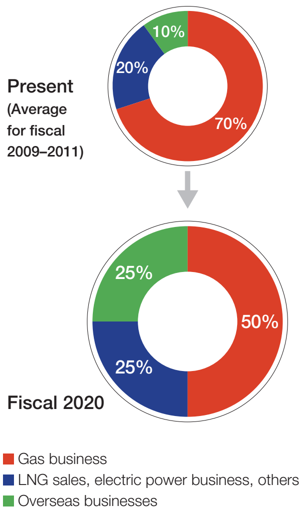
**I have confidence in the path laid out in the vision, and my mission is to ensure its advancement.**

After the Great East Japan Earthquake, which devastated Japan on March 11, 2011, we looked forward toward the coming change in tides. A vision was formulated to display the direction for the Tokyo Gas Group to advance in the future and the path it would use to get there. That vision is what we call the "Challenge 2020 Vision." Two and a half years have passed since the vision was formulated. Today, the fundamental order of Japan's energy supply systems and industries, which has been maintained for more than 60 years since the end of World War II, is being reconstructed from the ground up. In the wake of this great change, the expectations for Tokyo Gas, which has been a leader in the fields of natural gas and dispersed power systems, are rising. The vision is progressing as planned, even as everything around it changes, and my confidence in the accuracy of the path laid out has been reaffirmed. My mission now is to ensure the advancement of this vision.

The market is moving toward full deregulation, which will give rise to fluidity in terms of the industry—as the abolishment of restrictions on market participation gives greater freedom to electric power companies, gas companies, and other energy providers—and fluidity in regard to service areas—following the elimination of regional monopolies. The "Challenge 2020 Vision" has been prepared to deal with this change to the competitive landscape, describing two transformations we must undergo in the future.

The first transformation is to become a comprehensive energy company. This transition will entail strengthening operating foundations in our core gas business while creating new business pillars in such

**Changing Business Structure**
(Consolidated net income ratio by business)



fields as power generation, engineering, and energy services. The second transformation is to make Tokyo Gas a global company. This process will involve expanding our operating foundations out from our foothold in the Tokyo metropolitan area to encompass all Japan and, eventually, to spread onto the global stage. As we work to undergo these transformations, the composition of our earnings will also change. When the vision was formulated, the ratio of earnings of our various businesses—namely, the gas business; LNG sales, the electric power business, and other businesses; and overseas businesses—was 7:2:1. Over the course of the vision, we aim to change this ratio to 2:1:1.

## Q What are your thoughts regarding the current stage of the "Challenge 2020 Vision"?

**This stage is critical for forming the structures that will be needed in the coming period of tumultuous change.**

The "Challenge 2020 Vision" defines the period from November 2011, when it was announced, to the end of fiscal 2014 as a "hop," the period from fiscal 2015 to fiscal 2017 as a "step," and the period from fiscal 2018 to fiscal 2020 as a "jump."

The energy industry of the future will be unlike anything we have seen before and will be characterized by unprecedented competition to acquire customers. In this difficult operating environment, we will not be able to survive on the global stage if we rely on conventional business practices. Rather, we will need a bold, pioneer spirit and a sense of speed. Moreover, the competition of the future will be conducted on the group level, meaning that the Tokyo Gas Group will have to pull together to raise its overall strength. The current stage has been positioned as a "hop," and we will use this stage to form the structures that the Tokyo Gas Group will require in the coming period of tumultuous change by transforming employee awareness and revising organizational and wider Group systems. Fiscal 2014 is the final year of this stage, making it especially crucial. In 2014, the schedule for the deregulation of the market has become clearer, and we must accelerate our advance toward realizing the vision to respond.

## Q What are the Company's polices for procuring resources?

**With its world-leading customer base, Tokyo Gas is well positioned to reduce resource procurement costs and give form to the potential that lies beyond.**

At present, resources, namely LNG, are primarily procured through contracts with rigid conditions that link gas prices to crude oil prices, require long-term agreements, and forbid changes in shipping destination and reselling. Japan suffers particularly as it is dependent on imports for resources and is currently limited in choices for power sources. For this reason, the country is forced to purchase LNG at higher prices than other countries to meet its needs for thermal power generation fuel. Key to reducing resource procurement costs is greater bargaining power. We can achieve this by utilizing a wide range of procurement options, such as procuring resources from a wider range of regions, including Asia and Oceania, and utilizing both conventional and unconventional natural gases. And, to those ends, Tokyo Gas employs a procurement strategy that advocates "three areas of diversification" for resource procurement, by which I mean the diversification of resource suppliers, the diversification of procurement contract conditions, and the diversification of our global LNG network. A large step forward in all areas of diversification can be seen in our involvement in the Cove Point LNG Project, which is on the eastern coast of the United States and features procurement prices linked to this country's natural gas market through the Henry Hub index.

Tokyo Gas is a public utility. Accordingly, we have traditionally viewed resource procurement as a task necessary to supply our service, with natural gas being nothing more than the resource used in this service. For this reason, we only procured the amount of gas that would be necessary to meet the projected demand. However, the Company's potential expands greatly when we depart from this preconception, shrugging of the limits of demand to view natural gas as a product and our gas business as just that: a business. For example, the procurement of LNG volumes that exceed the demand in our service area will enable us to utilize economies of scale to capture substantially more beneficial procurement conditions. We will be able to make such bold moves if we find ways to use the surplus LNG to satisfy demand outside our service area. Furthermore, if we supply procured LNG throughout Japan, and even throughout the world, the fluidity of the global LNG market will increase, possibly creating new business opportunities for Tokyo Gas at the same time. This is the potential that lies beyond our current procurement practices.

Needless to say, the procurement of LNG in quantities that exceed demand carries significant risks. We will also face difficulties in accumulating the knowledge, securing the human resources, and building the networks that will be essential to this undertaking. However, with its customer base of more than 11 million users, Tokyo Gas is well positioned to take on this challenge.

## Q What are the Company’s policies with regard to production and supply infrastructure?

**Infrastructure development will be advanced steadily while considering the potential for creating new demand.**

Infrastructure development plans are generally formulated with projected demand as the prerequisite. However, infrastructure development can also be used to create new demand. For example, the opening of the Chiba–Kashima Line created demand to the extent of approximately 800 million m$^3$ in the Kashima Waterfront Industrial Zone during fiscal 2013, with total demand of 1,500 million m$^3$ expected to be seen in fiscal 2014. In consideration of this potential, we will steadily advance infrastructure development in line with the “Challenge 2020 Vision,” realizing that these efforts will build the foundations for future growth.

Currently, our infrastructure network is centered on three LNG terminals in Tokyo Bay, from which we primarily move natural gas in a northward direction. While the Tokyo Bay area is ripe with demand, the overconcentration of LNG terminals in this area represents an energy security issue that needs to be addressed. Furthermore, the Company estimates that latent demand in the range of 9 billion m$^3$ exists in the Kanto region, which represents the area within a 200-kilometer radius around Tokyo. However, the majority of this demand resides in Gunma Prefecture, Tochigi Prefecture, Ibaraki Prefecture and other parts of northern Kanto. Looking at this situation, there is a clear need for the Company to construct LNG terminals along the eastern coastline of Japan to create a flow of natural gas that heads from north to south. This is a major goal of the construction of the Hitachi LNG Terminal in Ibaraki Prefecture, and pipelines that connect this terminal to Tochigi Prefecture and to Saitama Prefecture. While the route is currently being investigated, we also plan to build a pipeline connecting the Hitachi LNG Terminal to Kashima, also in Ibaraki Prefecture, to create a wide-area pipeline loop that encompasses all the Tokyo metropolitan area and supplements our current pipeline loop centered on the Tokyo Bay area. In this way, we aim to install redundancy into our pipeline loops by 2020.

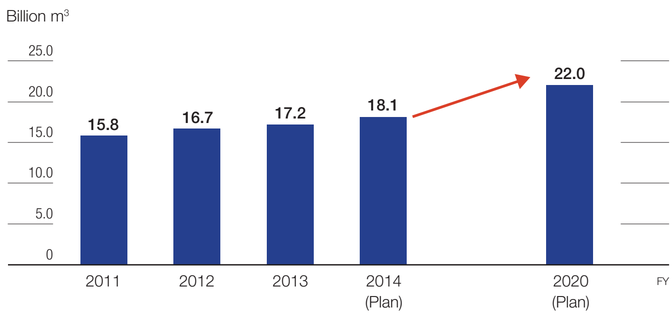
## Q What are the Company’s gas sales policies?

**As well as industrial and commercial demand, we will also address demand in the residential sector, which is expected to be stable going forward, while providing lifestyle improvement proposals.**

When the “Challenge 2020 Vision” was formulated, gas sales volumes were around 15.0 billion m$^3$. The vision calls for us to raise the gas sales volume to 22.0 billion m$^3$ by fiscal 2020, and we are making steady progress toward this goal, with the sales volume reaching17.2 billion m$^3$ in fiscal 2013. Looking ahead, we foresee no change in our policy that positions industrial demand, including both general industrial demand and demand for power generation purposes, as the main driver for sales volume expansion. Demand for commercial applications is also expected to increase accompanying a rise in the production of ready-to-eat meals, and we believe it will be possible to respond to customer needs by providing solutions.

The residential sector is expected to see stable demand going forward. Moreover, we believe that this sector offers even greater quantities of demand for us to reap by leveraging the Company’s strengths to create additional value, or in other words by providing lifestyle improvement proposals, such as measures for preventing heat shock. Of course, increasing the number of residential households we serve will continue to be a priority. However, we will also actively provide lifestyle improvement proposals to expand the volume of gas sold per household.

**Gas Sales Volumes (“Challenge 2020 Vision” forecasts)**



Q

## What policies is the Company considering for the electric power business after market deregulation?

**This development is seen as a significant opportunity, and we are examining it from various angles.**

Even looking just at the Tokyo metropolitan area, electricity demand greatly exceeds natural gas demand. For this reason, we see the deregulation of the electricity market as a significant opportunity for Tokyo Gas. We are currently developing electric power generation and wholesale businesses, and we are eagerly examining the possibility of entering the retail electric power business. In this endeavor, I believe our operating foundation in the Tokyo metropolitan area as well as our experience and expertise in relation to power generation projects and dispersed power sources will be invaluable assets. Needless to say, acquiring customers will be no easy task. We established the Business Restructuring Project Department in April 2014 to address this concern. This department is currently examining various ideas for future participation in electric power businesses to determine whether or not these ideas can be transformed into realistic and appealing businesses. At the same time, we will need to look at the overall management of electric power businesses, considering such decisions as to what field limited power sources will be allocated and how alliances will be pursued when base power sources are needed. Discussions are currently being advanced with the aim of commencing retail electric power business in April 2016.

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## How will the Company address deregulation in the gas business?

**Our accumulated management resources will be a major advantage, but we still cannot afford to drop our guard.**

In the gas business, we will be the one facing new participants after the deregulation. We are formulating projections for the deregulated market through a multifaceted examination based on such considerations as how deregulation will proceed, what companies will participate and in what capacity, and what pricing schemes will appear.

The main factor behind customer choices will likely be price, and I am confident that Tokyo Gas will be able to provide competitive service while matching the average price. Aside from pricing, over our years of operation, we have accumulated substantial expertise along with management resources in the forms of our safety, reliability, and services. These resources will no doubt prove to be a major advantage for the Company. Nevertheless, we cannot afford to drop our guard. We must remain vigilant and act with speed as we advance preparations for the market's deregulation.

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## What are the Company's policies with regard to shareholder returns?

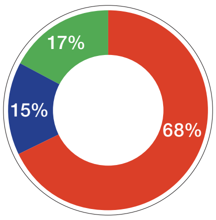
**In light of market deregulation in the medium-to-long term, it is necessary to consider the most appropriate way of issuing shareholder returns.**

Our shareholder return policy calls for a total payout ratio of around 60%, including dividends and repurchases of stock scheduled for cancellation. Our first priority is to provide shareholders with stable dividends. After this task is accomplished, we will gradually increase dividend payments as a result of developing our business and improving managerial efficiency. At the same time, we will repurchase stock to ensure that the total payout ratio remains at around 60%. However, in light of the deregulation of the gas market in the medium-to-long term, it is necessary to consider the most appropriate way of issuing shareholder returns through a multifaceted and ongoing approach. In fiscal 2013, we made dividend payments of ¥10 per share, the same as in fiscal 2012. In addition, we repurchased stock for cancellation, paying ¥40.0 billion for 70,773 thousand shares of stock. In fiscal 2014, we forecast a dividend of ¥10 per share.

Our "Challenge 2020 Vision" calls for total consolidated operating cash flow of ¥2,240.0 billion between fiscal 2012 and fiscal 2020, and we will also procure a total of ¥240.0 billion from outside the Company. Of this amount, 17%, or ¥420 billion, is earmarked for shareholder returns; 68%, or ¥1,680 billion, for capital expenditures; and 15%, or ¥380 billion, for investments and financing.

**Capital Expenditures / Investments and Financing / Shareholder Returns**

Fiscal 2012–2020 total: Approx. ¥2,480.0 billion




Capital expenditures **¥1,680.0 billion**

Investments and financing **¥380.0 billion**

Shareholder returns **¥420.0 billion**

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|---|---|
| Consolidated operating cash flow | ¥2,240.0 billion |
| External debt (interest-bearing debt), etc. | ¥240.0 billion |
| Capital expenditures, Investments and financing, Shareholder returns | ¥2,480.0 billion |