Representative Director, President

Michiaki Hirose

The Tokyo Gas Group is seeking out sustainable growth while taking up the challenge of transforming itself.

Ahead of the full liberalization of the retail sectors for electricity and gas, the fabric of the energy industry itself is changing in Japan. At the center of this tumultuous change, the Tokyo Gas Group is transforming itself in a bid to sustain growth as the industry enters virgin territory.

In November 2011, we formulated "The Tokyo Gas Group's Vision for Energy and the Future ~Challenge 2020 Vision~." My mission is to make this "Challenge 2020 Vision" into a reality and ensure the unfaltering growth of the Tokyo Gas Group into the future.

From our base of operations in the Tokyo metropolitan area and core gas business, we aim for further growth by expanding our business fields and strengthening our operating foundation. In these endeavors, we may encounter the occasional failure or setback, but we intend to minimize the impact of these missteps through risk management. I believe it is vital that we continue to boldly take on new challenges without hesitation in order to become a truly global company—a total energy company that flourishes in the coming new era of deregulation.

I ask for the continued understanding and support of our stakeholders, including our customers, shareholders, local communities and business partners.

Q. What are your impressions of the fiscal year ended March 31, 2015?

A Although performance was adversely affected by external factors such as the decline in crude oil prices, we were able to lay the groundwork for taking the next step.

Japan's energy industry is undergoing its biggest transformation since the 1950s, and I was appointed to the position of president in April 2014 in the midst of this transformation. While emphasizing continuity amid these unprecedented changes and rapidly shifting landscape, I have served as president with a keen understanding of my role as a banner-bearing leader responsible for steering the Company in a new direction.

Looking back on the fiscal year ended March 31, 2015, Tokyo Gas's performance was impacted in no small way by considerable changes in external conditions, such as the sharp drop in crude oil and gas prices through the second half, as well as the consumption tax hike in April 2014. Normally, earnings in the gas business do not fluctuate that much over the short timeframe. The impact from the drop in crude oil and gas prices was especially significant, leading to impairment losses of ¥29.5 billion in the overseas upstream business during the fiscal year.

Fiscal 2014 was also the final year of the initial three-year "hop" stage of the "Challenge 2020 Vision." In autumn 2014, we put together the principle measures for the "step" stage over the next three years. We are pleased that the Company has already gotten off to an excellent start in the "step" stage during fiscal 2014, as evident in a number of performance indicators. For example, Tokyo Gas Asia Pte. Ltd. was established in Singapore as our regional headquarters for business and investment activities in Southeast Asia. Centered on this new company, we intend to create a group formation overseas that encompasses bases in Vietnam, Indonesia and Thailand.

Q. How is progress toward "Challenge 2020 Vision," and what measures are being implemented?

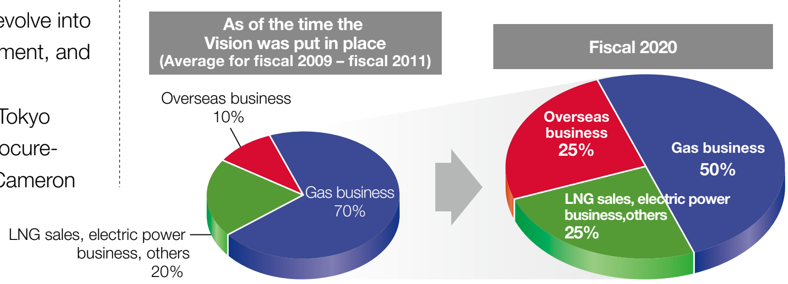
A Over the next three years, we will focus on evolving into a total energy business, accelerating global business development, and constructing a new group formation.

Our Vision aims to further enhance value in the LNG value chain by following an action plan that entails three components: (1) diversify and expand resource procurement and overseas business; (2) ensuring a safe and reliable energy supply; and (3) provide energy solutions that meet customer needs. On all these fronts, we have made steady progress in line with initial plans. In light of these results, we are transitioning to the "step" stage of the Vision from fiscal 2015, and these three very important years will prepare us for the next "jump" stage.

The primary measures for the "step" stage are threefold: evolve into a total energy business, accelerate global business development, and construct a new group formation.

With regard to the evolution into a total energy business, Tokyo Gas has made progress diversifying sources for resource procurement, entering into agreements to purchase LNG from the Cameron LNG Project in the U.S. and signing a memorandum of understanding with Korea Gas Corporation for mutual cooperation on strategic initiatives. At the same time, Tokyo Gas continues to upgrade infrastructure centered on the Hitachi LNG Terminal Project, which aims to spread the use of natural gas further. With an eye on the April 2016 deregulation of the electricity retail sector, we aim to attain approximately 30 billion kWh in electric power sales by 2020, equivalent to about 10% of electricity demand in the Tokyo metropolitan area. Tokyo Gas is focusing its efforts on the provision of optimal energy solutions that combine value added from both gas and electricity.

Changing Business Structure (Consolidated net income ratio by business)



In the context of accelerating global business development, Tokyo Gas has been concentrating management resources specifically in the targeted regions of North America in the upstream business and of Southeast Asia and North America in the midstream and downstream businesses, including engineering solutions. We intend to swiftly promote overseas business, but will take cautious steps due to the significant risks involved.

Thirdly, we seek to construct a new group formation. I have already touched on overseas group formation above, and in Japan, we are adjusting the direction of each business with the aim of integrating functions and operations, including at subsidiaries and affiliates, through the selection and concentration of businesses. The gas business will always be our core business. Going forward, however, we will pivot toward fostering a second and third pillar of operations to complement the gas business in a bid to shift away from management focused on one dominant business, like Mt. Fuji, to management of several large businesses, like an entire mountain range.

Q. Please describe the Company's policies for the core gas business.

A We emphasize a balance of stability, economic viability, and flexibility in our procurement of resources, while continuing to upgrade infrastructure in the northern Kanto area.

Infrastructure must be upgraded to satisfy expanding demand for gas. Our existing gas infrastructure consists of pipelines extending northward from three LNG terminals in Tokyo Bay. Farther to the north in Japan, Tokyo Gas is constructing the Hitachi LNG Terminal, from which pipelines are being constructed southward to compete the connection to its supply network. Tokyo Gas plans to begin operations of the Ibaraki-Tochigi trunk line that links up with the Hitachi LNG Terminal in the second half of fiscal 2015. This trunk line will improve the reliability of its natural gas supply infrastructure and should play a major role as the Company taps into the potential for considerable demand in the north Kanto area. As one example of this potential demand surfacing, Tokyo Gas has already entered into an agreement with Kobe Steel, Ltd., one of the largest independent power producers (IPP) in Japan, to supply gas to its gas-fired thermal power plant that will be constructed near Moka City, Tochigi Prefecture.

Resource procurement is another key aspect of the gas business. When forming a strategy for resource procurement, reliability is the most important factor, but so is economic viability with competitive sources, as well as flexibility in being able to adapt to changes. How best to balance out these three factors is the conundrum we constantly face. While economic viability has been main focus for the past few years, we now aim to diversify procurement sources, pricing benchmarks and destination clauses through more flexible arrangements with a variety of market players inside and outside Japan. Levering economies of scale, we intend to ensure the stable and inexpensive procurement of resources.

Learning from the lessons of the Great East Japan Earthquake, Tokyo Gas is stepping up efforts to prevent damage from natural disasters, focusing on making its facilities more resistant to earthquakes.

The Tokyo Gas Group will continue to make every effort to ensure a reliable and safe supply infrastructure, the foundation of its gas business.

Q. What is Tokyo Gas's strategy for the electric power business in light of deregulation?

A Tokyo Gas is making preparations to begin selling electricity pre-order sales, with the objective of acquiring 10% of demand for electricity in the Tokyo metropolitan area by 2020.

In the power generation business, with the full-scale liberalization of the retail electricity sector in April 2016, Tokyo Gas is focusing on the sale of electricity to households and small commercial customers, the sectors that are subject to deregulation, in addition to wholesale and large-lot customer markets. By 2020, Tokyo Gas aims to acquire a 10% or so share of the electric power market in the Tokyo metropolitan area, a very ambitious target.

In 2017, the retail gas sector is due to be fully deregulated, putting Tokyo Gas in a defensive position over its current 100% market share. Since the electricity market is considerably larger than the gas market, the Tokyo Gas Group regards the liberalization of the retail electricity sector as a major business opportunity.

While developing the power generation business, we are putting in place a value chain for electric power, from power plants to retail sales. In this endeavor, we can leverage our base of 11 million customers in the Tokyo metropolitan area, the nerve center of Japan, as well as the close customer relationships that have been built up locally through Tokyo Gas Lifeval subsidiaries, our gas sales channels. Tokyo Gas is in the final stages of preparations for the start of electricity pre-order sales this autumn, including system updates, rate structures and service options. We now aim to win market share and generate synergies through advertising in mass media and community and customer-focused marketing through Tokyo Gas Lifeval subsidiaries. I believe the true value of our relationships with customers to date will be reflected in the number of customers that choose to purchase electricity from Tokyo Gas.

We plan to expand our own power generation capacity to approximately 3,000 MW by 2020 from the current capacity of 1,300 MW. We also aim to build an even more competitive power source portfolio by adding power sources to our current base of gas-fired thermal power plants.

Q. Please explain plans for overseas business development and expansion.

A Tokyo Gas is concentrating management resources in specific target regions with upstream business in North America and midstream and downstream business in Southeast Asia and North America.

Above, I described how Tokyo Gas is dividing its overseas business strategy by region for upstream business and midstream and downstream business. In the upstream business, which can be regarded as a resource business, Tokyo Gas pursues growth through the acquisition of upstream beneficiary rights alongside traditional LNG procurement, as well as the acquisition of gas field beneficiary rights in North America and other regions without rights for procurement. Moreover, Tokyo Gas aims to diversify the ways it participates in projects, such as by participating in small and medium-scale LNG projects as well. In North America, we are aggressively seeking out promising projects while expanding and enhancing our management team based in Houston, Texas. Since upstream business is exposed to short-term trends in crude oil prices, we are balancing it with expansion in the midstream and downstream business, which should bring in more stable revenues.

Our midstream and downstream business is centered on Southeast Asia. If countries in Southeast Asia follow the same path taken by Japan in terms of population growth and economic development, we see the need to create an LNG value chain in the region. Tokyo Gas aims to contribute to the creation of energy infrastructure and provide energy solutions, such as for factories and commercial facilities, in Southeast Asian countries by leveraging the Group's accumulated technologies and expertise in the total energy business centered on LNG. Through alliances with local energy companies, Tokyo Gas is taking on the challenge of developing value chains from the import of energy resources to its supply and consumption. We intend to grow this business by contributing to the development of countries in Southeast Asia while fostering personnel with insight in local conditions, such as local legal systems and business practices, even if it takes time.

Q. What impact will reforms to electric power and gas systems have on the business structure of Tokyo Gas?

A Through trial and error, management will do its utmost to steer Tokyo Gas through tumultuous change while making preparations for every scenario imaginable amid a strong likelihood of corporate restructurings and mergers.

The gist of reforms to the electric power and gas systems goes to the roots of these two businesses, tearing down regional barriers in both the electric power and gas sectors. Throughout the process of reforms, corporate restructurings and mergers are expected to pick up. In April 2015, Tokyo Electric Power Co., Ltd. and Chubu Electric Power Co., Ltd. formed an alliance that established JERA Co., Ltd., a new company with operational scope ranging from upstream business and fuel procurement through to power generation. This was a ground-breaking event for the energy industry in Japan.

As a country poor in natural resources, Japan must import most of its energy, making it imperative to address the significant issue of negotiating lower LNG prices. JERA Co., Ltd. plans to procure 40 million tons of LNG annually, one of the largest procurement mandates in the world. If this company is able to gain bargaining power through economies of scale, we would expect positive ripple-down effects for not only Tokyo Gas, but for Japan as a whole.

As Japan moves for the first time toward the full liberalization of its electric power and gas markets, Tokyo Gas has been preparing for every scenario imaginable by examining similar cases overseas as well as cases of deregulation in other sectors, such as finance and telecommunications. However, we have limited visibility on how the industry will look after deregulation takes effect. By taking a flexible approach through trial and error, we will spare no effort in charting a path of growth for Tokyo Gas throughout this period of tumultuous change that only happens once in a lifetime.

Schedule for liberalization of electric power and gas markets (plan)

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

A Tokyo Gas aims to maintain a total payout ratio of 60% by striking a balance between returns for shareholders and customers, given the strong public nature of its business.

Tokyo Gas intends to increase dividend step by step over the long term in tune with profit levels without cutting dividends. Moreover, our basic policy is to maintain a total payout ratio of 60% to shareholders through the buyback and retirement of shares.

The introduction of the Corporate Governance Code has focused attention more than ever on return on equity (ROE). Tokyo Gas has traditionally emphasized efficiency indicators like ROE in addition to stability and growth indicators. Ever since we set a medium-term target for ROE of 8% in 2011, there have been a number of years where ROE has been higher than this level. Tokyo Gas must gain the understanding of its customers in the course of operations, because this is a heavily regulated industry that serves local communities and society as a whole. For this reason, our management stance to date has emphasized a well-balanced approach our customers, our biggest stakeholders, and our shareholders. By making our operations more efficient, our customers benefit from lower gas prices, and our shareholders benefit in the form of higher dividends. I think that an ROE target of 8% should be regarded as the level of commitment we can make to shareholders, in light of the nature of our business.

Our corporate and business philosophy will not change in principle after deregulation. As deregulation progresses along the timeline for full liberalization, there may be a time when management revises its approach to ROE. However, I believe we will stay with our current approach until 2020, while looking for room for improvement.

Total payout ratio