Tokyo Gas will maintain financial health and appropriate and timely shareholder returns, and steadily implement growth-driven investments to achieve continuous profit growth.

Isao Nakajima
Senior Executive Officer, CFO

Triple promotion of growth strategy, financial health, and shareholder return

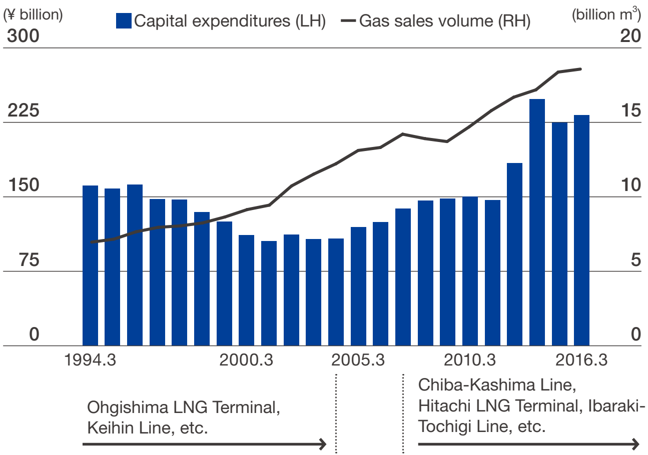
As CFO, I participate in setting management strategy and am also in charge of financial strategy, capital policy, and business administration. Based on the premise of assuring appropriate shareholder returns each year, I firmly believe that the way to respond to this mandate by the company, it being entrusted with capital from its shareholders, is to realize continuous profit growth into the future. I therefore aim at well-balanced allocation of operating cash flow to growth investments, maintenance of a healthy financial position, and policy for medium- to long-term shareholder return.

For that purpose, return on equity (ROE) is an indicator we focus on. As ROE is return on assets (ROA) multiplied by financial leverage (assets divided by equity), it is critical to raise ROA in order to improve ROE. Therefore, we regularly assess the group's assets and businesses, and try to compress total assets by sale or disposal of assets or businesses which make less sense to own, when appropriate. At the same time, we strictly review the purpose and business potential of our investments.

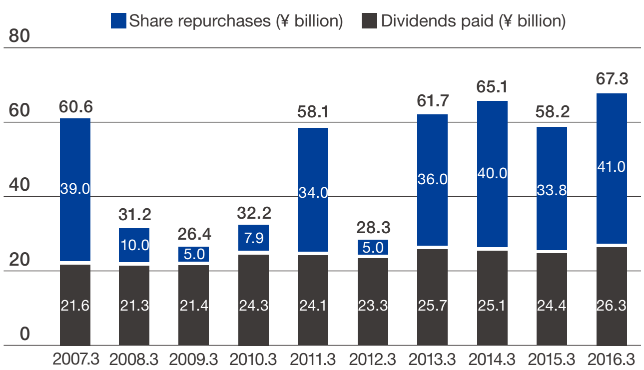
Financial leverage is another way to improve ROE but we should not be short-term oriented. Rather we find it important to balance "accumulated retained earnings to be used for growth investments and in ensuring financial health" with "return to shareholders". In order to secure fund sources for medium- to long-term shareholder return, continuous growth investments are critical. Financial health is indispensable for sustaining high credit ratings (Aa3 by Moody's and AA- by S&P), and will eventually lead to restrain funding costs and become more trusted by our customers. By keeping these things in mind, we will continuously and aggressively strive for dividend payment and share repurchases.

From the viewpoint that it is important to clearly communicate our views and policy on shareholder return to shareholders, we have set a target for a total payout ratio (ratio of dividends and stock repurchases to consolidated net income) of approximately 60% and have steadily been implementing it. In regard to dividend payment, we aim to maintain stable levels while carrying out a gradual increase in dividends. Since fiscal 2000 when we raised the annual dividend from ¥5 per share to ¥6, and we have gradually raised it to ¥11 in fiscal 2015, up ¥1 from the previous year. In fiscal 2016, we intend to maintain ¥11 in dividend despite expecting a significant decline in profit mainly due to an increase in gas resource costs.

Capital Expenditures and Gas Sales Volume



Shareholder Returns



Total payout ratio

60.1%	73.6%	63.4%	60.1%	60.9%	61.4%	60.7%	60.0%	60.8%	60.1%

*1 Non-consolidated basis up to fiscal 1998; consolidated-basis from fiscal 1999 *2 Gas sales volumes from fiscal 2011 are on a 2020 Vision basis. (Including the portion used in tolling and the LNG sales volume.)

Basic Financial Policy

1
Steadily implement growth investments

Aiming to realize continuous profit growth in the years ahead, growth investments are to be appropriately prioritized and implemented from a medium- to long-term perspective.

2
Ensure financial health

We will keep the D/E ratio at approximately 0.8 and credit rating at the AA-level to maintain funding capacity and creditability.

3
Clarify shareholder return policies

Under the policy of aiming at a total payout ratio of approximately 60% to shareholders, profits are to be distributed to them appropriately and timely.

Continuous investment to grow as a total energy company

Our focus for realizing sustainable growth is to evolve into the total energy business and to accelerate global business development. We seek to move away from management focused on one dominant business in city gas, corresponding to Mt. Fuji, to management of several large businesses, including the electric power business and the overseas business, corresponding to an entire mountain range. While we are prudent in investment assessment, we will not hesitate to make growth investment once it is determined to be needed.
With regard to the evolving into the total energy business, it is indispensable to establish and expand the production and supply infrastructure of city gas. Investment recovery tends to take substantial time in our business and we may have to bear temporary declines in profit if production and supply capacity (increase in depreciation burden) exceeds demand acquisition (increase in revenues) for some time after construction is completed.
Nevertheless, such investment will lead not only to acquire hidden demand but also to stimulate and create new potential demand. For example, Kobe Steel is currently constructing Moka Power station with operation scheduled to commence from 2019 and Tokyo Gas will supply city gas to this state-of-the-art 1,200 MW gas-fired thermal power station. This mega project has been set up after the Hitachi LNG Terminal construction was completed in fiscal 2015 and the Ibaraki-Tochigi Line was scheduled to be built to connect this terminal with Moka City in Tochigi Prefecture. Tokyo Gas plans to purchase all of the electricity generated at this station and expects it to become our main electricity source and support our electricity business in the future.
In April 2016, we began doing retail electric power business. Among about 300 new suppliers, we have so far received the highest number of customers, which has given us some confidence toward the future. The backdrop for this outcome must include our long-nurtured bonding with our customers in the gas business and our brand power in reliability, safety, and trust.
Also, we believe that our careful and cautious advance in retail electric power business will protect our city gas customers. As we have identified fiscal 2016 as an important year to solidify our No. 1 position as a new power entrant, we are investing significant management resources in establishing arrangements for customer services and sales. Although earning profits will be difficult, we will heavily invest our group power in the retail electric power business, with the spirit of "First come, first served."
Regarding global business development, we will make careful assessment of feasibility of each potential project and the oil and gas market trend, and intend to steadily expand our business to accumulate favorable businesses. In addition to the LNG and shale gas businesses in Australia and North America, we plan to invest in power generation and energy service businesses in Southeast Asia. In fiscal 2016, we decided to invest in a few projects, all of which are joint projects with an excellent local partner. We thereby intend to reduce risks and grow earnings from them.

Message to shareholders and dialogue with capital markets

I think it is important to talk about our initiatives to investors as accurately as possible, without pretending ourselves to be bigger than we actually are. In the last 12 months, we had about 300 one-on-one meetings with institutional investors in Japan and overseas besides various analyst meetings and facility visits.
The 130-year history of Tokyo Gas, which originated from gas lamp business, is a history of continuous competition with electricity, fuel oils, LPG, and other energy sources. By providing pleasant living and working environments through city gas and our economical and eco-friendly energy system, we are now supported by over 11 million customers and sell natural gas which is on the order of magnitude of 18.6 billion m^3.
Our customer-first mindset, proven by our long history, and our highly-reliable manufacturing and supply infrastructure, are our greatest strengths. We will make best of those strengths and are determined to create growth opportunities from the electric power and gas deregulation.