

# Medium-term management plan (FY2014–2018)

March 28, 2014  
TOHO GAS CO.,LTD.

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Earning forecasts and other forward-looking statements in this document are management's current views and beliefs in accordance with data currently available, and are subject to a number of risks, uncertainties and other factors that may cause actual results to differ materially from those projected.

# Contents

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I . Planning concept	1
II . Action plan	
Action1. Provide a stable supply of energy at a competitive price	3
Action2. Strengthen our relationship with customers	6
Action3. Expand gas business service area	11
Action4. Expand scope of business	14
Action5. Ensure safety and security	18
III . Strengthen the business foundation for further growth	20
IV . Management goals	23

## I . Planning concept

- Within Japan's national energy policy, natural gas has been positioned as an important energy source that will play a greater role in the future, and the market is expected to grow.
- While competition will become fiercer in the age of energy liberalization, business opportunities will be growing.

### 《Concept》

#### 『Build a robust gas business』

Build a robust gas business and will continue to be trusted by customers and be chosen in the face of fierce competition.

#### 『Take on challenges for further growth』

Capture growing business opportunities due to changes in the business environment and develop a foundation for further growth.

# I . Planning concept

## 《Action plan》

Action1 Provide a stable supply of energy  
at a competitive price

Action2 Strengthen our relationship with customers

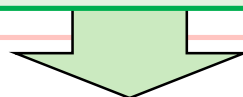
Action3 Expand gas business service area

Action4 Expand scope of business

Action5 Ensure safety and security

## 《Strengthen the business foundation for further growth》

- ◆ Realize growth cycle
- ◆ Strengthen human resources and “Genba-Ryoku”
- ◆ Strengthen technical capabilities
- ◆ Thoroughly implement CSR management



Create a path to realize the Toho Gas Group Vision

## Ⅱ . Action plan

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### Action1 Provide a stable supply of energy at a competitive price

Move forward with efforts to optimize our portfolio by diversifying LNG procurement and to create the infrastructure for a stable supply, and provide energy at a competitive price.

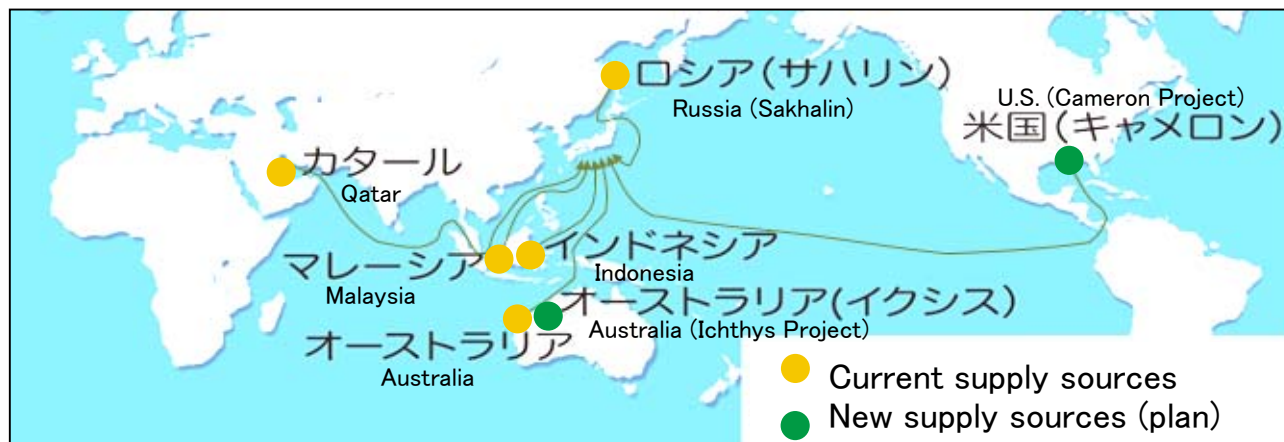
(1) Diversifying LNG procurement

(2) Improving the infrastructure for  
a stable supply

## Ⅱ . Action plan

### (1) Diversifying LNG procurement

- Diversify supply sources
  - Expand the regions where we purchase LNG from the current five countries to North America, Africa, and other regions.
- Diversify types of contracts
  - Increase the percentage of short-term contracts and on the spot market to around 20%.
- Diversify the price index
  - Introduce price indexes such as Henry Hub and NBP.
- Strengthen price bargaining power
  - Strengthen our price bargaining power with suppliers and acquire more competitive prices and flexible contract terms.



## Ⅱ . Action plan

Action1 Provide a stable supply of energy  
at a competitive price



### (2) Improving the infrastructure for a stable supply

- Increase the flexibility of LNG terminal operations
  - Construct No. 3 LNG tank at the Chita Midorihama Works (FY2016)
  - Introduce reliquefaction equipment in order to efficiently process BOG (FY2016)
  - Expand the LNG receiving berth
  - Share LNG between LNG terminals in the Chita and Yokkaichi area by making use of the Ise Bay trunkline.



## II . Action plan

### Action2 Strengthen our relationship with customers

Due to realization and providing services which responds customer needs, strengthen our relationship with customers.

#### <Residential use>

(1) Providing a comfortable life and high-quality services

(2) Promoting the introduction of smart technology

#### <Industrial/Commercial use>

(3) Proposing optimal energy use

(4) Further spreading distributed energy supply systems



## II . Action plan

Action2 Strengthen our relationship  
with customers



### < Residential use >

#### (1) Providing a comfortable life and high-quality services

- Spread of cogeneration for residential use
  - Promote greater efficiency and lower costs. Expand its use to existing houses and apartment/condominium complexes.

	End of FY2013	End of FY2018	End of FY2022
Cogeneration for residential use (Installed units)	20 thousand units	35 thousand units	50 thousand units



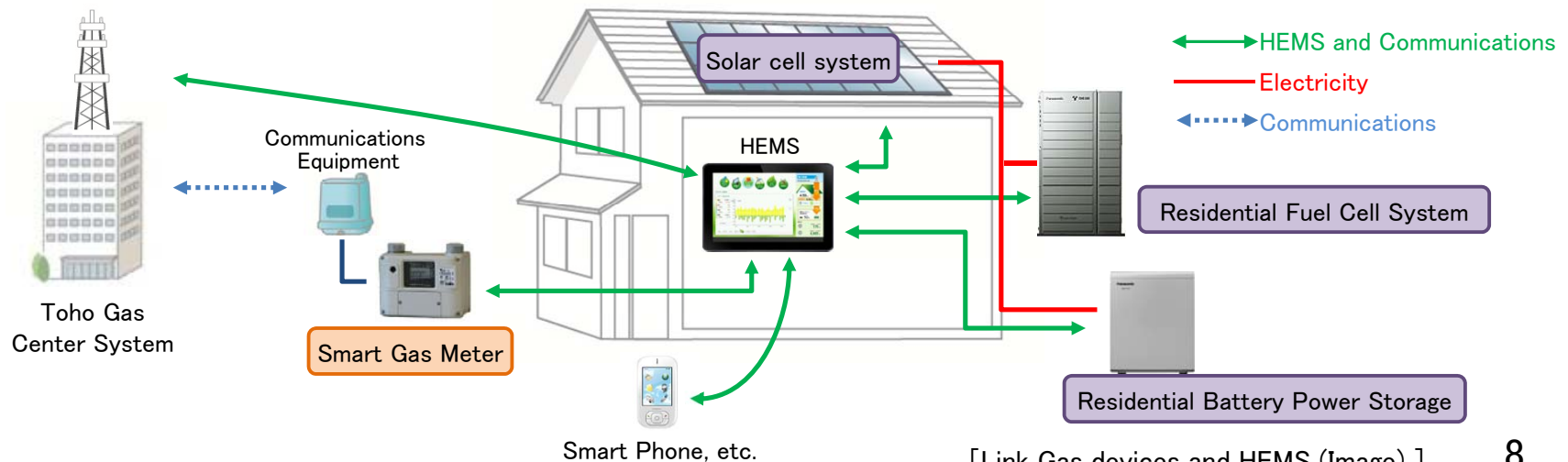
- Strengthen our ability of solution proposals for residential customers
  - Improve the proposal and installation capabilities for remodeling projects.
  - Conduct energy saving assessments for homes, which include providing advice on behaviors improving energy efficiency.
- Improve the quality of services in the opportunities to contact with customers, and propose additional services
- Expand our service network such as ENEDO (sales shops)

## II. Action plan

### < Residential use >

#### (2) Promoting the introduction of smart technology

- Develop smart gas meters and communication methods and reduce the cost
  - Initially introduce smart gas meters into the homes of customers who have concluded an automatic notification contract and launch automatic meter reading, etc.
  - Promote efforts to ensure safety and prevent disasters through the use of smart gas meters.
  - Move forward with efforts to link gas devices and HEMS (Home Energy Management System) and provide services such as proposals of improving energy efficiency.



[Link Gas devices and HEMS (Image) ]

## II . Action plan

Action2 Strengthen our relationship  
with customers



### < Industrial/Commercial use >

#### (3) Proposing optimal energy use

- Develop new demand equivalent to 100 million m<sup>3</sup> annually by expanding the Comprehensive Utility Services business that meets all energy-peripheral demands through a one-stop service and proposing the optimal use of energy for each customer
  - In addition to development of fuel conversion, develop demand for new uses, such as glass melting and firing.
  - Expand sales of devices such as high efficiency gas heat pump “XAIR” (gas air conditioning equipment) and “Suzuchu” (commercial kitchen appliances).
- Conduct energy saving assessments and providing support for energy management to existing customers

## Ⅱ . Action plan

Action2 Strengthen our relationship  
with customers



### < Industrial/Commercial use >

#### (4) Further spreading distributed energy supply systems

- Move forward with efforts to improve the efficiency and reduce the cost of cogeneration systems

	End of FY2013	End of FY2018		End of FY2022
Distributed energy system (Installed capacity)	750 thousand kW	800 thousand kW		1,000 thousand kW

- Expand the area-wide use of energy mainly in Nagoya station area where redevelopment plans have been taking shape.

## Ⅱ . Action plan

### Action3 Expand gas business service area

Provide gas energy to a wider area through optimal supply form which responds customer needs

(1) Expanding the city-gas service area

(2) Expanding the service area for LNG and LPG

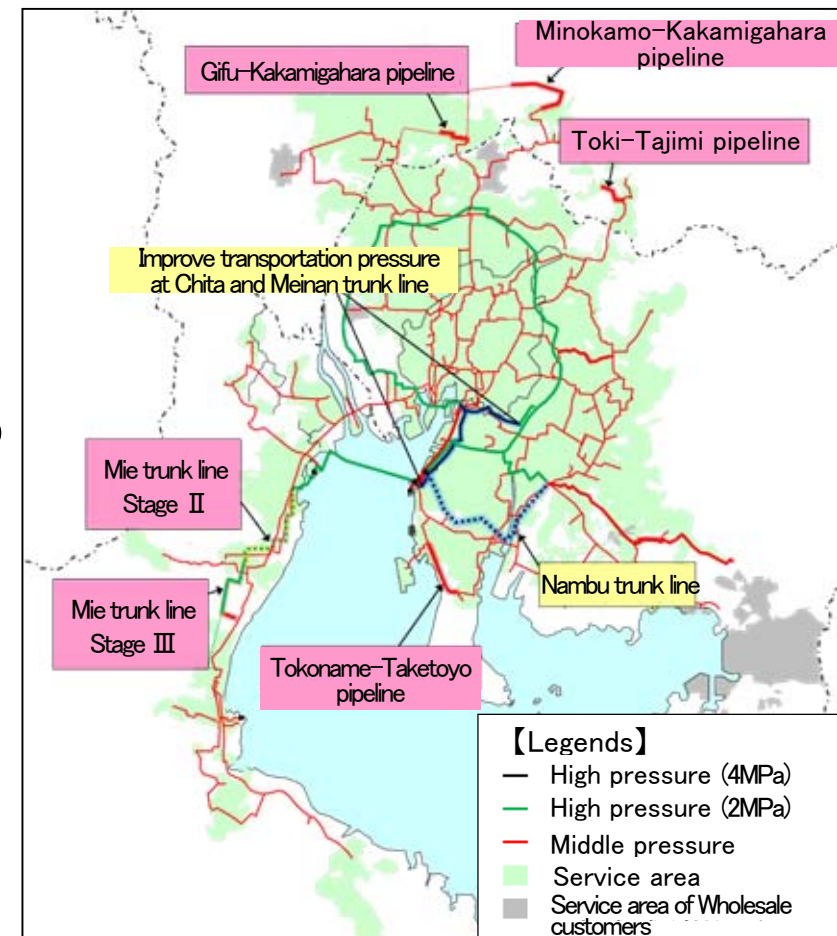
## II . Action plan

### Action3 Expand gas business service area



#### (1) Expanding the city-gas service area

- Improve gas transportation capacity from LNG terminal
  - Improve transportation pressure from 2 MPa to 4 MPa at Chita LNG terminal
  - Build the second delivery line at the Chita –Midorihama Works and Nambu trunk line
- Extend pipeline network and develop potential demand
  - Developing demand in the middle and eastern Mino regions of Gifu (by Minokamo–Kakamigahara pipeline etc.)
  - Developing demand in the middle and southern Ise regions of Mie (by Mie trunk line etc.)
  - Developing demand in the middle southern area of the Chita Peninsula (by Tokoname–Taketoyo pipeline etc.)



## Ⅱ . Action plan

### Action3 Expand gas business service area

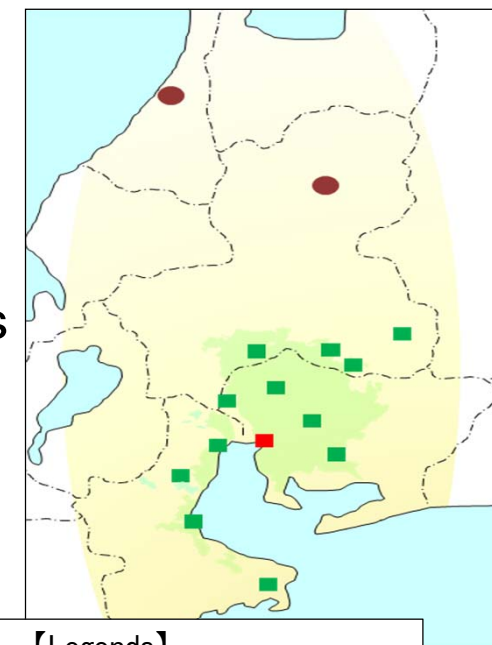
#### (2) Expanding the service area for LNG and LPG

##### <LNG>

- Launch sales of LNG, in particular to industrial customers in areas near those supplied with city gas

##### <LPG>

- Raise the Group's market share through integrated sales activities by Toho Liquefied Gas and Toho Gas
- Promote sales activities in a wide area
  - In the Hokuriku area, Shizuoka Pref. and Shiga Pref. etc.
- Strengthen a business foundation to support growth
  - Obtain a stable supply of LPG at competitive prices by diversifying the price index
  - Strengthen earthquake countermeasures at the Meiko LPG Terminal and gas storage stations
  - Create an efficient network of LPG filling and delivery



- 【Legends】
- LPG service area
  - LPG filling station
  - LPG wide area sales office
  - Meiko LPG terminal
  - City gas service area

## Ⅱ . Action plan

### Action4 Expand scope of business

Expand our business scope, particularly for the comprehensive energy business and in fields peripheral to energy, and realize further growth for the Toho Gas Group.

(1) Developing the comprehensive energy business

(2) Expanding upstream business

(3) Strengthening Group business

(4) Developing smart towns

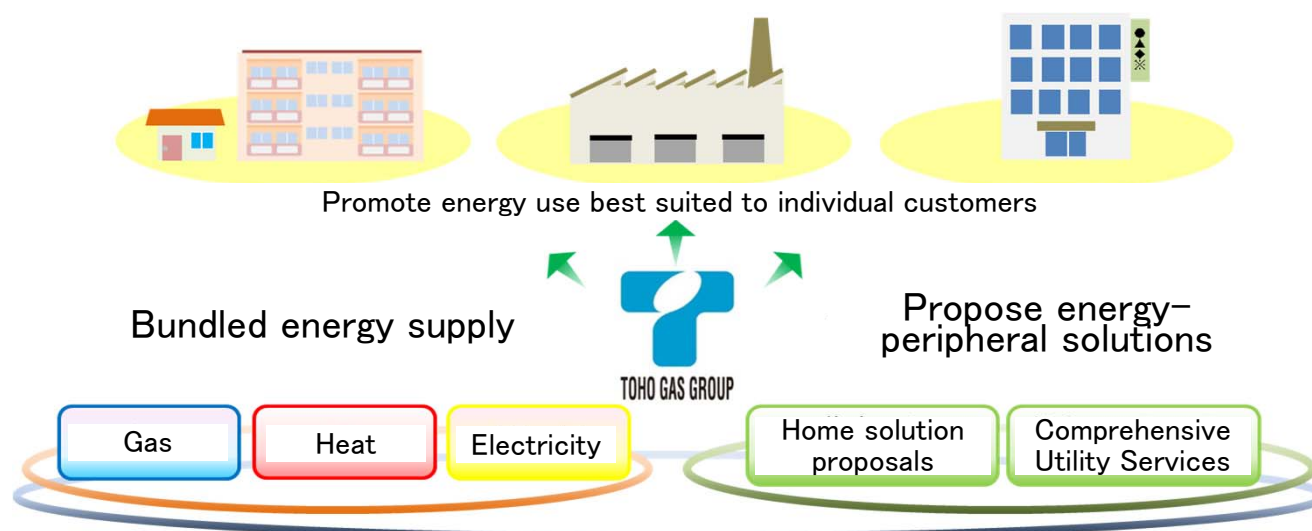


## II . Action plan

### Action4 Expand scope of business

#### (1) Developing the comprehensive energy business

- Promote the comprehensive energy business which provide not only a system for the collectively supplying of gas, heat, and electricity but also solution proposal for a broad range of energy-related
- Strengthen our efforts in the power generation field in order to expand the energy supply service options
  - Providing electricity to designated customers (designated supply), the bundled supply of various forms of energy for apartment/condominium complexes, and installation of large-scale cogeneration systems (power cogeneration)



[Conceptual diagram of the comprehensive energy business]

## Ⅱ . Action plan

Action4 Expand scope of business



### (2) Expanding upstream business

- Implement effort for participation to new upstream businesses

### (3) Strengthening Group business

- Expand the sales area and sales, and generate synergies with the gas business
  - The group companies responsible for operations such as remodeling, Comprehensive Utility Services and engineering.
- Improve the quality of operations and customer service and promote greater efficiency
  - The various group companies responsible for operations such as meter reading/bill collection, regular safety inspections, and the construction of gas facilities

## II . Action plan

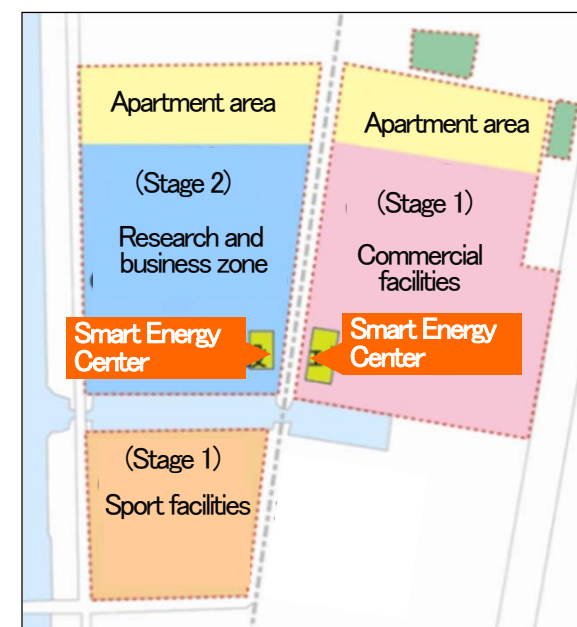
### Action4 Expand scope of business

#### (4) Developing smart towns

- Revitalize of local communities through superior urban planning in terms of the environment and disaster prevention, and strive to develop smart towns, which will create business opportunities.

#### <Komei Redevelopment Project (Stage 1)>

- Take place FY2015–FY2018, and service is expected to gradually be introduced
  - Develop multifunctional city
  - Manage supply and demand for all energy throughout the area in an integrated manner
  - Provide heat through centralized heat sources and electricity through designated supply
- Develop hydrogen supply infrastructure for fuel-cell vehicles
  - Build two new hydrogen stations, work to make the three existing stations commercially viable after verifying the technology.



[Komei Redevelopment Project]



[Hydrogen refueling station]

## Ⅱ . Action plan

### Action5 Ensure safety and security

Ensure safety and security for customers by strengthening efforts related to disaster prevention and safety

(1) Promoting disaster prevention measures

(2) Promoting security measures

## II . Action plan

Action5 Ensure safety and security



### (1) Promoting disaster prevention measures

- Implement measures to respond to earthquake, tsunami, and liquefaction
  - Promote measures to protect production and supply facilities from water and flooding
  - Increase the percentage of city gas pipes that have undergone seismic retrofitting
- Reinforce disaster prevention system
  - Install more in-house power generation equipment at the Chita-Midorihamma Works
  - Raise the reliability of secure communication equipment during emergencies
  - Improve our ability to respond to disasters through collaboration between Toho Gas, group companies, and subcontractors



[Automatic Supply Management System]

### (2) Promoting security measures

- Conduct maintenance and replacement of production and supply facilities
  - Move forward with measures to renovate the aging Chita LNG Terminal, which is almost forty years old
  - Complete efforts to handle white gas pipes for buildings that are important in terms of security by FY2015
- Undertake safety efforts related to gas appliances
  - Implement to replace gas appliances that lack flame-failure devices and promote improvements to ventilation equipment

### III. Strengthen the business foundation for further growth

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1. Realize growth cycle

2. Strengthen human resources and “Genba-Ryoku”

3. Strengthen technical capabilities

4. Thoroughly implement CSR management

### III. Strengthen the business foundation for further growth

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#### 1. Realize growth cycle

(Promote management efficiency)

- Work to improve the efficiency of management and maintain fixed expenses at the current level

(Increase operating cash flows)

- Generate operating cash flows of at least 260 billion yen over the next five years

(Focus investment on growth fields)

- Invest on expanding gas business service area and the scope of business and broaden the earnings base

(Return to shareholders)

- Stable dividend and implementing share buy back depending on the situation

### III. Strengthen the business foundation for further growth

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#### 2. Strengthen human resources and “Genba-Ryoku\*”

- Develop and hire human resources who will boldly take on challenges
  - Improve our ability to efficiently and steadily execute core operations
- \*capabilities needed at the front of business

#### 3. Strengthen technical capabilities

- Implement develop technology to precisely meet more diverse customer needs
- Reinforce the engineering capability by constructing, maintaining and managing gas production and supply facilities and customer facilities

#### 4. Thoroughly implement CSR management

- Improve corporate governance and thoroughly implement compliance
- Contribute to local communities through our various activities as an environmentally advanced company



## IV. Management goals

		FY2013	FY2018 Projection	Average Annual Rate of Increase		FY2022 100th Anniversary
Number of Customers	Natural Gas	2.37 million	2.46 million	0.8%		2.5 million
	LPG*	0.44 million	0.48 million	1.8%		0.5 million
Gas Sales Volume	Natural Gas	4.0 billion m <sup>3</sup>	4.5 billion m <sup>3</sup>	2.2%		5 billion m <sup>3</sup>
	LPG	420 thousand tons	470 thousand tons	2.1%		500 thousand tons

\* Including the number of customers based on commissioned business for delivery

	FY2009 to 2013 Average	FY2018 Projection		FY2022 100th Anniversary
Operating Cash Flow	49 billion yen	58 billion yen		60 billion yen
Debt Equity Ratio	About 0.7	1.0 and under		1.0 and under
ROA	2.1	About 3%		3% and over