

Business Plan for Year Ending March 31, 2016

1. Introduction

The regional economy has followed a moderate recovery track aided by the strong showing of export-oriented companies against a background of the yen's depreciation against other key currencies and an improvement mainly in the U.S. economy.

The further expansion of the natural gas which is the environmentally-friendly energy is expected. Meanwhile, the business environment surrounding us is expected to change significantly as competition is likely to intensify further following complete liberalization of the electricity market in 2016 and of the gas market in 2017.

We see the scheduled liberalization of the power and gas markets as providing business opportunities and at the same time as intensifying competition. Under these circumstances, we will redouble its efforts to attain the goals envisaged under the medium-term management plan formulated in March 2014 – “a robust gas business” and “further growth.” In doing so, we aim to grow together with the region and become a company which continues to be chosen by customers as their gas supplier.

2. Efforts toward achieving the medium-term management plan

We will take measures to build “a robust gas business,” including procuring competitive-price LNG and strengthening our relationship with customers by providing a variety of services to meet diversified customer needs. We will also step up efforts to achieve “further growth,” including launching the sale of electricity and expanding our gas service area by increasing investment in pipeline installations.

(1) Provide a stable supply of energy at a competitive price

< Diversifying LNG procurement >

To provide a stable supply of LNG at a competitive price, we are working on optimizing an LNG procurement portfolio by diversifying supply sources, types of contracts and the price index. In 2017, we plan to buy LNG from Malaysia Petronas under a portfolio contract.

< Increase the flexibility of LNG terminal operations >

We will speed up a plan to build Chita-Midorihama Works No.3 LNG tank (set for completion in August 2016) while beginning to construct a boil-off gas (BOG) re-liquefaction device (set for completion in August 2016). The move is designed for us to respond to diversification of LNG procurement and operate LNG terminals flexibly and efficiently.

(2) Strengthen our relationship with customers

< Residential use >

We will expand the share of city gas in the new construction market, and we will cooperate with ENEDO (sales shops) to strengthen our relationship with customers.

We will take a host of measures to accelerate the diffusion of cogeneration systems for residential use. In April this year, we will begin selling low-cost and compact-size ENE FARM units as part of our efforts to expand sales of cogeneration systems to people living in condominiums and existing houses. By implementing these measures, we aim to sell 2,500 units in fiscal 2015.

To meet needs and demands of each customer, we will propose the optimal use of energy and house renovation to our customers by using an energy-saving software system called “e-Gokochi Shindan.” In addition, we will start to offer them “Gas Equipment Maintenance Service.” We will also upgrade our service quality regarding maintenance and repair of gas equipment by utilizing “CusTo-net,” a customer information system.

<Industrial/Commercial use>

We will recommend the conversion to city gas from other fuels, mainly targeting manufacturers, public offices, hospitals, welfare facilities and schools. We will also propose the use of “Suzuchu (commercial kitchen appliances)” and highly-efficient air-conditioning systems using gas. By proposing the optimal use of energy, we aim to develop 100 million m³ of gas annually.

We will meet all energy-peripheral demand through a one-stop service by energy management support, including Comprehensive Utility Services business, energy-saving proposals and maintenance service.

To spread distributed energy supply systems, we will propose highly-efficient cogeneration systems and offer additional values to services, including making power sources redundant. By the end of fiscal 2015, we aim to install 770,000 kW of cogeneration systems.

(3) Expand gas business service area

To stimulate gas demand through our expansion of supply areas, we will strengthen transportation ability to enable city gas to reach the entire service area, while accelerating the building of wide-area pipeline networks.

As for trunk line networks, we will begin constructing Mie trunk line (stage 4) in addition to Meinan trunk line (stage 2) and Mie trunk line (stage 3), both already under construction. To expand supply areas, we are working on extending pipeline networks to the northern Ise regions of Mie Prefecture and the middle and eastern Mino regions of Gifu Prefecture.

Along with the expansion of supply areas, we will combine city gas and LPG services as a way to expand the market share of Toho Gas Group. We will also stimulate gas demand in broader areas by making proposals that meet various customer needs including industrial demand for LNG and LPG.

(4) Expand scope of business

<Efforts toward electric power business, Developing smart towns>

We will branch out into the power business in 2016 when its market is set to be fully liberalized. The move is part of our efforts to meet various customer needs. In April this year, we will set up an organization dedicated to promotion of the new business, including securing power sources and establishing marketing networks.

We are planning to secure the power sources for sales through procurement from business partners and the installation of power facilities on our own. In response to the needs of our customers, we will sell gas and power in a package.

We will start construction of the “Komei redevelopment project (stage 1)” in Minato Ward, Nagoya City. As a part of development of the smart towns in this project, we will begin a diversity of services, including specified electricity supply, the supply of gas, power and heat in an integrated manner, and high-voltage power supply to condominiums.

We will also establish infrastructure to enable wider use of fuel cell vehicles, such as a hydrogen-refueling station in Nisshin City, Aichi Prefecture, tentatively called “Nisshin Hydrogen Station.”

(5) Ensure safety and security

< Promoting disaster prevention measures, Ensuring stable supply and security >

We will begin constructing a building (set for completion in March 2017) that is to serve as an anti-disaster center as part of our efforts to prevent or reduce damage from natural disasters. The building will be constructed at the head office. We will also continue to work on measures aimed at shielding our production and supply facilities from possible damage from disasters, especially from a potential massive earthquake along the Nankai Trough off central and western Japan.

To ensure stable gas supply, and maintain and enhance security of facilities at high levels, we will strengthen security of pipelines and relevant facilities. Specifically, we will complete replacement of existing low-pressure cast iron pipes in fiscal 2015. In addition, we will maintain and upgrade aging facilities in line with a scheduled maintenance plan.

To ensure customers' safety and free them of anxieties about safety, we will continue to recommend that they switch to safety-oriented gas equipment while taking measures to steadily reduce faulty supply and exhaust ducts. As for the safety of industrial/commercial-use gas equipment, we aim to complete installation of kitchen ventilation sensors by the end of fiscal 2015.

(6) Strengthen the business foundation for further growth

< Strengthen technical capabilities >

In response to diversified customer needs, we will develop more efficient ENE FARM, cogeneration systems, gas engine heat pump (GHP) and industrial furnaces. We will also promote the development of devices in the field of high-temperature combustion, solid oxide fuel cell (SOFC) for industrial use, and smart energy management devices such as smart gas meters and Community Energy Management System (CEMS).

In April this year, we will launch a 450 kW cogeneration system which we have developed jointly with another company. The product has achieved one of the world's highest power generation rates among 400 kW-class cogeneration systems.

(7) Others

- In order to enhance the neutrality of our pipeline business, we will unify contact from inside and outside the company concerning gas transportation service by establishing "Gas Transportation Service Reception Center" and "Gas Transportation Service Information Center" in April this year.
- In response to diversified gas supply sources, we will lower the standard calorific value of the gas we supply to customers by the end of this year, from 46.04655 MJ/m³ to 45 MJ/m³.

3. Numerical Plan for FY2015

Following are gas sales plan, LNG use plan and facility investment plan, all for fiscal 2015. The projections are based on the assumption that measures envisaged under the medium-term management plan will be implemented as scheduled.

(1) Gas Sales Plan

The number of customers is expected to increase by 21 thousand (0.9%) from the previous year to 2,383 thousand, aided by our efforts to expand our share of the city gas market for customers who will build new houses.

The gas sales volume is edge up by 67 million m³ (1.7%) to 3,936 million m³. The projection reflects our steady efforts to tap industrial demand, which is likely to more than offset negative factors such as falling factory operation rates and intensified competition with rival companies.

This projection includes: 750 million m³ (up by 1.1%) in the residential market, 2,908 million m³ (up by 1.9%) in the industrial/commercial use, and 279 million m³ (up by 1.6%) in wholesale market, supply to other gas utilities.

< Table 1. Number of Customers and Gas Sales Volume (Non-consolidated) >

	Unit	FY 2014 (Estimated results)	FY2015 (Projection)	Change from the previous year	Rate of change
Number of Customers	thousand	2,362	2,383	+ 21	+ 0.9%
Residential	million m ³	742	750	+ 8	+ 1.1%
Industrial/Commercial	million m ³	2,853	2,908	+ 55	+ 1.9%
Wholesale	million m ³	275	279	+ 4	+ 1.6%
Total gas sales volume	million m ³	3,869	3,936	+ 67	+ 1.7%

(Medium-term
management plan)

< Reference. Number of Customers and Gas Sales Volume (Consolidated) >

		Unit	FY 2014 (Estimated results)	FY2015 (Projection)	Change from the previous year	Rate of change	FY2018 (Projection)
Number of Customers	Natural Gas	thousand	2,386	2,407	+ 21	+ 0.9%	2,460
	LPG	thousand	455	461	+ 5	+ 1.2%	480
Gas Sales Volume	Natural Gas	million m ³	3,996	4,067	+ 71	+ 1.8%	4,500
	LPG	thousand tons	432	444	+ 12	+ 2.8%	470

(2) LNG Use Plan

It is projected that LNG use will increase by 3.3% to 3,080 thousand tons compared with the previous year.

(3) Facility Investment Plan

Capital spending will increase 7.4 billion yen from the previous year to 38.4 billion yen due to a plan to establish manufacturing-related infrastructure and wide-area pipeline networks.

Major investments include: production facilities, such as the Chita-Midorihama Works No.3 LNG tank and a boil-off gas (BOG) re-liquefaction device (6.8 billion yen), supply facilities, including trunk line networks such as Mie trunk line, pipeline extension and reinforcement projects, replacement of aging gas pipes, and disaster prevention steps (25.9 billion yen), and other facilities, including the building of hydrogen refueling stations and construction of an energy center under the first-stage Komei redevelopment project (5.7 billion yen).

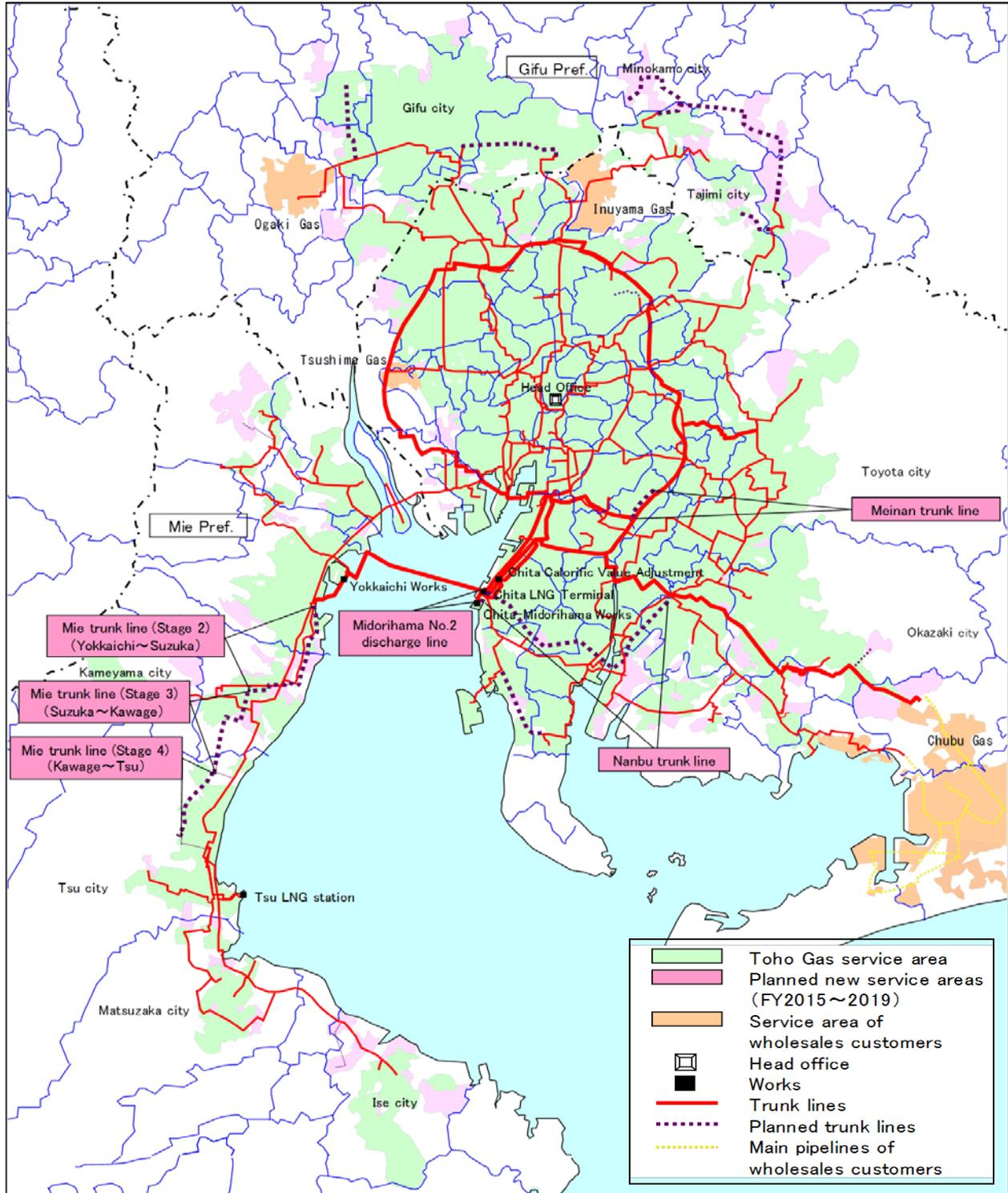
< Table 2. Facility Investment Plan >

(Unit: billions of yen)

	FY 2014 (Estimated results)	FY2015 (Projection)
Production Facilities	8.1	6.8
Supply Facilities	20.8	25.9
Other Facilities	2.1	5.7
Total	31.0	38.4

(Note) Other than listed above, we plan to invest 3 billion yen in upstream business in FY 2015.

Figure of Trunk lines plan



【Trunk lines plan】

Route name	Extended length	Construction period
Meinan trunk line (from Shin-oku to Toyoake)	5.3km	FY2010~2015
Midorihamma No.2 discharge line	0.8km	FY2013~2015
Mie trunk line (Stage 2) (from Yokkaichi to Suzuka)	15.0km	FY2019~2022
Mie trunk line (Stage 3) (from Suzuka to Kawage)	10.0km	FY2013~2016
Mie trunk line (Stage 4) (from Kawage to Tsu)	10.0km	FY2015~2018
Nanbu trunk line (from Chita to Kariya)	24.0km	FY2018~2022

Toho Gas in Heads of Agreement with Petronas LNG Ltd. for LNG purchase

Toho Gas Co., Ltd. (“Buyer”, Koichi Yasui, President), has entered into a Heads of Agreement with Petronas LNG Ltd. (“Seller”) for a purchase of LNG by portfolio supply.

1. Introduction

We accurately keep track of any change in the environment for procuring energy, and strive for LNG procurement diversification, including diversification of the price-index, supply sources and types of contracts to ensure a stable energy supply to customers at a competitive price.

For the first time, we entered into a Heads of Agreement for a purchase of LNG by portfolio supply with the objective of flexibility of quantity and diversification of the price-index.

We will continue diversifying LNG procurement to ensure stable city gas supply to customers at a competitive price.

2. Outline of the Agreement

- (1) Parties : Seller Petronas LNG Ltd.
(Wholly-owned subsidiary of Petronas)
Buyer Toho Gas Co., Ltd.
- (2) Duration : 10 years from April 2017
- (3) Supply Sources : Petronas LNG Portfolio (Petronas LNG Complex in Bintulu, Malaysia and other LNG which Petronas delivers)
- (4) Price : Hybrid pricing combining linkages to both crude oil and Henry hub
- (5) Delivery : Ex-Ship (Seller arranges LNG transportation to Buyer's receiving terminals)
- (6) Change of Destination : Feasible by prior agreement between the Parties

※Toho Gas plans to take 7 - 9 cargoes per annum

※Portfolio supply: A seller supplies a buyer with LNG from its multiple supply sources

※Henry hub price: price index of the U.S. natural gas market