

Business Plan for Year Ending March 31, 2017

1. Introduction

The outlook for the regional economy is uncertain with production, exports and personal consumption being far from attaining full-fledged recovery. Also making the outlook murky are economic deceleration in emerging countries such as China and uncertainty regarding currency and financial markets and crude oil prices.

The business environment surrounding the energy market has been changing drastically and rapidly. In April this year, the power market is set to be fully liberalized, followed by complete liberalization of the gas market in April 2017.

Under these circumstances, competition is likely to intensify even further. Meanwhile, the natural gas market is expected to grow further as an environment-friendly energy source, and the expected significant changes in the business environment are likely to provide us with opportunities to reform the company for further business growth.

We will redouble our efforts to implement the measures envisaged under the medium-term management plan to achieve our goals – “building a robust gas business” and “taking on challenges for further growth,” and precisely respond to the changes in the business environment. In doing so, we keep making efforts to become a company which continues to be trusted and chosen by customers as their gas supplier.

2. Primary measures

To establish “a robust gas business,” we will strengthen our relationship with customers by providing various services in response to diversifying customer needs and promote procurement of energy sources at reasonable costs for complete liberalization of the gas market. We will follow the basics of the gas business, stable gas supply and safety and security, which will not change after the deregulation.

For the Toho Gas Group to achieve “further growth,” we will expand our gas business service area and diversify our business into the broader energy market, including sales of electricity.

(1) Strengthen our relationship with customers

【Residential use】

We will work together with ENEDO (sales shops) in proposing highly energy-efficient gas equipment and new value-added services, and providing various services in response to customer needs.

As for cogeneration systems for residential use, we will begin selling low-cost and compact-size fuel-cell units, called “ENE-FARM Type S,” in April 2016. The launch is part of our efforts to expand sales of cogeneration systems to people living in condominiums and existing houses as well as new houses.

We launched a maintenance service for gas equipment, called “Raku Raku Maintenance,” in February 2016. In March 2016, we opened “Club TOHOGAS,” a Net-based membership service which enables household customers to earn points that can be converted into convenient items. Furthermore, in April this year, we will begin selling electricity, mainly to Toho Gas Group customers.

We will continue our efforts to meet the customer needs and to provide them with useful service for their lives.

【Industrial/commercial use】

We will support manufacturing activities by companies based in our service area by proposing the optimal use of energy and offering high-quality services.

We will also recommend optimal energy systems to our customers, including conversion to city gas from other fuels, an energy-efficient gas air-conditioning system launched in October 2015, called “GHP XAIR II,” the use of “Suzuchu” and other commercial kitchen appliances, and more energy-efficient cogeneration systems.

We will meet customers’ demand through a one-stop service by Comprehensive Utility Services business, energy management support including energy-saving proposals and maintenance service, and electricity supply for industrial and commercial customers.

(2) Ensure safety and security

【Disaster prevention measures】

We will implement measures to ensure customers’ safety in the event of disaster, including steps to prevent secondary damage. We will also strengthen a system aimed at enabling seamless gas supply in an emergency and the early recovery of gas facilities following their damage by disaster.

We are constructing a building (set for completion in March 2017) that is to serve as an anti-disaster center. The center, equipped with a steel wireless tower, is designed to respond to disasters expeditiously and appropriately in collaboration with existing anti-disaster facilities. We will also set up a second customer center (call center) to more strongly respond to various issues which customers may face in the event of a disaster. By taking all these measures, we will strengthen our business continuity plan (BCP).

We will steadily implement measures aimed at shielding our production and supply facilities from possible damage from tsunami and other events that are expected to result following the occurrence of a potential massive earthquake along the Nankai Trough off central and western Japan. Furthermore, we will work on shortening the time required for resumption of gas supply following a disaster by dividing our service area into a larger number of sections each of which is subject to emergency gas-supply shutoff.

【Security measures】

We will step up measures to increase the stability of gas supply and to maintain and enhance the security of gas facilities at high levels.

Following the completion of replacement of low-pressure cast iron pipes in January 2016, we will maintain and upgrade aging production and supply facilities in line with the scheduled maintenance plan. In addition, we will strengthen measures against accidents that may derive from gas leakage and damage to gas facilities, including the reinforcement of gas pipes installed at homes to prevent damage to them.

To maintain and enhance the safety of gas equipment, we will accelerate efforts to reduce household gas equipment without safety devices, and faulty air-intake and exhaust ducts. As for commercial-use gas equipment, we will work on completing the installation of kitchen ventilation systems by the end of fiscal 2016.

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

【Diversifying LNG procurement】

In procuring LNG, we are diversifying the price index and supply sources. Specifically, we will begin buying LNG from Petronas LNG Ltd. by portfolio supply in fiscal 2017. LNG procurement from the U.S. Cameron Project will start in fiscal 2018. By carrying out these diversifying measures, we aim to purchase LNG both stably and at competitive prices.

【Promoting efficient operations of LNG terminals and increasing the flexibility of terminal operations】

We will respond to diversification of LNG procurement and operate our LNG terminals more efficiently by effectively using Chita-Midorihamama Works No.3 LNG tank (set for completion in August 2016) and a boil-off-gas (BOG) re-liquefaction device (set for completion in June 2016).

(4) Expand gas business service area

By continuing to reinforce and extend our gas pipeline network, we will strengthen our ability to transport city gas over the entire service area and enhance supply stability in the area while expanding supply areas of city gas.

As for trunk line networks, we will begin planning Nanbu trunk line (from Chita to Anjo, set for start of works in 2017) in addition to Mie trunk line (from Yokkaichi to Tsu), already under construction. Following extending pipeline networks to the northern Ise regions of Mie Prefecture and the eastern Mino regions of Gifu Prefecture, to expand supply areas, we will extend pipeline networks to southern regions of Aich Prefecture.

Furthermore, the Toho Gas Group will be united in marketing LPG and LNG to industrial customers in broader areas.

(5) Expand scope of business

【Starting sales of electricity】

As part of our efforts to be chosen by customers, we will start selling electricity in April 2016.

The Toho Gas Group aims to sell 20,000 kW of electricity in 2016, the first year of complete liberalization of the electricity market, targeting residential customers in Aichi, Gifu and Mie Prefectures, and their vicinity—the group’s main city gas and LPG service area. In the coming five years, the Group aims to sell 100,000 kW of electricity.

We will secure various electricity sources for the new business, including the use of the wholesale power market, power procurement from other companies and electricity to be generated at a power source adjustment facility with an output capacity of 15,000 kW being constructed at the Yokkaichi Works for operations from around 2017.

【Developing smart towns】

In Minato ward, Nagoya city, we will build a “smart town,” named “Minato AQUUS” which enables package sales of gas, electricity and heat, in an area designated as a model district for a comprehensive energy project.

Some of its facilities, such as sports facility, were opened in February 2016. The move will be followed by the opening in May 2016 of “Minato AQUUS Eco Station,” which will feature a hydrogen refueling station, a natural gas filling station and an LPG filling station.

The smart town will also include Energy Center, set to start operating in the spring of 2017, and other facilities to be constructed toward the official open, set to start operating the autumn of 2018.

(6) Strengthen the business foundation for further growth

In order to continue to be a company trusted by customers and the community, we will do our utmost to enhance corporate governance and compliance.

Along with the work on constant improvement of management efficiency, we will strengthen our capability on the technology, development and engineering fronts, and beef up front-line operations. At the same time, we will focus on the development and secure of human resources to achieve the goal.

For the reform of the gas business system in 2017, we will steadily promote the measures, such as development of an information system regarding gas transportation and establishment of an appropriate system for execution of operation, etc.

3. Numerical Plan for FY2016

(1) Gas Sales Plan

- In view of our efforts to maintain and expand our share of the city gas market for customers who will build new houses, the number of customers is expected to increase by 22 thousand (0.9%) from the previous year to 2,408 thousand.
- By steadily tapping industrial demand, the gas sales volume is edge up by 121 million m³ (3.2%) to 3,960 million m³.
- This projection includes: 751 million m³ (up by 2.9%) in the residential market, 2,950 million m³ (up by 3.8%) in the industrial/commercial use, and 260 million m³ (down by 2.5%) in wholesale market, supply to other gas utilities.

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

	Unit	FY2015 (Estimated results)	FY2016 (Projection)	Change from the previous year	Rate of change
Number of Customers	thousand	2,386	2,408	+22	+0.9%
Residential	million m ³	730	751	+21	+2.9%
Industrial/Commercial	million m ³	2,843	2,950	+107	+3.8%
Wholesale	million m ³	266	260	-6	-2.5%
Total gas sales volume	million m ³	3,839	3,960	+121	+3.2% (+1.4%*)

※After the temperature and leap year correction

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

		Unit	FY2015 (Estimated results)	FY2016 (Projection)	Change from the previous year	Rate of change
Number of Customers	Natural Gas	thousand	2,409	2,432	+23	+0.9%
	LPG	thousand	465	473	+8	+1.6%
Gas Sales Volume	Natural Gas	million m ³	3,963	4,098	+135	+3.4%
	LPG	thousand tons	435	447	+12	+2.7%

(2) LNG Use Plan

- It is projected that LNG use will increase by 4.3% to 3,084 thousand tons compared with the previous year.

(3) Facility Investment Plan

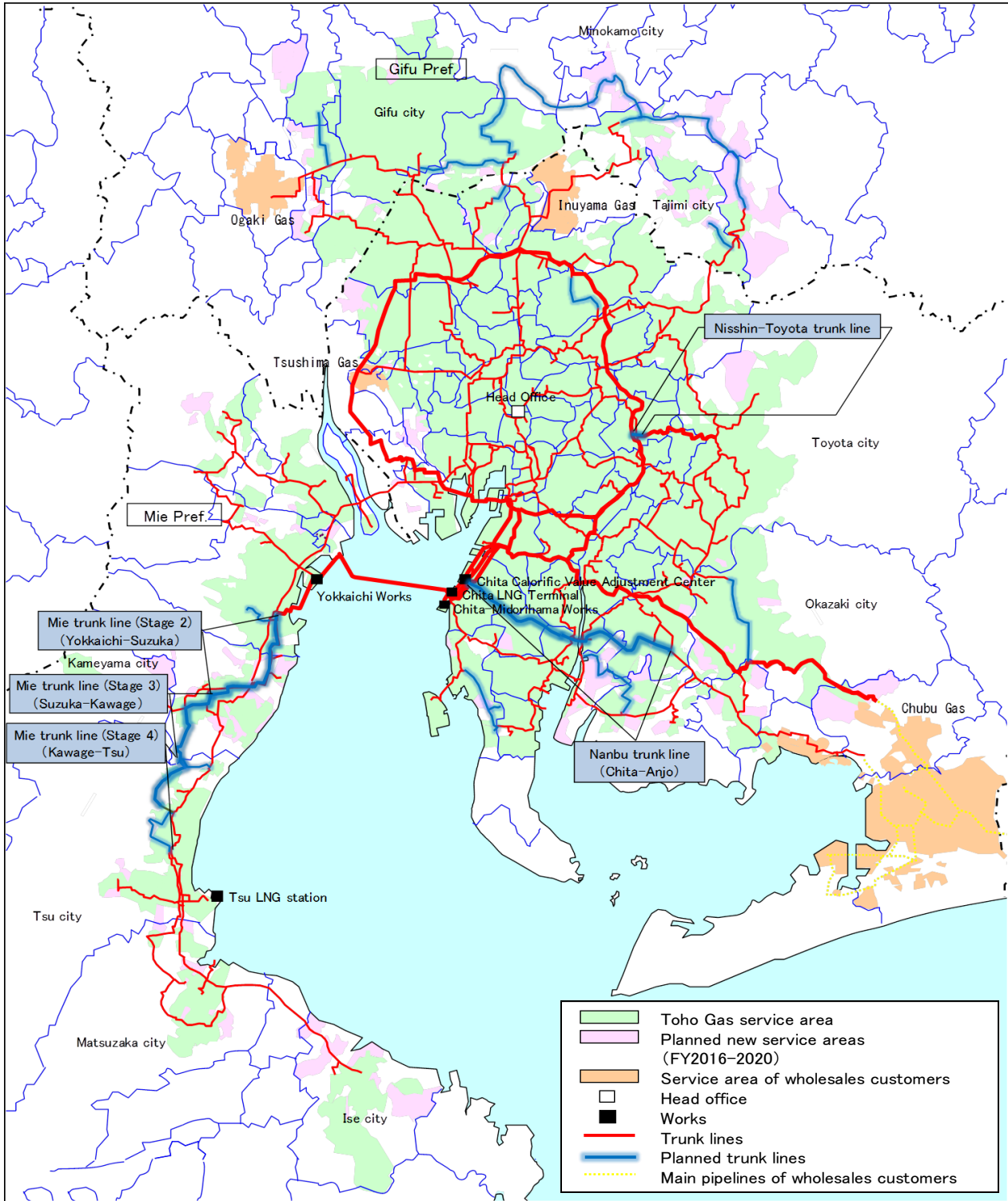
- Capital spending will increase 10.3 billion yen from the previous year to 46.4 billion yen due to a plan to establish production-related infrastructure, wide-area pipeline networks and disaster prevention and security measures, etc.
- Major investments include: production facilities, such as the Chita-Midorihamas Works No. 3 LNG tank and a boil-off gas (BOG) re-liquefaction device, etc. (8.6 billion yen), supply facilities, including trunk line networks such as Mie trunk line, pipeline extension and reinforcement projects, replacement of aging gas pipes, and the construction of disaster prevention offices building, etc. (29.1 billion yen), and other fields, including spending on systems related to gas transportation services and construction of Energy Center at “Minato AQLS” (8.7 billion yen).

<Table 2. Facility Investment Plan> (Unit: billions of yen)

	FY2015 (Estimated results)	FY2016 (Projection)
Production Facilities	6.4	8.6
Supply Facilities	24.4	29.1
Other Facilities	5.3	8.7
Total	36.1	46.4

(Note) Other than listed above, we plan to invest 3.2 billion yen in upstream business in FY2016.

Figure of Trunk lines plan



【Trunk lines plan】

Route name	Extended length	Construction period
Mie trunk line (Stage 2) (from Yokkaichi to Suzuka)	15.0 km	FY2018-2022
Mie trunk line (Stage 3) (from Suzuka to Kawage)	14.2 km	FY2013-2016
Mie trunk line (Stage 4) (from Kawage to Tsu)	15.3 km	FY2015-2018
Nanbu trunk line (from Chita to Anjo)	26.0 km	FY2017-2022
Nisshin-Toyota trunk line	0.4 km	FY2016-2017