

# Corporate Governance

## ■ Corporate Governance Systems

### Basic Policy on Corporate Governance

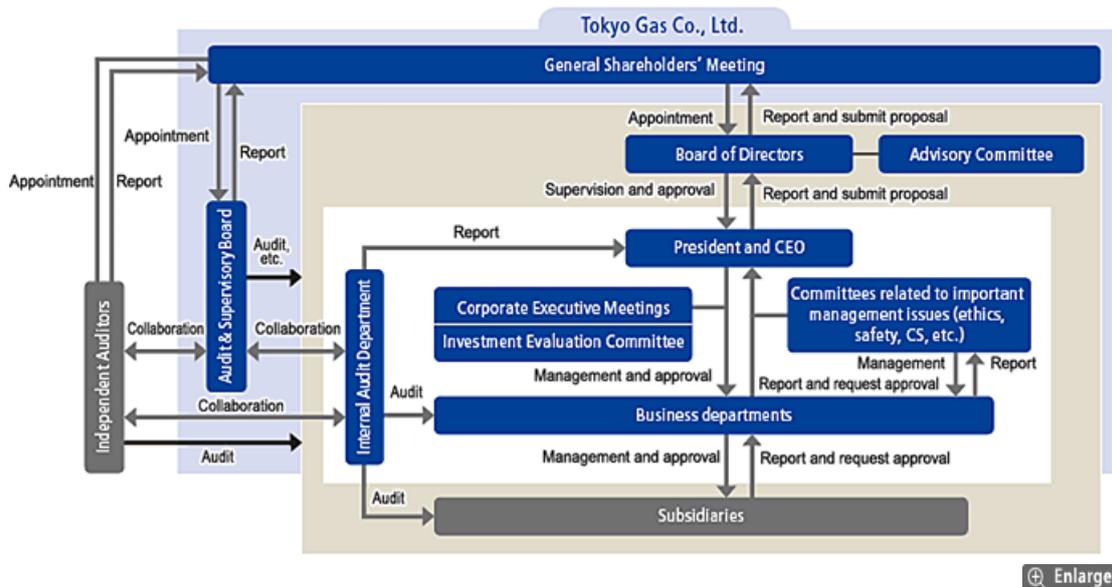
As an “Energy Frontier Corporate Group” focused on natural gas, Tokyo Gas shall actively contribute to the creation of pleasant lifestyles and an environmentally friendly society and work to ensure continued development while consistently earning the trust of customers, shareholders, and society. Under its management philosophy, Tokyo Gas seeks to fulfill and bolster its corporate governance in order to increase its corporate value by ensuring legality, soundness and transparency of management. Simultaneously, it engages in appropriate, prompt decision making, efficient business operations, enhancement of the audit and supervisory functions, and clarity of responsibility of management and operations.

### Outline of Implementation System of Corporate Governance

To increase the speed and effectiveness of management decision-making, we significantly reduced the number of directors and invited outside directors to serve on the Board of Directors to improve transparency as well as to reinforce the supervision of business operations. Our Board of Directors now has eight members, including three outside directors. Furthermore, we have established the Advisory Committee, comprised of two outside directors, one outside Audit & Supervisory Board member, the chairman and the president to select candidates for officers in a fair and proper manner in response to an inquiry by the Board of Directors. It also deliberates on the salaries of officers, based on the Basic Policy on Officer Remuneration, and submits decisions to the Board of Directors. Our audits are conducted based on stringent standards by five Audit & Supervisory Board members, with three of them being outside members.

The Corporate Executive Meeting, which is held once a week in principle, deliberates on matters requiring approval from the Board of Directors as well as important management-related issues to achieve accurate, prompt decision making and efficient business execution. In business execution based on the resolution of the Board of Directors, by introduction of an executive officer system, the Board of Directors delegates substantial authority to executive officers in their designated criteria of responsibility by resolution. On the other hand, the directors supervise those executive officers in an appropriate manner and in accordance with a report they receive on the status of business execution by executive officers, if needed, which is submitted to the Board of Directors. (The term of office of directors and executive officers is set at one year to clarify management and executive responsibilities.) We have established the Management Ethics Committee, chaired by the president, and other in-house committees to address key management issues such as compliance, risk management, customer satisfaction and safety, and to promote transparent management and create a flexible and open corporate culture. These committees facilitate the sharing of information within the Group as well as deliberations and adjustments regarding the Group’s overall direction. Tokyo Gas has adopted and established a highly objective and transparent governance systems to invite outside directors and Audit & Supervisory Board members to create multiple layers in its audit and supervisory functions.

System for Promoting Corporate Governance (as of June 28, 2018)



Corporate Governance Overview (as of June 28, 2018)

13 Board of Directors	External	Director	3
		Audit & Supervisory Board Member (independent officers)	3 (3)
	Internal	Director	5
		Audit & Supervisory Board Member	2
5 Advisory Committee members	External	Director	2
		Audit & Supervisory Board Member (independent officers)	1 (1)
	Director, Chairman of the Board		1
	Representative Director, President and CEO		1
11 Corporate Executive Meeting members	Representative Director, President and CEO		1
	Executive Vice President		2
	Senior Managing Executive Officer		2
	Managing Executive Officer		6
5 Audit & Supervisory Board members	External	Audit & Supervisory Board Member (independent officers)	3 (3)
	Internal	Audit & Supervisory Board Member	2

## Compliance with Japan's Corporate Governance Code

Tokyo Gas has formulated the "Basic Policy on Corporate Governance" in compliance with Japan's Corporate Governance Code for listed companies. To achieve sustainable growth and increase its corporate value over the medium- to long-term, we will collaborate with our stakeholders, ensure appropriate information disclosure and transparency, and fulfill the commitment of the Board of Directors, and at the same time, we will pay due consideration to communicating and gaining the understanding of stakeholders including shareholders. Our response to each of the principles of Japan's Corporate Governance Code as of June 2018 is summarized below.

Principles		Location of Disclosure		
		Website	Basic Policy on Corporate Governance	Corporate Governance Report
Principle 1-4	Cross-Shareholdings		Article 20	●
Principle 1-7	Related Party Transactions		Article 21	●
Principle 3-1 Full Disclosure	(1) Management Philosophy, strategies and medium- and long-term management plans	●		
	(2) Basic views and guidelines on corporate governance		Article 2	●
	(3) Policy and procedures for determining officer remuneration	●	Article 15	●
	(4) Policy and procedures for election (nomination) of officers		Article 6 Article 11	●
	(5) Reasons for election and nomination of individual officers	●		
Supplementary Principle 4-1-1	Scope of Matters Delegated to Management by the Board of Directors		Article 4	●
Principle 4-9	Independence Standards and Qualification for Independent Directors	●	Article 6	●
Supplementary Principle 4-11-1	View on the Board of Directors as a Whole		Article 4 Article 5 Article 6	●
Supplementary Principle 4-11-2	Concurrent Posts Held by Directors and Audit & Supervisory Board Members			●
Supplementary Principle 4-11-3	Analysis and Evaluation of Effectiveness of Board of Directors as a Whole		Article 8	●

Supplementary Principle 4-14-2	Policy for Training of Directors and Audit & Supervisory Board Members		Article 16	●
Principle 5-1	Policy for Constructive Dialogue with Shareholders		Article 19	●

#### Links

- ▶ [Corporate Governance Report \(PDF : 308KB\)](#) 
- ▶ [Basic Policy on Corporate Governance \(PDF : 117KB\)](#) 
- ▶ [Annual Reports](#)
- ▶ [Independence Standards for Outside Officers \(PDF : 59KB\)](#) 
- ▶ [Basic Policy on Officer Remuneration](#)

# Management Structure

## ■ Board of Directors

In 2002, we significantly reduced the number of directors to increase the speed and effectiveness of management decision-making. In addition, we have adopted an executive officer system and invited outside directors to serve on the Board of Directors to improve transparency and reinforce the supervision of business operations. As of June 2018, the Board of Directors had eight members, including three outside directors. Their respective terms of office are set at one year.

## ■ Officer Remuneration System

In April 2005, we formulated the Basic Policy on Officer Remuneration not only to clarify their management responsibilities for Company performance but also to ensure objectivity and transparency regarding remuneration (the policy was updated in February 2012, with some expressions revised). Under this policy, we reexamined the officer remuneration system, centering on the abolishment of allowances for retirement benefits for officers and the introduction of a performance-linked remuneration system. To reflect shareholders' perspectives in management, all directors excluding outside directors are required to purchase Company stock every month and maintain ownership of this stock during the term of their service in accordance with the Guidelines for Stock Purchases.

Types of Directors	Total Value of Remuneration (Million Yen)	Total Value of Remuneration by Type (Million Yen)					Number of Directors Subject to Remuneration
		Base Salary	Stock Options	Bonuses	Retirement Allowance		
Directors (excluding outside directors)	464	386	-	78	-	10	
Audit & Supervisory Board members (excluding outside members)	74	74	-	-	-	3	
Outside directors	34	26	-	8	-	3	
Outside Audit & Supervisory board members	32	32	-	-	-	4	

**Note 1:** Total remuneration above includes payments to two directors and two Audit & Supervisory Board members (including 1 outside member) who retired at the conclusion of the 217th Ordinary General Shareholder's Meeting.

**Note 2:** The total basic monthly salary for all directors, including outside directors, approved at the 205th Ordinary General Shareholder's Meeting, is to be a maximum of 50 million yen per month, and total bonuses for all directors approved at the 206th Ordinary General Shareholder's Meeting is to be a maximum of 90 million yen per year.

**Note 3:** The total basic monthly salary for all Audit & Supervisory Board members, including outside members, approved at the 190th Ordinary General Shareholder's Meeting, is to be a maximum of 12 million yen per month.

## ■ Executive Officer System

By adopting an executive officer system, we have delegated substantial authority over business operations in individual business departments to the corresponding executive officers and established clear lines of responsibility. Executive officers are assigned to ensure that Company decisions on business matters are executed quickly and reliably. These officers work to maximize Group value in accordance with policies determined by the Board of Directors. To ensure clear accountability, executive officers are appointed for terms of one year.

## ■ Advisory Committee

We have established the Advisory Committee, which comprises five members with outside members in the majority. These members are appointed by the chairman, president and Board of Directors. In response to inquiries from the Board of Directors, the committee deliberates on issues such as the appointment of officer candidates and officer remuneration, thus ensuring management transparency and objectivity.

## ■ Corporate Executive Meeting

The purpose of the Corporate Executive Meeting is to deliberate on measures pertaining to corporate management issues. It is composed of 11 executive officers with operational responsibilities. In addition, two full-time Audit & Supervisory Board members attend the committee meetings.

## ■ In-house Committees

Important management issues concerning the Company's overall policies require investigations, studies and arrangements spanning multiple business departments, subsidiaries or business domains, and to that end we have established cross-divisional in-house committees to enhance the consistency, effectiveness and cohesiveness of our policies. These committees are chaired either by an executive officer with operational responsibility or, in the case of the three most important committees responsible for ethics, safety, and customer satisfaction, by the president. The matters considered by each committee are reported as necessary to the Corporate Executive Meeting.

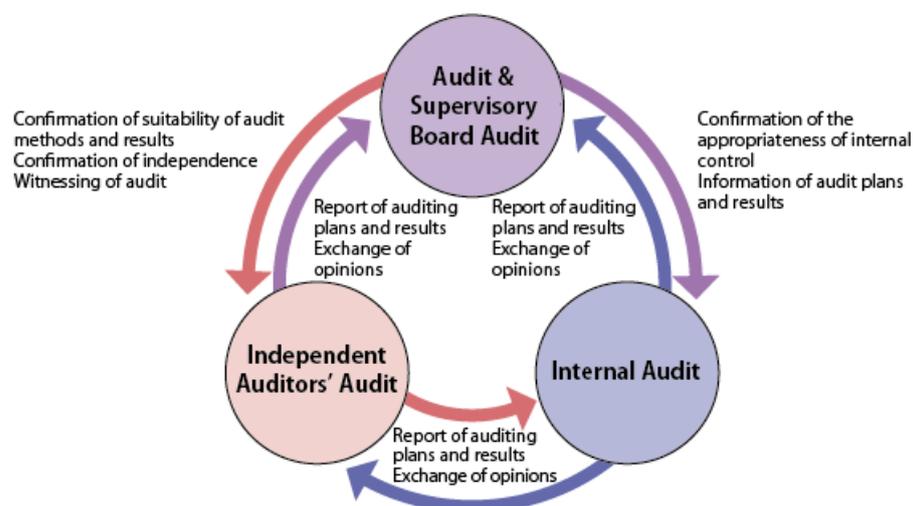
### Links

- ▶ [Corporate Governance Report \(PDF : 555KB\)](#) 
- ▶ [Basic Policy on Corporate Governance \(PDF : 153KB\)](#) 
- ▶ [Independence Standards for Outside Officers \(PDF : 59KB\)](#) 

## Audit Structure

### ■ Mutual Collaboration among the Audit & Supervisory Board Audit, Internal Audit, and Independent Auditors' Audit

In order to enhance the effectiveness of three-way auditing (Audit & Supervisory Board Audit, Internal Audit, and Independent Auditors' Audit) as well as to improve the quality of audits as a whole, Tokyo Gas strives to strengthen the mutual collaboration between each audit in areas such as the reporting of audit plans and results as well as exchanges of opinions and witnessing of audits, as shown in the diagram below.



### ■ Audit & Supervisory Board

The Audit & Supervisory Board consists of five members, including three outside auditors, and the Audit & Supervisory Board Office was established to provide support independent from business execution with five dedicated staff members (as of March 31, 2018). In line with the Corporate Auditor's Audit Standards, the members attend the Board of Directors, the Corporate Executive Meeting, and other important meetings. They also state their opinions relating to legality and other perspectives as necessary, conduct research into the state of operations at the head office, major business offices, subsidiaries, and hold discussions with the Representative Director to exchange opinions on a regular or ad-hoc basis. The Audit & Supervisory Board members cooperate closely with the Internal Audit Department and independent auditors and strictly audit the execution of duties by the directors to enhance and strengthen high-quality corporate governance systems.

## ■ Internal Audit Department

Our company has established the Internal Audit Department as an internal audit body (with 35 assigned staff members as of April 1, 2018, including those in charge of operations in response to the Internal Control Reporting System) with a structure that can effectively implement specialized audits from the perspectives of accounting, operations, compliance, information systems, and risk management, among others.

## ■ Procedures and Status of Internal Audits

Internal audits are made of Tokyo Gas and its subsidiaries, which are completed over a three- to six-year cycle based on the annual audit resolved by the Board of Directors. The results of these audits are reported not only to the president, Corporate Executive Meeting, Board of Directors, and Audit & Supervisory Board but also to the managers of all audited offices. Offices are required to submit their responses to recommendations arising from these audits, and progress on implementing these responses is followed up and reported to the Corporate Executive Meeting the following year. In fiscal 2017, five divisions of Tokyo Gas and four subsidiaries were audited, four divisions and six subsidiaries were given follow-up audits, and issue-specific audits were conducted on the state of internal control at overseas subsidiaries.

In principle, the appropriateness of our internal audit procedures is assessed by external experts once every five years.

## ■ Collaboration on Audits within the Group

In the Tokyo Gas Group, Audit & Supervisory Board, Audit & Supervisory Board of subsidiaries, and the Internal Audit Department periodically exchange opinions. We have established a system that ensures efficient and effective audit activities across the Group through close ongoing coordination and liaison meetings. In fiscal 2017, we held four liaison meetings.

# Internal Control

## ■ Internal Control System

To secure the soundness and transparency of our management and realize our management philosophy, Tokyo Gas has formulated the Basic Policy on Development of Corporate Structures and Systems for Ensuring Appropriateness of Operations (Internal Control System) for Tokyo Gas Group and is applying this policy in an appropriate manner.

Link

- ▶ [Basic Policy on Development of Corporate Structures and Systems for Ensuring Appropriateness of Operations \(Internal Control System\) for Tokyo Gas Group](#) 

## ■ Compliance with the Internal Control Reporting System

To comply with the Internal Control Reporting System under the Financial Instruments and Exchange Act, Tokyo Gas follows the internal controls basic framework presented in Financial Services Agency standards, arranges and administers internal controls related to financial reporting, assesses their status and improves them as necessary. In the internal controls report for the previous fiscal year prepared under this system, which found our internal controls regarding financial reporting to be effective, the auditors expressed the opinion that all the material points were represented appropriately.

# Risk Management

Business risks are becoming more diversified with the rapid social changes underway. Tokyo Gas has established a risk management system to identify and minimize the impact of potential risks that could affect our business operations. Also, we are developing a crisis management system so that we can continue operations and quickly resume normal business activities even during unforeseen circumstances such as natural disasters and pandemics.

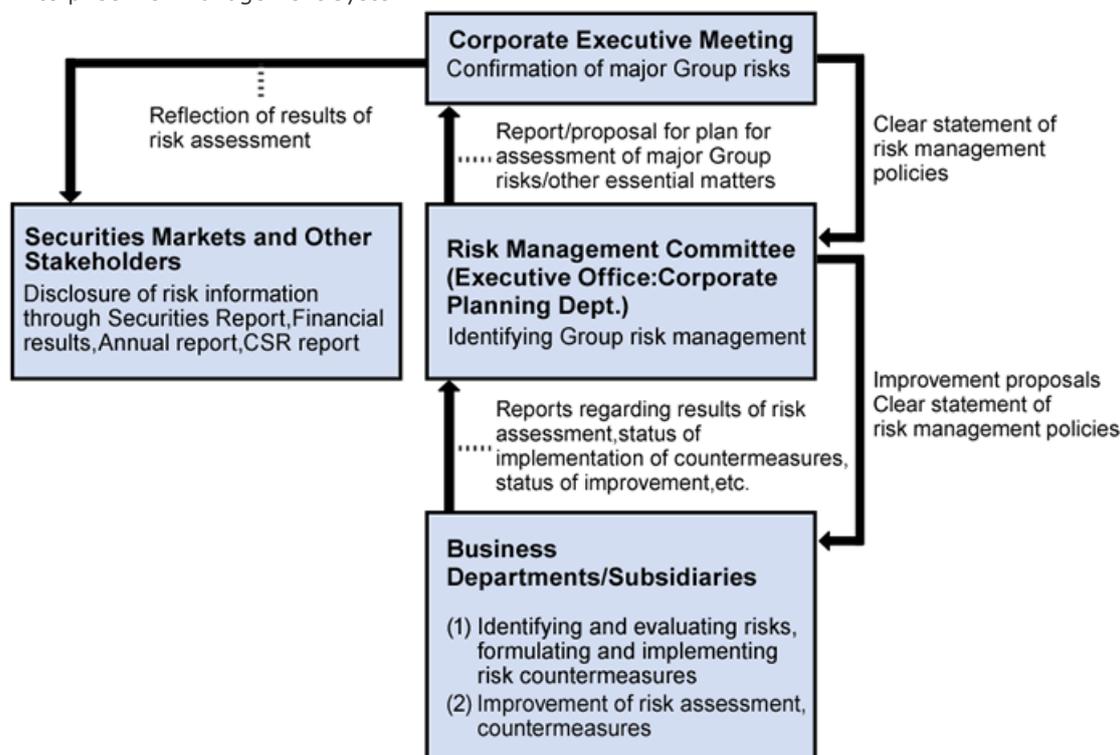
## Risk Management System

### Enterprise Risk Management System

Tokyo Gas has set up an enterprise risk management (ERM) system and identified major risks in its Risk Management Regulations.

The Risk Management Committee, established to advance our ERM, periodically checks on progress regarding the establishment and operational status of the ERM system, reports results to the Corporate Executive Meeting and obtains the necessary approvals. Under this framework, around 150 risk management promotion officers are deployed in the business departments of Tokyo Gas and its subsidiaries to promote ERM. Each year, we assess risks and the implementation and improvement status of countermeasures. This system facilitates the steady implementation of the ERM-PDCA cycle.

Enterprise Risk Management System



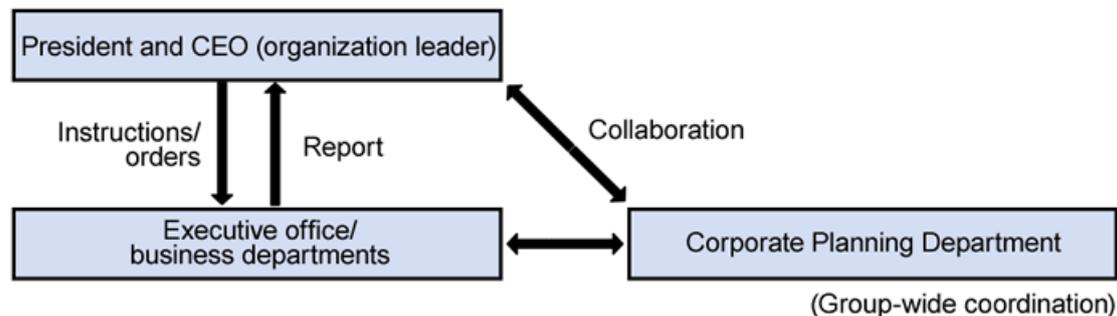
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## Crisis Management System

Since the Company provides public services that are essential lifelines, it has for many years also operated a crisis management system that serves as a response system in the event of an accident or other risk-related incidents. Specifically, we formulated the Emergency Response Regulations, with which the Emergency Response Organization will respond accordingly and immediately in the event of a crisis, including major natural disasters such as an earthquake, production or supply disruptions arising from major accidents at LNG terminals or pipelines, influenza outbreaks, terrorism, failures in mission-critical IT systems, and compliance problems.

The Company periodically conducts training on major risk response measures. We have also formulated a business continuity plan (BCP), which outlines how the Company will respond in the event of a major earthquake of the magnitude assumed by Japan's Cabinet Office, major accident disrupting gas supply, widespread power blackout, influenza outbreak, or large-scale mission-critical IT system stoppage. This plan is in place to reinforce our risk management system.

Emergency Response Organization



**Note:** The organization unit in charge of the executive office is determined in advance and in accordance with the type of emergency.

## ■ Promoting Risk Management

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### Provision of Risk Management Training

The Tokyo Gas Group provides training programs to promote risk management.

In fiscal 2017, we held training for Risk Management Promotion Officers and newly appointed general managers and managers (newly appointed mid-level managers) in each department of the Company, and for subsidiaries so that they could appropriately perform necessary risk management in their respective positions and enhance their risk management capabilities.

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### Escalation Rules

To further enhance a corporate and organizational culture that encourages appropriate responses to managing risks, we established our clearly defined Escalation Rules, which require that information on any apparent major risk, such as accidents and disasters, be reported to the appropriate supervisory staff in a timely and appropriate manner.

Link

▶ [Major Group-wide Risks](#)