

**FY2011 1Q Financial Results ended June 30, 2011**



July 29, 2011

Today I would like to present an overview of Tokyo Gas's results for the first quarter of fiscal 2011.

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**FY2011 1Q Consolidated Financial Results  
ended June 30, 2011 and FY2011 Forecast**

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**Financial Highlights (vs. FY10 1Q) Sales growth, profit decline**

(+/- indicates profit impact, billion yen)

- Net sales** : + City gas sales grew (+5.7; higher resource costs led to increase in unit price +10.4 (non-consolidated basis))
- + Electricity sales grew with Ohgishima Power Stn. Unit 2 commencement (July 2010) (+7.4)
- Operating income** : - City gas resource costs rose (-21.5)
- Personnel expenses rose on increase in amortization of actuarial differences in pension accounting (-5.5 (non-consolidated basis))
- Ordinary income** : + Difference in gain and loss on interest-rate swaps (+1.5)
- Equity-method profit declined (-0.5), Dif. in foreign exchange gain and loss (-0.2)

(Unit: billion yen)

	FY11 1Q	FY10 1Q	Change	%
<b>Gas sales volume (mil. m3 , 45MJ)</b>	<b>3,532</b>	3,547	-15	-0.4
<b>Net sales</b>	<b>376.7</b>	366.4	10.3	+2.8
<b>Operating expenses</b>	<b>360.1</b>	324.8	35.3	+10.9
<b>Operating income</b>	<b>16.6</b>	41.5	-24.9	-60.0
<b>Ordinary income</b>	<b>16.3</b>	41.4	-25.1	-60.5
<b>Net income</b>	<b>8.9</b>	25.2	-16.3	-64.4
<i>Sliding time lag effect (non-consolidated basis)</i>	<b>-23.6</b>	-12.0	-11.6	-
<i>Amortization of actuarial differences (non-consolidated basis)</i>	<b>-0.6</b>	+4.9	-5.5	-
<b>Economic conditions</b>	<b>JCC (\$/bbl)</b>	<b>Ex. rate (¥/\$)</b>	<b>Avg. temperature</b>	
<b>FY11 1Q</b>	<b>114.96</b>	<b>81.71</b>	<b>18.6 °C</b>	
<b>FY10 1Q</b>	<b>81.30</b>	<b>92.01</b>	<b>18.3 °C</b>	

First, please refer to slide 2.

Gas sales volume declined 0.4% year-on-year, to 3,532 million m3. Despite an increase in industrial demand, primarily for electric power generation in response to power shortages after the earthquake, the absence of the year-earlier effect of low temperatures and the effect of the earthquake resulted in declines in both residential and commercial demand.

Although gas sales volume declined, unit sales prices rose under the gas rate adjustment system, and city gas sales rose 2.0%, to ¥287.4 billion, and with an increase in electric power sales from the commencement of operations at Ohgishima Power Station Unit 2 from July 2010, net sales rose 2.8%, to ¥376.7 billion.

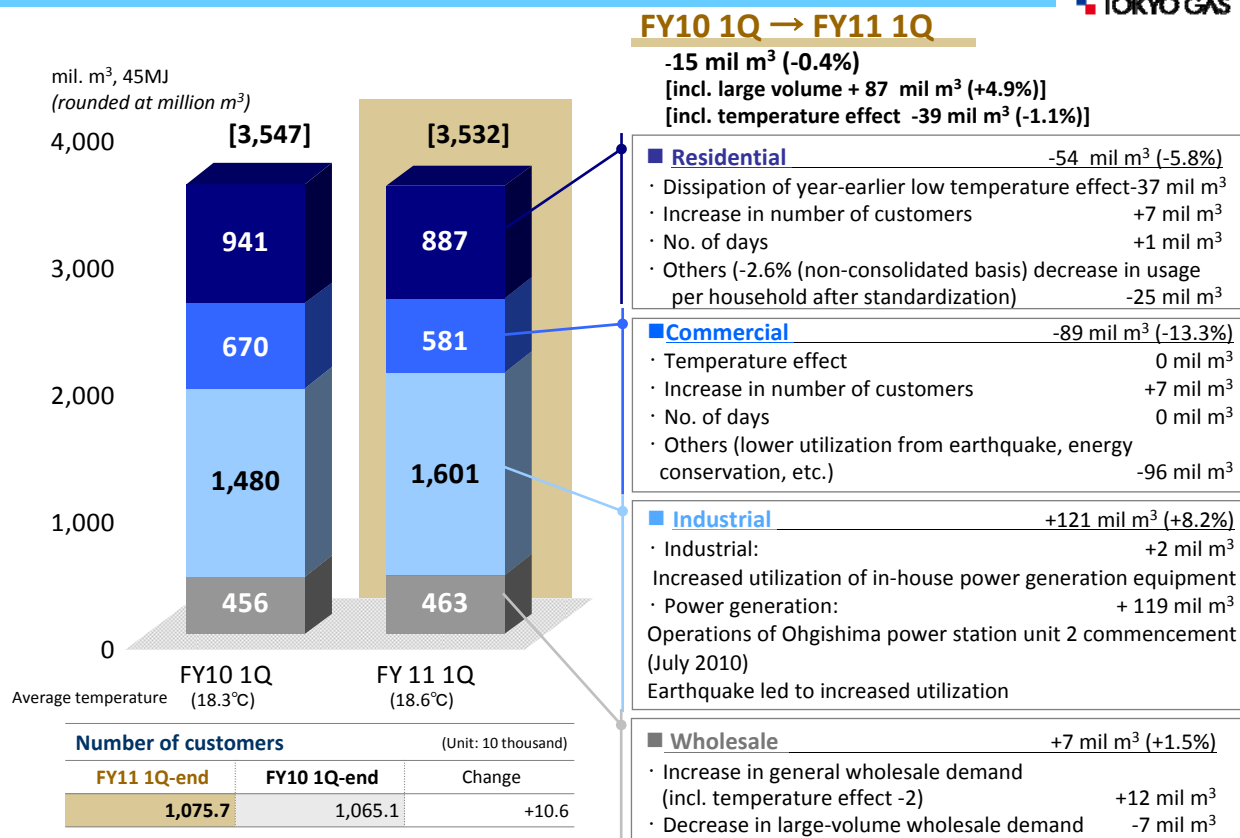
On the other hand, operating expenses grew 10.9%, to ¥360.1 billion, with a ¥21.5 billion increase in city gas resource costs associated with higher crude oil prices and a ¥5.5 billion increase in non-consolidated personnel expenses on increased costs from actuarial differences in pension accounting.

As a result, operating income declined 60.0% year-on-year, to ¥16.6 billion, and ordinary income declined 60.5%, to ¥16.3 billion.

On non-consolidated basis, with the rise in crude oil prices, the shortfall at Tokyo Gas from the sliding time-lag effect grew to ¥23.6 billion in the first quarter of fiscal 2011, compared with a year-earlier ¥12.0 billion shortfall, and this had an ¥11.6 billion negative impact on operating income. In addition, the amortization of actuarial differences in pension accounting created a cost of ¥0.6 billion in the first quarter of fiscal 2011, compared with a year-earlier gain of ¥4.9 billion, for a ¥5.5 billion negative impact on earnings.

## Consolidated Gas Sales Volume (Apr. 1 – Jun. 30, 2011)

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Gas sales volume declined 15 million m<sup>3</sup>, or 0.4% year-on-year, to 3,532 million m<sup>3</sup>. Of this decline, we estimate that roughly 39 million m<sup>3</sup>, or 1.1%, was from the effect of temperatures.

Residential gas sales volume declined 5.8%, to 887 million m<sup>3</sup>, in the absence of the year-earlier increase in demand caused by cool early-spring weather and from the effect of energy conservation following the Great East Japan Earthquake.

Commercial gas sales volume declined 13.3%, to 581 million m<sup>3</sup>, as restaurants and retailers shortened their operating hours following the earthquake, schools closed, and inns and hotels had lower occupancy rates from declines in tourism.

Industrial gas sales volume increased 8.2%, to 1,601 million m<sup>3</sup>. In addition to the commencement of operations at Ohgishima Power Station Unit 2 and a request for more gas for power generation from Tokyo Electric in response to post-earthquake power shortages, this also reflected an increase in general industrial demand from increased utilization of in-house power generation equipment.

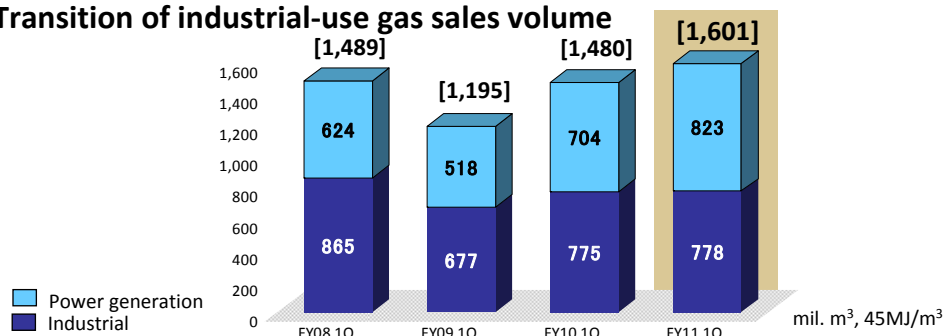
Gas sales volume to the wholesale sector grew 1.5%, to 463 million m<sup>3</sup>, on an increase in demand from wholesalers' customers.

### Gas Sales Volume by Use

#### Residential ▪ Commercial ▪ Industrial ▪ Wholesale

	Specific Details
Residential	[No. of new customers] Slightly lower than the previous year's level (slow recovery, especially in apartment buildings) (Results shifted from 35,000 (FY10 1Q) to 30,000 (FY11 1Q): -15.6%) [Gas sales volume per household after standardization] Decline from moves to conserve energy (103.9m <sup>3</sup> /year -> 101.2m <sup>3</sup> /year: -2.6% (non-consolidated)) [No. of all-electric housing] Existing houses shifted to all-electric: Decreased approx. 60% (3,800 -> 1,500) [ENE-FARM] 926 units installed (18.5% of FY plan); 4,352 units contracts completed
Commercial	<ul style="list-style-type: none"> <li>Lower utilization from energy conservation in offices, government offices, commercial facilities, schools</li> <li>Lower utilization at inns and hotels on decline in tourism demand, mood of self-restraint</li> </ul>
Industrial	[Industrial] Increased utilization of in-house power generation equipment after the earthquake [Power generation] Increased utilization from Ohgishima Power Stn. Unit 2, the earthquake effect
Wholesale	<ul style="list-style-type: none"> <li>Increase in the no. of wholesale customers (26 → 27)</li> </ul>

#### Transition of industrial-use gas sales volume



Slide four highlights gas sales volume by use.

In the residential sector, the number of new customers declined 15.6% year-on-year, to 30,000, from a shortage of building supplies as a result of the earthquake. The decline was primarily at apartment buildings.

With regard to installations of all-electric systems, electric power companies have recently been refraining from marketing all-electric systems. The number of existing houses shifted to all-electric was approximately 1,500, which was only roughly 40% of the year-earlier level (3,600).

With a second-generation model released in April of this year, the number of ENE-FARM residential fuel cells sold was 926, representing 18.5% of our fiscal-year target of 5,000, but with heightened customer concern about energy security we have received many inquiries, and on a completed-contract basis the number was 4,352, for an achievement rate of 87%.

In the industrial sector, in addition to the commencement of operations at Ohgishima Power Station Unit 2, and an increase in demand for gas for electric power generation from increased thermal power generation following the earthquake, the general industrial sector contributed to year-on-year growth from increased utilization of in-house power generation equipment. Nevertheless, with the delayed economic recovery and disrupted supply chains, industrial demand was still less than in the first quarter of fiscal 2008, prior to the global financial crisis.

## FY2011 1Q: Net Sales & Operating Income/Loss by Business Segment

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<vs. FY2010 1Q>

(+/- indicates profit impact, billion yen)

### Highlights

- 1 Other energy** : Electricity sales grew with Ohgishima Power Stn. Unit 2 commencement (+7.4)  
Operating income declined in Energy-service due to slide time lag effect (-0.7)
- 2 Real estate** : Sales declined on revision of rents charged to Tokyo Gas (-1.0)
- 3 Others** : Operating income declined in Construction and hotel businesses and others (-1.5)

(Unit: billion yen)

	Net sales			Operating income/loss				
	FY2011 1Q		FY2010 1Q	FY2011 1Q			FY2010 1Q	
	Result	Change	%	Result	Result	Change	%	Result
City gas	287.4	5.7	2.0	281.7	24.9	-20.5	-45.2	45.4
Gas appliances and installation work	33.8	-0.2	-0.5	34.0	0.0	-0.5	-93.5	0.5
Other energy	57.7	8.8	18.0	48.9	0.1	-0.6	-84.3	0.7
(Electric power)	20.1	7.4	57.2	12.7	0.0	0.1	-	-0.1
Real estate	7.2	-1.0	-11.1	8.2	1.3	-0.8	-39.2	2.1
Others	35.3	-0.6	-1.6	35.9	0.3	-1.5	-79.1	1.8
Corporate or Eliminations	-44.8	-2.5	-	-42.3	-10.1	-0.9	-	-9.2
<b>Consolidated</b>	<b>376.7</b>	<b>10.3</b>	<b>2.8</b>	<b>366.4</b>	<b>16.6</b>	<b>-24.9</b>	<b>-60.0</b>	<b>41.5</b>

- Notes:
- Net sales by business segment include internal transactions.
  - Other energy includes Energy-service (including LNG sales), Electric power, LPG, Industrial gas, etc.
  - Others includes Construction, System engineering, Shipping, Credit & Lease, etc.

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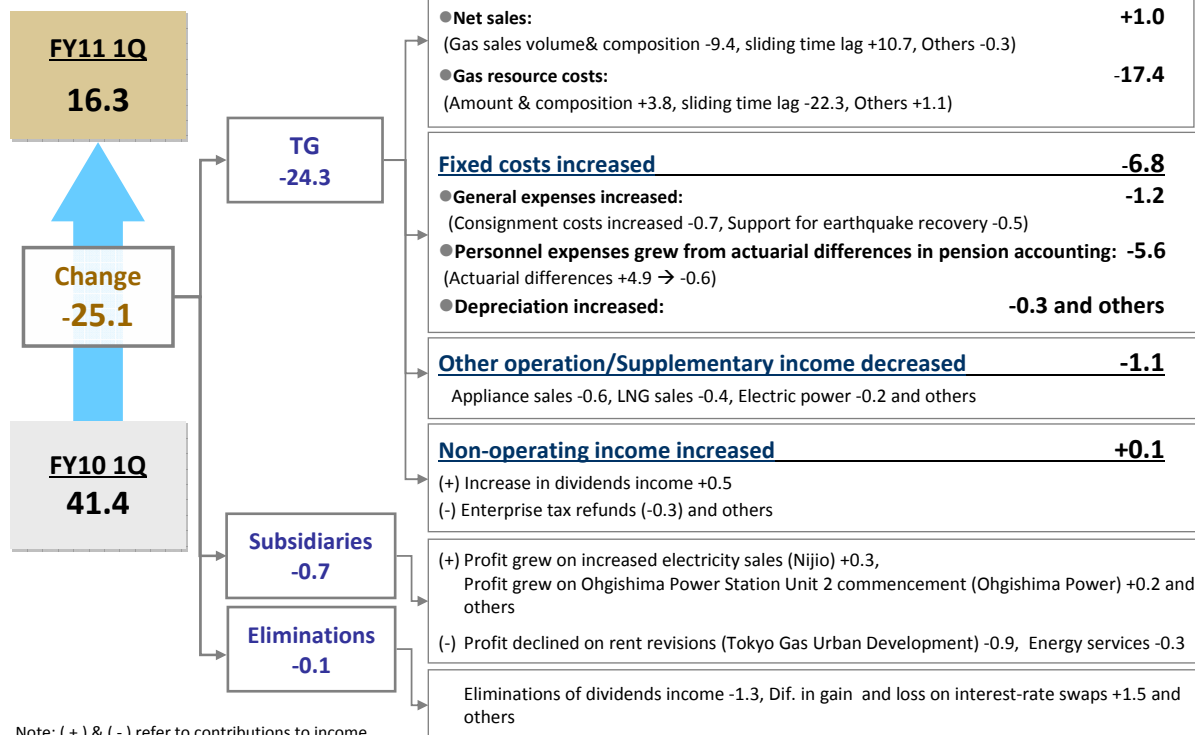
Slide five shows operating results by segment.

Other than the city gas segment, major changes were seen at the “other energy” segment. Net sales rose ¥8.8 billion year-on-year, to ¥57.7 billion, which included a 57.2% increase, to ¥20.1 billion, at the electric power business from the commencement of operations at Ohgishima Power Station Unit 2. The segment’s operating income declined 84.3%, to ¥100 million, from lower profit from energy services as a result of energy conservation following the earthquake, and a time lag in the rise of resource costs for LNG sales.

At the real estate segment, the reduction of rents charged to Tokyo Gas by a consolidated subsidiary resulted in lower net sales and operating income prior to eliminations in consolidation.

At the others segment, with reduced profit from construction business and hotel business with lowered utilization rates caused by the earthquake, combined with technical factors involving reclassifications among segments, net sales and profit both declined.

# FY2011 1Q: Ordinary Income Analysis <vs. FY2010 1Q>



Next, slide six presents an analysis of year-on-year changes in ordinary income in the first quarter.

<VS Initial Plan (announced on Apr. 28, 2011)>

(+/- indicates profit impact, billion yen)

**Highlights Revised to lower sales and profit**

- Net sales** : - Decline in city gas sales on differences in sales volume composition (-4.6)
- Operating income** : - Increase in general expenses from accelerated budget implementation (-7.2 (non-consolidated basis))
- Ordinary income** : + Improvement in non-operating items including foreign exchange gain at overseas subsidiary (+2.0)

(Unit: billion yen)

	Current forecast	Initial plan (Apr. 28)	Change	%
<b>Gas sales volume (mil. m<sup>3</sup>, 45MJ)</b>	<b>6,928</b>	6,790	+138	+2.0
<b>Net sales</b>	<b>750.0</b>	753.0	-3.0	-0.4
<b>Operating expenses</b>	<b>748.0</b>	744.0	+4.0	+0.5
<b>Operating income</b>	<b>2.0</b>	9.0	-7.0	-77.8
<b>Ordinary income</b>	<b>1.0</b>	6.0	-5.0	-88.3
<b>Net income</b>	<b>-2.0</b>	2.0	-4.0	-200.0
<i>Sliding time lag effect (non-consolidated basis)</i>	<i>-42.0</i>	<i>-40.6</i>	<i>-1.4</i>	<i>-</i>
<i>Amortization of actuarial differences (non-consolidated basis)</i>	<i>-1.3</i>	<i>-1.3</i>	<i>0.0</i>	<i>-</i>

Economic conditions (1st half)	JCC (\$/bbl)			Ex. rate (¥/\$)			Avg. temp. (°C)
	1Q	2Q	Avg.	1Q	2Q	Avg.	
<b>Current forecast</b>	<b>114.96</b>	<b>110.00</b>	<b>112.48</b>	<b>81.71</b>	<b>80.00</b>	<b>80.86</b>	<b>22.3</b>
<b>Initial plan</b>	<b>110.00</b>	<b>115.00</b>	<b>112.50</b>	<b>85.00</b>	<b>85.00</b>	<b>85.00</b>	<b>22.6</b>

(Revisions to first-half and full-year forecasts)

We have reviewed our assumptions for crude oil prices and exchange rate levels, and based on our first-quarter results and these revised assumptions, we have revised our forecasts for first-half and full-year results.

Given the sharp rise in crude oil prices at the time of our initial forecasts, our estimates for crude oil prices had been \$115/barrel for the second quarter and \$120/barrel for the third and fourth quarters, but considering the recent price trend, we are now using an assumption of \$110 for the second through fourth quarters. We have similarly revised our exchange rate assumption for the second through fourth quarters to ¥80/dollar, from ¥85/dollar.

For the first half of fiscal 2011, we are now forecasting gas sales volume of 6,928 million m<sup>3</sup>, a 2.0% increase from our initial forecast, to reflect the increase in industrial demand, primarily for electric power generation. However, with a change in sales volume composition from growth in industrial demand replacing a decline in commercial demand, and an expected decline in unit sales prices under the gas rate adjustment system in line with the changes to our economic assumptions, we are projecting a 0.4% year-on-year decline in net sales, to ¥750.0 billion.

In terms of operating expenses, we are forecasting an increase of 0.5%, to ¥748.0 billion, reflecting lower resource costs in line with our assumption of a stronger yen on the one hand, but with an increase in general expenses from consignment costs being brought forward to strengthen safety inspections following the earthquake.

As a result, we are forecasting a 77.8% decline in operating income, to ¥2.0 billion. We expect a ¥2.0 billion improvement in non-operating items, including foreign exchange gains at overseas subsidiaries, however, and are therefore forecasting an 83.3% decline in ordinary income, to ¥1.0 billion.

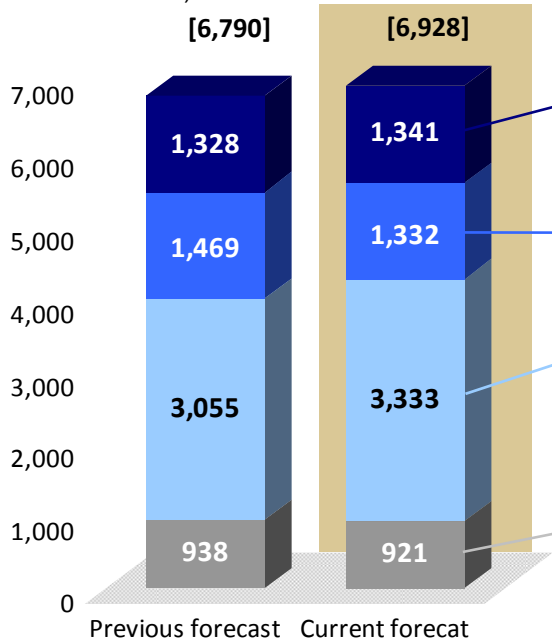


# Consolidated Gas Sales Volume Forecast 1st Half (Apr. 1 – Sep. 30, 2011)

mil. m<sup>3</sup>, 45MJ  
(rounded at million m<sup>3</sup>)

## Previous forecast → Current forecast

**+138 mil m<sup>3</sup> (+2.0%)**



**Residential** +13 mil m<sup>3</sup> (+0.9%)

- Includes 1Q increase
- 2Q as planned

**Commercial** -137 mil m<sup>3</sup> (-9.3%)

- Includes energy conservation in summer air conditioning

**Industrial** +278 mil m<sup>3</sup> (+9.1%)

- Includes increases in electric power generation use and utilization by customers with in-house power generation equipment
- Excluding above, general industrial demand basically as planned

**Wholesale** -17 mil m<sup>3</sup> (-1.8%)

- Includes damage to customers' facilities

Average temperature (22.6°C)

(22.3°C)

<VS Initial Plan (announced on Apr. 28, 2011)>

(+/- indicates profit impact, billion yen)

**Highlights Revised to lower sales and higher profit**

- Net sales** : - Decline in city gas sales on lower unit sales prices from differences in sales volume composition and changes in economic assumptions (-45.5)
- Operating income** : + Reduction in city gas resource costs from changes in economic assumptions (-51.5 (non-consolidated basis))
- Ordinary income** : + Improvement in non-operating items including foreign exchange gain at overseas subsidiary (+2.0)

(Unit: billion yen)

	Current forecast	Initial plan (Apr. 28)	Change	%
Gas sales volume (mil. m <sup>3</sup> , 45MJ)	14,626	14,624	+2	+0.0
Net sales	1,705.0	1,752.0	-47.0	-2.7
Operating expenses	1,644.0	1,695.0	-51.0	-3.0
Operating income	61.0	57.0	+4.0	+7.0
Ordinary income	58.0	52.0	+6.0	+11.5
Net income	37.0	33.0	+4.0	+12.1
<i>Sliding time lag effect (non-consolidated basis)</i>	<i>-47.3</i>	<i>-55.9</i>	<i>+8.6</i>	<i>-</i>
<i>Amortization of actuarial differences (non-consolidated basis)</i>	<i>-2.7</i>	<i>-2.7</i>	<i>0.0</i>	<i>-</i>

Economic conditions (Full Year)	JCC (\$/bbl)					Ex. rate (¥/\$)			Avg. temp. (°C)
	1Q	2Q	3Q	4Q	Avg.	1Q	2-4Q	Avg.	
Current forecast	114.96	110.00	110.00	110.00	111.24	81.71	80.00	80.43	16.6
Initial plan	110.00	115.00	120.00	120.00	116.25	85.00	85.00	85.00	16.7

With regard to our full-year forecasts, we have left our gas sales volume estimate basically unchanged at 14,626 million m<sup>3</sup>, to reflect an increase in demand for electric power generation following the earthquake, as well as a decline in commercial demand from the trend of energy conservation and electricity saving.

With the differences in sales volume composition, combined with lower unit sales prices under the gas rate adjustment system in line with the changes to our economic assumptions, we are now forecasting a 2.7% decline in net sales, to ¥1,705.0 billion.

We are forecasting a 3.0% decline in operating expenses, to ¥1,644.0 billion, from lower resource costs than initially anticipated, associated with the changes to our economic assumptions.

As a result, we are forecasting a 7.0% increase in operating income, to ¥61.0 billion. As in the first half, we expect a ¥2.0 billion improvement in non-operating items, and are forecasting an 11.5% increase in ordinary income, to ¥58.0 billion.

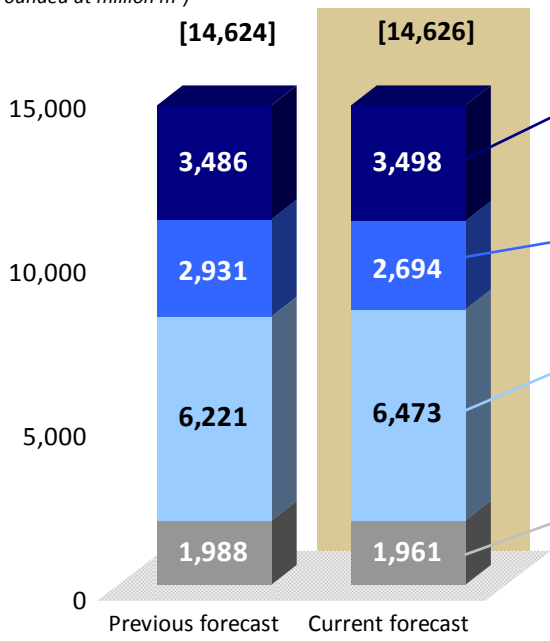
# Consolidated Gas Sales Volume Forecast Full Year (Apr. 1, 2011 – Mar. 31, 2012) <sup>10</sup>



mil. m<sup>3</sup>, 45MJ  
(rounded at million m<sup>3</sup>)

## Previous forecast → Current forecast

**+2 mil m<sup>3</sup> (+0.0%)**



**Residential** +12 mil m<sup>3</sup> (+0.4%)  
 • Includes 1Q increase  
 • In and after 2Q as planned

**Commercial** -237 mil m<sup>3</sup> (-8.1%)  
 • Includes energy conservation in summer, winter air conditioning

**Industrial** +252 mil m<sup>3</sup> (+4.1%)  
 • General industrial demand basically as planned  
 • Power generation use includes existing customer volume increase

**Wholesale** -27 mil m<sup>3</sup> (-1.3%)  
 • Includes damage to customers' facilities

Average temperature (16.7°C)

(16.6°C)

### ■ Increased use for natural gas thermal power generation, increased utilization of cogeneration

#### (+) Increase in industrial-use gas sales volume

Increase in power generation demand (1Q results: 704 million m<sup>3</sup> → 823 million m<sup>3</sup>; +16.9%)

#### (+) Supplementary income (LNG sales, electricity sales)

Increased thermal power generation in response to power shortages in early spring

### ■ Delayed recovery in distribution supply chain

#### (+/-) Restoration of parts manufacturers' production lines

Production recovered with restoration of production lines at major parts manufacturers for gas equipment

### ■ Tighter supply-demand for electricity, electricity-saving effect

#### (-) Air-conditioning gas sales volume

Gas sales volume for a/c contracts (\*) down roughly 30% from year-earlier gas sales volume

### ■ Curtailment of electrification offensive

#### (+) Decline in number of existing houses shifted to all-electric

Trending at roughly one-third year-earlier pace (1Q results: roughly 1,500 houses)

### ■ Decline in greater Tokyo housing construction from shortages of materials, construction of temporary housing

#### (-) Decline in number of new units

Decline of 5,000 units in apartment buildings from significantly delayed supplies of building materials (35,000 → 30,000)

\* Gas sales volume for selected agreements (summer a/c, a/c-use A & B, small-lot a/c contracts)

Slide 11 summarizes the effect that the earthquake had on our first-quarter results, including the items that I have already noted.

## Gross Margin Sensitivity to Changes in Oil Price and Exchange Rate (Non-consolidated basis)<sup>12</sup>



### Impact on rising JCC by \$1/bbl

(Unit: billion yen)

	Impact on 2Q earnings	Impact on 3Q earnings	Impact on 4Q earnings	Full Year
Rise in 2Q	-0.3	-0.5	+0.7	-0.1
Rise in 3Q		-0.3	-0.7	-1.0
Rise in 4Q			-0.2	-0.2
<b>Total</b>	<b>-0.3</b>	<b>-0.8</b>	<b>-0.2</b>	<b>-1.3</b>

### Impact on yen depreciation by ¥1/\$

(Unit: billion yen)

	Impact on 2Q earnings	Impact on 3Q earnings	Impact on 4Q earnings	Full Year
Weak in 2Q	-1.0	+0.7	+0.4	+0.1
Weak in 3Q		-1.2	+1.0	-0.2
Weak in 4Q			-1.5	-1.5
<b>Total</b>	<b>-1.0</b>	<b>-0.5</b>	<b>-0.1</b>	<b>-1.6</b>

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The last slide presents an analysis of gross margin sensitivity to changes in oil prices and exchange rates. This estimates the impact on quarterly earnings from changes in oil prices and exchange rates in each quarter.

This concludes my presentation. Thank you.



**< Cautionary Statement regarding Forward-looking Statements >**

**Statements made in this presentation with respect to Tokyo Gas's present plans, projections, strategies and beliefs, and other statements herein that are not expressions of historical fact are forward-looking statements about the future performance of the Company. As such, they are based on management's assumptions and opinions stemming from currently available information and therefore involve risks and uncertainties.**

**The Company's actual performance may greatly differ from these projections, due to these risks and uncertainties which include without limitation general economic conditions in Japan, crude oil prices, the weather, changes in the foreign exchange rate of the yen, rapid technological innovations and the Company's responses to the progress of deregulation.**

**TSE:9531**