

# Tokyo Gas Group Medium-Term Management Plan for FY2009–2013

## EVOLUTION AND ADVANCEMENT OF INTEGRATED ENERGY BUSINESS

Through the enhancement of the integrated energy business, offering multi-energy supply retaining natural gas at the core, and energy services offering one-stop energy solutions, Tokyo Gas prepares itself for future patterns of energy use and the development of society.

### Growth Potential 10 Years into the Future

Under our previous medium-term management plan, we worked toward the rapid establishment of the integrated energy business. Through a variety of measures that were steadily implemented throughout the period covered by the plan, we worked to create new growth fields and were able to realize strong competitiveness. Such new fields have included upstream operations, LNG transportation, and electric power.

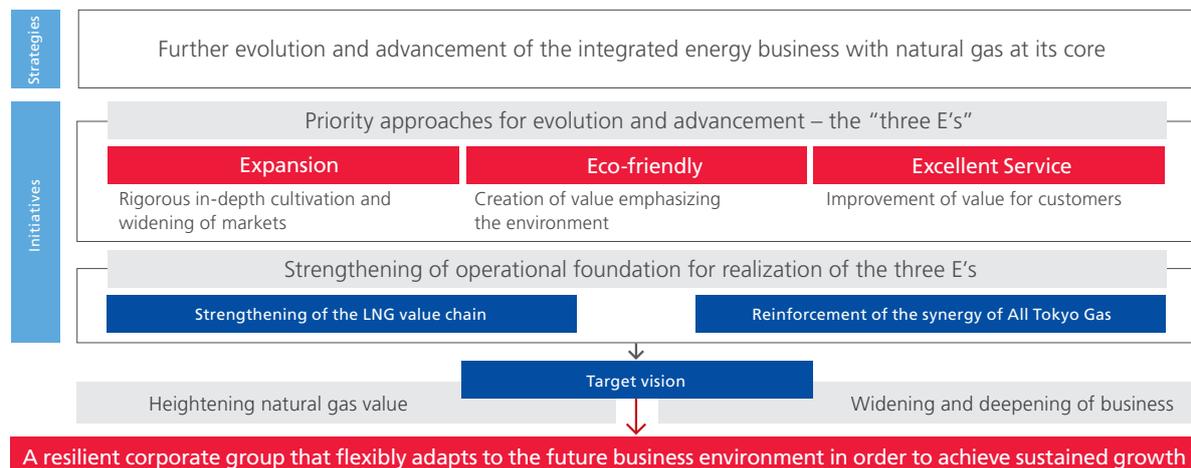
While we do not anticipate any change in the advantage and importance of natural gas as an energy resource, we are seeing changes in our operating environment that will have a major effect on our business development. These include further increases in social expectations regarding environmental conservation, intensified competition among different sources of energy, changes in LNG procurement conditions, and the influence of the economic slowdown on energy demand over the short term. In this setting, we will implement the Group medium-term management plan for fiscal 2009–2013 (from the year ending March 2010 to the year ending March 2014), for which the theme is “evolution and

advancement of the integrated energy business.” While looking ahead to the latter half of the coming decade, by strategically allocating management resources, and by taking steps to reinforce our business foundations, we will strive to be a resilient corporate group that flexibly adapts to the future business environment in order to achieve sustained growth.

### Framework for the Medium-Term Management Plan

To achieve further evolution and advancement of our integrated energy business with natural gas at its core, we will conduct operational development with an emphasis on the “three E’s:”—Expansion (rigorous in-depth cultivation and widening of markets), Eco-friendly (creation of value emphasizing the environment), and Excellent service (improvement of value for customers). The three E’s will be supported on a foundation comprising two components: “strengthening the LNG value chain” and “reinforcement of the synergy of All Tokyo Gas.”

### Overview of Medium-Term Management Plan



## Priority Approaches – The Three E's

# Expansion – Rigorous In-Depth Cultivation and Widening of Markets

### Approaches thus far

- Diffusion of natural gas use over a wider area within a 200-km radius around Tokyo in the Kanto region
- One-stop supply of multi-energy services (gas, electricity, etc.)

### Priorities

- Cultivation of new demand within the wide-area radius and augmentation of the wide-area infrastructure
- Demand development through rigorous in-depth cultivation of the residential market
- Diffusion and expansion of natural gas use over a wider area through locally rooted gas companies



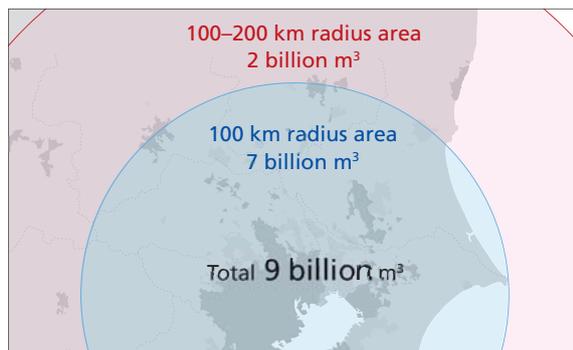
## Development and Expansion of Industrial Demand

Japan's energy markets are presenting increasingly difficult conditions due to such factors as the economic slowdown and the declining population. Nonetheless, within the 200-km area including Tokyo and surrounding prefectures, there is abundant demand, mainly from the industrial sector. Accordingly, thoroughgoing development and expansion of natural gas demand is the most important challenge in the Company's medium-term management plan.

At this point, we believe that potential demand in the Kanto area is about 9 billion m<sup>3</sup>, including thermal demand, which we are targeting through conversion from other fuels, and electric power demand, which we are targeting through cogeneration and other systems. By securing that potential demand, over the course of the medium-term management plan, we forecast growth in gas sales volume of more than 3% per annum. Thus, volume is forecast to reach ¥16.4 billion m<sup>3</sup> in fiscal 2013.

### 9 Billion m<sup>3</sup> Growth Potential

Potential Industrial and Commercial Demand within a 200-km Radius around Tokyo

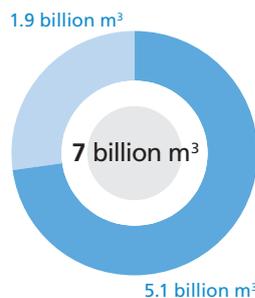


## Initiatives in the Residential-Use Market

In the residential sector, competition between gas and electric power will intensify. In response, we will strive for a further increase in the number of customers by stepping up marketing efforts targeting new residential units. Moreover, we will further bolster Tokyo Gas Group-wide sales initiatives, targeting house builders and other sub-users. Further, through strategic investment in pipelines, we will expand our supply areas and aim to secure new customers. We expect the number of customers to reach 11.2 million by the end of fiscal 2013.

Also, within the 200-km Kanto area radius, market characteristics differ based on region. Accordingly, focusing on our wide-area branches and related city gas companies, we will build an operational system closely linked to various regions, cooperate with peripheral gas suppliers, and bolster our marketing capabilities.

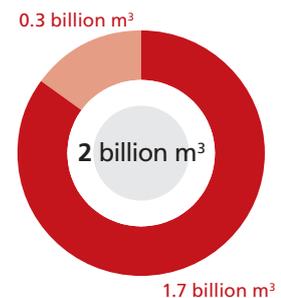
100 km Radius Area



The Company's estimate

- Conversion from other fuels, etc.
- Cogeneration / power generation use

100–200 km Radius Area



- Conversion from other fuels, etc.
- Cogeneration / power generation use



LNG tanker trucks



Tokyo Gas Yokosuka Power



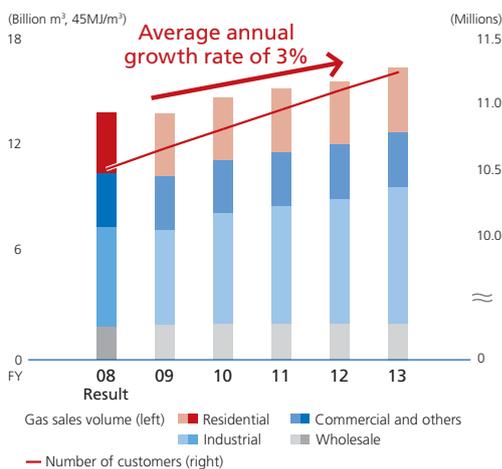
Chiba-Kashima Line

### Expand Integrated Energy Business— Bolster Electric Power and Energy Services

Under the new medium-term management plan, we will further expand and boost the competitiveness of our electricity business, which supports our multi-energy supply activities. In addition to the three large-scale power stations already in operation, the plan foresees the startup of Ohgishima Power by the end of fiscal 2009. As a result, as of fiscal 2010 our share of the capacity of these power stations will be about 1,300 MW. In addition to conventional power retailing, we will work to expand operations by establishing a sales portfolio that includes market transactions. We will also aim to expand gas business synergies.

In the energy service business, we will increase our competitiveness by leveraging our ability to provide one-stop solutions. Related issues include achieving the best energy mix, facility selection, operation, safety management, finance, support for energy saving, and regional energy services.

### Steady Growth in Operational Scale Outlook for Gas Sales Volume and Number of Customers



### Expanding Electric Power Operations / Bolstering Competitiveness

#### Major Electric Power Plants in Operation

Plant	Capacity	Percentage of shares held	State of operation
Tokyo Gas Baypower	100 MW	100%	In operation since October 2003
Tokyo Gas Yokosuka Power	240 MW	75%	In operation since June 2006
Kawasaki Natural Gas Power Generation	840 MW	49%	In operation since April 2008

#### Large-Scale Power Plants under Construction

Plant	Capacity	Percentage of shares held	State of operation
Ohgishima Power	1,220 MW	75%	Commencing at end of fiscal 2009

Establishment of a system in which our share of capacity is about 1,300 MW

## Priority Approaches – The Three E’s

# Eco-friendly – Creation of Value Emphasizing The Environment

### Approaches thus far

- Contribution to reduced environmental burden in energy use through the promotion of natural gas utilization and the development and diffusion of gas appliances and systems

### Priorities

- Contribution to the realization of a low-carbon society through increased sales of natural gas, which has excellent environmental features; as well as aggressive initiatives in such areas as the provision of goods and services that use new energy and the enhancement of energy-saving through the supply of new energy and area-wide / networked energy usage.

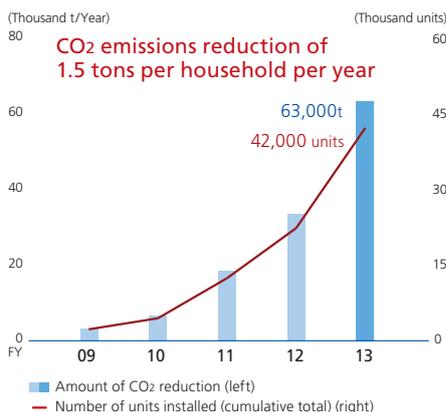
## Extensive Adoption of the “ENE-FARM” Residential-Use Fuel Cell

The Group has developed, diffused, and expanded equipment and systems for the advanced use of environmentally friendly natural gas, especially high-efficiency systems that reduce the burden on the environment. In the residential sector, the “ENE-FARM” residential-use fuel cell, which represents these systems, will be deployed to the market for a full-scale commercial roll out under the medium-term management plan. In comparison with previous systems, environmental friendliness is a strength of this system, which reduces CO<sub>2</sub> emissions by 1.5 tons a year per household\*. We will leverage this strength and work to achieve further reductions in cost and size. We are aiming for sales of 42,000 units by the end of fiscal 2013. We will position “ENE-FARM,” which offers a one-stop supply of electricity and heating, as our main strategic product in order to realize a low-carbon society. Through its adoption, we will take the initiative in working for a transition to a hydrogen-based society in the future.

\* The Company’s trial calculation based on verification testing and assuming four people per household.

## Realization of a Low-Carbon Society

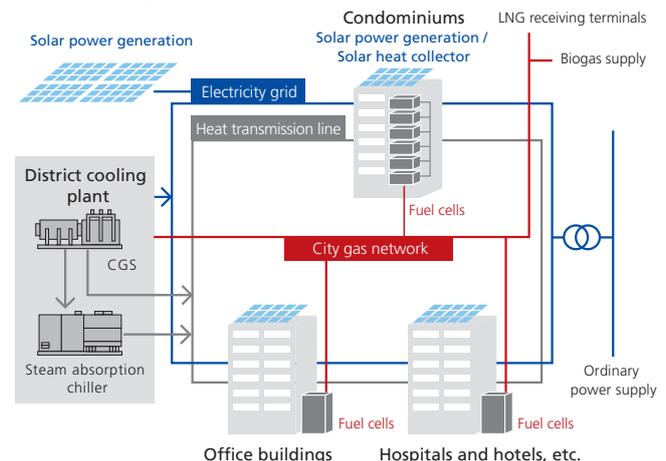
Reduction of CO<sub>2</sub> Emissions through Diffusion and Expansion of the “ENE-FARM” Residential-Use Fuel Cell



## Further Creation of Environmental Value

We are giving careful consideration to patterns of energy usage expected from the second half of the coming decade, as well as to expansion of growth opportunities. With these factors in mind, we will take steps to integrate new sources of energy and natural gas as well as to achieve further reductions in environmental burden / CO<sub>2</sub> emissions. These will be key steps toward the realization of a low-carbon society. Specifically, from the current fiscal year, we will implement full-scale initiatives in double power generation combining solar power with “ENE-FARM.” In addition to the optimization of individual appliances/energies, we will also target the construction of “smart energy networks” that integrate electricity, thermal, gas, and renewable energies to facilitate optimal area-wide / networked energy usage.

## Smart Energy Networks



## Priority Approaches – The Three E’s

# Excellent Service – Improvement of Value for Customers

### Approaches thus far

- Establishment of new energy service companies (Tokyo Gas LIFEVAL) rooted in the local community
- Proposal of diverse solutions and value to customers through multi-energy supply and energy services
- Concentration on periodic inspection of customer gas facilities and systematic renovation of gas pipes

### Priorities

- Improvement of customer satisfaction through the proposal of value, the provision of timely services, and the proposal of higher quality solutions that cater to the needs of each customer
- Further heightening of the value of the “safety, security, and reliability” brand by reinforcing gas appliance and pipeline safety measures as well as countermeasures for earthquakes and other natural disasters

### Establishment and Promotion of the Setup for Tokyo Gas LIFEVAL

As a measure to strengthen marketing in the residential sector, all functions, which used to be separated by type of service, have been integrated into newly set-up Tokyo Gas LIFEVAL. Leveraging all points of contact with customers, such as periodic gas facility safety checks and meter reading, we will provide various services that offer thoroughgoing responses to diverse needs and implement one-stop value proposals. In this way, we will aim for even higher customer satisfaction. From April 2008, we have moved ahead with the roll out of regionally linked marketing systems through LIFEVAL. By October 2009, we plan to have LIFEVAL set up in some 65 service blocks in all, in line with our original plans.

### Providing Added Value to Our Industrial and Commercial Customers

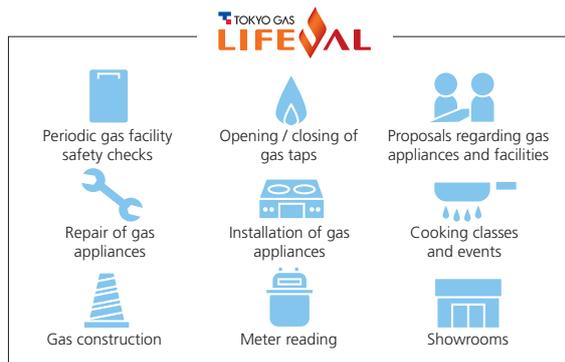
In response to the increasingly sophisticated and diverse needs of our customers, we will take full advantage of the direct sales, technical, and engineering capabilities that we have cultivated in order to propose higher value.

### Enhancing “Safety, Security, and Reliability”

We will take steps to improve the quality of assets through ongoing investment in upgrading production and supply facilities, such as replacement of aging pipes, together with the strengthening of measures to assure the safety of gas appliances. In this way, we will strive to further heighten the brand value symbolized by the words “safety, security, and reliability.”

### Focused on Improving Customer Satisfaction

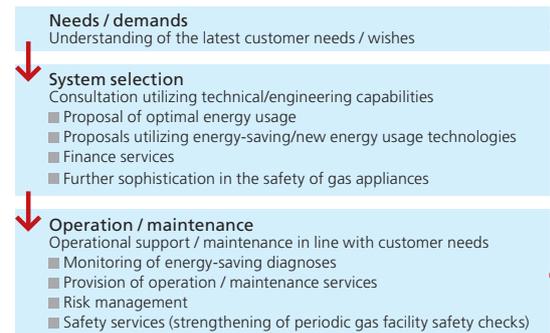
#### Tokyo Gas LIFEVAL One-Stop Services



Delivery of solutions for customer needs

### Increasing Value Added through Tokyo Gas Group Comprehensive Strengths

#### Provision of Value to Customers in Line with Facility Life Cycle



# INITIATIVES TO DEVELOP BUSINESS FOUNDATIONS

## Strengthening of the LNG Value Chain

### Active Augmentation of the Trunk Infrastructure with a Focus on the Future

To achieve the evolution and enhancement of the integrated energy business through initiatives centered on the three E's, key points will include the augmentation of wide-area trunk infrastructure to secure long-term demand and to expand operations.

In addition to the Chiba-Kashima Line project, which is currently under construction, we will investigate and implement pipeline construction projects with a focus on securing potential demand in the northern Kanto area. These projects include the new construction of the Saito Line. With an eye to expanding natural gas demand and building a more stable supply system for the second half of the coming decade and thereafter, we will begin to consider the construction of new LNG terminals and pipelines to link the new terminals to existing networks.

### Stable LNG Procurement that can Respond to Changes in the Environment

To realize stable procurement of competitive LNG, in addition to existing long-term contracts, we will participate in the start-up of new projects, such as Pluto and Gorgon, and at the same time we will take steps to acquire upstream interests. In these ways, we will implement initiatives in overseas operations related to the LNG value chain. In addition, we will bolster our in-house fleet of LNG vessels, aiming to reduce LNG transport costs and expand business in the transport of LNG for other companies.

Major Infrastructure Formation Plan



Objectives	Line	Scheduled start of service
Enhancement of wide-area infrastructure	1 Gunma Line I	Fiscal 2009
	2 Chiba-Kashima Line	Fiscal 2011
	3 Saito Line	Around fiscal 2015
	4 Hitachi Terminal and Hitachi-Moka Line	Around fiscal 2017
Enhancement of foundations for stable supply	5 Ohgishima Terminal, No. 4 LNG Storage Tank	Fiscal 2013
	6 Pressure Increase at the Negishi Terminal	Fiscal 2013
	7 Central Line II	Fiscal 2010
	8 New Negishi Line	Fiscal 2013
	9 Yokohama Line II	Fiscal 2013

## Reinforcement of the Synergy of All Tokyo Gas

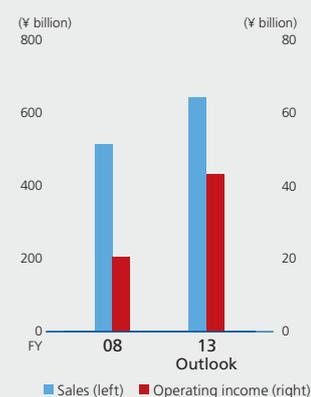
### Consolidated Group Management

Tokyo Gas conducts business in a wide range of areas within the LNG value chain, from upstream to downstream. To realize the steady evolution and advancement of the integrated energy business, we must reinforce and consolidate the comprehensive strengths of the Tokyo Gas Group and supporting companies.

In regard to our human resources base, we will take steps to enhance skills through personnel exchange programs within the Group. Tokyo Gas LIFEVAL has an important role in the current medium-term management plan, and we will implement a human resource development program especially for Tokyo Gas LIFEVAL in order to further improve the quality of this system.

Regarding business execution systems, since the previous medium-term management plan, we have been strategically investing funds in the fields of upstream operations, overseas projects, energy services, and the power supply business. During the period covered by the current medium-term management plan, we expect to see a certain level of results from these investments, which will make a contribution to growth and higher profitability within the Group as a whole. We are targeting an increase in operating income at consolidated subsidiaries in fiscal 2013 to more than ¥40 billion—more than double the results in fiscal 2008.

### Outlook for Results of Consolidated Subsidiaries



### Financial Strategy and Key Indicators in the Medium-Term Management Plan

By steadily implementing the key initiatives under the medium-term management plan, we should generate cash flow of about ¥1,070.0 billion yen over the five years from fiscal 2009 to fiscal 2013. We will aggressively invest this cash flow in upstream, infrastructure, and demand development projects while providing appropriate returns to shareholders.

While investing vigorously to realize sustained future growth, we will implement a balanced financial strategy, with consideration for investment efficiency, financial soundness, and shareholder return, and in fiscal 2013 we expect an ROA of 3.7%, a D/E ratio of 0.69, and an ROE of 7.7%. In providing returns to our shareholders, our aim is to avoid reducing dividends and to work to increase dividends over the long term. We are targeting a total payout ratio of 60%, including treasury stock acquisitions.

#### Major Management Indicators (Consolidated)

	Fiscal 2008	Fiscal 2013 (plan)
Operating cash flow (¥ billion)	182.7	Five year plan: 1,060.0
ROA (%)	2.4	3.7
ROE (%)	5.4	7.7
TEP* (¥ billion)	(4.8)	18.0

\* TEP (Tokyo Gas Economic Profit) =  
net operating profit after tax prior to interest payments –  
cost of capital (invested capital x WACC)  
WACC Fiscal 2008 results: 3.4%  
WACC Fiscal 2013 outlook: 3.8%

#### Main Data (Consolidated)

	Fiscal 2008	Fiscal 2013 (plan)
City gas sales volume (billion m <sup>3</sup> , 45MJ/m <sup>3</sup> )	13.9	16.4
Total net sales (¥ billion)	1,660.1	1,720.0
Total assets (¥ billion)	1,764.1	1,920.0
Interest-bearing debt (¥ billion)	593.2	640.0
Equity ratio (%)	43.8	48.4
D/E ratio (times)	0.77	0.69
Reference: Non-consolidated gas sales (¥ billion)	1,225.7	1,180.0

Premise  
Plan for fiscal 2009–2013: Crude oil price: \$70 per barrel; exchange rate: ¥100 to the dollar