

ON-SITE IR REPORT

This section provides responses to questions from investors and explains policies that are important in the conduct of management.

► Q1 How does Tokyo Gas structure ITS RATES?

The Company's gas rate system is divided into the following three categories.

Service agreement In cases in which Tokyo Gas supplies gas through the pipelines to meet general demand, the rate schedule is "regulated" under the service agreement used to require the approval of the Minister of Economy, Trade and Industry (METI). Under the amendments to the Gas Utility Industry Law in 1999, however, it became possible to change these rates simply by notifying the Minister, provided that these changes do not adversely affect any customers.

Optional agreement Tokyo Gas is permitted to offer rates and service terms other than those outlined in the above service agreement. This enables the Company to make efficient use of its gas production and supply facilities and to improve its management efficiency. These agreements must be reported to the Minister, and the selection of this option is up to the customer.

Large-volume supply Under the Gas Utility Industry Law, the conditions for gas rate setting and market entry for service providers in the large-volume market are being gradually deregulated. Effective from April 2004, customers who used 500,000 m³ or more qualified as large-volume customers. Moreover, from April 2007, the designation point for large-volume customers shifted to 100,000 m³ or more.

"Regulated" rates are calculated using a total cost principle*1. A simplified version of this calculation is given below.

| Operating cost, etc. | + | Fair return | - | Deductions, etc. | = | Total fair cost |
|---|---|---|---|---|---|--|
| Cost of gas resources*2 Depreciation Personnel expenses Non-operating expenses Overhead Income taxes | | Calculated using the ratebase system, which involves multiplying fixed-asset investments, etc., by the appropriate ratio of fair return | | Profit from gas appliance sales, etc. Profit from real estate business, etc. | | Represents an appropriate profit added to an appropriate cost under efficient management |

*1 Total cost principle: For a specific period (1 to 3 years), a fair return is added to the necessary and appropriate costs for the relevant period and gas rates are set on that basis (total cost). In this way, rates are calculated in accordance with METI rules.

*2 Fluctuations in foreign exchange rates or crude oil prices are reflected in the meter rate every month in accordance with the gas resource cost adjustment system. Consequently, the impacts of such fluctuations on revenue and expenditure will be neutral in the medium to long term.

► Q2 What is the GAS RATE ADJUSTMENT SYSTEM?

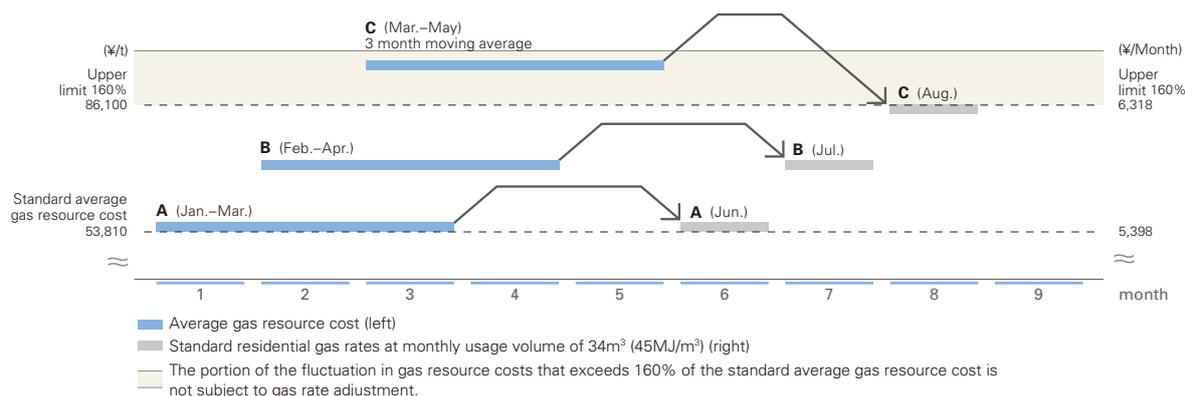
The price of LNG is significantly influenced by crude oil prices and exchange rate fluctuations. Consequently, the gas resource costs borne by city gas suppliers are substantially influenced by changes in these areas. The gas rate adjustment system was introduced to promptly adjust gas rates*1 to reflect such exogenous factors (gas resource

cost fluctuations). The system is intended to increase rate transparency and to clarify the efforts of suppliers to increase management efficiency.

Under this system, the impact of fluctuations in gas resource procurement costs on the revenues and expenditures of gas companies is neutral over the medium to long term*2.

*1 In general, gas rates comprise the base rate + specific unit price (unit rate x gas usage volume), and under the gas rate adjustment system, fluctuations in resource costs are reflected in the unit rate component of gas rates by adjustment amount.

*2 There is a time lag between the payment for gas resources and the reflection of the gas resource costs in gas rates. Consequently, in a single fiscal year, there can be under-recovery or over-recovery in relation to gas resource costs stemming from fluctuations in crude oil prices and exchange rates.



▶ Q3 What processes are used by Tokyo Gas when making INVESTMENT DECISIONS?

Since fiscal 2003, Tokyo Gas has made decisions on new businesses, the continuation of businesses, and exits from businesses through Tokyo Gas Economic Profit (TEP), and decisions on investments through Net Present Value (NPV) and Internal Rate of Return (IRR). These three indicators are used as common standards throughout the Tokyo Gas Group. TEP is an original evaluation method for ensuring that the amount of profit exceeds the cost of capital.

The Investment Evaluation Committee assesses plans that involve investment, equity participation, or debt guarantees on the basis of risks and returns. The results of these deliberations are reflected in decisions at the Corporate

Executive Committee or the Board of Directors. Derivative transactions are subject to market risk management rules.

Corporate Executive Committee meetings are held each week and are attended by executives at the senior executive officer level and above. Final decisions on important management issues are made after in-depth discussion, including deliberations by the Investment Evaluation Committee in the case of investment decisions. To follow the results and monitor projects in which investments have been made, Tokyo Gas evaluates the situation regularly in the Investment Evaluation Committee and reports findings at the Corporate Executive Committee.

▶ Q4 What is your RELATIONSHIP WITH TOKYO ELECTRIC POWER COMPANY (TEPCO)?

Tokyo Gas and TEPCO source about 70% of the total volume of their LNG purchases from joint LNG projects and are joint participants in projects based on upstream interests. Joint purchasing strengthens our bargaining power, since we can contract for large volumes.

Two of our three LNG terminals, the Negishi and Sodegaura LNG Terminals, are operated jointly with TEPCO. This allows us to reduce capital investment and operating costs. We can also improve operating rates through load leveling based on differences between peak demand patterns for electric power and gas. These advantages are reflected in lower production costs per unit of gas.

At the marketing level, however, Tokyo Gas and TEPCO are competitors. In the commercial and industrial sectors,

TEPCO has moved into the gas market, and Tokyo Gas and TEPCO are engaged in the competition for gas demand. Also, in the residential sector, the competition with all-electric systems has intensified. As a result of in-depth development focusing on major sub-users and initiatives to build close relationships with customers, centered on LIFEVAL, which we completed the establishment of in fiscal 2009, we are working to hold the percentage of newly built houses with all-electric systems in our service area to a minimum.

Tokyo Gas responds to various forms of competition by going beyond the supply of individual energy products, such as gas and electric power. Our ultimate goal is to provide our customers with optimal value by responding to their real needs, including their energy service needs.

▶ **Q5 What is the definition of the “ENERGY SERVICE BUSINESS”?**

In the energy service business, energy service providers build and own facilities such as cogeneration systems, and provide one-stop energy services, such as electricity and heat. This type of service is drawing attention on account of its major advantages for customers. These include ease of implementation stemming from lack of need for a large initial investment, a high level of environmental performance, and reduced energy costs. Also, this is a field with growing appeal as a business due to improvements in system efficiency.

In 2002, Tokyo Gas moved to expand its involvement in the energy service business by establishing a wholly owned

subsidiary, ENERGY ADVANCE Co., Ltd. The company operates very efficiently by capitalizing on the LNG procurement systems and advanced engineering capabilities of the Tokyo Gas Group, making the most of the high value added that can be achieved with cogeneration systems. It targets environmentally concerned customers, especially in the Kanto region, where demand is high. This company’s energy services, which were introduced in 2003, have achieved the leading position in the industry, with 332 contracts at the end of March 2010.

▶ **Q6 What do you see as the ROLE OF THE POWER GENERATION business within the integrated energy business?**

Tokyo Gas has established its power generation business as a multi-energy supply measure to provide all forms of energy that customers require in a one-stop manner. We intend to achieve an optimal mix with facilities such as cogeneration systems.

Furthermore, we believe our power generation business has a number of strengths.

- 1 It allows for competitive fuel procurement backed by our bargaining power.
- 2 Power plants are located close to demand areas utilizing existing infrastructure such as LNG terminals.
- 3 Synergy effects with the gas business are possible, such as improved terminal utilization rates and one-stop services.

Currently, we have four power plants in operation, or planned (refer to the table below), with our share of generating capacity of 1,300 MW.

Moreover, from a standpoint of developing renewable energy, we installed a wind farm with a capacity of 1,990 kW inside our Sodegaura LNG Terminal in October 2005. We are also constructing a wood chip biomass electric power plant with a capacity of 13,600 kW in Agatsuma-gun, Gunma Prefecture, with the objective of starting operations in fiscal 2010.

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|---|--------------------------------|---|
| Tokyo Gas Baypower Co., Ltd. | 100 MW | In operation since October 2003 |
| Tokyo Gas Yokosuka Power Co., Ltd. | 240 MW | In operation since June 2006 |
| Kawasaki Natural Gas Power Generation Co., Ltd. | 840 MW (420 MW x 2 units) | In operation since April 2008 |
| Ohgishima Power Co., Ltd. | 1,220 MW (407 MW x 3 units) | Unit No. 1 in operation since March 2010 Unit No. 2 in operation since July 2010. The timing for the commencement of Unit No. 3 commercial operation has not been determined. |