President and Representative Director Tsuyoshi Okamoto

With our nation engaged in a process of restoration in the aftermath of the Great East Japan Earthquake, the Tokyo Gas Group's social mission—the supply of energy to the Tokyo metropolitan area—has assumed extreme importance. The need for natural gas, which is in stable supply and environmentally friendly, is now greater than ever. In this context, we will place heightened emphasis on our "integrated energy business, with natural gas at its core," which we have been promoting for some time. By so doing, we will meet the expectations of society, our customers, shareholders, and all other stakeholders to the maximum extent.

Fiscal 2010 in Review

Increased gas sales volume boosts revenue; earnings significantly higher, buoyed by lower depreciation of pension actuarial differences

The Great East Japan Earthquake, which struck on March 11, 2011, caused no major damage to the Group's equipment and facilities. Although supply was temporarily suspended to around 30,000 customers in part of our city gas supply area (around Hitachi City, Ibaraki Prefecture), for the most part, the situation was restored to normal within a week.

In fiscal 2010, consolidated net sales amounted to ¥1,535.2 billion, up 8.4% from the previous fiscal year, and the gas sales volume rose 7.9%, to 14,745 million m^3. The main factors contributing to these increases were growth in demand for hot water and heating due to a cool springtime, higher demand for air conditioning during an extremely hot summer, and additional demand for power generation at our newly operational Ohgishima Power Station. Also contributing to revenue growth was an increase in gas unit prices under the gas rate adjustment system triggered by rising raw materials prices.

Operating income increased 43.7%, to ¥122.4 billion. A key factor boosting earnings was a ¥51.9 billion year-on-year improvement in depreciation of pension actuarial differences. By contrast, there was a ¥34.9 billion decline in net inflows by the parent company, stemming from the slide time lag, the time taken to translate increased raw materials costs into gas unit prices.

Although incurring extraordinary losses of ¥3.2 billion due to the Great East Japan Earthquake, the Group benefited from a ¥39.7 billion gain on the sale of land in Toyosu. Consequently, after deducting income taxes, net income surged 77.5%, to ¥95.4 billion.

Our shareholder return policy is to maintain a total payout ratio of 60%, meaning that the sum of dividends paid and share buybacks should equal at least 60% of net income. Under this policy and in light of our performance, we declared annual cash dividends of ¥9.00 per share, unchanged from the previous fiscal year. During the period under review, we decided to make share repurchases totaling ¥34.0 billion.

Outlook for Fiscal 2011

Income forecast to decline due to rising raw materials costs

In the year ahead, we do not expect seasonal temperature-related factors to boost revenue, as happened in the year under review. On a consolidated basis, therefore, the Group forecasts a 0.8% year-on-year dip in gas sales volume, to 14,626 million m^3. Nevertheless, we forecast a 11.1% increase in net sales, to ¥1,705.0 billion, owing to increases in gas unit prices stemming from an expected year-on-year jump in crude oil prices, which determine LNG prices, of around US$30 per barrel.

We forecast a 49.5% fall in operating income, to ¥61.0 billion. There are two main factors behind this estimate: a projected ¥18.1 billion decline due to a worsening slide time lag by the parent company accompanying rising raw materials costs; and a ¥7.5 billion decrease in net inflows from incidental income, such as sales of LNG and electric power. These factors are based on a projected average crude oil price of US$111.2 per barrel and an average exchange rate for the year of ¥80.4 per U.S. dollar. Our forecast also assumes a ¥22.6 billion increase in personnel expenses on higher costs from pension actuarial differences. Due also to the absence of income generated in the previous fiscal year—the gain on the sale of land in Toyosu—we forecast a 61.2% decline in net income, to ¥37.0 billion.

FY2011 Forecast
(Years ended March 31)

Billions of yen (except otherwise stated)

	FY2010	**FY2011**
Gas sales volume (million m^3, 45MJ)	14,745	**14,626**
Net sales	1,535.2	**1,705.0**
Operating expenses	1,412.7	**1,644.0**
Operating income	122.4	**61.0**
Ordinary income	121.5	**58.0**
Net income	95.4	**37.0**
Slide time lag effect (non-consolidated basis)	–29.2	**–47.3**
Amortization of actuarial differences (non-consolidated basis)	+19.9	**–2.7**
JCC ($/bbl)	84.14	**111.24**
Exchange rate (¥/$)	85.74	**80.43**

The forecast figures for fiscal 2011 are as of June 30, 2011.

With respect to our outlook for fiscal 2011, we remain uncertain about the full impact of the earthquake. On one hand, for example, demand for city gas will decline due to lower utilization of capacity at factories and offices forced to reduce electricity use as a result of tightening power supply-demand pressures. On the other hand, demand for natural gas should rise on the back of increased use of natural gas for power generation and greater deployment of cogeneration systems. Accordingly, we will revise our forecasts in a flexible manner as soon as we are able to make quantitative evaluations.

* The forecast figures for fiscal 2011 are as of June 30, 2011.

Progress Report on Medium-Term Management Plan

Steady progress in establishing a multi-energy supply system and upgrading core infrastructure

The Tokyo Gas Group is making good progress with several strategies outlined in its Medium-Term Management Plan FY2009–2013. In power generation, the Group's central strategic business, we commenced operations at the Ohgishima Power Station in July 2010 and increased our total power generation capacity to 1,300 MW. We also made steady progress with the Chiba-Kashima Line, the gas pipeline we are building with the aim of tapping new demand in the Kanto region, which covers a 200-kilometer radius around Tokyo. Our plan to supply gas through the pipeline is on track to start in March 2012. Turning to our "ENE-FARM" residential-use cogeneration systems, which are now in their third year of sales, we planned further cost reductions and space savings in introducing a new model in April 2011. We are working to expand sales via Tokyo Gas LIFEVAL, a community-based marketing system introduced in September 2009.

In the aftermath of the Great East Japan Earthquake, two Tokyo Gas commitments—the stable and safe supply of energy, and our rigorous, customer-driven approach to highlighting the benefits of natural gas—are gaining in importance. Emphasizing these core themes, we will strengthen our LNG procurement capability, upgrade our infrastructural foundations, address the energy-saving needs of customers, promote the introduction of dispersed energy systems, and build smart energy networks.

"Shared Value" and "Shareholder Value"

Raising shareholder value by maximizing the Group's value to society

Revised in June 2010, the Japanese government's Basic Energy Plan will need to be reviewed once again due to the Great East Japan Earthquake. Given that a reassessment of nuclear power generation is inevitable, the need for natural gas—which excels in terms of environmental friendliness, economy, stability of supply, and convenience—will certainly rise. For some time, the Tokyo Gas Group has been promoting itself as an integrated energy business with natural gas at its core. Continuing along this path will take on increasing relevance.

The stable supply of energy forms the basis for customer living standards and social progress. As a supplier of energy to the Tokyo metropolitan area, our vital mission remains that of supplying energy in a safe and stable manner and thereby contributing to society's advancement. In this regard, progress made in regional communities and society is inextricably linked with that made by the Group; they are one and the same. Accordingly, I am convinced that sharing and maximizing the Group's value to society will ultimately lead to increased shareholder value.

July 2011

President and Representative Director Tsuyoshi Okamoto

岡本 毅