

## SPECIAL FEATURE 1: INTERVIEW WITH THE PRESIDENT

As a provider of energy in the Tokyo metropolitan area, today more than ever Tokyo Gas is required to do all it possibly can to ensure the stable supply of energy. The Tokyo Gas Group strives to increase shareholder value by fulfilling its social mandate, which is to spread and expand the use of natural gas.

### Q 1 The Great East Japan Earthquake has turned the spotlight on Japan's energy security. Do you think Tokyo Gas needs to be better prepared for earthquakes?

#### Existing Infrastructure Displayed Excellent Earthquake Resistance

Tokyo Gas has measures in place that cover the three stages of "prevention," "emergency," and "recovery" in the event of a major earthquake. The three LNG terminals and the trunk pipelines around Tokyo Bay were designed to withstand earthquakes of the size of the Great Hanshin-Awaji Earthquake (M7.3) in 1995 and the Great Kanto Earthquake (M7.9) in 1923. They stood up well in the March 2011 earthquake, as evidenced by the minimal amount of damage sustained by our production and supply facilities. In the Tohoku region too, which is near the epicenter of the M9.0 earthquake—the largest ever recorded in Japan—our LNG tanks and high-pressure pipelines survived virtually intact, even though the tsunami damaged electrical equipment at an LNG terminal.

In addition, we have an earthquake damage prevention system called "SUPREME" (Super-dense Real-time Monitoring of Earthquakes), which automatically shuts off the gas supply when it detects a quake with a magnitude over a certain level. On March 11, the system worked properly, which meant that we were able to prevent secondary damage caused by fire.

#### Tsunami and Power Outage Planning

In response to the recent tsunami that devastated areas in the Tohoku region, we have specified a height for coastal revetments at LNG terminals. This height is based on the assumed height of a tsunami that would result when a record magnitude epicentral earthquake occurs, or when linked earthquakes occur in the Tokai, East Nankai, and Nankai regions. In addition to re-examining existing assumptions, we will keep a close watch on the Central Disaster Management Council and academic conferences where discussions on earthquake-resistant design standards and tsunami theories take place, and will determine the need for additional measures accordingly.

As for power outage planning, our systems allow for back-up production and supply using the two remaining terminals, enabling us to meet virtually all demand when electricity supply to one terminal is stopped. In the unlikely event of a simultaneous power outage at all three terminals, we can continue supplying a certain quantity of gas using emergency power generators. Going forward, we will evaluate the risk of a total power outage while taking into account demand estimates for such an event.



## Q. 2 Given changing business conditions following the great earthquake, has Tokyo Gas altered its sales strategy, which focuses on combating the push to all-electric houses?

### No Change in Basic Strategy

The operating environment has seen various changes since the earthquake, including a sharp rise in demand for gas for thermal power plants, a shift from large-scale system-based power systems to dispersed energy systems, and review and reassessment of the shift to all-electric houses. Nonetheless, it is precisely at a time like this that we need to “develop the integrated energy business,” with natural gas at its core, which is being promoted by the Group. Therefore, we will continue efforts to spread and expand the use of natural gas by highlighting the advantages of natural gas over other energy forms such as environmental friendliness, stable supply, and convenience.

### Greater Focus on Energy Diversification, Centering on Natural Gas

In June 2010, the Japanese Cabinet approved the government’s Basic Energy Plan, which is based on the spread and expansion of nuclear power. We at Tokyo Gas recognize that a review of this Plan is inevitable and that there will be discussions on a new energy strategy in the near future.

Amid this environment, and from the perspectives of security and stable supply as well, the goal

of achieving the best mix of energy sources will become increasingly important. This entails meeting the demand for energy through the proliferation of dispersed energy systems that use a variety of energy sources, including natural gas and renewable energy. Tokyo Gas will also play its part by promoting energy diversification centering on natural gas, which combines renewable energy and cogeneration with a shift to natural gas and the advanced use of natural gas.

Gas Sales Volume and Number of Customers (Years ended March 31)

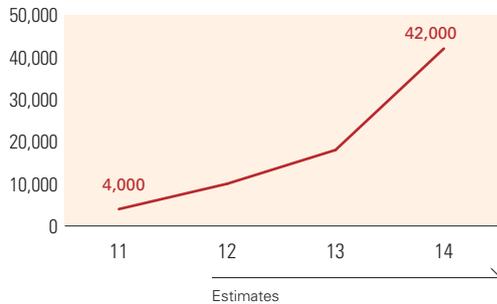


**Emphasizing the High Added Value of Natural Gas**

In order to increase the adoption of dispersed energy systems by households, Tokyo Gas is working to spread and expand the use of its “ENE-FARM” residential-use cogeneration system. In Japan, the number of members per household is expected to decrease, and the diffusion of energy-efficient appliances is expected to increase. “ENE-FARM,” which supplies electricity as well as hot water, not only enhances the added value of natural gas, but also contributes to a low-carbon society through its energy efficiency and low carbon dioxide emissions. In

April 2011, we released a new model of the “ENE-FARM” system, which is about half the size of its predecessor, is easier to install, and costs considerably less. By making further cost reductions, we plan to generate momentum for increased use of “ENE-FARM.” Going forward, we will also promote the use of renewable energy, including double power generation, which combines “ENE-FARM” fuel cell and solar power generation, and “SOLAMO,” a gas hot water system that also uses solar heat. By enhancing the added value of natural gas in these ways, we will work to increase demand for residential systems.

Number of Installed “ENE-FARM” (units)  
(Non-consolidated)  
(Years ended March 31)



“ENE-FARM” Sales (Annual Basis) (units)  
(Non-consolidated)  
(Years ended March 31)

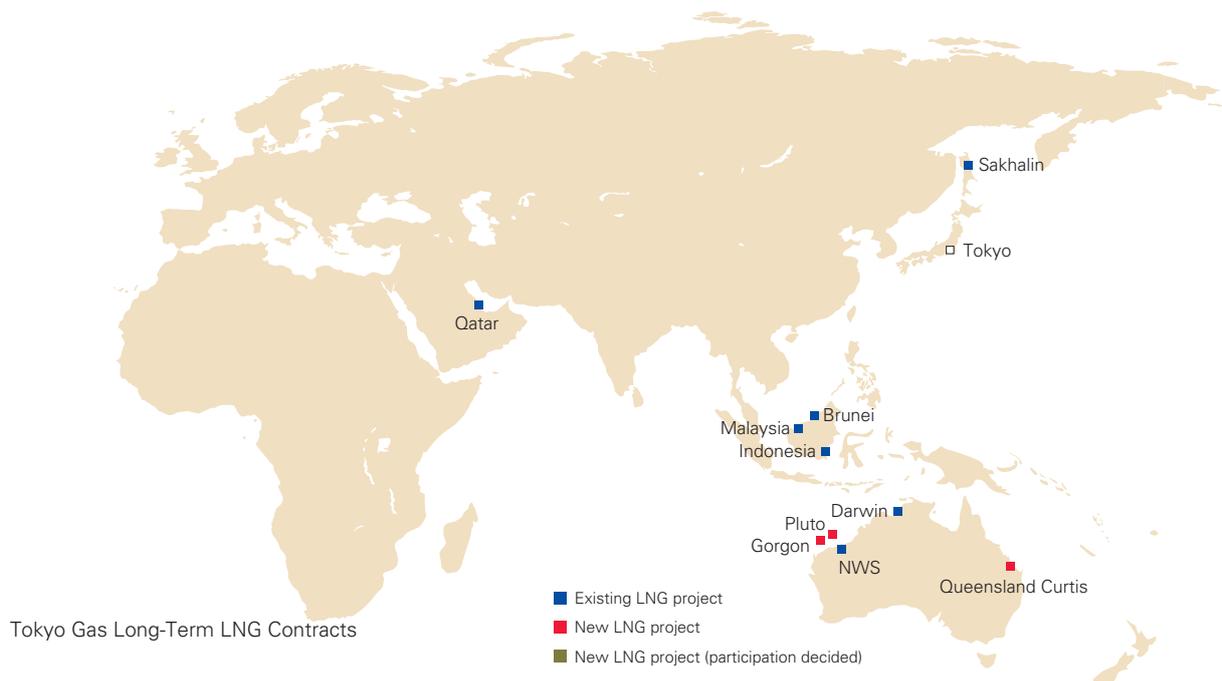
	2010	2011	Estimate 2012
Newly built houses	700	1,200	2,500
Existing houses	800	1,200	2,500
Total	1,500	2,400	5,000



New “ENE-FARM” product launch  
(left: Fumio Ohtsubo, President of Panasonic Corporation;  
right: Tsuyoshi Okamoto, President of Tokyo Gas Co., Ltd.)



“SOLAMO” gas hot water system that also uses solar heat



## Q.3 The Great East Japan Earthquake has led to a sharp increase in domestic LNG demand. How do you view the demand-supply situation for LNG, and what measures are you taking to ensure stable LNG procurement?

### LNG Demand-Supply Balance Anticipated in the Long Term

The damage incurred to Tokyo Electric Power Company's Fukushima Daiichi Nuclear Power Plant has led to delays in restarting other nuclear reactors throughout the country that were undergoing regular inspections. In this context, we expect to see construction of new gas thermal power generation facilities that are alternative power sources, as well as the expansion and increased capacity utilization of existing facilities, which will lead to an increase in LNG imports. Nevertheless, we can look forward to a number of new LNG projects and an increase in the supply of shale gas and other unconventional forms of natural gas. We expect this will permit sufficient LNG supply capacity and a better demand-supply balance in the long term.

### Stable Procurement that Meets Requirements

Amid concerns about tight gas supply in the short term and our dependence on imports for nearly 100% of LNG, the raw material used to produce natural gas,

we are focusing on how to diversify LNG procurement. We are targeting stable, competitive LNG procurement by diversifying the methods of procurement while basically adopting a strategy of long-term agreements with politically stable regions.

At present, Tokyo Gas procures LNG through long-term agreements with 10 projects in six countries. Recently, we have been diversifying our resource procurement portfolio by actively pursuing procurement of unconventional forms of natural gas. In addition to the new Pluto and Gorgon Projects for conventional forms of natural gas, in March 2011 we signed an agreement to purchase LNG from the Queensland Curtis LNG Project, the world's first coal-bed methane (CBM) LNG project. By obtaining some upstream interests through projects such as these, we are assuring the stable procurement of resources. In May 2011, we decided to participate in a shale gas development project in Canada. Our ultimate aim is to ensure competitive LNG procurement by converting shale gas produced in North America to LNG and then importing it into Japan.



Bayu-Undan Gas Field in the Timor Sea  
Gas produced at this gas field is transported to the Darwin LNG Plant, liquefied, and sold. This is the Company's first upstream project.

## Q . 4 What criteria do you apply for acquiring upstream interests? Also, please outline the Company's policy going forward.

### Stable Procurement of Gas Resources is the Primary Objective

When acquiring upstream interests, we look for LNG procurement candidates that enable us to (1) strengthen our relationship with the vendor and thus achieve stable, long-term LNG procurement; (2) obtain the latest important data, including data about short- and long-term LNG supply capacities; and (3) reduce to a certain extent the risks associated with fluctuations in crude oil prices and exchange rates. We also seek projects from which we can expect to receive solid returns.

At present, Tokyo Gas has a 3.07% interest in the Darwin Project, a 5.0% interest in the Pluto Project, a 1.0% interest in the Gorgon Project, and a 1.25% interest in the Queensland Curtis LNG Project, all of which are in Australia.

As for the risks associated with acquiring upstream interests, when looking at the estimated profitability of a project, we set fairly conservative standards for crude oil prices and other criteria. A project must also be able to meet the investment benchmark of deliv-

ering a certain internal rate of return (IRR). I should also mention that we are already receiving dividends from the Darwin Project, our first upstream project. In the overseas independent power producer (IPP) wholesale electricity business, meanwhile, in December 2009, we acquired a thermal power generation operation in Mexico together with Mitsui & Co., Ltd. through our holding company. Although this is not an upstream interest, it has enabled us to strengthen our global LNG value chain.

Today, there are few projects that can fulfill such stringent investment criteria. If a promising project comes along, however, we will not hesitate to invest in it while maintaining a sound financial position that gives us financial leverage whenever needed.

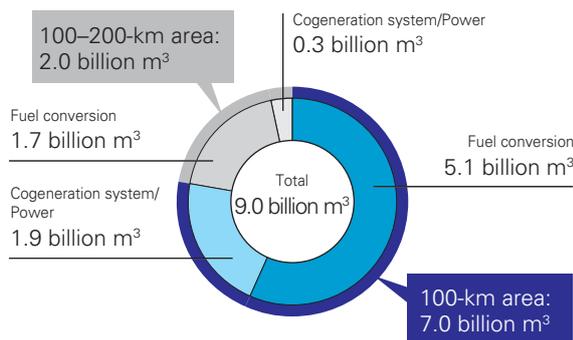
## Q.5 Please tell us about the Company's infrastructure plans for the future. Also, hasn't the recent earthquake been a major impediment to infrastructure development?

### Chiba-Kashima Line Progressing Steadily

We estimate that within the Tokyo Gas supply area, which covers a 200-kilometer radius around Tokyo, there is latent demand for around 9.0 billion m<sup>3</sup> of gas, especially in the industrial sector. This includes demand for conversion from other fuels and cogeneration. In order to meet this growing demand for natural gas, we are endeavoring to expand our manufacturing and supply infrastructures.

In May 2010, we completed construction of a central line that runs north to south through the trunk line that loops the Tokyo area. In addition to strengthening the supply stability of the loop trunk line, the line's completion also raises supply capacity to the northern Kanto region, where demand is projected to increase. Construction of a high-pressure pipeline connecting Chiba and Kashima, which is scheduled to begin service in March 2012, is also proceeding smoothly. This too will enable Tokyo Gas to meet expansion in demand for fuel conversion and power generation.

Potential Demand of the Kanto Market  
(200-km area around Tokyo)



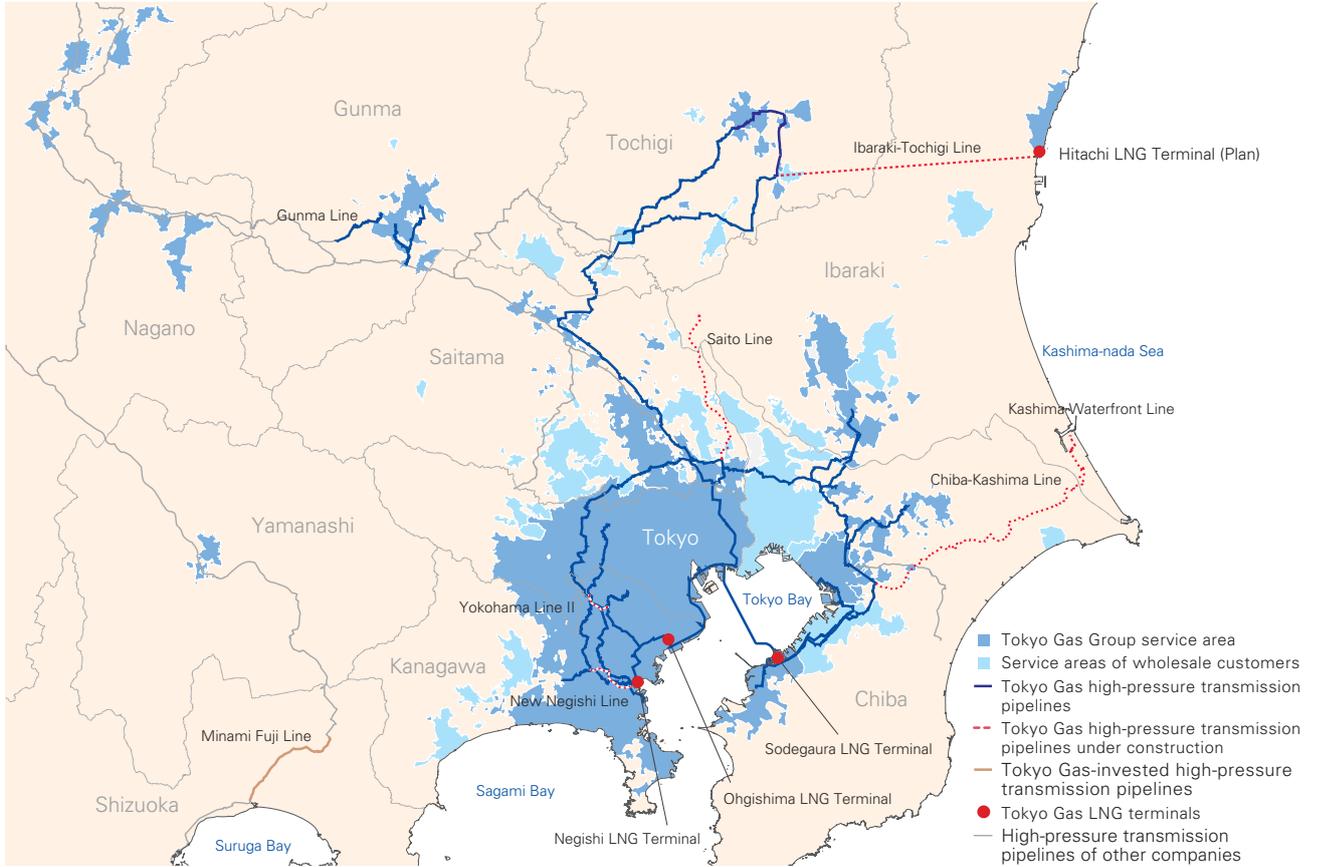
### No Change in Completion Date of the Hitachi Project

We estimate that between 2016 and 2020, the Company's gas sales volume will reach the upper limit of its current supply capacity of 18.0 billion m<sup>3</sup> per year. Consequently, we are implementing the Hitachi Project, which will see the construction of a fourth LNG terminal, "the Hitachi LNG Terminal," in the Ibaraki Port Hitachi District in Ibaraki Prefecture, as well as a high-pressure pipeline from the terminal to Moka City, Tochigi Prefecture. We brought forward the original scheduled completion date by two years,

Facility Investment Plans (Non-consolidated)  
(Years ended March 31)

	Billions of yen							2012-2016 (Total)
	2011 (Forecast)	2012	2013	2014	2015	2016		
LNG facilities	¥ 4.4	¥ 20.5	¥ 35.4	¥ 23.8	¥ 15.9	¥ 7.6	¥ 103.2	
Other	5.7	4.6	10.2	3.2	1.7	2.5	22.3	
Production facilities	10.2	25.1	45.6	27.1	17.5	10.1	125.5	
Trunk line investment	12.8	9.6	18.8	16.0	11.9	7.7	64.0	
Other	62.2	60.4	56.5	57.0	55.1	54.5	283.5	
Supply facilities	75.0	69.9	75.3	73.1	67.0	62.1	347.5	
Business facilities	19.6	25.0	18.1	26.2	34.3	29.2	132.7	
Subtotal gas business facilities								
(Reduction entry of land contribution for construction)	104.9	120.0	139.1	126.3	118.8	101.5	605.7	
Incidental facilities	0.9	0.8	0.6	0.5	0.5	0.5	2.9	
Total								
(Reduction entry of land contribution for construction)	¥ 105.7	¥ 120.9	¥ 139.7	¥ 126.8	¥ 119.3	¥ 102.0	¥ 608.5	

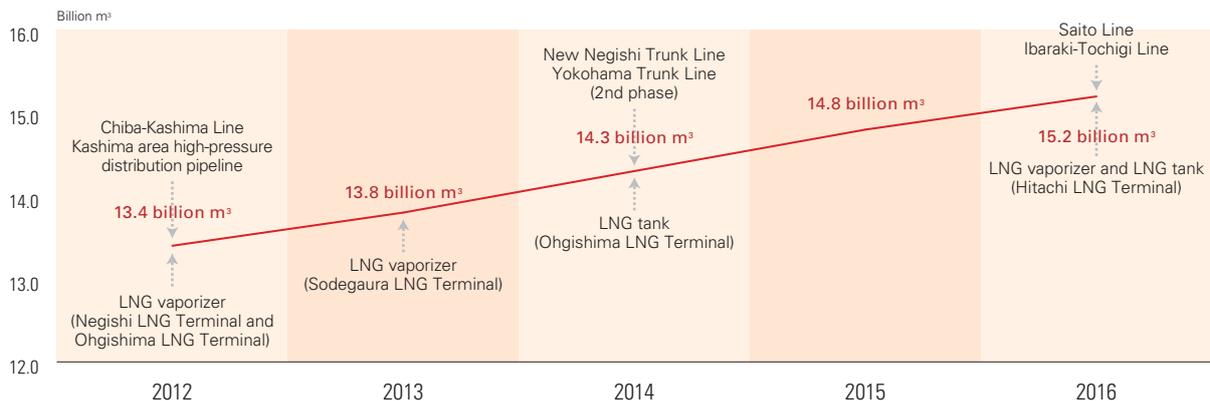
Major Plans for Infrastructure Development



and plan to start operations in fiscal 2015. The new terminal will add another Pacific Coast location to the Company's existing LNG terminals, which are concentrated around Tokyo Bay. The extension of the pipeline from northern Kanto will dramatically improve the stability of our supply network.

It is possible that the recent earthquake will necessitate a review of some of the design specifications, including aspects that address liquefaction and tsunami planning. Nevertheless, with the need for the stable supply of energy greater than ever, we have not changed the scheduled completion date.

Demand Outlook and Facility Formation Plans (Non-consolidated)  
(Years ending March 31)





No.1 and No.2 units at the Ohgishima Power Station (Each has an output capacity of 407.1 MW)

## Q. 6 At a time when there are concerns of insufficient electricity supply in the Tokyo metropolitan area, what sort of measures is Tokyo Gas taking?

### Full Cooperation to Ensure Stable Electricity Supply

This summer and next summer, the Japanese government, society, and companies face the same problem of adjusting electricity usage to meet supply capacity, especially in the Tokyo metropolitan area. As one of the energy providers serving that area, the Tokyo Gas Group will do whatever it can to help alleviate this problem.

In addition to the stable supply of gas for power generation, we will offer our cooperation by raising output of our own power stations based on requests from the Tokyo Electric Power Company. At the same

time, we will step up the promotion of onsite power generation and gas air conditioning.

At present, the Tokyo Gas Group has four power stations, which has increased our total power generation capacity to 1,300 MW. In 2010, we commissioned the No.1 and No.2 units at the Ohgishima Power Station in March and July, respectively. This station, which contributes 610 MW to our power generation capacity, uses cutting-edge combined cycle gas turbines that boast a 58% power generation efficiency. Immediately after the earthquake when electricity supply was tight, we helped stabilize electricity supply by putting these Group power stations into full operation.

Tokyo Gas Group's Large-scale Power Stations

Company	Capacity	Tokyo Gas interest	Our ownership share	Operating status
Tokyo Gas Baypower	100 MW	100%	100 MW	Startup in October 2003
Tokyo Gas Yokosuka Power	240 MW	75%	180 MW	Startup in June 2006
Kawasaki Natural Gas Power Generation	840 MW	49%	410 MW	Startup in April 2008
No.1 and No.2 units at the Ohgishima Power	810 MW	75%	610 MW	Startup in March and July 2010*



Our ownership share to 1,300 MW

\* The timing for the construction of No. 3 unit (output capacity of around 400 MW) has not yet been determined.

**Q. 7** Since the earthquake, there has been more demand for in-house power generation systems. Have you had many inquiries for cogeneration systems? Also, please update us on the use of renewable energy sources.

### Higher Demand from Factories and Hospitals for Cogeneration Systems

Due to concerns of tight electricity supply during this summer, we have received more and more inquiries about dispersed energy systems, such as cogeneration systems, as a means of securing an emergency power source. These include a large number of inquiries from factories and hospitals. Depending on the size of the system and how it operates, some systems can be installed relatively quickly, while others require more time. We would like customers to make use of schemes such as the subsidies offered by the Japanese government so that we can meet their needs for stable electricity as soon as possible.

Looking further ahead than this summer, we are focusing on promoting increased adoption of cogeneration systems. Our solutions are not confined to emergency power supplies, but extend to systems that use waste heat, as well as highly energy-efficient systems that have minimal transmission loss because the power is generated where it is used.

### Proposals for Smart Energy Networks

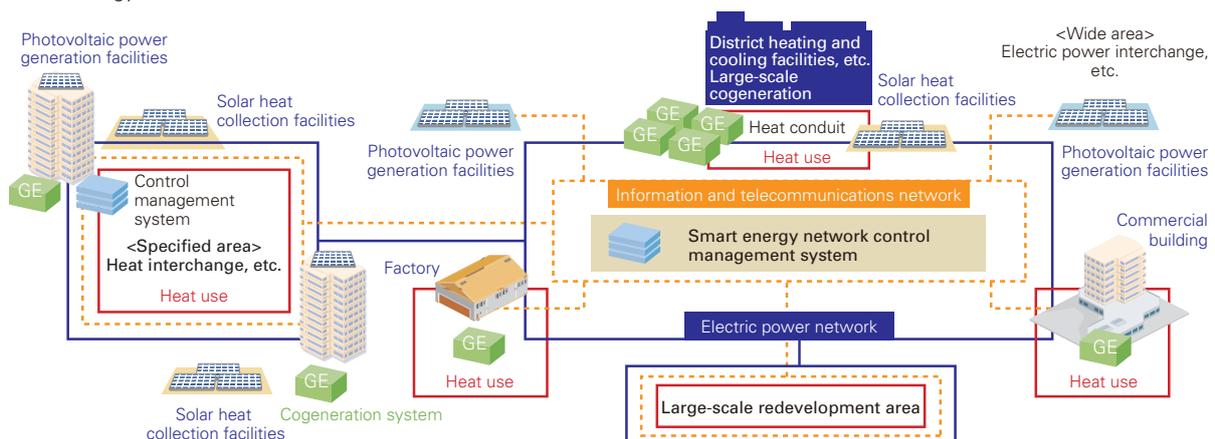
Tokyo Gas offers a variety of options for using renewable energy sources. They include double power generation, which combines solar power generation

and “ENE-FARM” fuel cells, and “SOLAMO,” a gas hot water system using solar heat. We are also branching out into the wind power generation business, as reflected by our investment in Shonai Wind-Power Generation Co., Ltd. in April 2011.

We also offer cutting-edge “smart energy networks.” They are similar to the “smart grid” concept, which supplies electricity through efficient supply-side and demand-side control. A smart grid uses a “smart meter,” which is a networked electricity meter, to measure the amount of power consumed and the amount of power generated by solar, wind, biomass, and other renewable energy sources. A “smart energy network” takes this concept one step further because it combines electricity and heat generated by gas cogeneration systems to provide an optimal mixture of different energy forms at a local community level. A smart energy network, independent of a large-scale system-based electricity network, acts as a dispersed power source that can supply emergency power when a disaster occurs.

Currently in the demonstration stage, we are trialing smart energy networks in Yokohama and other locations. Going forward, we would like to present proposals for smart energy networks at the town planning stage of regional redevelopment projects.

#### Smart Energy Network





Has the change in earnings affected the Company's basic policy on shareholder returns? Please tell us about your investment policies and plans.

### Stable Dividends a Top Priority

Our basic policy under the medium-term management plan, which ends in fiscal 2013, is to maintain a 60% total payout ratio, including dividends and share buybacks. While remaining committed to paying stable dividends, we also plan to steadily increase dividend payments.

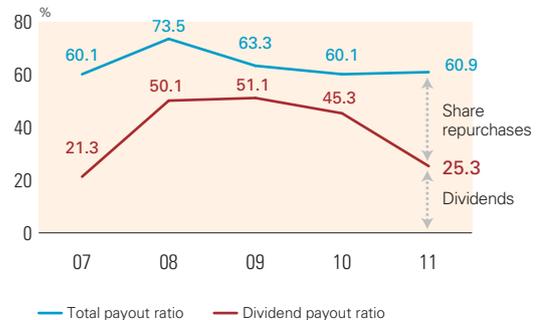
In the year under review, we declared an annual dividend of ¥9.00 per share for the second consecutive year after raising the annual dividend by ¥1.00 in fiscal 2009. In addition to total dividend payments of ¥24.1 billion, we will allocate ¥34.0 billion to repurchasing Company shares, which will be retired swiftly thereafter during fiscal 2011. These actions will bring the total payout ratio to 60.9%.

For fiscal 2011, we forecast a net income of ¥37.0 billion. This forecast is based on losses caused by a slide time lag effect coupled with expected increases in crude oil prices. Even so, we intend to maintain annual dividends at ¥9.00 per share.

### Pursue Aggressive Investment while Maintaining Financial Soundness

In fiscal 2011, we forecast a decline in income due to higher raw material costs and the absence of one-time gains recorded in fiscal 2010. We also expect the D/E ratio for fiscal 2011 to increase from 0.68 to 0.73. One main factor behind this increase will be the start of full-scale capital investment in the Hitachi Project of more than ¥100 billion due to the need to expand our manufacturing and supply infrastructures to keep up with the rising demand for natural gas. However, we expect to continue generating stable operating cash flows and plan to make steady investments while maintaining a sound financial position.

Change in Total Payout Ratio  
(Years ended March 31)



### Use of FY2011 Cash Flow

Capital expenditure		Major projects
Tokyo Gas Co., Ltd.:	¥122.3 billion (+¥20.0 billion, +19.6%)	Production facilities: ¥25.1 billion (+¥16.0 billion) Construction of Hitachi LNG terminal, Ohgishima LNG tank, etc.
		Distribution facilities: ¥70.2 billion (-¥4.0 billion) New trunk & service line, maintenance (existing lines, etc.)
		Service and maintenance facilities: ¥26.9 billion (+¥7.9 billion) System-related cost, renovation of aging facilities, etc.
Consolidated subsidiaries total:	¥47.4 billion (-¥2.5 billion, -5.1%)	Overseas business (Total ¥21.3 billion for Australian subsidiary) Renovation of district heating and cooling system, etc. ¥8.7 billion (ENERGY ADVANCE Co., Ltd.)
<b>Total</b>	<b>¥167.0 billion (+¥16.8 billion, +11.2% after eliminations)</b>	

\* Figures in parentheses refer to comparisons with FY2010.