

# Operating Performance in Fiscal 2011 A Three-Minute Overview

## Before Analyzing the Figures

### [Factors that Affect Our Earnings]

Gross profits in the gas business are determined by the increase in gas sales volume (volume difference) and the gap between the selling and purchase prices (price difference).

#### Gas Sales Volume

The Company's net sales depend on sales of city gas, which account for 70% of the Company's total. Therefore, changes in selling volume directly impact net sales. Factors that have a major effect on selling volume are temperature and economic and other fluctuations.

#### Temperature

Demand in the residential sector stems mainly from demand for hot water and indoor heating, so selling volume declines when winters are warm, resulting in lower sales and income. In the commercial sector, gas is used mainly for air conditioning, so cool summers and warm winters cause gas sales volume to decrease, reducing sales and income.

#### Economic and Other Trends

Economic and other trends affect business in the industrial and commercial sectors. In the industrial sector, plant utilization rates fall when economic conditions are sluggish, reducing sales volumes. In the commercial sector, meanwhile, lackluster economic performance can, for example, lower hotel utilization ratios, and commercial facilities may shorten hours of operation, lowering sales volume.

#### Resource Costs

Resource costs account for a substantial portion of the Company's operating expenses. These costs tend to fluctuate in line with gas sales volumes and be affected by changes in crude oil prices and exchange rates.

#### Crude Oil Prices

The price of LNG, which is the source of city gas, is linked to the crude oil price. Therefore, fluctuations in the crude oil price may affect resource prices. Changes in terms of contracts and negotiations with suppliers of LNG may also affect resource costs.

#### Exchange Rates

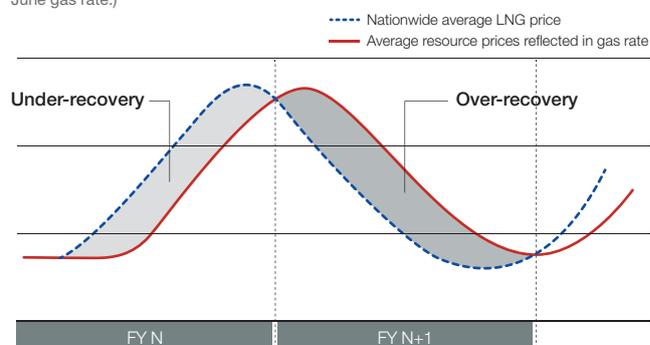
LNG purchase contracts are denominated in U.S. dollars. Accordingly, yen appreciation against the U.S. dollar causes resource costs to decline on a yen basis. Conversely, yen depreciation against the U.S. dollar pushes raw material costs upward.

#### Gas Rate Adjustment System and Slide Time Lag

To increase the transparency of gas rates and encourage providers to be clear about their efforts to achieve higher business efficiencies, the gas rate adjustment system was introduced. Through this system, average gas resource prices over a three-month period according to trade statistics are compared to the gas resource cost that is used as the standard (standard average resource cost), and the gas rates are adjusted using a defined calculation method based on the differences. Under this system, the impact of changes in resource procurement costs on a gas company's earnings is essentially neutral. However, a time lag of up to five months (called a slide time lag) exists between the payment of resource costs and the reflection of such changes in gas rates. Consequently, fluctuations in crude oil prices and exchange rates may result in the under-recovery or over-recovery of gas resource costs if this lag cuts across a fiscal year, thereby affecting income.

#### How the Slide Time Lag in Rates Works

The average gas resource price over the past three months is calculated every month, and then reflected in the gas rate three months later. (Example: The average gas resource cost for January through March is reflected in the June gas rate.)



#### Pension Actuarial Differences

Actuarial differences arise from differences between expected and actual investment returns on pension assets, as well as on differences between expected and actual retirement benefits. These costs are written off as a lump sum in the fiscal year following the year in which they arise and are posted as operating expenses.

Accordingly, major actuarial differences can have a substantial impact on revenues and expenses in the following fiscal year.

**Liquefied natural gas (LNG):** LNG is produced by cooling gas (natural gas) composed primarily of methane (CH<sub>4</sub>) down to around minus 162°C, thereby liquefying the gas. Liquefaction reduces the volume down to 1/600 that of the gas, allowing large amounts to be transported by tanker.

**LNG value chain:** This chain refers to the sequence of business activities leveraging the combined strength of the Tokyo Gas Group, spanning the procurement and transportation of LNG, production and supply of city gas and energy solutions, resulting in the provision of high-value-added energy and services.

## Summary Analysis of Operating Performance

In fiscal 2011, ended March 31, 2012, gas sales volume increased 445 million m<sup>3</sup>, or 3.0%, to 15,190 million m<sup>3</sup>. The residential volume was up 11 million m<sup>3</sup> year on year, due to temperature-based influences, and sales volume was up 18 million m<sup>3</sup> for all residential use. Despite the cold winter weather, the rise was relatively small because early spring and winter temperatures in the previous year had also been cold. The commercial volume was down 215 million m<sup>3</sup>, owing to energy-saving efforts in the aftermath of the Great East Japan Earthquake. The industrial volume, on the other hand, increased 619 million m<sup>3</sup> because of such factors as a rise in demand for electric power generation following the earthquake.

Although the yen continued to appreciate, the crude oil price remained high, at US\$114.16 per barrel, prompting an increase in unit gas selling rates in accordance with the gas rate adjustment system. Reflecting the increase in the gas sales volume, gas sales expanded ¥169.2 billion.

However, gross profit worsened ¥20.1 billion owing to a ¥189.3 billion increase in resource costs caused by a higher volume of resources used and higher unit costs. Of this amount, under-recovery due to

the slide time lag expanded from ¥29.2 billion in the previous fiscal year to ¥47.3 billion in the year under review. This factor had a ¥18.1 billion negative effect on gross profit.

In fiscal 2010, the Company shifted its primary pension investments—which impact the depreciation of pension actuarial differences in retirement benefit accounting—from a concentration on relatively variable shares to bonds, in anticipation of stable investment performance. As a result of this move, investment performance in fiscal 2010 was down in comparison with fiscal 2009, when higher stock prices resulted in stronger investment performance. As a result, in fiscal 2011 the expense burden related to depreciation of pension actuarial differences in retirement benefit accounting increased by ¥2.7 billion, whereas this burden decreased by ¥19.9 billion in the previous fiscal year; therefore these differences had a ¥22.7 billion negative impact on operating income.

In fiscal 2011, net income was down ¥49.4 billion from the previous fiscal year, to ¥46.0 billion. This change was due in part to lower extraordinary income, to which the sale of land in Toyosu contributed in fiscal 2010.

➔ For details, please see Management's Discussion and Analysis (page 40).

### Summary of Operating Results

	Fiscal 2011	Fiscal 2010	Change	%
Gas sales volume (Million m <sup>3</sup> , 45MJ/m <sup>3</sup> )	15,190	14,745	+445	+3.0
Net sales	1,754.2	1,535.2	+219.0	+14.3
Operating expenses	1,677.1	1,412.7	+264.4	+18.7
Operating income	77.0	122.4	-45.4	-37.1
Ordinary income	75.6	121.5	-45.9	-37.8
Net income	46.0	95.4	-49.4	-51.8

### Economic Frame

	JCC (\$/bbl)	Exchange rate (¥/\$)	Average temperature (°C)
Fiscal 2011	114.16	79.08	16.4
Fiscal 2010	84.15	85.74	16.7

### Pension Investment

	Investment yield (costs deducted)	Discount rate	Year-end assets (Billions of yen)
Fiscal 2010	2.70%	2.0%	235.0
Fiscal 2009	7.16%	2.1%	222.0

### Ordinary Income for Fiscal 2011: Analysis of Factors (Year on Year)

Note: (+) & (-) refer to contributions to income.

