Discussion with the President

Tsuyoshi Okamoto
President and Representative Director

Through "enhancement of the LNG value chain," we will achieve sustainable long-term corporate growth.

In the aftermath of the Great East Japan Earthquake, which struck on March 11, 2011, society and the Tokyo Gas Group's operating environment have changed. Against the backdrop of the nuclear power plant accident, the need to respond to the electrical power supply–demand issue has grown more pressing, and the situation has brought about a reexamination of the country's energy policies. Under these conditions, natural gas has taken on an even greater role than in the past, and expectations of the Tokyo Gas Group have mounted. To meet these expectations, in November 2011 we formulated and announced "The Tokyo Gas Group's Vision for Energy and the Future: Challenge 2020 Vision." This vision describes how the Tokyo Gas Group will pull together to achieve "enhancement of the LNG value chain." Through achieving this objective, we aim to fulfill our role as a company that meets society's requirements by contributing to the supply of energy, as well as meeting our customers' needs. At the same time, we will achieve sustainable long-term growth and satisfy the expectations of our shareholders and investors.

In the following pages (pages 5–8), the president of Tokyo Gas explains the Company's thoughts concerning items of particular interest to investors. Please refer to the following pages for a report on operations during fiscal 2011 and an overview of the vision, including details on the state of its progress.

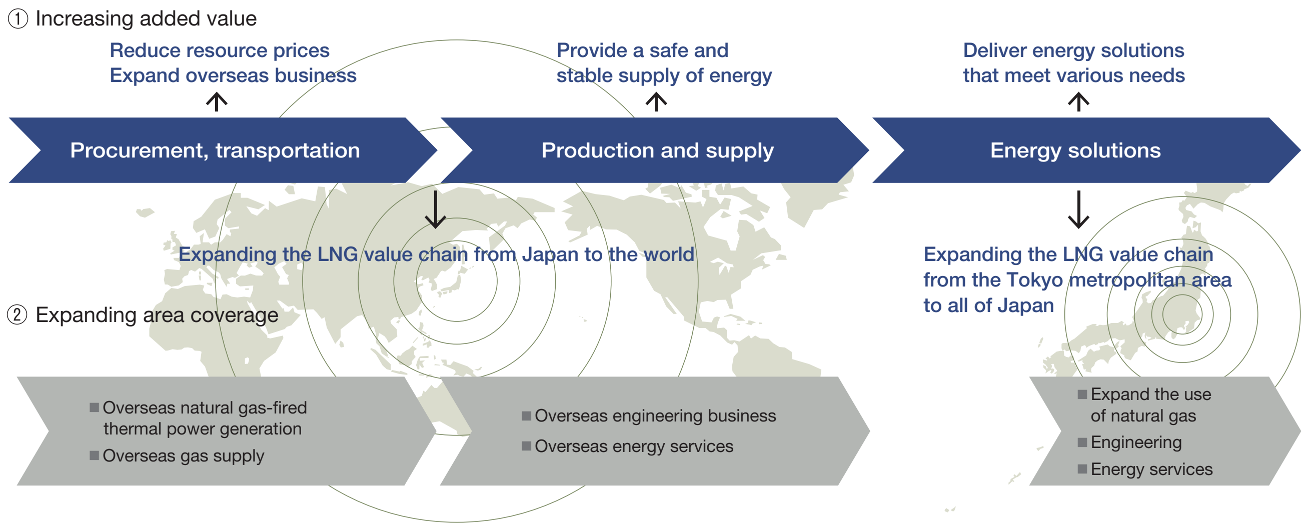
What are some highlights of the "enhancement of the LNG value chain?"

Okamoto: Diversity is the keyword for our initiatives. Let us look first at our diversification of resource procurement. Tokyo Gas imports more than 11 million tons of LNG per year, the majority from such locations as Southeast Asia and Australia. We are planning to expand our sources to include a broader global base, including supply from North America and Africa. Another aspect of diversification involves the way we participate in LNG projects. Going beyond the conventional approach of procuring resources from sellers on the basis of long-term contracts, we are now acquiring upstream interests and participating proactively in liquefaction plants and in transportation aspects. In these ways, we aim to achieve more diverse terms of trade, including pricing.

However, our diversification is not limited to resource procurement and upstream interests. Another thrust of our diversification activities involves stepping up our involvement in overseas electric power generation, energy services, and the expansion of engineering businesses.

Through these efforts, we are deepening our involvement in the commercial distribution of natural gas, spanning upstream to downstream operations. These moves will enable us to increase the value we add to the LNG value chain and expand the areas in which we develop our operations as we work toward "enhancement of the LNG value chain."

Enhancement of the LNG Value Chain



What is the scenario for reducing resource prices?

Okamoto: Reducing resource prices is one of our top priorities, but there is no simple solution. Achieving each of our diversification initiatives will open up a host of future possibilities. Rather than looking at the measures that we are pursuing as individual cases, we consider them to be interrelated initiatives that will have a major combined effect on lowering resource prices for us in the future. For example, we have commenced negotiations regarding LNG procurement from the U.S. Cove Point LNG Project. This move exemplifies efforts to expand our overseas procurement locations and will pave the way to increase future access to different areas than those from which we have procured resources in the past. Our vision also calls for us to aggressively develop business other than upstream operations. In this category, we have participated in natural gas-fired power generation in Mexico and Belgium. In addition, we are cooperating in the construction of an LNG value chain in Vietnam and taking part in an electricity and heat supply system in Thailand. The common thread running through all of these activities is that they are businesses to which natural gas is core, and we expect to see mutual benefits from these projects in the future. To strengthen our grip on resource procurement, we intend to expand our destinations for the resources we procure—not only extending our operations from the Tokyo metropolitan area to other parts of Japan, but also including the cultivation of global markets.

If prices in the Pacific market continue to be below those in the Atlantic market, for instance, market logic dictates that this difference must be resolved in some way or another. Once exports of inexpensive U.S. shale gas get fully under way, I believe that this should place ample downward pressure on international LNG market prices. Through our involvement in commercial distribution of fuel supplies in the Atlantic to organizations such as T-Power N.V., which operates a natural gas-fired power station in Belgium, we are arbitraging price differentials with the Asia–Pacific market. Such efforts will alleviate the "Asia premium" on LNG and should serve to reduce gaps in international market prices. We aim to become a major, influential player in the global LNG market.

What is your approach toward acquiring upstream interests?

Okamoto: In the future, we will employ new technologies and introduce new approaches even on small and medium-scale LNG projects to improve their economic performance and increase our range of viable options. Using floating LNG for pipeline distribution on projects that previously were not considered economically feasible is one example of this approach. A host of feasibility studies are under way in different parts of the world, which are also helping to attract interest in our company. In the past, we have typically taken upstream interests of around 1–5%. To strengthen our grip on LNG procurement going forward, we aim to take a larger percentage interest in small and medium-scale LNG projects of around 20–30%. If conditions are right, we would even consider taking a majority stake.

Naturally, the larger the position we take, the larger our risk becomes, so we will evaluate such projects on the basis of their internal rate of return (IRR), judging projects carefully from many angles and taking into consideration country risk, interest retention risk, and the reliability of our partners. We will look seriously at such projects after weighing such risks against their return.

What is your policy on unconventional natural gas?

Okamoto: With regard to unconventional natural gas, in addition to the U.S. Cove Point LNG Project, in 2010 we commenced negotiations on participating in the Queensland Curtis LNG Project in Australia, making us the first Japanese energy company to cultivate a procurement channel involving coal bed methane. Such activities are examples of our efforts to take part in upstream businesses. In 2011, we participated in a natural gas development project in British Columbia in Canada centering on shale gas. Whether projects are considered “conventional” or “unconventional,” the main point for us is that they provide methane (CH_4). Of primary importance is whether such projects are solid economically and whether they allow a stable supply. On this basis, we will continue to consider projects in the same way we have in the past.

What is the scenario for augmenting your gas sales volume?

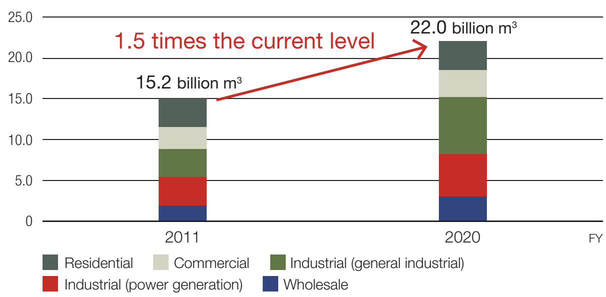
Okamoto: We expect residential gas sales volume to remain flat through fiscal 2020. We believe commercial volume will expand due the use of gas in such applications as cogeneration and gas air conditioners, but this demand is expected to increase at a rate of only around 2% per year. What we do anticipate will drive a rise in gas sales volume through fiscal 2020 is industrial demand, including for power generation. By continuing to cultivate general industry demand, centering on fuel conversion and the introduction of cogeneration, we expect demand to rise around 8% per year on average between fiscal 2011 and fiscal 2020, from 3.4 billion m^3 to 7.0 billion m^3. Owing to the completion of the Chiba–Kashima Line in March 2012, we forecast an increase from the Kashima waterfront industrial zone, rising by 0.3 billion m^3 in fiscal 2012, compared with the preceding fiscal year. We estimate potential demand in the Kanto region—the area within a 200-kilometer radius around Tokyo—at 9.0 billion m^3. We are working to meet this potential demand by completing the Hitachi LNG Terminal, which is currently under construction, and augmenting our pipeline network.

To meet the rapid increase in the demand for natural gas for power generation, we expect demand to increase at an average annual rate of around 4%, including supplies to customer generation plants and fuel for our own power generation business. As a result, we forecast demand will expand from 3.5 billion m^3 in fiscal 2011 to 5.2 billion m^3 in fiscal 2020.

Going forward, in addition to focusing on our own supply area we are forging LNG purchase/sale agreements with such companies as Hokkaido Gas and Saibu Gas, thereby promoting the supply of LNG gas providers throughout Japan.

Gas Sales Volume, by Use

Billion m^3



What are your conditions for making decisions on infrastructure investments that have not yet been determined?

Okamoto: One major prerequisite to making a decision is to confirm that demand is sufficient to warrant investment. Once this is established, other factors include a project's ability to increase supply stability and its value from a security standpoint. We have resolved to build a new high-pressure trunk line from the Hitachi LNG Terminal in Ibaraki Prefecture, which is scheduled to commence operations in fiscal 2015, to the city of Moka in Tochigi Prefecture, Koga in Ibaraki Prefecture, and Soka in Saitama Prefecture, thereby connecting the loop line around the Tokyo metropolitan area. Our decision to embark on this project followed confirmation of potential demand in northern Kanto and recognition of the need to increase supply stability throughout the Tokyo metropolitan area.

Other projects that we plan to consider include the tentatively named Hitachi–Kashima Line (provisional name)—a major prerequisite being whether central line demand will justify our investment—which would increase energy security through a wide-area loop. On the tentatively named Hitachi–Onahama Line (provisional name), we expect central line demand to be a major factor in our investment decision.

Please explain the background behind the scale of your electric power generation business.

Okamoto: The current scale of our power generation business, including the interests of other companies, is around 2 million kW. In addition, we have already begun considering participation in such projects as Ohgishima Power Station Unit 3, for which a construction decision is expected around autumn 2012 and that would generate 407,000 kW. Including this project, projects in which the likelihood of our participation is high should expand the scale of our business by 1 million kW, to a total of 3 million kW. Investment decisions on increasing our participation even more will involve deliberations on improving the electrical power system and judgments on the economic feasibility of projects.

When will "ENE-FARM" begin contributing to profits?

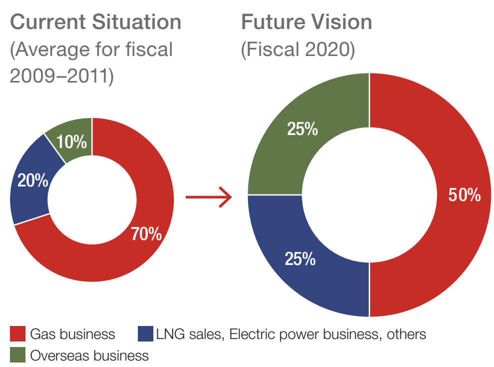
Okamoto: We expect to sell around 7,100 units in fiscal 2012, but because of development costs and upfront investments focused on popularizing the units, we do not anticipate any contribution to profits in the short term. By fiscal 2020, however, the stock of installed units should reach 300,000 units. Assuming that their use continues to steadily gain in popularity, residential gas sales to supply these units should become a major pillar of sales. Please understand that we are looking at this business from a long-term perspective, into the 2020s.

What are the chances of these results surpassing your forecasts?

Okamoto: We recognize that the small-volume segment, a regulated area, is unlikely to contribute to ongoing profit increases, and accordingly, our plans in this area are conservative. Going forward, we expect to derive higher profits from the large-volume segment, where margins are firm.

Looking at our profit structure, we plan to boost profits from the overseas and power generation businesses, but our plans are on the conservative side; they include only projects on which profits and revenues are firm but incorporate expenses that are not yet certain. Specifically on overseas business, at the present we include in our forecasts only those projects on which we have made a decision to participate. Similarly for the power generation business, we expect our business to expand to up to 5 million kW, but our income and expense plans assume that our scale of generation is 3 million kW. Our forecasts presume that expenses will rise, but we are conservative in our revenue forecasts. Consequently, we will do our very best to push performance beyond our planned figures.

	Fiscal 2011	Fiscal 2020
Consolidated operating cash flow	¥194.5 billion	Approx. ¥250.0 billion/year (FY2012–2020 total: ¥2,240.0 billion)
ROE	5.4%	Approx. 8%
ROA	2.5%	Approx. 4%
D/E ratio	0.75	Approx. 0.8 (each fiscal year)
Total payout ratio	61.4%	Approx. 60%



Please outline your projection in cash flow distribution (shareholder returns and capital expenditures), results for fiscal 2011, and your forecast for fiscal 2012.

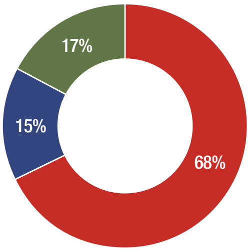
Okamoto: Our "Challenge 2020 Vision" calls for total consolidated operating cash flow of ¥2,240 billion between fiscal 2012 and fiscal 2020. Of this amount, 68%, or ¥1,680 billion, is earmarked for capital expenditures; 15%, or ¥380 billion, for investments and financing; and 17%, or ¥420 billion, for shareholder returns.

Our shareholder return policy calls for a total payout ratio of around 60%, including dividends and repurchases of stock scheduled for retirement. We aim to maintain a stable dividend that increases gradually over the long term. Whereas the vision called investment to increase at a pace of roughly ¥50 billion per year compared with our previous medium-term management plan, our current plan calls for us to examine revenue/expense and funding plans on the basis of our balance sheet structure, forecasts a D/E ratio of approximately 0.8 times, and aims for us to maintain a total payout ratio of roughly 60%.

For fiscal 2011, we maintained dividends at ¥9 per share, as in the preceding fiscal year. We repurchased a maximum number of our own shares, paying ¥5.0 billion for 14 million shares, and these shares have already been retired. In fiscal 2012, we forecast a dividend of ¥9 per share.

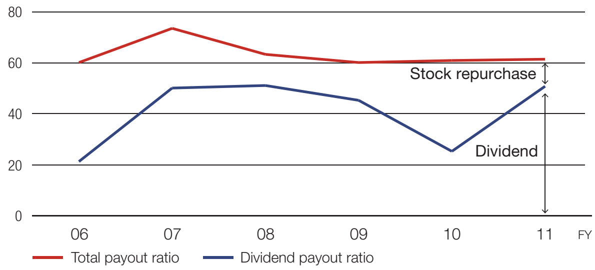
Capital Expenditures, Investments and Financing, Shareholder Returns

Fiscal 2012–2020: Approximately ¥2,480 billion



Consolidated operating cash flow	¥2,240.0 billion
External debt (interest bearing debt), etc.	¥240.0 billion
Capex., Investments and financing, Shareholder returns	¥2,480.0 billion

Trends in the Total Payout Ratio



What is your forecast for fiscal 2012?

Okamoto: Owing to a change in our method of selling fuel to subsidiaries in the power generation business, we forecast a 304 million m^3, or 2.0%, decrease in our consolidated gas sales volume compared with fiscal 2011, to 14,886 million m^3. Measured on the same basis, however, the volume amounts to a 0.6% increase. We expect consolidated net sales to rise 9.1%, to ¥1,914.0 billion, owing to an increase in gas unit prices under the gas rate adjustment system and a rise in sales of "other energy," including higher LNG and other sales.

Although resource costs will increase in line with higher crude oil prices, and income will be affected by the gas tariff revision, we anticipate a ¥31.3 billion improvement resulting from the slide time lag. As a result, we expect operating income to rise 28.4%, to ¥99.0 billion. We also forecast net income of ¥63.0 billion, up 36.8% year on year. Regarding resource prices, which form the basis for our economic framework, we assume a crude oil price of US$120 per barrel, and an exchange rate for the full fiscal year of ¥85 to the U.S. dollar.

Million m^3, 45MJ/m^3, Billions of yen

	Fiscal 2011	Fiscal 2012 (Forecasts announced on April 27, 2012)	Change	%
Gas sales volume	15,190	14,886	–304	–2.0
Including gas used at electric power business	15,288	15,383	+95	+0.6
Net sales	1,754.2	1,914.0	+159.8	+9.1
Operating expenses	1,677.1	1,815.0	+137.9	+8.2
Operating income	77.0	99.0	+22.0	+28.4
Ordinary income	75.6	96.0	+20.4	+26.9
Net income	46.0	63.0	+17.0	+36.8
Slide time lag effect (non-consolidated)	–47.3	–16.0	+31.3	–
Amortization of actuarial differences (non-consolidated)	–2.7	–4.0	–1.3	–