Management's Discussion and Analysis

Summary

In the fiscal year under review, ended March 31, 2012, gas sales volume increased 3.0% year on year, to 15,190 million m^3, owing to high demand for gas for power generation purposes following the Great East Japan Earthquake, which occurred on March 11, 2011.

The rise in gas sales volume, together with an increase in gas unit prices under the gas rate adjustment system, pushed up sales of city gas. Also, full-year operation of the No.2 unit at the Ohgishima Power Station as well as strong demand for power generation following the earthquake contributed to higher electric power sales. Consequently, net sales climbed 14.3% year on year, to ¥1,754.2 billion. Operating expenses rose 18.7%, to ¥1,677.1 billion, as the higher price of LNG and increased gas sales volumes drove up raw material costs. As a result, operating income decreased 37.1%, to ¥77.0 billion, and ordinary income was down 37.8%, to ¥75.6 billion. Net income fell 51.8%, to ¥46.0 billion, largely due to the rebound from last year's recording of ¥39.7 billion in extraordinary income from the sale of land in Toyosu and the reduction in deferred tax assets that accompanied a change in tax systems.

With respect to appropriations to shareholders, the Company maintained its existing policy of a total payout ratio of 60%. This means the sum of cash dividends and share repurchases will be at least 60% of net income for the year.

Operating Environment in the Year under Review

Macroeconomic Conditions

In the fiscal year under review, the Japanese economy experienced harsh conditions due to the lingering impacts of the Great East Japan Earthquake. In this environment, a gradual trend toward recovery was seen centered on domestic demand. Following the earthquake, Japan's energy market is now faced with the tasks of addressing the electricity shortages in the Tokyo metropolitan area in the short term, and reevaluating energy's role in society from a medium- to long-term perspective. Against this backdrop, natural gas, which is known to be easier to supply and more economically sound, convenient, and environmentally friendly, has been gathering a great deal of attention from society. In particular, industrial demand, or in other words sales volumes of natural gas for power generation purposes, increased greatly year on year. This can be attributed to a rise in demand from independent power producers (IPPs), power producer and suppliers (PPSs), and other power providers; higher demand for gas to be used in customers' in-house cogeneration systems; and full-year contributions from the No.2 unit at the Ohgishima Power Station, in which the Company is investing.

Influence of Fluctuating Oil Prices and Foreign Exchange Rates on the Company's Operations

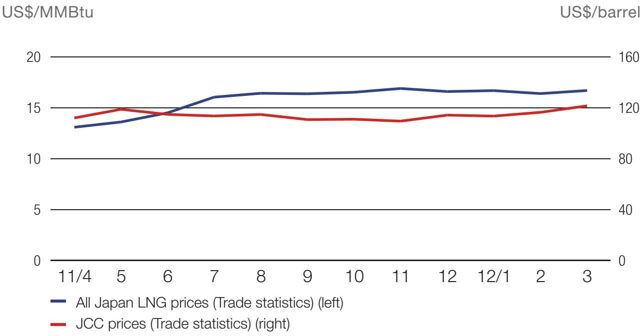
The purchase price of LNG, which accounts for the majority of the resources used in the Group's core city gas business, is linked to the Japan Customs-cleared Crude price (hereafter JCC). It is therefore exposed to risks related to fluctuations in crude oil prices. In addition, since contracts are denominated in U.S. dollars, earnings are at risk from fluctuations in the yen–dollar exchange rate.

Under the gas rate adjustment system, fluctuations in the price of crude oil can take as long as five months before they are reflected in gas rates. For this reason, while fluctuation in crude oil prices can cause short-term fluctuations in the Company's earnings and operating expenses, particularly on an individual fiscal year basis, the long-term percussions are minimal.

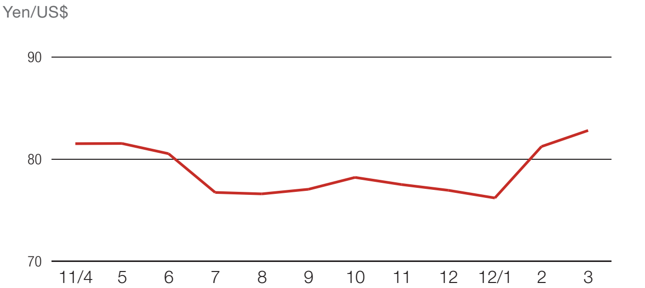
In the fiscal year under review, the JCC was consistently high, initially remaining in the range of US\$110–119 per barrel. While the price temporarily fell below US\$110 per barrel in November 2011, it later soared to US\$120 per barrel in March 2012. For the full fiscal year, the average was US\$114.16 per barrel, up US\$30.01 from the previous year. In foreign exchange rates, the yen remained at a high level, and the average yen–dollar exchange rate was ¥79.08 for the full fiscal year, reflecting the yen's appreciation of ¥6.66 compared with a year earlier.

As a result, the year's trends in crude oil prices had the effect of pushing up the Company's LNG purchase price and contributing to increases in sales and gas resource costs.

Prices of Crude Oil and LNG



Yen–Dollar Exchange Rate



Analysis of the City Gas Business

Sales increased year on year across three sectors (residential, industrial, and wholesale), while sales in the commercial and others sectors declined due to residual impacts of the earthquake.

Residential Sector

There was a decline in sales volume per customer due to a decrease in the number of household occupants and the accelerated movement toward energy and electricity saving. However, there was a rise in customers' higher demand for hot water and indoor heating that followed the cold winter. Accordingly, residential demand grew 0.5%, to 3,538 million m^3.

Commercial and Others Sector

While customer numbers were up, trends such as the shortening of work hours and cancelling of school that followed the earthquake resulted in decreased operating times of facilities. Consequently, commercial demand declined 7.1%, to 2,827 million m^3.

Industrial Sector

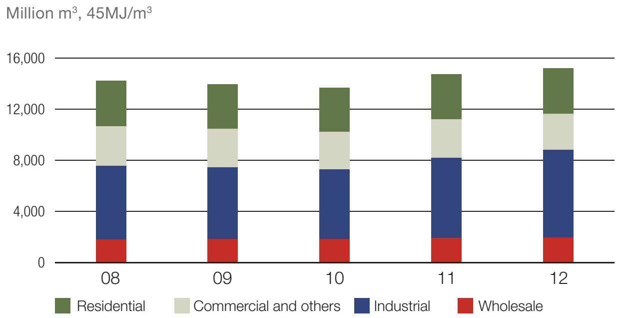
Year-long contributions from the No.2 unit at the Ohgishima Power Station, higher usage of cogeneration and in-house generation systems following the earthquake, and demand from general industry that was buoyed by moderate economic recovery resulted in a 9.9% increase in industrial demand, to 6,856 million m^3.

Wholesale Sector

As a result of increased demand from other gas utilities, wholesale supplies grew 1.2%, to 1,970 million m^3.

As a result, the overall gas sales volume increased 3.0%, or 445 million m^3, to 15,190 million m^3.

Gas Sales Volume by Sector (Years ended March 31)



Analysis of Income and Expenses

Sales and income up

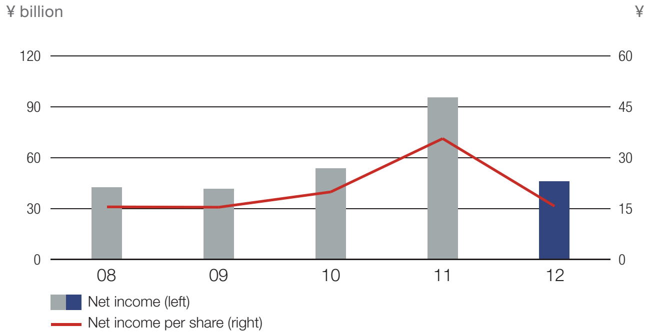
In the fiscal year under review, gas sales increased 14.9%, or ¥169.2 billion, to ¥1,306.2 billion, due to higher gas unit prices under the gas rate adjustment system and a 3.0% rise in gas sales volume. As a result, total net sales rose 14.3%, or ¥219.0 billion, from the previous year, to ¥1,754.2 billion.

Operating expenses increased 18.7%, or ¥264.4 billion, to ¥1,677.1 billion, following a ¥189.3 billion increase in raw material costs due to higher LNG prices and gas sales volumes. As a result, operating income decreased 37.1%, or ¥45.4 billion, to ¥77.0 billion.

Ordinary income decreased 37.8%, or ¥45.9 billion, to ¥75.6 billion, as foreign exchange gains of overseas subsidiaries declined ¥1.0 billion and income from weather derivatives fell ¥0.9 billion.

In the fiscal year under review, we experienced the rebound from last year's recording of ¥39.7 billion in extraordinary income from the sale of land in Toyosu to the Tokyo Metropolitan Goverment and a ¥4.4 billion reduction in deferred tax assets that accompanied a change in tax systems. As a result, net income was down 51.8%, or ¥49.4 billion, to ¥46.0 billion. Further, on a non-consolidated basis, Tokyo Gas recorded slide time lag effect of ¥18.1 billion and amortization of actuarial differences of ¥22.7 billion, which placed downward pressure on operating income.

Net Income and Net Income per Share (Years ended March 31)



(Reference) Comprehensive Income (¥ million)

Years ended March 31	2011	2012
Income before minority interests	96,070	47,329
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,375)	86
Deferred gains or losses on hedges	(604)	(1,783)
Foreign currency translation adjustment	(7,095)	(4,266)
Share of other comprehensive income of associates accounted for using equity method	(2,554)	(2,129)
Total other comprehensive income	(15,630)	(8,092)
Comprehensive income	80,440	39,237

Analysis of Segments

City Gas Sales

Tokyo Gas and certain consolidated subsidiaries conduct sales of city gas. Not only is such gas provided to general customers, it is also sold to the Group's power plants. (External sales ratio: 93.4%)

Gas Appliances and Installation Work

We sell gas cooktops, water heaters, gas air conditioning systems that use hot water, "ENE-FARM" residential fuel cells, gas heat pump air conditioning systems, and other products. These sales are mainly handled by Tokyo Gas LIFEVAL, Enesta, and Enefit, which represent the core of Tokyo Gas' community-based marketing system. We also install gas pipes and valves in properties owned by customers in our service area. (External sales ratio: 92.2%)

Other Energies

This segment's operations consist of business relating to energy services (including LNG sales), LPG, electric power, industrial gas, and others. (External sales ratio: 85.9%)

A large percentage of this segment's sales comes from the electric power business and in the fiscal year under review the No.2 unit at the Ohgishima Power Station contributed to sales throughout the full year. As a result, segment sales were up 45.0% year on year, or ¥31.6 billion, to ¥101.8 billion, and operating income rose 30.7%, or ¥1.9 billion, to ¥7.9 billion.

Real Estate

This segment includes mainly leasing and management of land and buildings. Major properties include the Shinjuku Park Tower and land and buildings in such areas as Ginza and Gofukubashi. (External sales ratio: 35.7%)

Other

This segment includes information processing, shipping, credit and leasing, and construction. (External sales ratio: 49.7%)

Business Results by Segment (¥ million)

Sales

Years ended March 31	2011	2012
City gas sales	1,137,077	1,306,262
Gas appliances and installation work	177,472	187,628
Other energies	221,292	302,593
Real estate	32,797	29,675
Other	162,302	181,880
Total	1,730,942	2,008,040
Adjustments	(195,699)	(253,782)
Consolidated	1,535,242	1,754,257

Sales figures for each segment include intersegment transactions.

Operating Income

Years ended March 31	2011	2012
City gas sales	136,181	97,404
Gas appliances and installation work	1,872	3,129
Other energies	11,166	10,924
Real estate	5,713	3,301
Other	9,907	7,066
Total	164,841	121,826
Adjustments	(42,389)	(44,751)
Consolidated	122,451	77,075

Operating income figures for each segment include intersegment transactions.

Contribution to Net Sales by Segment

Years ended March 31	2011	2012	Change
City gas sales	65.6%	65.0%	–0.6 point
Gas appliances and installation work	10.3%	9.3%	–1.0 point
Other energies	12.8%	15.1%	+2.3 points
Real estate	1.9%	1.5%	–0.4 point
Other	9.4%	9.1%	–0.3 point

Financial Position

Assets

At fiscal year-end, total assets amounted to ¥1,863.8 billion, up 1.9%, or ¥34.2 billion, from a year earlier. Total property, plant and equipment declined 1.3%, or ¥14.7 billion, to ¥1,105.5 billion, due to progressive depreciation. Total intangible assets jumped 18.4%, or ¥7.6 billion, to ¥48.7 billion, due mainly to investments in software. Total investments and other assets declined 4.5%, or ¥10.2 billion, to ¥218.7 billion, following a decrease in investment securities.

Total current assets increased 11.7%, or ¥51.5 billion, to ¥490.8 billion. This is primarily attributable to the fact that notes and accounts receivable–trade rose 32.4%, or ¥51.8 billion, to ¥211.9 billion, which offset the decline in cash and deposits of 11.2%, or ¥10.2 billion, to ¥80.1 billion.

Liabilities

Total liabilities at the end of the fiscal year stood at ¥1,008.7 billion, up 5.6%, or ¥53.2 billion, from the previous fiscal year end. Total noncurrent liabilities increased 7.6%, or ¥49.2 billion, to ¥695.9 billion, due to increases in bonds payable of 6.4%, or ¥20.0 billion, and in long-term loans payable of 23.0%, or ¥43.3 billion. Total current liabilities rose 1.3%, or ¥4.0 billion, to ¥312.8 billion, as a result of an increase in notes and accounts payable–trade of 21.6%, or ¥16.5 billion, to ¥92.6 billion, which offset the declines in current portion of noncurrent liabilities of 10.5%, or ¥5.1 billion, to ¥43.6 billion, and in other current liabilities of 2.9%, or ¥4.0 billion, to ¥129.2 billion.

Net Assets

Total net assets decreased 2.2%, or ¥18.9 billion, to ¥855.1 billion. This was a result of the 1.4%, or ¥11.6 billion, decrease in total shareholders' equity following the recording of purchase of treasury stock of ¥34.0 billion and dividends from surplus of ¥23.6 billion, which offset net income of ¥46.0 billion.

Changes in Treasury Stock

In the fiscal year under review, treasury stock decreased 6.7%, or ¥0.2 billion, to ¥2.1 billion, as the Company cancelled all 93,478 thousands shares of treasury stock acquired through market purchase.

Equity Ratio

Total equity decreased 2.3%, or ¥19.8 billion, to ¥839.1 billion. This was due the recording of purchase of treasury stock of ¥34.0 billion and dividends from surplus of ¥23.6 billion, which offset net income of ¥46.0 billion. As total assets rose 1.9%, or ¥34.2 billion, to ¥1,863.8 billion, the equity ratio declined 1.9 percentage points, to 45.0%.

Interest-Bearing Debt

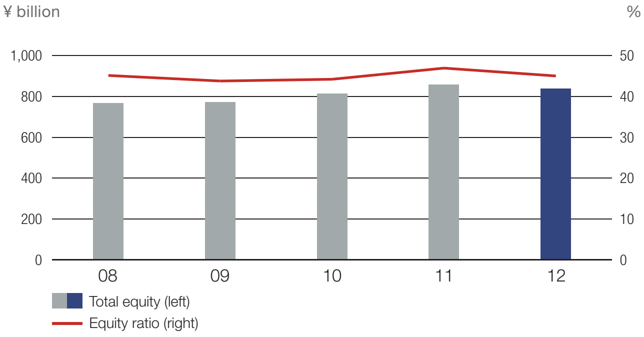
In the year under review, total interest-bearing debt increased 7.1%, or ¥41.7 billion, to ¥625.8 billion As a result, the D/E ratio rose 0.07 point, to 0.75.

Credit Ratings

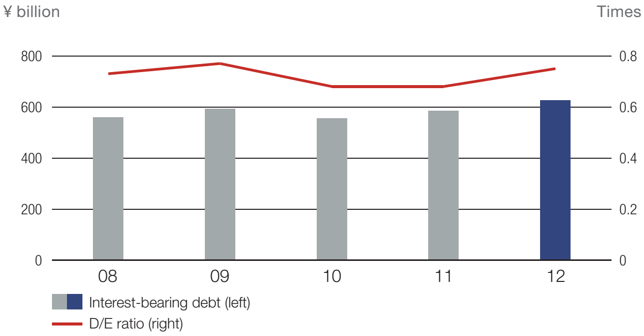
As of March 31, 2012

Moody's	Aa3	High creditworthiness and very low credit risk to meet long-term obligations.
S&P	AA–	Very strong capacity to meet obligations. Difference from the highest rating, AAA, is small. (Plus and minus signs indicate relative standing within each rating category.)
R&I	AA+	Very high creditworthiness supported by some excellent factors.
JCR	AAA	The highest level of capacity of the obligor to honor its financial commitment on the obligation.

Total Equity and Equity Ratio (At March 31)



Interest-bearing Debt and D/E Ratio (At March 31)



Capital Expenditures and Depreciation

Capital expenditures decreased 2.5%, or ¥3.8 billion, to ¥146.4 billion. This was largely due to the absence of the investments recorded last year in the Ohgishima Power Station, which commenced operations during the previous fiscal year. Similarly, depreciation was down 0.6%, or ¥0.8 billion, to ¥148.5 billion.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥12.5 billion year on year, to ¥149.8 billion. This was primarily due to a decline in income before income taxes of ¥80.8 billion, to ¥74.6 billion, and a rise in increase of notes and accounts receivable–trade of ¥45.3 billion, to ¥52.3 billion. These factors outweighed the recording of increase in notes and account payable–trade of ¥21.8 billion, compared with decrease in notes and account payable–trade of ¥52.5 billion in the previous fiscal year, and a decline in decrease in provision for retirement benefits of ¥22.9 billion, to ¥11.2 billion.

Cash Flows from Investment Activities

Net cash used in investing activities was ¥101.8 billion, compared with ¥172.3 billion in the previous fiscal year. This can mainly be attributed to proceeds from sales of noncurrent assets of ¥46.4 billion, up ¥45.8 billion, and a decrease in purchase of investment securities of ¥20.6 billion, to ¥1.1 billion.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥16.4 billion, compared with ¥7.2 billion in the previous fiscal year. While proceeds from long-term loans payable increased ¥50.9 billion, to ¥68.2 billion, decrease in commercial papers was ¥15.0 billion, compared with increase in commercial papers of ¥15.0 billion in the previous fiscal year; purchase of treasury stock was up ¥25.7 billion, to ¥34.0 billion; and redemption of bonds increased ¥10.0 billion, to ¥30.0 billion.

Operating Cash Flow

Aiming to aggressively invest in the gas business to prepare for future growth in demand, Tokyo Gas has made operating cash flow a key management indicator and has disclosed its allocation policy. Operating cash flow is calculated by adding depreciation to net income.

Operating cash flow for the fiscal year ended March 31, 2012, amounted to ¥194.5 billion, a year-on-year decrease of ¥50.3 billion. The lower figure reflects a ¥49.4 billion decrease in net income and a ¥0.8 billion decrease in depreciation.

Total Payout Ratio

Tokyo Gas has set an objective of a 60% total payout ratio, which means to return 60% of net income to shareholders, as an indicator of its commitment to shareholder returns. Specifically, we define this new indicator as the ratio of the sum of the income distributed as dividends funded by net income in FY n and share repurchasing in FY n+1 to the net income in FY n.

The Company plans dividends of ¥9.00 per share for the fiscal year ended March 31, 2012, unchanged from the previous year, and share repurchases of ¥50.0 billion in the fiscal year ending March 31, 2013. As a result, the total payout ratio for the fiscal year ended March 31, 2012, was 61.4%.

In regard to dividends, we maintained dividends at ¥9.00 per share. In the future, our priority is to ensure stable dividends, with consideration for gradual increases over the long term and without reducing dividends.

With respect to share repurchases, our basic principle is to cancel the shares. In the fiscal year ended March 31, 2012, we purchased treasury stock totaling ¥50.0 billion, and these shares were cancelled in June 2012.

Millions of yen

Years ended March 31	2010	2011	2012
Net cash provided by operating activities	294,110	162,345	149,818
Net cash used in investment activities	(177,290)	(172,305)	(101,810)
Net cash provided by (used in) financing activities	(69,375)	(7,212)	(16,454)

Key Management Indicators

ROA and ROE worsened due to lower net income.

ROA

The average balance of total assets remained relatively unchanged, however net income dropped 51.8% year on year, to ¥46.0 billion. Accordingly, ROA declined 2.7 percentage points, to 2.5%.

ROE

The average balance of total equity increased, while net income dropped 51.8% year on year, to ¥46.0 billion. As a result, ROE declined 6.0 percentage points, to 5.4%.

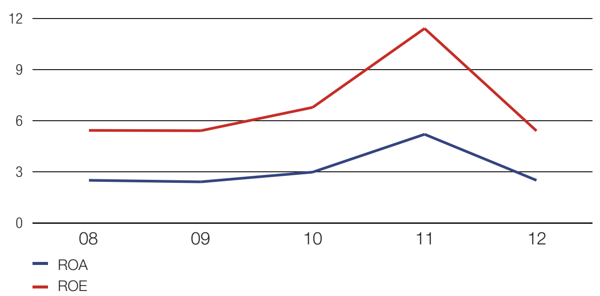
TEP

Our goal is to generate profit in excess of capital costs. This is reflected in our adoption of Tokyo Gas Economic Profit (TEP: Net operating profit after tax prior to interest payments minus the cost of capital) as one of our main management indicators.

In the fiscal year ended March 31, 2012, net operating profit after tax prior to interest payments (NOPAT) was ¥55.3 billion, the weighted average cost of capital (WACC) remained unchanged, at 3.1%, and the cost of capital was ¥46.2 billion. Consequently, TEP was ¥9.1 billion.

ROA and ROE (Years ended March 31)

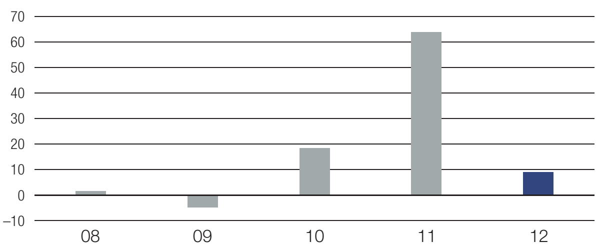
%



ROA = Net income / total assets (average of positions at start and end of fiscal year)
ROE = Net income / total equity (average of positions at start and end of fiscal year)

TEP (Years ended March 31)

¥ billion



TEP = NOPAT – cost of capital (Invested capital x WACC)
NOPAT: Net operating profit after tax prior to interest payments

Forecasts (Announced on April 27, 2012)

Gas Sales Volumes

Following changes in electricity schemes, gas sale volumes in the fiscal year ending March 31, 2013, are forecasted to decrease 2.0% year on year, or 304 million m^3, to 14,886 million m^3. However, if gas used for the electricity business is included in this calculation, the figure will actually show an increase of 0.6%, or 95 million m^3, to 15,383 million m^3.

Residential Sector

The rebound from the weather-related benefits experienced in the fiscal year under review will likely result in gas sales volumes to the residential sector declining 2.1%, to 3,464 million m^3.

Commercial and Others Sector

Due to the absence of the weather-related benefits seen in the fiscal year under review, gas sales volumes to the commercial and others sector are projected to decrease 2.3%, to 2,763 million m^3.

Industrial Sector

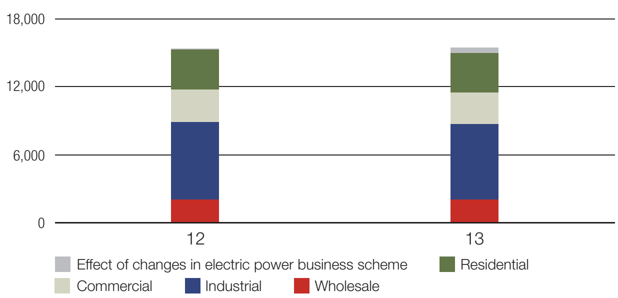
While changes in electricity schemes will result in a decline in sales volumes of 395 million m^3, our ability to capture new demand will soften this decline and overall sales volumes of gas to the industrial sector will decrease only 2.4%, or 162 million m^3, to 6,694 million m^3. If gas used for the electricity business is included in this calculation, the figure will actually show an increase of 3.4%, or 233 million m^3.

Wholesale Sector

Sales volumes of gas to the wholesale sector are expected to decrease 0.3%, to 1,965 million m^3, following a decline in large-scale wholesale sales.

Consolidated Gas Sales Volume Forecasts

Million m^3, 45MJ/m^3



We forecast increases in sales and income in the fiscal year ending March 31, 2013.

In the fiscal year ending March 31, 2013, we expect consolidated net sales to increase 9.1%, or ¥159.8 billion, to ¥1,914.0 billion; operating income to rise 28.4%, or ¥22.0 billion, to ¥99.0 billion; and net income to grow 36.8%, or ¥17.0 billion, to ¥63.0 billion.

In the fiscal year ended March 31, 2012, ordinary income was ¥75.6 billion, but in the fiscal year ending March 31, 2013, we forecast an increase of 26.9%, or ¥20.4 billion, to ¥96.0 billion. Principal factors include a ¥15.1 billion year-on-year increase in non-consolidated ordinary income of Tokyo Gas, a ¥0.1 billion rise in ordinary income of consolidated subsidiaries, and a ¥5.2 billion increase due to consolidated adjustments.

On a non-consolidated basis, Tokyo Gas is expected to record a ¥15.1 billion year-on-year increase in ordinary income in the fiscal year ending March 31, 2013. While revenues will be negatively impacted by reduced gas rates, the expected increase in sales stemming from high gas unit prices under the gas rate adjustment system should outweigh the impacts of higher material prices stemming from rising crude oil prices and the appreciation of the Japanese yen, leading to a ¥18.0 billion increase in gross profit on gas. Contributing to this increase, the slide time lag under the gas rate adjustment system is expected to drive up profits by ¥31.3 billion. In addition, amortization of pension actuarial differences will worsen ¥1.3 billion, but lower depreciation due to tax system revisions will result in a ¥4.7 billion decline in fixed costs.

Ordinary income of consolidated subsidiaries is projected to be almost unchanged, rising only ¥0.1 billion.

External Risks Affecting Business Activities

The following is a list of some of the risks that could impact the Company's business. However, this is only a partial list. For a more complete list of risks, please refer to the Company's *Yuho* securities report (Japanese only).

Gas Resource Purchase Price Fluctuation Risk

The extent to which fluctuations in exchange rates and crude oil prices will affect gross profit in the fiscal year ending March 31, 2013, is as follows.

Exchange rate:	Approximately ¥1.6 billion down (up) with depreciation (appreciation) of ¥1/dollar
Crude oil price:	Approximately ¥1.1 billion down (up) with an increase (decrease) in crude oil price of US$1/barrel

In the fiscal year ended March 31, 2012, the average exchange rate was ¥79.08 to one dollar, and the crude oil price averaged US$114.16 per barrel. Forecasts for the fiscal year ending March 31, 2013, are based on an exchange rate of ¥85.00 to one dollar and an average crude oil price of US$120.00 per barrel.

Temperature Fluctuation Risk

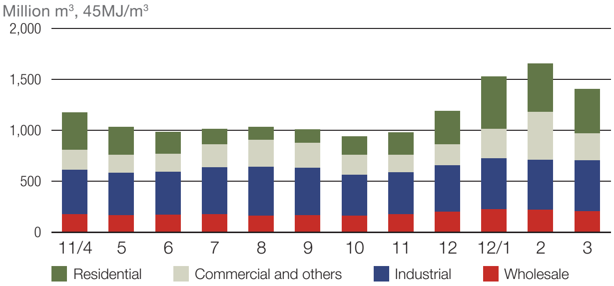
Temperatures affect the volume of city gas sales, which account for around 70% of consolidated sales. In the residential sector, gas is used mainly for water heating and indoor heating. Mild winter weather can erode revenues and income by reducing the volume of gas sold. In the commercial and others sector, gas is mainly used for air conditioning systems, so if temperatures are low in the summer or high in the winter, such temperature fluctuations can erode revenues and income by reducing the volume of gas sold.

The average temperatures in the fiscal year ended March 31, 2012, were 22.6°C in the first half of the year, 10.2°C in the second half, and 16.4°C for the whole year. Forecasts for the fiscal year ending March 31, 2013, are based on an average of 16.7°C for the whole year.

Impact of 1°C Temperature Rise on Overall Gas Sales Volume

	Rate of change
Summer (June–September)	–0.2%
Winter (December–March)	–2.4%
Intervening months (April, May, October, November)	–1.9%
Annual	–1.6%

Monthly Gas Sales Volume for the Fiscal Year Ended March 31, 2012 (Non-consolidated)



Ordinary Income Plan for Fiscal Year Ending March 31, 2013: Analysis of Factors (Year on Year)

(Announced on April 27, 2012)

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

FY2011
¥75.6 billion

FY2012 (forecast)
¥96.0 billion

Change
+¥20.4 billion

Tokyo Gas (Non-consolidated)
+¥15.1 billion

Increase in gas gross margin (slide time lag effect +¥31.3 billion) **+¥18.0 billion**
- Net sales: +¥119.5 billion
  (Gas sales volume & composition +¥3.4 billion, slide time lag +¥129.0 billion, Gas tariff revisions, etc. –¥12.9 billion)
- Gas resource costs: –¥101.5 billion
  (Amount & composition –¥3.1 billion, Foreign exchange –¥51.5 billion, JCC –¥51.3 billion, Others +¥4.4 billion)

Decrease in fixed costs **+¥4.7 billion**
- General expenses increased: –¥0.6 billion
  (Repair cost +¥2.4 billion, taxes increased –¥1.8 billion, Consignment costs –¥1.0 billion, etc.)
- Personal expenses decreased: +¥0.2 billion
- Depreciation and amortization decreased: +¥5.0 billion and others
  (effect of tax system revisions +¥11.8 billion, Increased depreciation from acquisition –¥6.8 billion)

Decrease in other operation/supplementary income **–¥2.2 billion**
Appliance sales –¥1.4 billion, Electric power –¥1.2 billion and others

Decrease in non-operating income **–¥5.5 billion**
(–) Decreased in Premature repayment adjustments –¥2.4 billion, decrease in dividends from subsidiaries and affiliates received –¥2.1 billion and others

Consolidated subsidiaries
+¥0.1 billion

(+) Nijio +¥0.9 billion (Sales increased)
(–) Tanker –¥0.7 billion (Cost increased)

Internal offset, etc.
+¥5.2 billion

Elimination of dividends income +¥5.1 billion