Management's Discussion and Analysis

Summary

In fiscal 2012, ended March 31, 2013, gas sales volume rose 200 million m^3 year on year, or 1.3%, to 15,390 million m^3, following a rise in industrial demand centered on demand for power generation applications. Electricity sales volumes were also up due to the favorable market conditions that have continued since the Great East Japan Earthquake. As a result, net sales increased ¥161.4 billion, or 9.2%, to ¥1,915.6 billion; ordinary income grew ¥71.8 billion, or 95.0%, to ¥147.4 billion; and net income was up ¥55.6 billion, or 120.7%, to ¥101.6 billion.

In fiscal 2013, ending March 31, 2014, gas sales volume is forecast to decline 609 million m^3, or 4.0%, to 14,781 million m^3, due to the impacts of tolling arrangements (explained below). However, the slide time lag effect will result in improvements, leading to a year-on-year increase in net sales of ¥200.4 billion, or 10.5%, to ¥2,116.0 billion. Likewise, ordinary income will rise ¥7.6 billion, or 5.1%, to ¥155.0 billion. Regardless though, net income is projected to decrease ¥0.6 billion, or 0.7%, to ¥101.0 billion.

With respect to appropriations to shareholders, the Company maintained its existing policy of a total payout ratio of approximately 60% and raised dividend payments in fiscal 2012 by ¥1 per share, to ¥10 per share.

Performance in Fiscal 2012

Gas Sales Volume

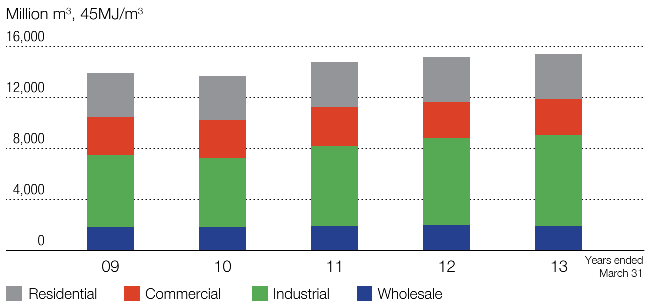
In fiscal 2012, consolidated gas sales volume rose 200 million m^3 year on year, or 1.3%, to 15,390 million m^3. Sales volume by sector is described below.

Demand in the residential sector declined 3 million m^3, or 0.1%. This decrease is partially due to the fact that the previous year was a leap year and, thus, was one day longer. In addition, warm weather was experienced over a longer period than in fiscal 2011. Both of these factors resulted in lower sales volume. However, a rise in the number of customer households helped us limit this decline to 0.1%. The increase in customer households can be attributed to the ongoing influx of people into the Tokyo metropolitan area as well as a rise in the ratio of households using gas due to the construction of new homes.

In the commercial sector, sales volume was impacted by the leap year and warm weather in a manner similar to the residential sector. We are noticing some increases in sales volume as the sensitivity toward energy saving that appeared after the Great East Japan Earthquake fades, but we cannot expect sales volume to recover to the levels seen before the earthquake.

In the industrial sector, the impacts of tolling arrangements (explained below) resulted in sales volume declines. Regardless, we worked to address demand in the Kashima area following the start of operations on the Chiba–Kashima Line. At the same time, we saw a rise in demand for gas for power generation purposes in other areas. As a result, sales volume in the industrial sector was up 199 million m^3, or 2.9%, which was a primary factor behind the 200 million m^3 increase in overall gas sales volume. In the wholesale sector, lower demand from other gas utilities led wholesale supplies to decrease 17 million m^3, or 0.9%.

Gas Sales Volume by Sector



Impacts of Tolling Arrangements on Gas Sales Volumes

The electric power business previously employed a business scheme in which Nijio Co., Ltd., would sell gas to power companies, and these companies would then use this gas to generate electricity to be sold. However, we are shifting to a scheme involving tolling arrangements through which Nijio subcontracts generation to power companies, paying them commissions, and then sells the electricity generated itself. Kawasaki Natural Gas Power Generation Co., Ltd., switched to this tolling scheme in fiscal 2012, and Ohgishima Power Co., Ltd., is scheduled to switch in fiscal 2013.

The volume of gas used for power generation under this tolling scheme is deemed to have been used for in-house power generation, and gas sales volume has declined on a consolidated basis for this reason. In fiscal 2012, the introduction of this scheme has resulted in declines in gas sales volumes totaling 380 million m^3 from fiscal 2011's levels. However, this decline was purely due to the change in accounting methods following the introduction of the tolling scheme. Calculated using prior methods, gas sales volume in fiscal 2012 increased 698 million m^3, or 4.6%, from fiscal 2011's 15,288 million m^3, to 15,986 million m^3.

Analysis of Income and Expenses

In fiscal 2012, sales in the city gas business grew ¥95.7 billion year on year due to the abovementioned increase in gas sales volume as well as a rise in selling prices stemming from an increase in material cost associated with the depreciation of the yen. In the electric power business, sales rose ¥25.2 billion due to higher utilization ratios for power plants in conjunction with the tight supply and demand situation for electricity as well as an increase in selling prices. Similarly, LNG sales increased ¥20.9 billion as a result of higher sales volumes. Accordingly, total net sales were up ¥161.4 billion, or 9.2%, to ¥1,915.6 billion.

Meanwhile, operating expenses rose ¥92.9 billion, or 5.5%, to ¥1,770.0 billion, due to increases of ¥59.3 billion in city gas material costs, ¥19.6 billion in LNG sales expenses, and ¥14.0 billion in expenses associated with the electric power business.

Regardless of higher expenses, operating income increased ¥68.6 billion, or 88.9%, to ¥145.6 billion. Likewise, ordinary income was up ¥71.8 billion, or 95.0%, to ¥147.4 billion, due to the recording of revenue from the construction of dedicated facilities of pipelines for large-volume customers outside supply areas of ¥2.8 billion under extraordinary income. Under extraordinary income, gain on sales of overseas subsidiaries' and affiliates' stocks of ¥3.4 billion was recorded in association with sales of stock in GAS MALAYSIA SDN. BHD. These factors resulted in a ¥55.6 billion, or 120.7%, increase in net income, to a record high of ¥101.6 billion.

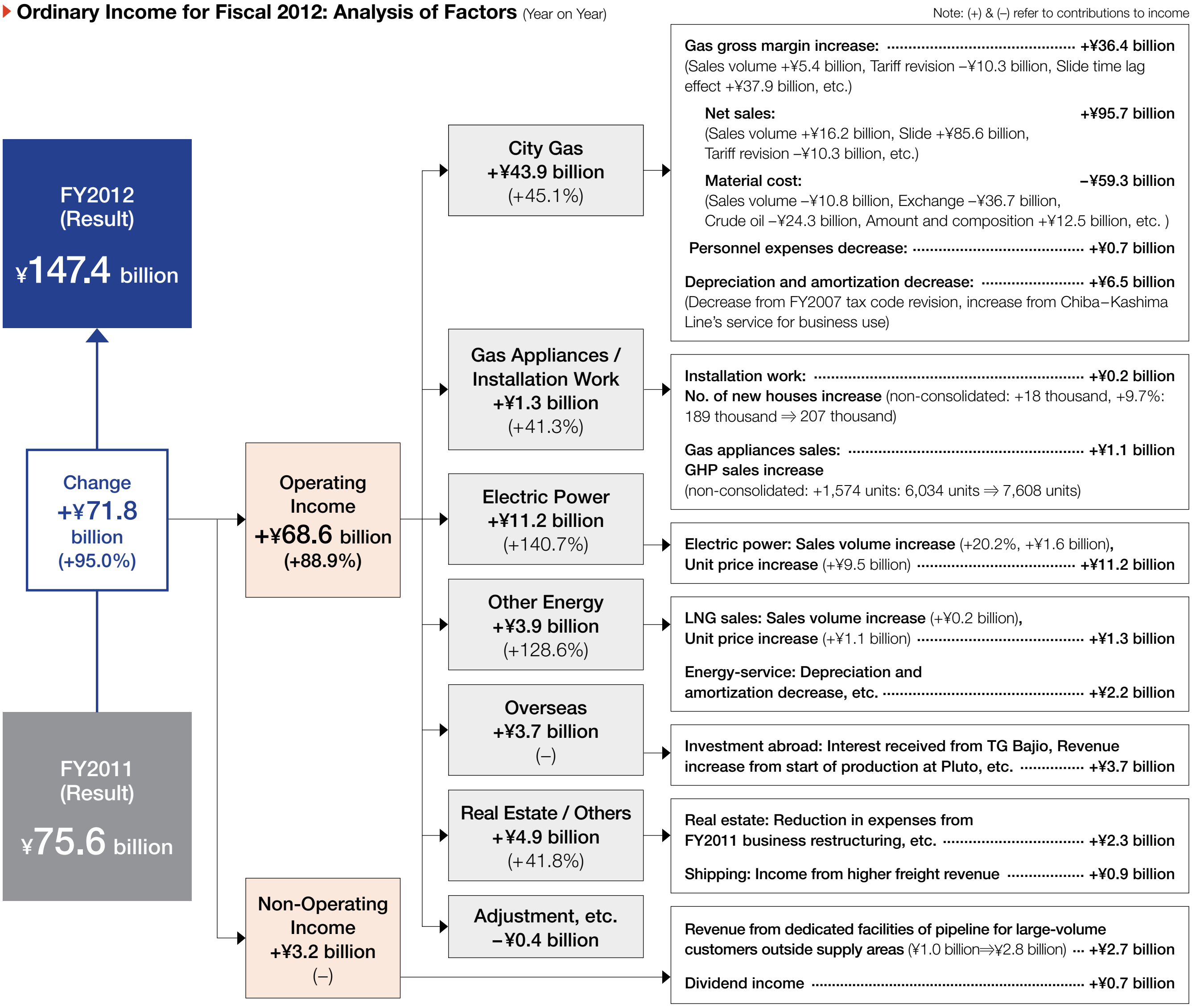
Under-recovery due to the slide time lag effect from changes in material costs improved ¥37.9 billion from ¥48.4 billion in the previous fiscal year, to ¥10.5 billion in fiscal 2012. The burden of amortization of actuarial differences rose from ¥3.1 billion in the previous fiscal year to ¥4.4 billion in fiscal 2012, decreasing operating income ¥1.3 billion from the previous fiscal year.

Economic Frame Years ended March 31

	JCC ($/bbl)	Exchange rate (¥/$)	Average temperature (ºC)
2013	**113.9**	**82.9**	**16.7**
2012	114.2	79.1	16.4

Ordinary Income for Fiscal 2012: Analysis of Factors (Year on Year)

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



Income by Segment

Operating income in the city gas segment increased ¥43.9 billion, or 45.1%, primarily due to the previously mentioned improvement of ¥37.9 billion that resulted from the slide time lag effect. This rise offset a ¥10.3 billion decrease stemming from price reductions following tariff revisions for small-volume customers instituted in March 2012.

In the gas appliances and installation work segment, a rise in sales of gas heat pump air conditioning systems resulted in a ¥1.3 billion, or 41.3%, year-on-year increase in operating income.

The electric power business of the other energy segment experienced a substantial 20.2% increase in electricity sales volumes and sales prices rose due to the tight supply and demand situation. Accordingly, operating income grew ¥11.2 billion, or 140.7%.

Excluding this rise in the electric power business, the other energy segment saw a ¥3.9 billion, or 128.6%, rise in operating income.

In the LNG sales business, operating income was up ¥1.3 billion, or 93.6%. This increase can be attributed to higher sales volumes and the benefits of the slide time lag effect, which also contributed to performance in the city gas business.

The investment abroad business recorded a ¥3.7 billion increase in operating income, following a rise in interest income received from Tokyo Gas Bajio B.V. and income associated with the start-up of production at the Pluto LNG Project.

Excluding the investment abroad business, operating income in the real estate and other segment rose ¥4.9 billion, or 41.8%.

Business Results by Segment

Sales

¥ billion

Years ended March 31	2012	2013
City gas sales	1,306.2	**1,401.9**
Gas appliances and installation work	187.6	**206.0**
Other energies	302.5	**336.6**
(Electric power)	101.8	**127.0**
Real estate	29.6	**30.2**
Other	181.8	**195.7**
(Investment abroad)	3.2	**12.4**
Total	2,008.0	**2,170.6**
Adjustments	(253.7)	**(255.0)**
Consolidated	1,754.2	**1,915.6**

Sales figures for each segment include intersegment transactions.

Contribution to Operating Income

Years ended March 31	2012	2013	Change
City gas sales	80.0%	**74.1%**	–5.9 pts.
Gas appliances and installation work	2.6%	**2.3%**	–0.3 pts.
Other energies	9.0%	**13.6%**	+4.6 pts.
(Electric power)	6.5%	**10.0%**	+3.5 pts.
Real estate	2.7%	**2.9%**	+0.2 pts.
Other	5.7%	**7.1%**	+1.4 pts.
(Investment abroad)	—%	**1.3%**	—

Uses of Cash Flows

On a non-consolidated basis, capital expenditures by Tokyo Gas Co., Ltd., were ¥127.1 billion, whereas expenditures by consolidated subsidiaries amounted to ¥58.9 billion. As a result, total capital expenditures in fiscal 2012 rose ¥37.3 billion year on year, or 25.5%, to ¥183.7 billion, after elimination or corporate. Expenditures by Tokyo Gas included ¥87.5 billion for installing trunk lines and other distribution facilities and ¥22.8 billion for constructing production facilities, such as the Hitachi LNG Terminal. Roughly ¥27.2 billion of capital expenditures by subsidiaries was directed toward upstream areas. At the same time, we conducted investments and financing in overseas businesses totaling ¥15.0 billion.

Capital expenditures exceeded those in fiscal 2011 as we progressively invested in infrastructure development centered on the northern Kanto region while conducting investments overseas targeting the enhancement of the LNG value chain. Both of these areas represent goals defined in "The Tokyo Gas Group's Vision for Energy and the Future~Challenge 2020 Vision~."

These expenditures exceeded the scope of on-hand capital, and funds were procured to cover deficiencies. As a result, interest-bearing debt rose to ¥642.5 billion as of March 31, 2013, up ¥16.7 billion from ¥625.8 billion a year earlier.

Key Management Indicators

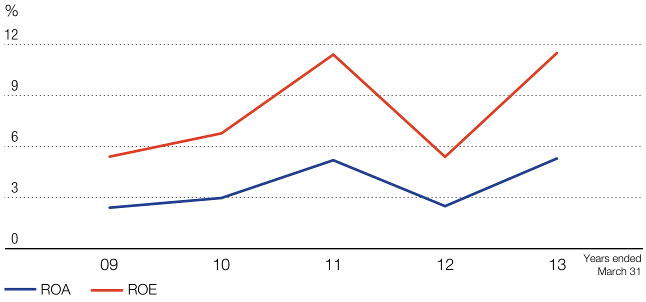
Return on assets (ROA) showed a substantial improvement from fiscal 2011's 2.5%, rising to 5.3% in fiscal 2012. Return on equity (ROE) similarly improved greatly, from 5.4% in fiscal 2011 to 11.5% in fiscal 2012. These improvements were primarily the product of higher profit margins.

The weighted average cost of capital (WACC) was relatively unchanged in fiscal 2012 at 3.2%, compared with 3.1% in fiscal 2011. Meanwhile, Tokyo Gas Economic Profit (TEP: Net operating profit after tax prior to interest payments minus the cost of capital) jumped from ¥9.1 billion to ¥59.8 billion. This is because increases in net operating profit after tax prior to interest payments (NOPAT) significantly outweighed the slight rise in invested capital.

The debt-to-equity ratio (D/E ratio) decreased slightly from 0.75 in fiscal 2011 to 0.69 in fiscal 2012. As such, it is once again possible for the Company to increase investment amounts to a certain degree while still meeting the goal of 0.8 for this ratio described in the "Challenge 2020 Vision."

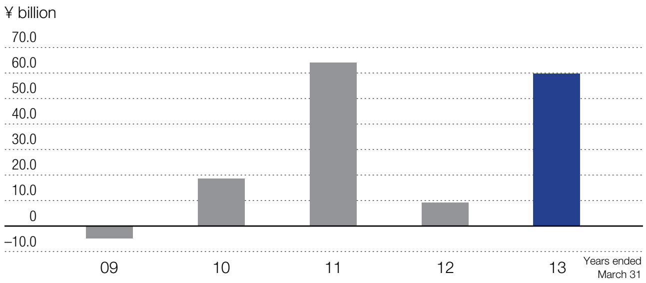
In fiscal 2012, total dividend payments amounted to ¥25.7 billion. When combined with the acquisition of ¥36.0 billion worth of treasury stock in fiscal 2013, this makes for total shareholder returns of ¥61.7 billion. This represents 60.7% of the consolidated net income of ¥101.6 billion recorded in fiscal 2012, allowing us to meet our goal of approximately 60% for the total payout ratio, as we have previously.

ROA and ROE



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

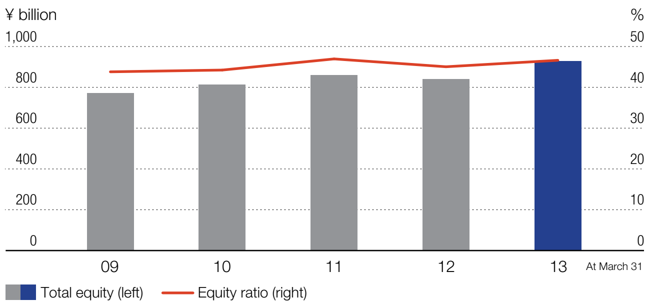


TEP = NOPAT – Cost of capital (Invested capital x WACC)
NOPAT: Net operating profit after tax prior to interest payments

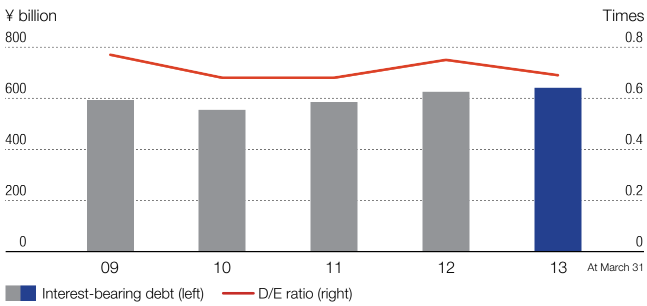
Credit Ratings As of March 31, 2013

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



Interest-Bearing Debt and D/E Ratio



Shareholder Returns

In accordance with its financial policies, the Company targets a total payout ratio of approximately 60% each year up until fiscal 2020, which is to be accomplished by issuing shareholder returns through dividend payments and treasury stock acquisitions.

In fiscal 2012, one part of these efforts included raising dividend payments by ¥1 per share. This was done in consideration of income and expenditure trends as well as our desire to return the successes of management to our shareholders.

Going forward, we will refrain from lowering dividend payments while gradually increasing payments in line with income levels.

Forecasts for Fiscal 2013

Gas Sales Volume

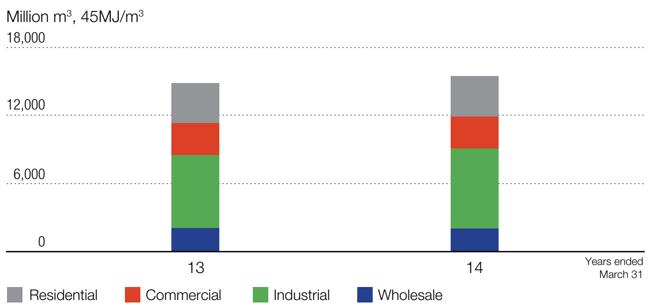
In fiscal 2013, consolidated gas sales volume is forecast to decline 609 million m^3, or 4.0%, to 14,781 million m^3. The primary factor behind this decline will be a decrease in gas sales volume of 969 million m^3 associated with the introduction of the tolling scheme at Ohgishima Power. When the tolling portion is included, gas sales volume is expected to total 16,273 million m^3, representing an increase of 287 million m^3, or 1.8%, from fiscal 2012's 15,986 million m^3. Sales volume forecasts by sector are described below.

In the residential sector, projected sales volume declines include 32 million m^3 resulting from temperature impacts and 37 million m^3 stemming from lower usage volume per customer household. However, an increase in the number of customer households in line with the solid pace of new installations will result in a 42 million m^3 increase in sales volumes. Regardless, overall gas sales volume will decrease 25 million m^3, or 0.7%.

We are forecasting a 37 million m^3, or 1.3%, year-on-year decline in the commercial sector, which will primarily result from temperature impacts.

In the industrial sector, we are expecting a 969 million m^3 decline accompanying the shift to tolling, but we are also forecasting a 309 million m^3 increase due to efforts to cultivate new demand in the Kashima area, making for an overall decrease of 619 million m^3, or 8.8%.

Consolidated Gas Sales Volume Forecasts by Sector



Income and Expenses

Our economic frame for calculating our forecasts assumes a crude oil price of $110 per barrel and an exchange rate of ¥100 to US$1.

Our full-year forecasts for fiscal 2013 project higher net sales and ordinary income, which will be largely due to improvements resulting from the slide time lag effect.

For net sales, we are forecasting a year-on-year increase of ¥200.4 billion, or 10.5%, to ¥2,116.0 billion. This includes an increase of ¥117.8 billion, or 8.4%, in city gas sales as a result of a rise in unit prices under the gas rate adjustment system stemming from higher crude oil prices. It also includes an increase of ¥19.4 billion, or 20.0%, in LNG sales.

Operating expenses are expected to rise ¥185.0 billion, or 10.5%, to ¥1,955.0 billion, in conjunction with an increase in material prices associated with yen depreciation.

As a result, we project operating income will increase ¥15.4 billion, or 10.6%, to ¥161.0 billion, and ordinary income will grow ¥7.6 billion, or 5.1%, to ¥155.0 billion.

However, net income will decrease ¥0.6 billion, or 0.7%, to ¥101.0 billion, due to the absence of extraordinary income of ¥3.4 billion associated with sale of stock in GAS MALAYSIA during fiscal 2012, etc.

Economic Frame Years ended March 31

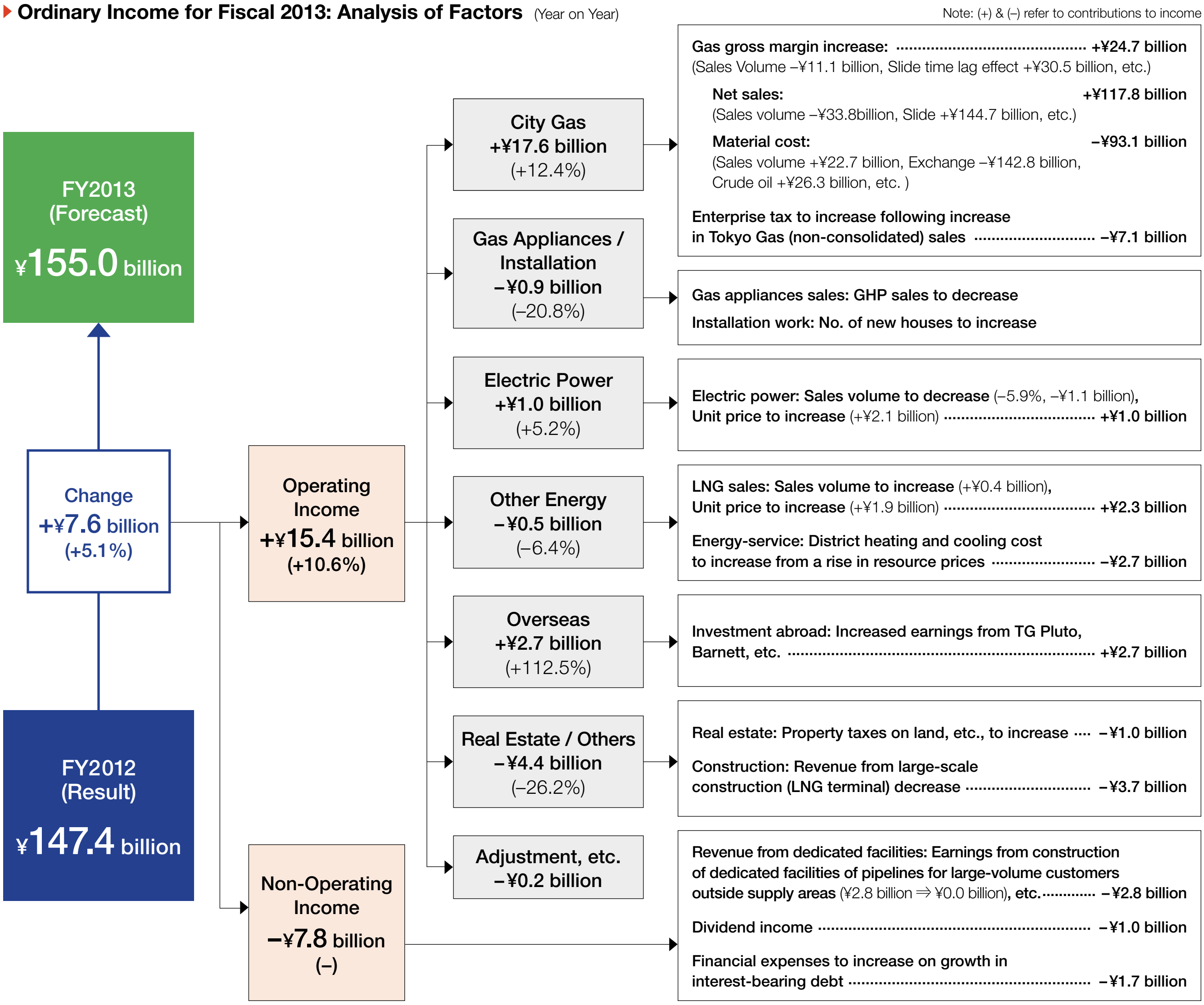
	JCC ($/bbl)	Exchange rate (¥/$)	Average temperature (ºC)
2014	**110.0**	**100.0**	**16.5**
2013	113.9	82.9	16.7

Sensitivity to Price and Exchange Rate Fluctuations

An increase of US$1 to the barrel in the Japan Customs-cleared Crude price (JCC) is estimated to result in a decrease of ¥0.7 billion in gross profit on gas. Similarly, the impact of depreciation of ¥1 to US$1is estimated to be a ¥1.4 billion reduction in gross profit.

Ordinary Income for Fiscal 2013: Analysis of Factors (Year on Year)

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



Operating Income by Segment

In the city gas segment, we are forecasting a ¥17.6 billion, or 12.4%, rise in operating income. This increase will be the result of an improvement of ¥30.5 billion from the slide time lag effect, which will offset decreases of ¥11.1 billion from lower sales volume and ¥7.1 billion from an increase in enterprise tax.

While sales volume in the electric power business declined 5.9% in fiscal 2012, we expect that sales prices will be high in fiscal 2013 due to the continuation of the tight supply and demand situation for electricity. As a result, operating income is expected to increase ¥1.0 billion, or 5.2%.

In the investment abroad business, we are forecasting a ¥2.7 billion, or 112.5%, increase in operating income due to the commencement of full-scale production at the Pluto LNG Project and earnings contributions from the Barnett basin project.

Forecast by Segment

Sales

¥ billion

Years ended March 31	2013	2014
City gas sales	1,401.9	**1,519.7**
Gas appliances and installation work	206.0	**209.0**
Other energies	336.6	**337.9**
(Electric power)	127.0	**126.4**
Real estate	30.2	**28.0**
Other	195.7	**188.8**
(Investment abroad)	12.4	**22.6**
Total	2,170.6	**2,283.4**
Adjustments	(255.0)	**(167.4)**
Consolidated	1,915.6	**2,116.0**

Sales figures for each segment include intersegment transactions.

Contribution to Operating Income

Years ended March 31	2013	2014	Change
City gas sales	74.1%	**77.0%**	+2.9 pts.
Gas appliances and installation work	2.3%	**1.7%**	−0.6 pts.
Other energies	13.6%	**12.9%**	−0.7 pts.
(Electric power)	10.0%	**9.7%**	−0.3 pts.
Real estate	2.9%	**2.2%**	−0.7 pts.
Other	7.1%	**6.2%**	−0.9 pts.
(Investment abroad)	1.3%	**2.5%**	+1.2 pts.

Uses of Cash Flows

On a non-consolidated basis, capital expenditures by Tokyo Gas Co., Ltd., will be ¥146.6 billion, whereas expenditures by consolidated subsidiaries will amount to ¥114.4 billion. As a result, total capital expenditures in fiscal 2013 will increase ¥74.3 billion year on year, or 40.4%, to ¥258.0 billion, after elimination or corporate rate. Expenditures by Tokyo Gas will include ¥96.6 billion for installing trunk lines and other distribution facilities and ¥28.1 billion for constructing production facilities, such as the Hitachi LNG Terminal. Approximately ¥68.3 billion of capital expenditures by subsidiaries will be directed toward upstream areas. At the same time, we will conduct investments and financing in overseas businesses totaling ¥20.0 billion.

Continuing from fiscal 2012, investment in fiscal 2013 will be directed toward infrastructure development centered on the northern Kanto region as well as investments overseas targeting the enhancement of the LNG value chain. Both of these represent goals defined in the "Challenge 2020 Vision."

As the amount of these aggressive investments is expected to exceed the scope of on-hand capital, funds will be procured to cover deficiencies. As a result, interest-bearing debt is forecast to rise to ¥716.0 billion as of March 31, 2014, up ¥73.5 billion from ¥642.5 billion as of March 31, 2013.

Key Management Indicators

In fiscal 2013, ROA is expected to decline slightly, from fiscal 2012's 5.3% to 4.9%. Likewise, ROE will show a slight decrease, from 11.5% to 10.7%. While financial leverage and the total asset turnover ratio will not change significantly between fiscal 2012 and fiscal 2013, the ratio of net income to net sales will decline to a limited extent, resulting in declines in the abovementioned margins. The decline in the ratio of net income to net sales will be the result of the absence of the temporary increase in non-operating income (revenue from the construction of dedicated facilities of pipelines for large-volume customers outside supply areas) and extraordinary income (sales of stock in GAS MALAYSIA) recorded in fiscal 2012. The ratio of operating income to net sales, however, will be unchanged.

The WACC in fiscal 2013 will be 3.2%, the same as in fiscal 2012, and TEP will show a small decline, from ¥59.8 billion to ¥57.5 billion. This decline will be the result of an increase in capital costs associated with the rise in invested capital that will be used for aggressive capital expenditures, effectively offsetting the projected increase in NOPAT.

The D/E ratio is projected to increase marginally, from 0.69 in fiscal 2012 to 0.74 in fiscal 2013. However, we will still meet the goal of 0.8 for this ratio described in the "Challenge 2020 Vision," giving us some leeway in investment amounts.

In regard to shareholder returns, we will continue to issue stable dividend payments in fiscal 2013 while targeting a total payout ratio of approximately 60%.