

Our Fundamental Concept of Corporate Governance

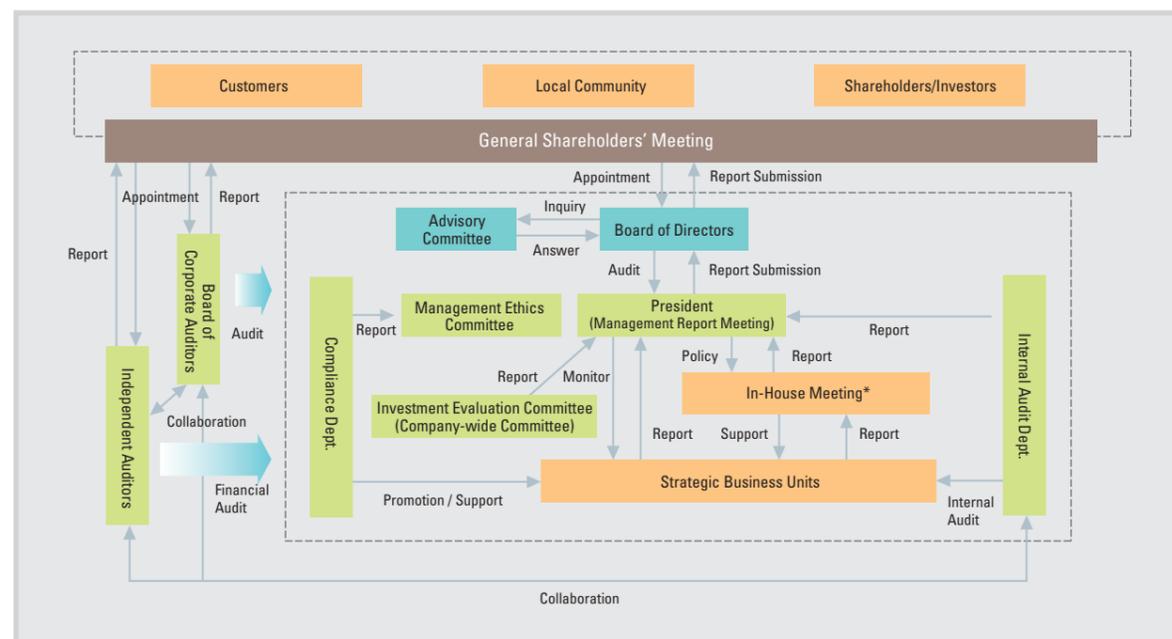
The Tokyo Gas Group aims to achieve a continuous increase in its corporate value to ensure management soundness and transparency. To this end, we are strengthening our corporate governance with clear targets.

Energy supply systems are vital to the social infrastructure. The profound awareness of our special role as a supplier of energy has been reflected in a continuing commitment to the safe, reliable supply of city gas, as well as offering fair services. We are keenly aware of the need to give priority to shareholder interests, in keeping with our role as a joint stock company. This renewed awareness reflects increased inter-company competition following the deregulation of the energy sector, as well as the globalization of the capital market.

Our emphasis on shareholder interests is not incompatible with the continuing fulfillment of our responsibilities as a utility company. In recent years, public interest in corporate social responsibility has become so intense that the economic and social values of a company are now inextricably linked. By responding to the expectations of our customers, employees, business partners, and local communities, ultimately we also fulfill the needs of our shareholders. Our corporate value is the overall sum of the value that we provide to all stakeholders.

For Tokyo Gas, the purpose of corporate governance is the continual refinement of internal systems designed to maintain continual growth in corporate value by monitoring corporate activities so that any issues can be detected and remedied.

Corporate Governance Structure



* Safety Committee, Customer Satisfaction Promotion Committee, CSR Promotion Meeting, Environmental Meeting and others.

Management Structure

Management Structure

There is frequent debate over the relative merits of the committee-based system and auditor system as suitable structures to reinforce corporate governance. Tokyo Gas currently adopts the auditor system, since we see this as the optimal structure for attaining our corporate governance objectives, which are to maintain sound and transparent management while achieving sustainable growth in corporate value. To maximize the advantages of our status as a company with auditors, we have appointed two corporate auditors and three outside auditors. Their role is to audit the legality and appropriateness of our business operations from a position of complete independence from the Board of Directors. The auditors actively make recommendations at management and directors' meetings. They also work to enhance the effectiveness of monitoring.

Tokyo Gas has adopted an executive officer system. This system separates management and executive functions while also providing clearly defined accountability. By delegating substantial authority to the executive officers, the system supports speedy execution regarding operational matters.

Currently (as of July 1, 2007), there are 22 executive officers. To ensure clear accountability, executive officers are appointed for terms of one year. All officers at corporate officer level and above, as well as two corporate auditors, participate in weekly management meetings. After in-depth discussion, the President makes decisions on important management issues at these meetings.

When the executive officer system was introduced, we reduced widely the number of directors and shortened the term of office for directors to one year. The purpose of these moves was to speed up decision-making and establish clear lines of management accountability. In addition to 12 directors we invited three outside directors, all of whom have extensive expert knowledge and are able to monitor the appropriateness of management activities flexibly and

objectively. We believe that we have created a structure that supports prompt, effective decision-making while maintaining proper management transparency.

Reforming the Remuneration System

In 2005, Tokyo Gas restructured its officer remuneration system and published details of the new system with the aim of further enhancing management objectivity and transparency as well as clarifying the management responsibility toward business performance. The main features of the new system are as follows:

1. Abolition of Retirement Benefits

Retirement benefits for directors have been abolished. Yearly retirement benefits have been integrated into monthly payments to officers.

2. Introduction of a Performance-linked Remuneration Scheme

Performance-linked remuneration scheme that reflects the company-wide and divisional performance of the previous term, has been introduced for the monthly payment of Directors who double as executive officers.

3. Share Purchasing Guidelines

All Directors, excluding outside directors, will acquire Tokyo Gas shares each month through the Employee Shareholding Association. The amount purchased is determined according to our newly introduced share purchasing guidelines. The ownership of those shares will be retained during their terms of office.

Prior to implementing the reform of the officer remuneration scheme, we have established an advisory committee to discuss matters relating to the officer remuneration system. In February 2005, this committee is comprised of Outside Directors and Outside Corporate Auditors, Chairman, Vice Chairman and President to makes an important contribution to the soundness and transparency of board activities.

Compensation for Directors and Corporate Auditors (Fiscal 2006)

	Millions of yen	Thousands of U.S. \$
Compensation for 12 directors	545	4,619
Compensation for 5 corporate auditors	103	873
Total	648	5,492

Compensation for independent public accountant (Fiscal 2006)

	Millions of yen	Thousands of U.S. \$
Compensation for auditing services	174	1,475
Compensation for other services	81	686
Total	255	2,161