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Reform of the System of Officers' Remuneration

Tokyo Gas Co., Ltd.

Tokyo Gas Co., Ltd. (President: Norio Ichino) has formulated its Basic Policy on Officers' Remuneration, and based upon this policy it has revised its system for the compensation of officers. Key elements of this revision are the abolition of retirement benefits and the introduction of a performance-linked remuneration scheme.

Tokyo Gas has been taking steps to strengthen corporate governance by such means as the reduction of the number of directors, the introduction of a system of executive officers, the appointment of outside directors, and the introduction of a system of one-year terms for officers. This reform is being implemented as a part of this process, for the purposes of clarifying management responsibilities with respect to company performance and of ensuring objectivity and transparency in the remuneration of officers.

Basic Policy on Offices' Remuneration

(1) Officers' roles and remuneration

The role expected of officers is to increase corporate value both in the short term and in the medium to long term. Officers' remuneration should function effectively as an incentive for achieving that.

(2) Levels of officers' remuneration

The level of officers' remuneration should correspond with the roles, responsibilities and performance of those officers.

(3) Introduction of system of performance-linked remuneration

In order to give strong motivation for the execution of management strategies and to ensure that business performance in each period is reflected clearly in remuneration, a system of performance-linked remuneration is to be introduced.

(4) Establishment of guideline for share purchases

A guideline for share purchases is to be laid down in order to reflect the viewpoint of shareholders in the management of the company and to encourage efforts to increase shareholder value over the long term.

(5) Assurance of objectivity and transparency

In order to ensure objectivity and transparency with regard to officers' remuneration, the company is to establish an advisory body on such matters as the system of remuneration, to be composed of outside directors, outside auditors, and the company's directors.

Specific Action to Be Taken

(1) Revision of the system of officers' remuneration

1. Abolition of retirement benefits

As of the day of the general meeting of shareholders scheduled to be held in June 2005, the system of directors' retirement benefits will be abolished and be consolidated into the payment of monthly remuneration. The retirement benefits accrued up to the date of abolition will be paid at the time of the retirement of the directors concerned.

2. Introduction of system of performance-linked remuneration

With regard to the monthly remuneration of directors who work concurrently as executive officers, performance-linked remuneration that reflects the performance of the company and of their divisions in the previous fiscal year is to be introduced.

3. Institution of guideline for share purchases

Based on the newly established guideline, directors (excluding outside directors) are to purchase company shares on a monthly basis through an officers' shareholding association. These shares are to be held during their terms of office.

(2) Abolition of retirement benefits for corporate auditors

As of the day of the general meeting of shareholders scheduled to be held in June 2005, the system of corporate auditors' retirement benefits will be abolished and be consolidated into the payment of monthly remuneration. The retirement benefits accrued up to the date of abolition will be paid at the time of the retirement of the corporate auditors concerned.

(3) Establishment of advisory committee

As an advisory body for deliberating upon matters such as the system of officers' remuneration, an advisory committee has been established. Meetings of this committee, which is composed of representatives of the outside officers and outside auditors, chairman, vice chairman, and president, are held on the request of the board of directors.

Timing of Implementation

The company will implement the transfer to the new system of officers' remuneration as of the close of the ordinary general meeting of shareholders scheduled to be held in June this year. The advisory committee referred to above was established in February this year.