

## To Our Shareholders



**Left:** Kunio Anzai  
Chairman

**Right:** Hideharu Uehara  
President

### Confronting Growing Liberalization

Since its establishment in 1885, Tokyo Gas has been supplying gas, mainly to the greater Tokyo marketplace. Today, we are Japan's largest, and one of the world's leading, gas companies. In the fiscal year ended March 31, 2002, we sold more than 9.2 billion m<sup>3</sup> of gas to over 9 million customers. We have also been at the forefront of efforts to encourage the use of natural gas and in 1969, we were the first Japanese company to import LNG (Liquefied Natural Gas), a relatively environmentally friendly energy resource. The government's Long-term Energy Demand and Supply Outlook for Japan projects that natural gas will account for an increasing proportion of the country's primary energy supply. Together, these trends suggest a greater role for Tokyo Gas in promoting the increasing use of natural gas.

That said, competition has been growing stiffer in the energy sector in recent years, fueled by deregulation and the foray of gas and electricity companies into each other's domains. Heated debate is raging at the government's study group, consisting of businesses and other entities in the gas and electricity industries, as well as experts and consumer groups, about the direction further deregulation should take. A road map should be drawn up by the end of this year.

In 1999, when last deregulation took place in the gas industry, we announced a 5-year medium-term plan covering the period from April 1, 2000 through March 31, 2005 to ensure that we remain a winner and to drive growth. We set free cash flow and ROA targets averaged over five years. By the end of March 31, 2003, we expect to achieve our goals two years ahead of schedule thanks to efforts to expand sales volumes and improve efficiency in our operations.

This has prompted us to announce a new Tokyo Gas Group medium-term plan this fall for the period from April 1, 2003 through March 31, 2008. This plan is premised on the expected effects that further deregulation and liberalization will have on our operations.

The new plan aims to generate free cash flows in excess of those targeted under the current plan. At the same time, our plans call for restructuring of the Tokyo Gas Group through the integration of member companies and withdrawal from non-core, peripheral businesses, as well as the rebuilding of business models. These actions target an increase in the corporate value of the Group as a whole.

Tokyo Gas welcomes deregulation, viewing it as an enormous business opportunity. We aim to grow and evolve as an "Energy Frontier Company," supplying electricity, heat and energy services as well as gas, with natural gas as the core energy source. As we do so, we ask for the continued support and understanding of shareholders and other investors.

July 2002

Kunio Anzai  
Chairman

Hideharu Uehara  
President