Fulfilling our Commitment to Corporate Social Responsibility The Tokyo Gas Group has an important social mission as a corporate group dedicated to the vital task of supplying the energy needed for industrial activities as well as for day-to-day living. We must also remain acutely focused on the need to meet the expectations of our shareholders and investors by continuing to achieve growth. We are working actively to enhance the value of the Tokyo Gas Group for all stakeholders, including customers, shareholders, investors and society, by fulfilling CSR activities, including a strengthening of our corporate governance and promotion of compliance.









Governance

Corporate Governance Structure

Our Fundamental Concept of Corporate Governance

The Tokyo Gas Group aims to achieve a continuous increase in corporate value and ensure management soundness and transparency. To this end, we are strengthening our corporate governance in accordance 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, and to fairness in the provision of our 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 an 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, communities and stakeholders, 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.

Initiatives for Strengthening Corporate Governance

Progress toward Liberalization				
corporate value	Management strategy	Announced in October 1999 Medium-term management plan for 2000–2004: "New Utility Company"	Announced in October 2002 Medium-term management plan for 2003–2007: "Frontier 2007"	Announced in January 2006 Medium-term management plan for 2006–2010: "Creation and Cultivation of New Natural Gas Markets"
Continuous growth in co	Organizational Structure		livision system – ement structure capable ickly to market trends	April 2004- Strategic business unit system • Building of group management system • Maximization of group corporate value
	Management Structure	July 1998- Reinforcement of Management Meeting (abolition of Senior Management Committee and Senior Management Liaison Committee)	June 2002- Management structure reform • Reduction of regular number of di from 30 to 15 • Appointment of outside directors • Introduction of executive officer sy • One-year term of office	Abolition of retirement benefit system, and other measures
transparent management	Internal Governance	June 2002- Reinforcement of internal audit structure	November 2002- Reinforcement of compliance system • Establishment of Management Ethics Committee • Establishment of Compliance Department	April 2004- Reinforcement of risk management system
Ensuring sound,	Information Disclosure	Establishment of Involvement of Star	ne 2001- rt of overseas activities - Earlier publication of business results - Introduction of quarterly disclosur	accounting for all CSR Report companies



Management Structure

Functions of the Executive Officer System

Growing awareness of the importance of corporate governance has prompted many companies to modify their management systems. Since 2002, Tokyo Gas has implemented a dynamic reform program designed to build an efficient and flexible management structure. In June 2002, we became the first company in the city gas sector to introduce an executive officer system based on a clear division between management and executive functions. Responsibilities are also clearly defined, and by delegating substantial authority to the executive officers we have created a structure that allows speedy executive action on operational issues.

23 executive officers, including the President and division chief executives, have

been appointed as executive officers (as of July 1, 2006). To ensure accountability for executive actions, all have been appointed for a term of one year. All officers at the executive officer level and above, with the two corporate auditors, gather to discuss important management issues at weekly management meetings. After in-depth discussion, the President makes immediate decisions. These meetings provide opportunities for exchanging views among divisional chiefs, who have executive authority for their respective operations. Because decisions are made on the spot, these meetings tend to be lively and energetic.

Directors and Corporate Auditors

When Tokyo Gas adopted its executive officer system, it also halved the number of directors from 30 to 15 to speed up decision-making. In addition to curtailing the size of the Board, we also began to appoint outside directors to enhance management transparency and strengthen our ability to supervise operations. As of July 2006, the Board consists of 12 directors, including three outside directors. The presence of outside directors with specialized expertise and diverse backgrounds and ensures that there is always active debate at board meetings.

Management actions are also checked by two corporate auditors and three outside auditors. These five auditors conduct stringent internal audits.

Apart from the Chairman and Vice Chairman, vice chairman and senior corporate advisor, the other six directors appointed from within Tokyo Gas are also involved in operations at the executive level. In addition to the directors, board meetings are attended by the internal and outside auditors.

Throughout the business world, there has been considerable debate over the relative merits of the committee system and the auditor system as suitable structures for reinforcing corporate governance. Tokyo Gas currently operates as a company with auditors, as we believe that this is the optimal method for attaining our corporate governance objectives, which are to ensure sound, transparent governance while achieving sustainable growth in corporate value. While our auditors do not have voting rights, they can speak freely and raise questions about management decisions. They are able to view our activities objectively and from a broader perspective, and their input helps to guide our decision-making in appropriate directions. We are also confident that the presence of outside directors and auditors ensures management transparency while allowing us to make good decisions promptly.

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 imprementing the reform of the officer remuneration scheme, we have estab-

lished 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.

[The Basic Policy on the Remuneration for Directors]

1. The Role of the Officers and the Remuneration

The expected role for the directors is to improve the corporate value both in a short term and in medium to long-term and the remuneration system should serve effectively as incentive to achieve this goal.

2. The Scale of the Officers Remuneration

The scale of the officers remuneration needs to commensurate with the officers role, duty and performance.

3. Introduction of a Performance-linked **Remuneration Scheme**

Performance-linked remuneration scheme purpose to provide stronger incentive to carry out the management strategy as well as having clearer linkage between the term business results and remuneration.

Compensation for Directors and Corporate Auditors (Fiscal 2005)

	Millions of yen	Thousands of U.S. \$
Compensation for 12 directors (1 resigned during the term)	450	3,846
Retirement benefits for directors	81	692
Compensation for 6 corporate auditors (2 resigned during the term)	90	769
Retirement benefits for corporate auditors	38	325
Total	659	5,632

Compensation for independent public accountant (Fiscal 2005)

	Millions of yen	Thousands of U.S. \$
Compensation for auditing services	143	1,222
Compensation for other services	6	51
Total	149	1,273

*Basic Policies on Officer Remuneration

4. Establishment of the Stock Purchase Guideline

The stock purchase guideline is set with the objectives of adopting a shareholder's viewpoint into management as well as promoting endeavors to improve the shareholder value in long term.

5. Ensuring the Objectivity and Transparency

In order to ensure objectivity and transparency of the remuneration for officers, the members of remuneration scheme advisory panel are elected from outside directors, outside auditors and the company directors.

Board of Directors and Corporate Auditors



Chairman Hideharu Uehara

Kouya Kobayashi

Vice Chairman Norio Ichino





Executive Vice President Shigero Kusano

Executive Vice President Tadaaki Maeda





Senior Corporate Advisor Kunio Anzai

Outside Director Yuzaburo Mogi

Chairman	Hideharu Uehara	Outside Director
Vice Chairman	Norio Ichino	Outside Director
President	Mitsunori Torihara	Outside Director
Executive Vice President	Shigero Kusano	
Executive Vice President	Kouya Kobayashi	Auditor
Executive Vice President	Tadaaki Maeda	Auditor
Senior Executive Officer	Tsuyoshi Okamoto	Outside Auditor
Senior Executive Officer	Masaki Sugiyama	Outside Auditor
Senior Corporate Advisor	Kunio Anzai	Outside Auditor

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President Mitsunori Torihara





Senior Executive Office Tsuyoshi Okamoto



Senior Executive Officer Masaki Sugiyama



Outside Director Yuri Konno



Outside Director Kazumoto Yamamoto

Yuzaburo Mogi	(Chairman & CEO, Kikkoman Corporation)
Yuri Konno	(President & CEO, Dial Service Co., Ltd.)
Kazumoto Yamamoto	(Advisor, Asahi Kasei Corporation)

Hiroshi Hirai	
Tsunenori Tokumoto	
Masayoshi Hanabusa	(Chairman, Board of Directors, Hitachi Capital Corporation)
Toshimitsu Shimizu	(President, Yokohama Industrial Development Corporation)
Shoji Mori	(Vice Chairman, Institute for International Economic Studies)

Internal Governance

Establishing Risk Management Systems

Under our internal governance system, management supervision is mainly the responsibility of the Board of Directors, while executive officers are responsible for operational management, policy management and budget management. The performance of directors is also audited by two internal and three outside auditors. Additionally, we have created an Internal Audit Department, which reports directly to the President, to administer internal audits based on the risk approach.

The Internal Audit Department consists of four groups with responsibility for financial audits, operational audits, information system audits and compliance audits. In 2002 the number of staff was doubled from 18 to 36, and in 2006 the number was further increased to 40. Internal audits cover Tokyo Gas Co., Ltd. and all consolidated subsidiaries. Each business unit is objectively audited to ensure that it is operating appropriately, efficiently and in accordance with business policies and plans, and in compliance with laws and regulations. Audit results are reported to the President, the Management Meeting and the auditors, and also to the divisional chief executives responsible for business units, and to the presidents and auditors of group companies.

We are also developing a separate risk management system, and in fiscal 2003 we established an integrated group-level risk management system. This system includes risk management regulations, and there are documented rules concerning the principal management risks that require management intervention. A section for promoting risk management has been established within the Audit Department to coordinate risk management activities. In 2003, the section undertook research targeting divisions and group companies. The aim of this work was to identify shifts in the Group's risk profile, and to monitor and assess steps taken to counteract risk factors. Principal management risks were reported to the Management Meeting and the Board of Directors. This list of significant risks is updated each year on the basis of new surveys conducted at regular intervals.

Promoting Compliance

The value of our brand "security, safety and reliability" which is essential to the competitiveness of the Tokyo Gas Group, depends on business activities continuing to comply with laws and regulations in accordance with social ethics. That is why we are working to strengthen our compliance structure by "fostering compliance awareness," "engaging both policy in the whole Group and practice in each work place" and "establishing a PDCA cycle for compliance."

Organizational measures designed to promote compliance include the establishment of the Management Ethics Committee in 2002. Chaired by the President, this committee to formulate basic compliance policies and assess the state of compliance with laws and regulations. We have also established the Compliance Department, a specialized organization that conducts a variety of activities, including the development of compliance promotion systems and behavior standards, training and education, the reduction of compliance risk, the provision of consultation, and the distribution of information within and beyond the Tokyo Gas Group. Compliance committees have also been established within individual business divisions and strategic units to create a mechanism that voluntarily and continuously promotes compliance activities according to the basic policy.

In response to the compliance risks, we try to execute effective self-purification as a company by discovering and solving problems at an early stage through operating internal and external counselling contracts appropriately. In addition, we conduct annual surveys on compliance awareness to reflect the results in the initiatives of the following years. We also reduce the risks steadily by implementing compliance audits conducted by the ad-hoc organization under the Internal Audit Department and through its follow-up activities.

Compliance Structure



Disclosure Policy

Together with the establishment of risk management systems and the improvement of compliance, information disclosure plays an essential role in a company's efforts to ensure management soundness and transparency and to earn the support and trust of stakeholders, including shareholders and investors.

There is inevitably a gap between corporate value viewed by a company's management and the company's evaluation by the market. This gap has tended to widen in recent years because of the presence of a more diverse range of investors, including foreign investors and individual investors, in the Japanese stock market. We believe that the purpose of IR activities is to close this gap between the market value and the real value of a company by actively disclosing information.

The Tokyo Gas Group has long had a policy of setting short- and medium-term management goals and disclosing all specific management strategies and action plans used to achieve those goals. We also actively publish information about our progress and achievements. The Tokyo Gas Group believes that disclosure should not be a one-way process, and we actively foster in-depth, two-way communication with shareholders and investors by holding briefings, seminars and other events. We have also developed and are

continually improving our IR tools, which include annual reports, investor guides, IR websites and the Tokyo Gas newsletter to shareholders.

Shareholder/Investor M

Financial meetings and others	6
Small meetings: Individual investors	275
(Visiting overseas investors)	(99)
Facility tours for investors (Individual)	3
(Institutional)	3
Large meetings: Individual investors	3

Principal Management Risks	
Disaster and accident risks	Accidents leading to the disruption of production and supply, natural dis- asters, disruptions to raw material procurement
Market risks	Market price fluctuations affecting real estate and financial assets, etc., weather fluctuations, etc.
Business strategy risks	Risks to existing businesses (increased competition, declines in existing demand, changes to laws, regulations and systems), inappropriate action on product recalls, ROI risks
Information risks	Information leaks, failures or malfunctions in backbone systems, loss of telephone services to call centers
Social responsibility risks and other risk	Environmental risks, compliance risks, risks associated with corporate responsibility and customer service

*Please refer to P42-43.

One indicator of the importance that the Tokyo Gas Group places on IR activities is the active involvement of top management. Our senior executives have attended IR meetings with investors and analysts in Japan since July 1999, and overseas, since June 2001.

Currently, members of the top management team conduct IR road shows in Japan and overseas twice each year. They also attend many meetings and make themselves available for numerous individual interviews.

Group Management Structure

The Tokyo Gas Group currently consists of Tokyo Gas Co., Ltd. and 54 subsidiaries and 1 affiliated companies. Traditionally, the Tokyo Gas approach to group management allowed individual Group companies to develop their business activities independently, and each company was expected to be self-sufficient and self-driven. However, with the deregulation of the energy sector, Tokyo Gas now faces escalating competition from within and outside of the

Group Management Structure

industry. Management believes that to survive and succeed in this harsh competitive environment, Tokyo Gas needs to focus all of its Group resources on the same objective. In April 2004, it introduced a new group structure known as the "strategic business unit" (SBU) system.

Under this system, Tokyo Gas divisions are with Group companies as business units. Within each unit, Tokyo Gas and its Group companies work closely together in all stages

from the formulation of business strategies to the allocation of management resources and the management of operations. The aim is to improve competitiveness by maximizing Group potential. To ensure speedy and flexible decision-making and management, wide-ranging authority and responsibility have been delegated to the divisional chief executives who lead the business units



Executive Officers

President	Mitsunori Torihara	
Executive Vice President	Shigero Kusano Chief Executive, Energy Sales and Service Div.; General Manager, Volume Sales Dept. Kouya Kobayashi Chief Executive, Energy Production Div. Tadaaki Maeda Chief Executive, Strategic Planning Div. Masahiro Ishiguro Chief Executive, Corporate Service Div.	
Senior Executive Officers	Tsuyoshi Okamoto Chief Executive, Corporate Communication Div.; Compliance Dept.; Internal Audit Dept. Masaki Sugiyama Chief Executive, Pipeline Network Div.; General Manager Toshio Tezuka Chief Executive, Regional Development Div. Shigeru Muraki Chief Executive, Technology Development Div. Seiichi Nakanishi Chief Executive, Residential Sales Div. President of Gastar Co., Ltd. Tadashi Kaburagi Chief Executive, Information Technology Div. Toshiyuki Kanisawa Chief Executive, Residential Sales Div. Toshiyuki Kanisawa Chief Executive, Residential Sales Div.	
	Tsutomu Oya Chief Executive, Energy Resources Div.	

Norikazu Hoshino Deputy Chief Executive, Corporate Service Div. General Manager, Purchasing Dept. Kunihiro Mori Assistant to Chief Executive, Corporate Communication Div. Dispatched to the Japan Gas Association
Yasuhiro Hiruma General Manager, Corporate Communications Dept., Corporate Communications Div.
Mikio Itazawa General Manager, Pipeline Dept., Pipeline Network Div.
Michiaki Hirose General Manager, Corporate Planning Dept., Strategic Planning Div.
Kazuo Yoshino General Manager, Finance & Managerial Accounting Dept., Strategic Planning Div.
Hisao Watanabe General Manager, Technology Planning Dept., Technology Development Div.
Akio Maekawa Coordinator, Energy Sales and Service Div.
Manabu Fukumoto General Manager, General Administration Dept., Corporate Communications Div.
Matsuhiko Hanba General Manager, Personnel Dept., Corporate Service Div.

for Environmental

Contribution to the Environment through Our Business Activities

All major companies now regard environmental preservation as an essential aspect of their corporate social responsibility, and businesses in the energy sector are seen as having a particularly important part to play. Tokyo Gas is determined to be a leader in environmental management and has based its efforts to overcome environmental problems on four basic policies. First, we will reduce the environmental load resulting from our customers' use of energy. Second, we will reduce the total environmental load resulting from our own business activities. Third, we will strengthen our environmental partnerships with regional communities and the international community. Fourth, we will promote research and development relating to environmental technologies.

Tokyo Gas is involved primarily in the city gas business. The main gas resource for city gas

Global Warming Prevention Measures

- 1. In its city gas business, the Tokyo Gas Group aims to reduce CO₂ emissions from customers' facilities by 8 million tons by fiscal 2010, by promoting the use of natural gas, and by improving the efficiency of equipment and systems used with city gas.
- 2. The Tokyo Gas Group aims to reduce unit energy consumption in its business operations by an average of at least 1% per year over the medium-term future.
- 3. From a global perspective, the Tokyo Gas Group will contribute to the prevention of global warming by identifying greenhouse gas reduction or absorption projects in other countries, and by providing technical support for those projects.



Source: IEA Natural Gas Prospects (1986), Natural Gas Prospects and Policies (1991)

is natural gas, which is the most environmentally friendly fossil fuel. When burned, natural gas produces no sulfur oxides and just 20-60% of the amounts of nitrogen oxides and carbon dioxide emitted by petroleum and coal. The supply of natural gas is the core activity of the Tokyo Gas Group, and we are extremely well positioned to contribute to protection of the global environment through our involvement in the development and management of gas supply infrastructure, the development of new uses, such as gas cogeneration systems, gas floor heating systems, residential fuel cell cogeneration systems fueled

2. Waste paper (paper recycling) Tokyo Gas will increase the recycling ratio for waste paper from its offices to at least 85% by fiscal 2010. The amount of copier paper used will be reduced to

by fiscal 2010.

1. Industrial waste field

arate targets.

3. Excavation spoil

Results for Fiscal 2005 and Targets for Fiscal 2010

		Result for FY2005	Target for FY2010
Reduction of CO ₂ emissions from customers' facilities		6.22 million tons*	8 million tons
Unit energy use in gas production facilities (Per unit of gas production)		4.5 % reduction*	1 % reduction
Unit energy use in district coo	ling/heating systems (Per heat sales volume unit)	0.7 % reduction	1 % reduction
👶 Unit energy use in Tokyo Gas	business offices (Per city gas sales volume unit)	6.0 % reduction*	1 % reduction
Industrial waste (manufacturi	ng plants)	Zero emission status at 5 sites	Zero emission status at all sites
Recycling of industrial waste	(except manufacturing plants)	93 %	91 % or more
Recycling of waste paper		84.8 %	85 % or more
Sheets of copy paper used per	person per year	8,000	5,000
Excavation spoil ratio		18%	15 %
Green procurement ratio		58 %	70 %



Resource Recycling Promotion Guidelin

- There are major differences in the ways in which industrial waste is produced in manufacturing plants (production sites) and through other activities, such as construction. These categories will therefore have sep-
- Tokyo Gas will achieve zero emission status at all manufacturing plants by fiscal 2010. Tokyo Gas will increase its recycling ratio for other
- waste, including construction waste, to at least 91%
- 5,000 sheets per person per year by fiscal 2010.
- The amount of excavation spoil from road excavations ordered by Tokyo Gas will be reduced to 15% by fiscal 2010, through volume reductions, reuse and recycling.

by natural gas, and natural gas vehicles. These technologies are all helping to prevent global warming and atmospheric pollution.

Tokyo Gas has compiled its own environmental protection guidelines designed to ensure that the advantages of its city gas business are applied directly to environmental protection. These guidelines include a specific numerical target, which call for a reduction in carbon dioxide emissions resulting from gas use by Tokyo Gas customers and by 8 million tons until fiscal 2010.

Green Purchasing Guidelines

- 1. The green purchasing ratio for items purchased from electronic catalogs will be increased to at least 70% by fiscal 2010.
- 2. Tokyo Gas will encourage all group companies included in the consolidated accounts to introduce the electronic catalog purchasing system and implement green purchasing systems by 2010.
- 3 Tokyo Gas Group will promote green purchasing within the Tokyo Gas Group in accordance with the green purchasing promotion guidelines.



Eco-cooking Instructor-training Seminar



Residential Fuel Cell Cogeneration System LIFUEL

Building Environmental Management Systems

As part of its own environmental conservation efforts, Tokyo Gas obtained ISO 14001 certification for all of its operations and sites in March 2005. This process has resulted in the establishment of corporate environmental management systems (EMS) that conform to the international standard for environmental management systems. Starting in fiscal 2005, Tokyo Gas is now helping its consolidated Group companies to implement EMS and obtain ISO certification. We have also established the "Chairman's Prize of the Environment," which is awarded in recognition of forward-looking environmental protection efforts. Through these initiatives, Tokyo Gas is working to expand and enhance the efforts of the "All Tokyo Gas" companies including nonconsolidated affiliate companies that cooperate in activities to prevent and overcome environmental problems.

Tokyo Gas has also worked for many years to strengthen its environment-related partnerships through improved environmental communication. We continue to distribute information about environmentally friendly lifestyles and energy conservation through pamphlets and websites. Other activities designed to raise consumer awareness of the environment include "Eco-cooking" courses and training programs for eco-cooking instructors. We are also expanding the scope of our environmental cooperation with government agencies, other companies, NGOs and other related organizations.

As a leading company in the city gas industry, Tokyo Gas is working through its research and development activities to establish new technologies to expand the use of natural gas. Recent research projects have yielded numerous important advances, including a residential fuel cell cogeneration system, and a high-efficiency SOFC system.

Safety and Disaster **Prevention Measures**

Energy is essential for the maintenance of economic activity and living standards. As a supplier of energy, Tokyo Gas is keenly aware of its safety responsibilities and has worked throughout its history to fulfill those responsibilities.

Residential gas appliances are used by a wide range of customers. Tokyo Gas has developed enhanced safety features for these appliances, including systems to turn off the gas if the pilot light is extinguished, and temperature sensors to prevent fires. One of the organizational units established by Tokyo Gas to ensure safety is "Gas light 24," which monitors gas supply systems for leaks and other problems 24 hours a day, 365 days a year. In addition, every gas appliance used by customers is checked for safety at least once every three years.

Japan is an earthquake-prone country. Tokyo Gas has implemented multiple precautionary measures to maintain a high level of safety in the event of an earthquake. If major seismic activity is detected, microchip-controlled gas meters in customers' houses automatically shut off the supply of gas. We have also installed the Super-dense Real-time Monitoring of Earthquakes (SUPREME) system, containing seismic sensors placed at the

rate of approximately one per square kilometer which can be defined as the world's most high densely located pipeline safety system. This system is designed to stop the supply of gas through the pipeline network and to shut down transmission facilities and plants if a severe earthquake occurs.

Because city gas is part of the infrastructure needed to support daily life, the restoration of supplies after earthquakes is as important as accident-prevention and emergency response measures. Tokyo Gas has implemented a full range of countermeasures at all three levels. In addition to its emergency shutdown functions, SUPREME is also designed to gather damage data quickly, allowing us to build a detailed picture of the situation within about 20 minutes of an incident. We have also developed a range of countermeasures, including a sophisticated restoration support system to ensure that gas supplies are restored as quickly as possible after an earthquake.





SUPREME Seismic Sensors

