As a result of its environmental friendliness and stable supply environment, natural gas is increasingly used in a wide range of applications. In comparison with Europe and North America, natural gas still accounts for only a lower share of primary energy consumption in Japan. Accordingly, in the years ahead the relative growth potential of natural gas in comparison with other forms of energy is expected to be substantial. In Japan, which is dependent on imports of LNG as the resource for city gas, pipeline networks are independently installed in each area where LNG terminals are built, and city gas is produced, distributed, and sold through these systems. Pipeline networks are principally built in large urban areas with high populations, while in outlying regions, natural gas is supplied through such means as tanker trucks.

The price of LNG is significantly influenced by crude oil prices and exchange rate fluctuations. Consequently, the gas resource costs borne by city gas suppliers are substantially influenced by changes in these areas. The gas price adjustment system was introduced to promptly adjust gas rates to reflect such exogenous factors (gas resource cost fluctuations). The system is designed to increase rate transparency and to clarify the efforts of suppliers to improve management efficiency.

Under this system, the impact of fluctuations in gas resource procurement costs on the revenues and expenditures of gas companies is neutral over the medium to long term. The rate of change in gas rates is set by the Ministry of Economy, Trade and Industry based on the gas resource costs borne by city gas suppliers.

The section inside this cover provides further details and explanation of gas rates as well as an exploration of the features of the Company’s business model.
Japan’s Gas Rate System

Two Sectors of Japan’s Gas Market

Japan’s city gas market is divided into the regulated sector, comprising small-volume customers, and the deregulated sector, which is made up of large-volume customers and wholesale businesses.

In the regulated retail sector, city gas companies designated by the Minister of Economy, Trade and Industry are permitted to monopolistically supply within their supply districts. All profits, safety, and social obligations and gas-rate regulations are imposed on these companies.

The deregulated (large volume and wholesale) sector comprises customers with annual gas usage of 100,000 m³ or more. In addition, this sector includes the wholesale sector and is not subject to their supply areas. Gas rates are determined through negotiations between suppliers and customers. For large-volume customers, Tokyo Gas also utilizes a scheme to reflect gas resource costs in gas rates.

Rate Revisions

In addition to the portion that reflects changes in gas resource cost, the basic charges, etc., are subject to revision. Tokyo Gas believes that as our customers, as well as stakeholders, are impacted (differentially), the objective of timely reflection of any customers’ lower or higher rate in their supply area given the savings from increased management efficiency, we have revised rates three times over the past 10 years. The policy is to conduct rate revisions so it will have maximum effects in the company’s business environment.

Changes in the Gas Rate Adjustment System

Given the dramatic, significant fluctuations in gas resource costs in recent years, the gas rate adjustment system was revised with the objective of moderating the scale of the change in gas rates while ensuring that changes in such are proportionately affected in the rate.

As a result, a new system was introduced in May 2009. Under this system, gas rates are adjusted each month.

This change will contribute to more stable management conditions for suppliers. As noted above, gas resource costs are affected by external factors such as gas prices and exchange rates. These costs will be reflected more uniformly in gas rates, and the new system reduces the influence on profit or income results.

The Tokyo Gas Business Model

Tokyo Gas is Japan’s largest city gas supplier, with 10.51 million customers. The service area encompasses the Tokyo metropolitan area and the surrounding Kanto region, a market with huge demand and high growth potential.

As a city gas supplier, we do more than just deliver gas to customers. Our operations extend from participation in upstream LNG projects to transport by LNG tanker, conversion to city gas at LNG terminals, gas supply through pipelines, sales of gas appliances, and safety at customer sites. Our establishment of an LNG value chain from upstream businesses to downstream businesses sets us apart from other gas suppliers around the world.

LNG Value Chain of Tokyo Gas

- Participation in upstream projects, such as the Darwin, Pluto, and Gorgon projects
- LNG transportation with carriers operated by Tokyo Gas
- LNG conversion to city gas
- City gas production
- City gas distribution
- City gas retail

The Company’s Gas Sales Volume

- Residential
- Commercial and others
- Industrial city gas supply
- Electric power generation
- Energy services

With a gas sales volume of 13,942 million m³, Tokyo Gas has a share of more than 80% of the total gas sales volume for all city gas suppliers in Japan by sector, through the fiscal year ended March 2009. The residential sector accounted for the largest share of the Company’s sales volume, but thereafter, sales volume in the industrial sector exceeded the volume in the residential sector and has accounted for the largest share of the Company’s sales volume.

<table>
<thead>
<tr>
<th>Gas Usage Volume Share for the Regulated and Deregulated Sectors in Japan’s City Gas Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulated sector</td>
</tr>
<tr>
<td>Residential</td>
</tr>
<tr>
<td>37%</td>
</tr>
</tbody>
</table>

The Tokyo Gas Rate Revisions

- November 1, 2008  –1.00%
- February 15, 2001  –3.02%
- January 1, 2005  –5.18%
- February 21, 2006  –0.28%
- April 15, 2008  –1.51%
- December 10, 1999  –2.00%
Japan’s Gas Rate System

Two Sectors of Japan’s Gas Market

Japan’s city gas market is divided into the regulated sector, comprising small-volume customers, and the deregulated sector, which is made up of large-volume customers and wholesale businesses.

In the regulated local валду nal sector, city gas companies designated by the Minister of Economy, Trade and Industry are permitted monopolistic supply within their supply districts. At the same time, safety and supply obligations and gas-rate regulations are imposed on these companies. The deregulated large volume and wholesale sector comprises customers with annual gas usage of 100,000 m³ or more. These customers are allowed to freely enter the sector and are not restricted to their supply areas. Gas rates are determined through negotiations between suppliers and customers. For large-volume customers, Tokyo Gas also utilizes a scheme to reflect gas resource costs in gas rates.

Rate Revisions

In addition to the factors that reflect changes in gas resource costs, the basic factors, etc., are subject to revision. Tokyo Gas believes that our customers, as well as stakeholders, are important. It is important under the circumstances to pass on the benefits of increased management efficiency to our customers. Tokyo Gas has established a scheme to pass on the savings from increased management efficiency in the form of reduced costs. To pass on the savings in full, Tokyo Gas has introduced a scheme for the regulated gas business environment.

Changes in the Gas Rate Adjustment System

The dramatic, significant fluctuations in gas resource costs in recent years, the gas rate adjustment system was reviewed with the objective of moderating the scale of the change in gas rates while ensuring that changes in such are promptly reflected in the rates. As a result, a new system was introduced in May 2009. Under this system, the unit price is adjusted each month. This change will contribute to more stable management conditions for suppliers. In addition, the gas resource costs will be reflected more smoothly in gas rates, and the new system reduces the influence of profit on single-year results.

Gas Usage Volume Share for the Regulated and Deregulated Sectors in Japan’s City Gas Market

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average gas rate (¥/Month)</th>
<th>Upper limit (¥/Month)</th>
<th>Gas resource cost adjustment system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulated sector</td>
<td></td>
<td>86,100</td>
<td>Standard average gas resource cost (left)</td>
</tr>
<tr>
<td>Deregulated sector</td>
<td></td>
<td>6,318</td>
<td>Standard average gas resource cost (right)</td>
</tr>
</tbody>
</table>

The Tokyo Gas Business Model

Tokyo Gas is Japan’s largest city gas supplier, with 10.51 million customers. The company encompasses the Tokyo metropolitan area and the surrounding Kanto region, a market with large demand and high growth potential.

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LNG Value Chain of Tokyo Gas

- Participation in upstream projects, such as the Darwin, Pluto, and Ina projects
- LNG transportation with carriers operated by Tokyo Gas
- LNG transportation with carriers operated by other gas companies

Changes in the Gas Rate Adjustment System

Given the dramatic, significant fluctuations in gas resource costs in recent years, the gas rate adjustment system was reviewed with the objective of moderating the scale of the change in gas rates while ensuring that changes in such are promptly reflected in the rates. As a result, a new system was introduced in May 2009. Under this system, the unit price is adjusted each month. This change will contribute to more stable management conditions for suppliers. In addition, gas resource costs will be reflected more smoothly in gas rates, and the new system reduces the influence of profit on single-year results.

Comparison of Gas Rate Adjustment Systems

<table>
<thead>
<tr>
<th>Reference</th>
<th>Former System</th>
<th>New System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard average gas resource cost (left)</td>
<td>86,100 yen</td>
<td>86,100 yen</td>
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<td>Standard average gas resource cost (right)</td>
<td>6,318 yen</td>
<td>6,318 yen</td>
</tr>
</tbody>
</table>

The Company’s Gas Sales Volume

- Residential, commercial, and industrial city gas sales
- Energy services