

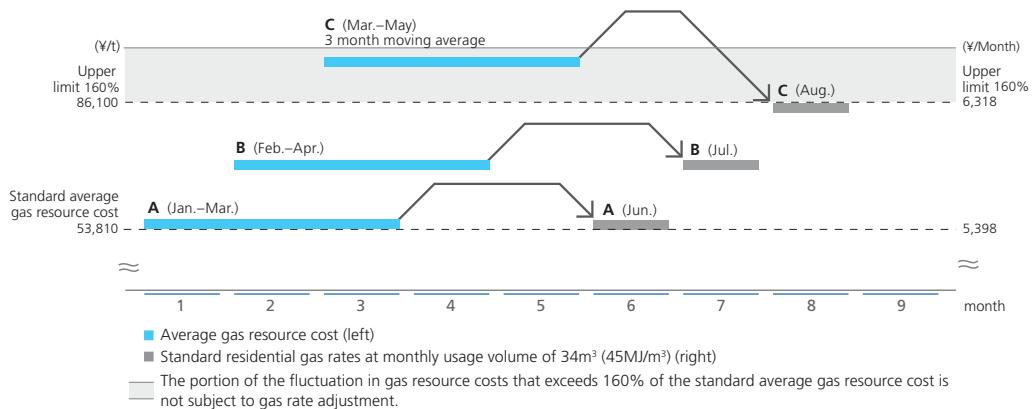
CHARACTERISTICS OF THE CITY GAS BUSINESS IN JAPAN

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.

Topics: Overview of the gas rate adjustment system

Fluctuations in gas resource costs and residential gas rates at Tokyo Gas (example)



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 rate adjustment system was introduced to promptly adjust gas rates¹ to reflect such exogenous factors (gas resource cost fluctuations). The system is intended to increase rate transparency and to clarify the efforts of suppliers to increase 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 term².

1 In general, gas rates comprise the base rate + specific unit price (unit rate x gas usage volume), and under the gas rate adjustment system, fluctuations in resource costs are reflected in the unit rate component of gas rates by adjustment amount.

2 There is a time lag between the payment for gas resources and the reflection of the gas resource costs in gas rates. Consequently, in a single fiscal year, there can be under-recovery or over-recovery in relation to gas resource costs stemming from fluctuations in crude oil prices and exchange rates.

The section inside this cover provides further details and explanation of gas rates as well as an explanation of the features of the Company's business model.

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Japan's Gas Rate System

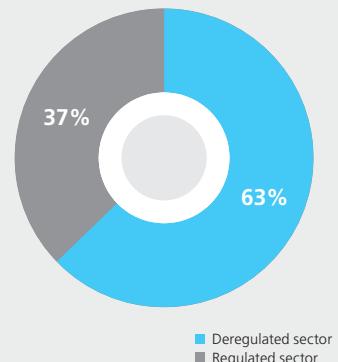
Two Sectors of Japan's Gas Market

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 (small volume) 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, supply and safety obligations and gas-rate regulations are imposed on those companies.

The deregulated (large volume and wholesale) sector comprises customers with annual gas usage of 100,000 m³ or more. Gas suppliers are allowed to freely enter this 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.

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



Rate Revisions

In addition to the portion that reflects changes in gas resource cost, the basic charge rates, etc., are also subject to revision. Tokyo Gas believes that our customers, as well as shareholders, are important stakeholders. With the objective of mainly returning to our customers some of the savings from increased management efficiency, we have revised rates five times over the past 10 years. Our policy is to conduct rate revisions so that it will have maximum effect in the competitive business environment.

Tokyo Gas Rate Revisions

Date of revision	Revision percentage
December 10, 1999	-2.00%
February 15, 2001	-3.02%
January 1, 2005	-5.18%
February 21, 2006	-0.28%
April 15, 2008	-1.51%

Average revision percentage for regulated rates overall in Tokyo and other districts

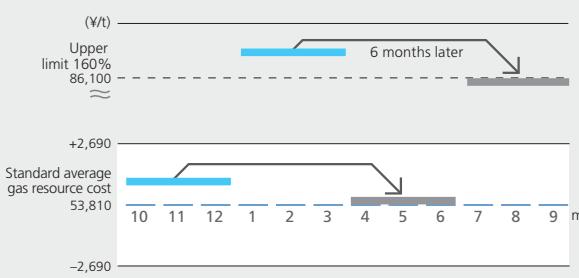
Changes in the Gas Rate Adjustment System

Given the dramatic, significant fluctuations in gas resource costs in recent years, the gas rate adjustment system was reviewed with the objectives of moderating the scale of the changes in gas rates while ensuring that changes in costs 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.

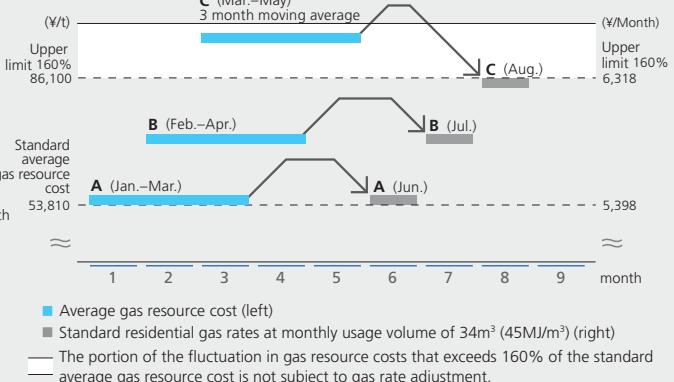
This change will contribute to more stable management conditions for suppliers. As noted above, gas resources costs are affected by external factors such as crude oil prices and exchange rates. These costs will be reflected more smoothly in gas rates, and the new system reduces the influence of profits on single-year results.

(Reference) Comparison of Gas Rate Adjustment Systems

Former System



New System



— Average gas resource cost
 — Adjustment of specific unit price
 — When the fluctuation of gas resource cost is within $\pm 5\%$ of standard average gas resource cost, the gas rate adjustment system is not applied.

— Average gas resource cost (left)
 — Standard residential gas rates at monthly usage volume of 34m³ (45MJ/m³) (right)
 — The portion of the fluctuation in gas resource costs that exceeds 160% of the standard average gas resource cost is not subject to gas rate adjustment.

The Tokyo Gas Business Model

Tokyo Gas is Japan's largest city gas supplier, with 10.51 million customers. Our 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



Natural gas resource development

- Participation in upstream projects, such as the Darwin, Pluto, and Gorgon projects
- Overseas gas-related operations, such as supply, retail sales, and electric power generation



Procurement / Transportation

- LNG transportation with carriers operated by Tokyo Gas



Production / Power Generation

- City gas production
- LNG power plant business



Sales / Services

- Residential / commercial and others / industrial city gas supply
- Electric power retail
- Energy services



City gas transport

- Transportation by pipeline
- Transportation by LNG tanker truck
- Wholesaling to other gas companies

With a gas sales volume of 13,942 million m³, Tokyo Gas has a share of more than 40% of the total gas sales volume for all city gas suppliers in Japan. By sector, through the fiscal year ended March 2001, 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.

The Company's Gas Sales Volume (Year ended March 2009)

