TO OUR SHAREHOLDERS AND INVESTORS

President **Mitsunori Torihara**

Fiscal 2008 in Review: A Year of Dramatic Changes

Fiscal 2008 (the year ended March 2009) was marked by unprecedented changes in the Company's operating environment. Due to the global recession that began with the financial crisis in the United States in the fall 2008, Japan's economy underwent a significant slowdown during the year, and there are still no clear signs of a recovery. As a result, demand for city gas, which supports industrial activities, declined mainly due to lower utilization rates at plants. Year on year, gas sales volume in the industrial sector was down about 2% for the full fiscal year and down more than 10% in the second half of the fiscal year, when the economic recession became more apparent. Total gas sales volume, including that for the residential, commercial and other sectors, declined year on year for six consecutive months from October 2008, and it declined 1.9% for the full fiscal year.

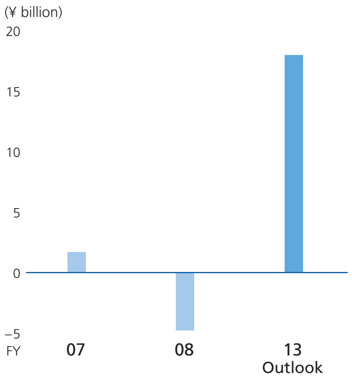
Moreover, the dramatic fluctuations in crude oil prices were a major influence on our operations. The WTI crude oil price underwent dramatic—and extremely unusual—fluctuations, posting a record high of $147.27 per barrel in July and subsequently falling to the $30 dollar level in December. As the price of LNG, the resource for city gas, is basically linked to the price of crude oil, these fluctuations had a major effect on our revenues and expenditures. In the second half of the fiscal year, the LNG price began to appreciate, favorably impacting our performance. However, the time lag under the gas rate adjustment system had an adverse effect on our performance in the fiscal year.

Due to higher unit prices under the gas rate adjustment system, total net sales increased 11.6% from the previous year, to ¥1,660.1 billion. Nonetheless, operating income and net income both declined, with operating income down 6.9%, to ¥65.2 billion, and net income decreasing 1.8%, to ¥41.7 billion.

Against the background of these dramatic fluctuations in LNG prices, in response to requests from the government, we implemented special measures to mitigate changes in gas rates in the residential sector. (For the period from January to March 2009, the amount by which gas rates were adjusted to reflect increased resource costs under the gas rate adjustment system was reduced by ¥4.2 billion, and that amount will be recovered through adjustments to rates in fiscal 2009.) Also, the gas rate adjustment system was itself revised, and a new system was implemented in May 2009. Under the new system, gas rates are reviewed each month and changes in resource prices are reflected more promptly in the rates. In the same way, the gas rate adjustment system for large-volume customers was reviewed from February 2009. The timing of the gas resource price shift was advanced, and consequently the risk that the changes in the gas resource price would affect income was reduced.

Major Management Indicators in Medium-Term Management Plan

TEP



TEP (Tokyo Gas Economic Profit) =
net operating profit after tax prior to interest payments –
cost of capital (invested capital x WACC)
WACC Fiscal 2007 results: 3.6%
WACC Fiscal 2008 results: 3.4%
WACC Fiscal 2013 outlook: 3.8%

Operating Cash Flow

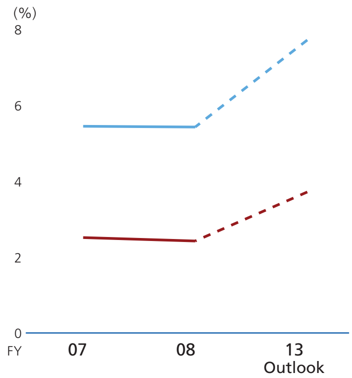
Fiscal 2007 ¥184.9 billion

Fiscal 2008 ¥182.7 billion

↓

Fiscal 2009 – 2013
Total ¥1,060.0 billion

ROE / ROA



ROE = net income / total shareholders' equity (average of positions at start and end of fiscal year)
ROA = net income / total assets (average of positions at start and end of fiscal year)

Preparing a Foundation for Long-Term Growth

Even in this difficult operating environment, we are steadily implementing a variety of initiatives for future growth. As a Group providing energy to society, we continually make long-term forecasts regarding future demand and move forward with the establishment of a sound supply system. We are also working aggressively with the development of technologies related to sophisticated energy usage to ensure that we can provide high-value-added products and services to meet changing market needs.

The Group is aiming to achieve sustained growth through the establishment of an integrated energy business, with natural gas at its core. The integrated energy business is a business model for realizing optimal energy usage by customers, and by doing so, we also aim to develop new demand. To those ends, it includes being a multi-energy supplier that provides access to gas, electric power, and heat, as well as an energy services provider offering a variety of one-stop energy solutions that add value for customers. In addition, the integrated energy business is also a long-term strategy for the development of operations in a wider supply area, centered on the region extending for a 200-km radius around Tokyo. In fiscal 2008, we steadily implemented key initiatives targeting growth in integrated energy operations, such as the expansion of LNG upstream and transport operations, the expansion of pipeline systems, the construction of large-scale power generation facilities, the enhancement of energy service operations, and the establishment of a new franchise system in order to improve the services to local communities.

Background to the Formulation of the New Medium-Term Management Plan

In January 2009, we formulated a medium-term management plan for fiscal 2009–2013. This plan targets an appropriate response to the economic recession discussed above, to fluctuations in the operating environment stemming from crude oil price movements, and to changes in the management environment going forward, as well as the "evolution and advancement of the integrated energy business strategy."

In formulating the plan, the first environmental change that we considered was the growth in social demands for environmental conservation. The first commitment period of the Kyoto Protocol came into effect in 2008, and discussions regarding the post-Kyoto framework are underway in the approach to COP15, the U.N. climate conference, which will be held in December 2009. Climate change countermeasures are becoming more important. In this setting, we must actively respond to the demands of

WE ARE STEADILY IMPLEMENTING A VARIETY OF INITIATIVES FOR FUTURE GROWTH

As an “energy frontier corporate group” with operations centered on natural gas, we endeavor to realize comfortable lifestyles and environmentally friendly cities, and strive to ensure continued development while consistently earning the trust of customers, shareholders, and society—
In accordance with this management philosophy, we will focus on the evolution and advancement of the integrated energy business.

customers and society by further expanding the highly efficient usage of natural gas and providing optimal energy usage systems that offer high environmental value, utilizing renewable energy.

Change in the structure of energy demand was another important point in the formulation of the plan. In the industrial and commercial sectors, we expect a short-term decline in demand due to the economic recession. However, given the environmental merits of natural gas, there is still a large potential in the Kanto area for gas demand switching from oil to natural gas and for power generation. By expanding infrastructure and aggressively developing potential demand, we expect industrial and commercial demand to become a major source of future growth. In the residential sector, there is a trend toward slow growth in energy demand over the long term due to sluggish housing starts, a decrease in the average number of people per household, the diffusion of energy-saving appliances, and an increase in housing that is more airtight and better insulated. Our important challenges include bolstering sales for the purpose of expanding new demand in the Kanto area, where the population is still expected to grow, and taking steps to steadily increase demand.

Furthermore, we must respond to changes in the gas resource procurement environment. The price of LNG is possibly on a rising trend over the medium to long term due to such factors as increasing global demand and the rise of resource nationalism. Accordingly, we need to enhance the LNG value chain, such as in upstream and transport operations, and by doing so, we will strengthen our system for the stable procurement of cost-competitive LNG over the long term.

Competition in energy markets continues to intensify. Particularly, in the residential sector, electric power companies are aggressively promoting all-electric houses. In response, we need to bolster our overall competitiveness, not limited to our gas price competitiveness, but also technology, product, proposal, and other capabilities that enable us to respond appropriately to diverse customer needs.

In consideration of these kinds of changes in the environment, we will develop our operations with an emphasis on the “three E’s”—Eco-friendly (creation of value emphasizing the environment), Excellent service (improvement of value for customers), and Expansion (rigorous in-depth cultivation and widening of markets). At the same time, we will focus on two initiatives that support the three E’s: ”strengthening the LNG value chain” and ”reinforcement of the synergy of All Tokyo Gas.” In this way, the new medium-term management plan targets the evolution and advancement of the integrated energy business.

The Role of Tokyo Gas in Alleviating Environmental Problems

In terms of growth potential, the most promising field is the business related to the reduction of environmental burdens. As an “energy frontier corporate group” with operations centered on natural gas, we have a management philosophy that targets the realization of comfortable lifestyles and environmentally friendly cities. We strive to ensure continued development based on the trust of customers, shareholders, and society. In accordance with this philosophy, we are implementing a variety of initiatives to create higher environmental value.

One of the most noteworthy of these initiatives is the May 2009 start of marketing of the “ENE-FARM” residential-use fuel cell cogeneration system, which has been highly anticipated not only by the national government but also by the housing industry and local communities. We have demonstrated that “ENE-FARM” reduces energy consumption by 33% and CO_2 emissions

45% in comparison with conventional systems. For a typical household—a detached house with four people—this is equivalent to an annual reduction in CO_2 emissions of 1.5 tons (1 kg per person per day). "ENE-FARM" will certainly play an important role in reducing climate change contributing gases, and we will do our utmost to promote its diffusion.

In the industrial and commercial sectors, meanwhile, we will develop energy services with higher environmental value. In addition to cogeneration, these services will utilize renewable energy, including sunlight and solar heat. In this way, we will make steady progress toward the realization of a low-carbon society. Also, in regional redevelopment projects, Tokyo Gas will strive to build optimal energy systems at the local community level through the use of the area-wide, networked energy system "Smart Energy Network." These systems will allow flexible exchange of energy among residences, office buildings, and large commercial facilities, such as hospitals and hotels.

To move forward with this type of advanced energy usage, it will be necessary to accelerate the development of innovative new technologies, such as high-efficiency appliances and optimal energy systems that utilize renewable energy. Accordingly, Tokyo Gas will support alliances among industry, government, and academia and aggressively invest resources in technological development based on a long-term viewpoint.

Brand Strength Based on Relationships of Trust with Customers

Our close relationships with customers, which have been cultivated throughout our history of more than 120 years, and our brand strength, which is represented by the words "security," "safety," and "reliability," will become increasingly important sources of competitive advantage in the years ahead. To fully leverage these strengths and accurately meet increasingly diverse and sophisticated customer needs, we are rebuilding our sales and customer service system with a focus on close links to local communities. Since April 2008, we have been steadily establishing new Tokyo Gas LIFEVAL operations. Through Tokyo Gas LIFEVAL, we are restructuring and integrating the sales and costomer service functions, which are key points of contact with customers. These functions, which include gas service related construction, sales and maintenance of gas appliances, meter reading, and periodic gas facility safety checks, were previously divided among Enesta and Tokyo Gas Customer Service. Now, Tokyo Gas LIFEVAL provides one-stop customer service for a variety of needs. We have divided our base of approximately 10 million customers in the Tokyo metropolitan area into 65 service blocks, and will establish Tokyo Gas LIFEVAL operations in each of these blocks through joint investment by the Company and the former Enesta. We expect to complete the establishment of the new system in October 2009. Through this system, we will further strengthen our relationships with customers, counter the aggressive sales efforts by electric power companies to promote a shift to electricity, and work to achieve sustained increases in the market share earned by gas.

WE FULLY LEVERAGE OUR BRAND STRENGTH, WHICH IS REPRESENTED BY THE WORDS "SECURITY," "SAFETY," AND "RELIABILITY"

All Tokyo Gas Initiatives

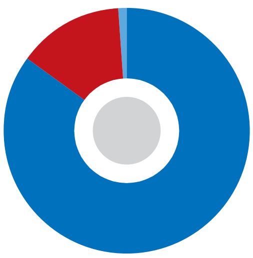
To realize sustained growth as a multi-energy company with natural gas at its core, it is essential that we leverage All Tokyo Gas synergies, not only limited to Group companies, but also cooperating companies, involved with the LNG value chain, from resource procurement to customer sales and service. We also need to strengthen the All Tokyo Gas management foundation by further enhancing human resources and technologies. In these endeavors, we will focus on the newly established Tokyo Gas LIFEVAL and our affiliated companies, which are pillars of the integrated energy operations strategy in such fields as LNG upstream and transport operations, energy services, and power generation. On this foundation, we will draw on the synergies of All Tokyo Gas to work toward the achievement of the medium-term management plan.

On the other hand, as in past plans, our policy regarding the allocation of cash flow is clearly spelled out in the current medium-term management plan, with priority given to investment in future growth and the provision of returns to shareholders. For shareholder returns, we remain committed to our policy of a total payout ratio of 60%. This policy entails the provision of a return to shareholders through dividends and purchases of treasury stock totaling 60% of net income. In regard to dividends, our priority is to maintain stable dividend payments, with gradual increases over the long term in line with growth in income. This approach also underscores our unstinting efforts to steadily implement the initiatives in the medium-term management plan to achieve sustained growth in the years ahead.

鳥原光憲

President **Mitsunori Torihara**

Allocation of Cash Flow During the Period of the Medium-Term Management Plan

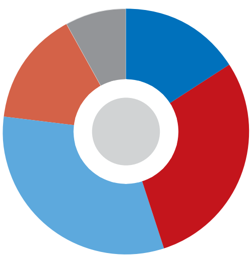


Five year total: about ¥1,070.0 billion*

- 85% Investment / loan
- 14% Shareholders' return
- 1% Reduction of interest-bearing debt

* Operating cash flow + other cash flow

Capex, Investment, and Loan



Five year total: about ¥900.0 billion

- 16% Upstream / overseas / LNG fleet
- 29% Infrastructure
- 15% Business base
- 32% Demand development
- 8% Others

WE WILL DRAW ON THE SYNERGIES OF ALL TOKYO GAS TO WORK TOWARD THE ACHIEVEMENT OF THE MEDIUM-TERM MANAGEMENT PLAN