

# CORPORATE GOVERNANCE

## Our Fundamental Concept of Corporate Governance

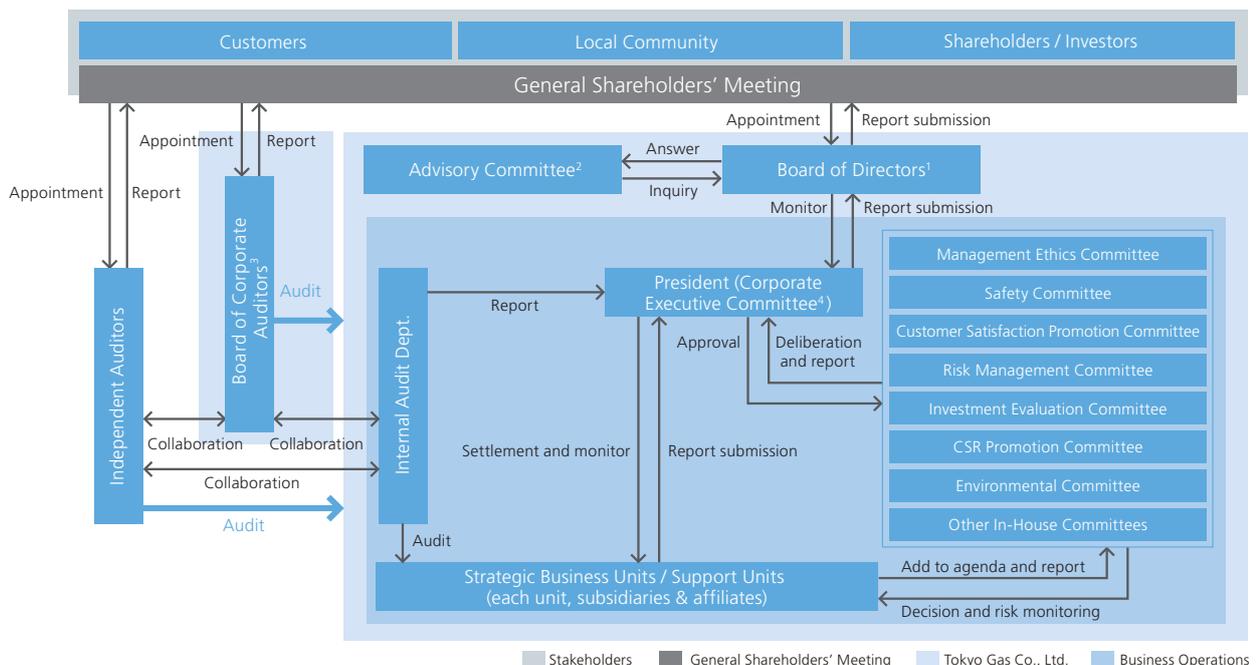
As an “energy frontier corporate group” that focuses on natural gas, Tokyo Gas has a management philosophy that aims at the realization of comfortable lifestyles and environmentally friendly cities. We work to ensure continued development while consistently earning the trust of customers, shareholders, and society. Based on this philosophy, our fundamental concept of enhancing corporate governance is intended to achieve a continuous increase in our corporate value by maximizing the value provided to all of our stakeholders. We are also endeavoring to develop systems and measures to further augment corporate governance, and are implementing them with a commitment to management legality, soundness, and transparency. Tokyo Gas continues to emphasize the importance of accurate decision making, clear separation of management functions and executive functions, efficient business operations, strengthening of auditing and monitoring functions, and clarification of management and executive responsibilities.

## Initiatives to Strengthen Corporate Governance

In accordance with our fundamental concept of corporate governance, we have implemented the following ongoing measures to build an optimal corporate governance system for the Company and to further strengthen this system.

2002	<ul style="list-style-type: none"> <li>The number of directors was significantly reduced (from 30 to 15).</li> <li>Outside directors were invited to join the Board of Directors.</li> <li>An executive officer system was introduced.</li> <li>The term of office for each officer was shortened to one year.</li> <li>The Management Ethics Committee, which is chaired by the President, was established. This committee aims at creating an open atmosphere in the organization and promoting transparent management systems, through the discussions relating to compliance in general.</li> </ul>
2003	<ul style="list-style-type: none"> <li>The Enterprise Risk Management System was introduced.</li> </ul>
2005	<ul style="list-style-type: none"> <li>The Advisory Committee was established to discuss matters relating to candidates for director positions, officer remuneration, and other similar issues.</li> <li>The officer remuneration system was revised, with principal measures including the abolition of retirement benefits, the introduction of a performance-linked remuneration scheme, and the establishment of share-purchasing guidelines.</li> </ul>
2006	<ul style="list-style-type: none"> <li>In order to meet the requirements of the Internal Control Reporting System based on the Financial Instruments and Exchange Law, the Internal Control Promotion Committee was established.</li> </ul>
2008	<ul style="list-style-type: none"> <li>The Risk Management Committee was established.</li> <li>The evaluation related to the internal control reporting system was completed.</li> <li>The IR system was reevaluated, and the IR Department was established. As a result, IR activities were strengthened and the risk management functions that had been dispersed throughout various departments were combined in the IR Department.</li> </ul>

## Corporate Governance Structure



- 1 Board of Directors: 11 directors (3 outside directors, and 8 internal directors)
- 2 Advisory Committee: 2 outside directors, and 1 outside auditor, Chairman, and President
- 3 Board of Corporate Auditors: 5 corporate auditors (3 outside auditors, and 2 internal auditors)
- 4 Corporate Executive Committee: President, 2 Executive Vice Presidents, 10 senior executive officers (3 of the representative directors also serve as President and Executive Vice Presidents.)

## Management Structure

In June 2002, we reduced the number of directors dramatically (from a maximum of 30 to a maximum of 15) so as to streamline and speed up management decision making. In order to clarify the separation between management and executive functions and to strengthen the decision-making and management functions of the Board of Directors, we invited three outside directors, all of whom have extensive expert knowledge, to join the Board. The outside directors monitor the appropriateness of management activities in a flexible and objective manner. We have created a structure that supports prompt and effective decision making while maintaining proper management transparency. We have also established the Advisory Committee to discuss matters relating to candidates for director positions, officer remuneration, and other similar issues. This committee is comprised of outside directors, outside auditors, and Tokyo Gas directors. As of the end of June 2009, there were 11 directors.

Tokyo Gas has adopted an executive officer system that provides clearly defined accountability. By delegating substantial authority to the executive officers, the system also supports speedy execution by the executive officers of operational matters, based on major business operation plans and the like determined by the Board of Directors. As of the end of June 2009, there were 23 executive officers.

In addition, to assist the Board of Directors, we have set up the Corporate Executive Committee as a deliberative body. It comprises the President, the Executive Vice Presidents, and the senior executive officers. It deliberates in advance on agenda items for upcoming meetings of the Board of Directors and on important matters related to management. After in-depth discussion at these weekly meetings, the President makes final decisions on such management issues. In order to establish clear lines with regard to the directors' management accountability and the executive officers' operational accountability, we have set their respective terms of office at one year.

The three outside auditors and two corporate auditors strictly audit the legality and appropriateness of the performance of duties by the directors from a position of complete independence. Further, they actively make recommendations at Corporate Executive Committee and Board of Directors to enhance the effectiveness of monitoring.

## Internal Control System

Under our internal control system, the Board of Directors, which includes three independent outside directors, determines the basic policies for the development of the important business operations plans and the internal control systems and monitors the performance of the directors. In accordance with the basic policies determined by the Board, the executive officers act to carry out business operations as well as to develop and operate the internal control system. We have established the Corporate Executive Committee as a deliberative body to assist the Board. This body undertakes prior

discussions on the agenda for upcoming meetings of the Board and deliberates on important matters related to management.

The five corporate auditors, three of which are outside auditors, monitor the performance of the directors' duties. In addition, the Internal Audit Department, independently of business units, monitors the business activities in each segment of Tokyo Gas and its consolidated subsidiaries, as well as the state of the development and operation of internal control and risk management. To implement specialized audits efficiently, the Internal Audit Department has developed a structure of four groups, specializing in financial, operational, information system, and compliance audits. In April 2009, an internal control group was newly established to evaluate the effectiveness of internal control regarding financial reporting.

## Reforming 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 for 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  
A performance-linked remuneration scheme that reflects Company-wide and divisional performance for the previous term has been introduced for the monthly payment of directors who double as executive officers.

### Total Remuneration for Directors and Corporate Auditors (Fiscal 2008)

	Millions of yen	Thousands of U.S. dollars
Remuneration for 11 directors	461	4,704
Remuneration for 6 corporate auditors*	106	1,081
Total	567	5,785

\* Including one auditor who retired after the General Shareholders' Meeting in June, 2008

### Compensation for Independent Auditors (Fiscal 2008)

	Millions of yen	Thousands of U.S. dollars
Remuneration for auditing services	307	3,132
Remuneration for non-auditing services	34	346
Total	341	3,479

### 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 such shares will be retained during the terms of office of the directors.

### Enterprise Risk Management System

In fiscal 2003, the Group established the Enterprise Risk Management (ERM) system, which includes risk management regulations and documented rules concerning major risks that require management intervention.

The IR Department's Risk Management Group was established to promote overall risk management, and approximately 100 Risk Management Promotion Officers have been deployed in Tokyo Gas and its consolidated subsidiaries, and in this way ERM is promoted. Under this risk management system, every year, we review risks, evaluate fluctuations in the importance of risks, and assess the implementation and improvement status of countermeasures. This system facilitates the steady implementation of the ERM-PDCA (Plan-Do-Check-Act) cycle.

Furthermore, in fiscal 2008, the Risk Management Committee was established to assess, manage, and evaluate the status and operation of the ERM system and to improve the level of ERM on a Group-wide basis. This committee checks the status and operation of the ERM system, including periodic risk reviews, reports to the Corporate Executive Committee and the Board of Directors, and secures the necessary approvals.

As a result of the establishment of the ERM system, we can identify and clarify the most recent major risks, which reflect changes in the management environment, and we can provide appropriate disclosure of risk information to the capital markets and other major stakeholders. Also, as a result of periodic monitoring through the Corporate Executive Committee and Board of Directors' meetings, we can implement appropriate responses to risks that are becoming more diverse, complex, and advanced.

### Crisis Management System

Because the Company provides public services that comprise a lifeline, for many years we have also had a crisis management system that serves as a response system in the event that a risk-related event actually occurs. Specifically, we have formulated Emergency Response Organization Regulations. In the event of the occurrence of any type of crisis, the Emergency Response Organization responds to the situation immediately in accordance with the Emergency Response Organization Regulations. Possible crises include major natural disasters, such as earthquakes, or production or supply disruptions arising from major accidents at pipelines or terminals, as well as influenza, terrorism, failures in mission-critical IT systems, and compliance problems. Moreover, periodic training is conducted for major risk response measures.

### Promoting Compliance

Our stance is reflected in three basic policies calling for the fostering of compliance awareness, the cooperation of each workplace with compliance efforts based on the Group policy, and the establishment of compliance PDCA cycles.

We have established the Management Ethics Committee, chaired by the President. This committee discusses at the management level basic compliance policies and all aspects of compliance initiatives by the Group, monitors the implementation of compliance-related measures, and confirms activity programs from the following year and thereafter. We have also established the Compliance Department, a specialized unit that provides leadership in compliance-related activities. These include development of compliance promotion systems for each unit, awareness and educational campaigns about the code of conduct, compliance risk reduction measures, maintenance of advisory systems, and the distribution of information within and beyond the Tokyo Gas Group companies.

In addition to continuous education about activities related to our code of conduct revised in 2004, we are moving forward with a compliance casebook designed for applying the code of conduct to various problems in the workplace, so as to achieve the permeation of compliance.

### Major Risks Requiring Management Intervention

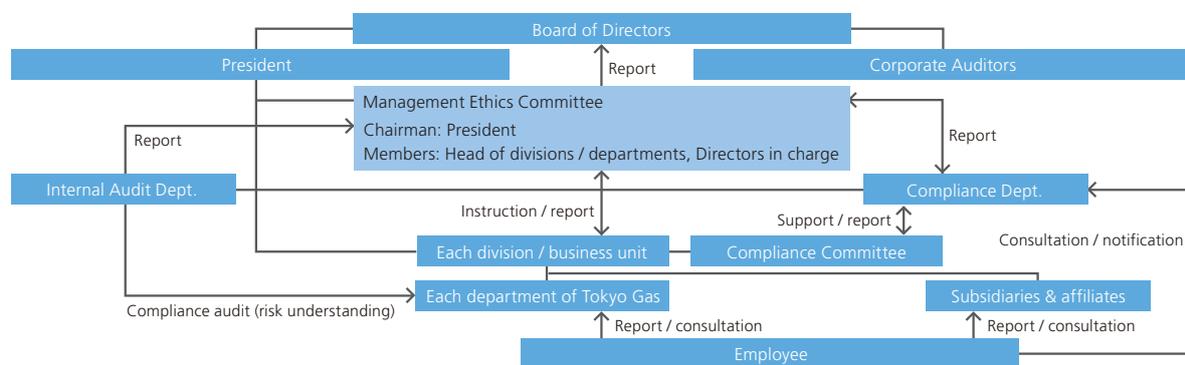
Risks associated with accidents, disasters, etc.	Gas resource procurement difficulties, natural disasters, accidents accompanying gas manufacture and supply, supply impairments, problems in the areas of assurance of gas safety and the quality of gas appliances and other products, damage due to rumors caused by gas accidents at other firms
Market fluctuation risks	Market price and interest rate fluctuations affecting real estate and financial assets
Risks accompanying business execution	Risks related to established business (changes in the environment of gas resource procurement, risks associated with insufficient or excessive recovery of gas resource costs, decrease in gas sales due to climate change, reduction in existing demand, decrease in demand accompanying intensified competition, delay in the establishment or start of business by new regional energy companies, failure to achieve technology development goals, changes in laws, regulations, institutions, or national/local energy policy), delayed cultivation of new markets, inability to recover investments
Risks related to information management and system operation	Leakage of personal information, shutdown or malfunction of mission-critical IT systems, interruption of telephone service at call centers
Risks related to corporate social responsibility	Conformance with new environmental regulations, etc., compliance violations, insufficient customer satisfaction or customer service

Compliance risk countermeasures include internal and external advisory systems. By operating these systems effectively, we are endeavoring to ensure that compliance-related problems are discovered and resolved quickly so that our corporate self-regulatory processes will continue to function effectively. Dedicated to auditing the observance of laws, regulations, and corporate ethics, the Compliance Audit Group has also been established within the Internal Audit Depart-

ment. It has been steadily working to mitigate risks by implementing follow-up audits to verify progress in tackling concerns identified at first auditing.

We monitor the effectiveness of Group compliance promotion activities by conducting regular compliance awareness surveys of all employees. The results of these surveys are reflected in initiatives for the following years.

### Compliance Structure



### Enhancement of IR Activities

As distinctive characteristics of the IR activities of Tokyo Gas, our top management diligently participates in our IR activities. In addition to disclosing a wide range of information, we also engage in interactive communication with investors. We believe that through these activities, we can put stock market expectations and the opinions to good use in the management of the Company and enhance discussion of the thinking of our management with all of our investors. In so doing, we eliminate the gap between our true corporate value and the market assessment of the Company. Based on this belief, primarily in the period after the announcement of our financial results, we have been engaged in IR activities including visits by top management to institutional investors in Japan and overseas. Briefings and individual meetings are also used as opportunities for wide-ranging discussions.

Tokyo Gas has always disclosed its short-, medium- and long-term management targets as well as the specific management strategies and action plans adopted to achieve these targets. We have also actively shared information about our business performance and progress towards goals. Among our disclosure activities, we will continue to improve and expand the content of our annual report, investors' guide, IR website, and Tokyo Gas Newsletter.

### Group Management Structure

The Tokyo Gas Group currently consists of Tokyo Gas Co., Ltd., together with 57 subsidiaries and four equity-method affiliated companies. With the deregulation of the energy sector, Tokyo Gas now faces escalating competition from both inside and outside the industry. In April 2004, we introduced the "Strategic Business Unit" (SBU) system, which is designed to focus all of the resources of the Tokyo Gas Group on the task of surviving and succeeding in an increasingly competitive environment. Under this structure, Tokyo Gas corporate divisions are linked with Group companies to form business units in each business area. The divisions and companies work closely together on tasks ranging from the formulation of business strategies to the allocation of management resources and the management of operations, all under the responsibility of unit managers. The aim of this cooperative approach is to maximize our Group potential and further strengthen our competitiveness.

## BOARD OF DIRECTORS AND CORPORATE AUDITORS



Director, Chairman  
**Norio Ichino**

April 1964 Joined the Company  
June 2003 President, Representative Director, and Executive President  
April 2006 Director and Vice Chairman of the Board  
April 2007 Director and Chairman of the Board



Representative Director, President  
**Mitsunori Torihara**

April 1967 Joined the Company  
June 2003 Representative Director, Executive Vice President, Chief Executive of Strategic Planning Div. and in charge of Internal Audit Dept. and Compliance Dept.  
April 2004 Representative Director, Executive Vice President, Chief Executive of Corporate Communication Div. and in charge of Compliance Dept.  
April 2006 President, Representative Director, and Executive President



Representative Director, Executive Vice President  
**Tadaaki Maeda**

April 1970 Joined the Company  
April 2004 Senior Executive Officer, Chief Executive of Energy Resources Div. and in charge of Internal Audit Dept.  
June 2004 Director, Senior Executive Officer, Chief Executive of Energy Resources Div. and in charge of Internal Audit Dept.  
April 2006 Representative Director, Executive Vice President and Chief Executive of Strategic Planning Div.  
April 2007 Representative Director, Executive Vice President, Chief Executive of Energy Production Div., and in charge of Environmental Affairs Dept.



Representative Director, Executive Vice President  
**Tsuyoshi Okamoto**

April 1970 Joined the Company  
April 2006 Director, Senior Executive Officer, Chief Executive of Corporate Communication Div. and in charge of Compliance Dept., Internal Audit Dept.  
April 2007 Representative Director, Executive Vice President, and in charge of Personnel Dept., Secretary Dept., General Administration Dept., Compliance Dept., and Internal Audit Dept.  
April 2009 Representative Director, Executive Vice President, and in charge of Personnel Dept., Secretary Dept., General Administration Dept., and Compliance Dept.



Director, Senior Executive Officer  
**Shigeru Muraki**

July 1972 Joined the Company  
April 2006 Senior Executive Officer and Chief Executive of Technology Development Div.  
April 2007 Senior Executive Officer, Chief Executive of Energy Solutions Div. and General Manager of Volume Sales Dept. of Energy Solutions Div.  
June 2007 Director, Senior Executive Officer and Chief Executive of Energy Solutions Div. and General Manager of Volume Sales Dept. of Energy Solution Div.



Director, Senior Executive Officer  
**Toshiyuki Kanisawa**

April 1972 Joined the Company  
April 2006 Senior Executive Officer, and Chief Executive of Residential Sales Div.  
April 2007 Senior Executive Officer, and Chief Executive of Residential Sales Promotion Div.  
June 2007 Director, Senior Executive Officer, and Chief Executive of Residential Sales Promotion Div.  
April 2009 Director, Senior Executive Officer, and Chief Executive of Housing Development Div.



Director, Senior Executive Officer  
**Tsutomu Oya**

April 1975 Joined the Company  
April 2004 Executive Officer, and General Manager of Air-conditioning and Commercial Customer Development and Sales Dept. of Energy Sales and Service Div., and Acting General Manager of Volume Sales Dept. of Energy Sales and Service Div.  
April 2006 Senior Executive Officer and Chief Executive of Energy Resources Div.  
June 2009 Director, Senior Executive Officer and Chief Executive of Energy Resources Div.



Director, Senior Executive Officer  
**Michiaki Hirose**

April 1974 Joined the Company  
April 2008 Senior Executive Officer and in charge of Corporate Planning Dept., Investor Relations Dept., Finance & Managerial Accounting Dept., Accounting Dept., Affiliated Companies Dept., and Gas Industry Privatization Research Project Dept.  
April 2009 Senior Executive Officer and in charge of Corporate Planning Dept. and Affiliated Companies Dept.  
June 2009 Director, Senior Executive Officer and in charge of Corporate Planning Dept., Corporate Communications Dept., and Affiliated Companies Dept.

Auditor Yasunori Takakuwa

Auditor Kunihiro Mori

Outside Auditor Shoji Mori  
(Vice Chairman, Institute for International Socio-Economics Studies)

Outside Auditor Yukio Masuda  
(Standing Consultant, Mitsubishi Corporation)

Outside Auditor Masayuki Osawa  
(Administrative Director of Yokohama City Silver Human Resources Center)

## MESSAGE FROM OUTSIDE DIRECTORS



Outside Director  
**Kazumoto Yamamoto**

Current position    Advisor, Asahi Kasei Corporation  
June 2005            Director of the Company

As a nation, Japan has a long history, traditions, and culture, and companies, too, have their own histories, traditions, and cultures. As a result, I do not believe that there is any single, fixed way of implementing management and corporate governance, because management cannot ignore those distinctive company characteristics. It is important to clarify the purpose of a company's business activities, and to search for the style of management and governance that are best suited to that purpose. As a company that helps to support the framework of society, Tokyo Gas bears an important responsibility to maintain and expand its business operations over the long term. To do that, however, it is essential that the Company is not content with activities intended to simply "support." Rather, we must implement bold initiatives designed to foster "change" over the long term. The Company faces high expectations in the fields of energy usage and supply, especially in regard to how they will change the structure of society and what role they will play in that process.



Outside Director  
**Katsuhiko Honda**

Current position    Advisor, Japan Tobacco Inc.  
June 2007            Director of the Company

If we do not fulfill our responsibilities to four groups of stakeholders—customers, society, investors, and employees—then we will not be able to achieve our company mission of sustained development. This is a fundamental element of management that applies to any company, anywhere in the world. Tokyo Gas is a "public utility" that provides social infrastructure, but I believe that the public interest aspect of a company's operations is not intrinsic to the company itself but rather is granted to the company by the customers who support it. In the midst of severe changes in our operating environment, it is important that we continually develop products with high value added and increase management efficiency, without letting the fact that we are a public utility become an excuse for avoiding operational reforms. As an outside director, it is my role to offer a third-party perspective, reflecting on whether or not our management is focused on the groups of stakeholders I mentioned and offering advice.



Outside Director  
**Sanae Inada**

Current occupation    Attorney  
June 2007              Director of the Company

Ensuring that a company's ongoing management and development is conducted in accordance with social norms and ethics is the purpose of corporate governance and compliance. Tokyo Gas supports the public interest through the supply of city gas, and the Company's managers must set an example of that conduct. I also think that top executives should have pride in managing a leading company in the industry, and they should present a management vision for 10 years into the future. The reason is precisely because we are in an environment of fierce competition among forms of energy. As a city gas supplier in the growing Kanto region, Tokyo Gas meets a substantial part of Japan's energy needs. Moreover, the Company has a significant responsibility to publicly display an image of the future of energy. As a natural gas pioneer, Tokyo Gas needs to make full use of the environmental superiority of natural gas. Active discussions are held at the Company's Board of Directors meetings, and I will continue to offer my opinion with an awareness of my role as an outside director of a company that supports society.

President		Executive Officers
<b>Mitsunori Torihara</b>	<b>Norikazu Hoshino</b> Dispatched to the Japan Gas Association	<b>Akio Maekawa</b> Coordinator, Energy Solution Div.
Executive Vice Presidents	<b>Mikio Itazawa</b> Chief Executive of Pipeline Network Div.	<b>Koichi Aonuma</b> General Manager, Sales Marketing II Dept. of Housing Development Div.
<b>Tadaaki Maeda</b> Chief Executive of Energy Production Div. and in charge of Environmental Affairs Dept.	<b>Hirokazu Hayashi</b> Chief Executive of Regional Development Marketing Div.	<b>Yutaka Kunigo</b> General Manager, Industrial Gas Sales Dept. of Energy Solutions Div.
<b>Tsuyoshi Okamoto</b> In charge of Personnel Dept., Secretary Dept., General Administration Dept., and Compliance Dept.	<b>Kazuo Yoshino</b> In charge of Investor Relations Dept., Finance & Managerial Accounting Dept., and Accounting Dept.	<b>Masahiro Mikami</b> General Manager, General Administration Dept.
Senior Executive Officers	<b>Hisao Watanabe</b> Chief Executive of Technology Development Div. and Information Technology Div.	<b>Hiroaki Kubota</b> General Manager, Energy Production Dept. of Energy Production Div.
<b>Shigeru Muraki</b> Chief Executive of Energy Solutions Div. and General Manager of Volume Sales Dept.	<b>Manabu Fukumoto</b> In charge of Purchasing Dept., Real Estate Management Dept., Major Site Development Dept., and Internal Audit Dept.	<b>Kenichi Enkaku</b> Representative Senior Managing Director of ENERGY ADVANCE Co., Ltd.
<b>Toshiyuki Kanisawa</b> Chief Executive of Housing Development Div.	<b>Matsuhiko Hatoba</b> Chief Executive of Residential Sales Promotion Div.	<b>Hidefumi Takahashi</b> General Manager, Kanagawa service branch, Residential Sales Promotion Div.
<b>Tsutomu Oya</b> Chief Executive of Energy Resources Div.		<b>Hideaki Obana</b> General Manager, Corporate Communications Dept.
<b>Michiaki Hirose</b> In charge of Corporate Planning Dept., Corporate Communications Dept., and Affiliated Companies Dept.		<b>Hiroaki Kobayashi</b> General Manager, Customer Safety Dept. of Residential Sales Promotion Div.