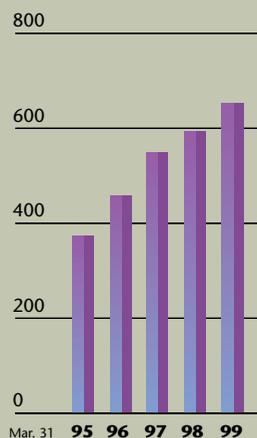




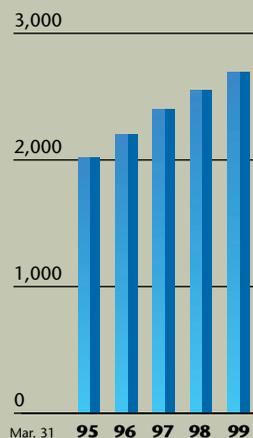
High-rise buildings in Shinjuku, one of Tokyo's liveliest commercial areas, use gas DHCs. This is the largest DHC system in the world.

Creating New Sources of Demand

12



Growth in Capacity of Gas Cogeneration Systems
(Unit: MW)



Growth in Capacity of Gas Heating and Cooling Systems
(Unit: Thousand Refrigeration Tons)

I. Using Deregulation to Boost Natural Gas Demand

Industrial and commercial users accounted for approximately 54% of our gas sales volume as of the end of March 1999, a 26% increase over the last 5 years. In the next 5 years, we expect an over 50% rise. Moreover, deregulation and the Japanese government's energy policy, supported by our gas-related technologies, promise to fuel this growth even more.

Opportunities Spawnd by Deregulation

Deregulation has opened the door to the electric power industry. The first noticeable area of change is that independent power producers (IPPs) are now free to operate. We see this as an incredible opportunity to supply gas for power generation to these new large-volume customers. Presently, we have plans to supply three large-volume IPPs. One of these IPPs uses over 150 million m³ of gas a year. Deregulation now allows us to also supply electricity. We will monitor the electricity market closely and consider entering this market when conditions justify the necessary investments.

The December 1995 amendments to the Electricity Utility Industry Law allowed Tokyo Gas to supply electricity in specific areas such as redevelopment zones. With this field expected to expand, we are examining the feasibility of entry into this business.

Supplying gas to large-volume users purchasing 2 million m³ or more of gas per year outside our service area is a new area of potential growth for Tokyo Gas, and will be even more so when the user threshold is lowered to 1 million m³ in the autumn of 1999. In Saitama Prefecture, we have started supplying gas to a large-volume user that would be supplied by a gas company operating in that service area.

Government Energy Policy Driving Demand for Natural Gas

Also working to our advantage is the government's push for the use of certain energy sources as a means of reducing the environmental impact of energy consumption. Natural gas is widely recognized as an environmentally friendly fuel. This drive has been hastened by the adoption of resolutions from COP3.

Technologies to Encourage a Switch to Gas

High hopes are held for gas cogeneration systems; demand is expected to increase approximately 40% by 2002 compared to 1997. Gas-fired air conditioning, which was installed at approximately 56% of all new buildings with over 10,000 m² of floor space during fiscal 1998, is another illustration of how we give industrial and commercial users more reasons to choose gas over electricity. Reduced running costs and other benefits make this technology extremely attractive.



LEFT

The Nihonbashi main store of Mitsukoshi, a famous Japanese department store chain, introduced a gas cogeneration system that also functions as an emergency power supply.

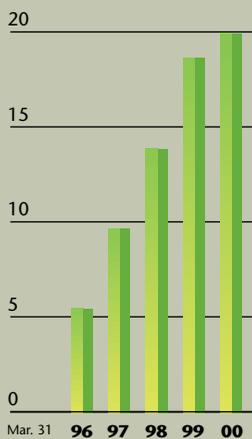
RIGHT

Gas turbine cogeneration equipment located at the site of an industrial customer.

Creating New Sources of Demand

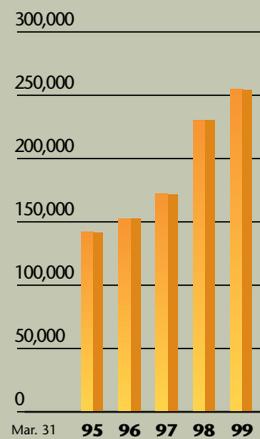


Residential customers represent one of Tokyo Gas' most important areas of growth.



Percentage of New Housing With Gas Floor Heating Systems in the Tokyo Gas Service Area (%)

Note: 2000 is a projected figure.



Tokyo Gas Fan Heater Sales (No. of units)

II. Forging Stronger Relationships With Residential Customers

Residential customers are a stable and strategically important source of revenue; in fiscal 1998 they accounted for 36% of total gas sales volume. To increase the gas sales volume per customer, we are pursuing a two-fold strategy. First is to strengthen marketing activities. For this we established the Residential Sales and Service Division in our headquarters in June 1999. The second part of our strategy is to raise customer satisfaction, thereby cementing a loyal customer base. Activities in this respect are overseen by the Customer Service Division, which was also established in June 1999.

Marketing Initiatives to Spur Residential Gas Consumption

We are already the preferred energy supplier for water heating and cooking in our service area with market shares of 92% and 75%, respectively. Now we want to make it that way for space heating by promoting floor heating, demand for which is growing rapidly. Targeted mainly at new buildings and some renovations, floor heating is ideally suited to the Japanese lifestyle—people often prefer to sit on the floor than on a chair or sofa. Floor heating is more than just a clean and comfortable heating alternative. It also helps control house dust and mold that are blamed for allergies. By promoting these advantages, we believe we can make floor heating the *de facto* standard in new homes. For customers living in houses or apartments where installing floor heating is not an option, we have been promoting the use of gas fan heaters. Highly efficient, environmentally friendly and inexpensive, gas fan heaters are increasingly popular; sales rose 10.7% in fiscal 1998 on sales of 254,526 units.

Other marketing initiatives include showrooms to promote our products and services, and direct sales activities to building sub-contractors to get them to install various gas systems in new construction and renovations.

A Customer-Centric Approach

Customer satisfaction is an important key to achieving growth in residential demand. That's why we are stepping up our efforts to offer better services from various angles. Improved safety, more attractive rates, low-maintenance appliances and lifestyle ideas are just some of the ways we are working to spur residential gas consumption—and build stronger bonds of trust with our customers.

Playing a significant role here is our customer service network. Our 18 branches conduct inspections of appliances in homes once every three years in addition to reading meters. To further deepen relationships with residential customers, we established call centers to handle inquiries from customers.

Augmenting our customer service network are roughly 400 Tokyo Gas franchise-based service outlets. Operating under the names Enesta and Enefit, these outlets provide a broad range of services ranging from gas pipeline works to installation and repair of gas appliances and household renovations.



LEFT

An Enesta branch outlet in Tokyo.



RIGHT

Gas floor heating is a clean and comfortable heating alternative.