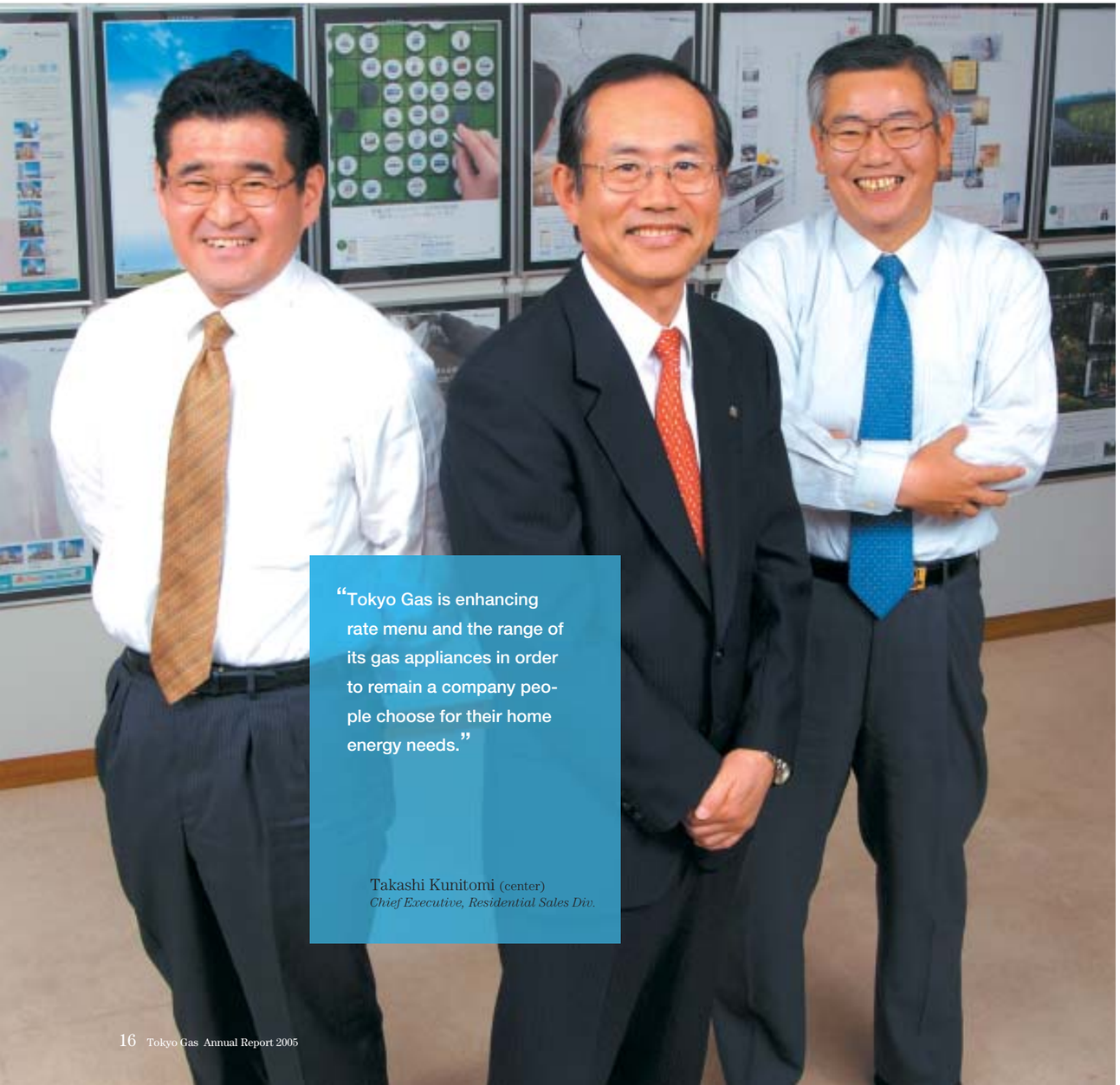
To ensure optimal business activities through close collaboration among Group companies, in fiscal 2004 Tokyo Gas introduced the strategic business unit system, dividing operations into functional categories such as gas resource procurement, gas production, transmission, residential sales and industrial and commercial sales. In the current era of full-scale competition in energy, each business unit takes advantage of the power of the Group and their own independent maneuverability to create value that exceeds customer expectations.

# Enhancing **Value** Every Day

For Residential Customers

# Offering Comfortable, Satisfying Lifestyles Made Possible by Gas

Tokyo Gas enhances many aspects of people's lives. We work to promote the use of gas in the home by offering the kinds of comfortable, satisfying lifestyles only gas can provide.



"Tokyo Gas is enhancing rate menu and the range of its gas appliances in order to remain a company people choose for their home energy needs."

Takashi Kunitomi (center)
*Chief Executive, Residential Sales Div.*

## Countering the "All Electric" Offensive

As typified by electric power company sales campaigns extolling "all-electric homes," competition between companies in the energy industry has increased in the past few years, even in the residential sector. To cope with the changing business environment, we have reinforced our sales activities to target both end-users and companies such as housing developers. We have also stepped up the development of appealing products and worked to renew people's appreciation of the convenience and comfort that can only be achieved with gas. As a result of these efforts, we have managed to minimize the impact of the "all electric" campaign in our service area.

## Introducing New Rate Menu while Promoting Gas Appliance Development and Advertising

There is no question, however, that the residential energy market is becoming more and more competitive. Therefore, the Residential Sales Division has actively implemented measures that include new rate menu, developing attractive products and holding events to improve market communication.

With regard to rates, in January 2005 Tokyo Gas put into effect an average rate reduction of 5.18% for customers under regulated tariffs to promote the use of gas. From May 2005, we also simplified the pricing of the Danran plan, which applies to customers with floor heating systems, installed as standard equipment in many condominiums. This change aims to attract customers with discounts that increase with the amount of gas used.

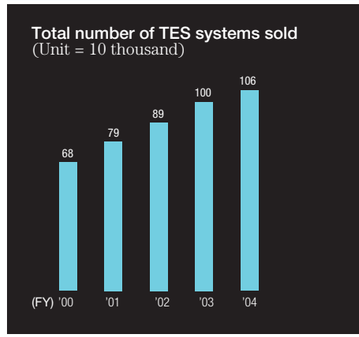
In the area of product development, Tokyo Gas has enhanced the performance of the highly energy-efficient latent-heat recovery water heaters and its renowned gas cooktops, which are popular for their design, safety and ease of use. We have introduced one innovative product after another, including an innovative mist sauna, which has proved highly popular among women, and the remote operation service for gas appliances. In February 2005, Tokyo Gas released LIFUEL, the world's first commercialized residential fuel cell cogeneration system.

To link the new rate menu and strengthened appliance development capabilities to the promotion of gas usage, we will actively hold joint events with housing manufacturers and engage in advertising and publicity activities on television and in other media.

## Further Strengthening the Bond of Trust with Customers

In 2006, the population of Japan will begin to decrease. To maintain its position of strength in the residential sector, we must make certain to understand and meet customers' needs and propose ideas for fulfilling lifestyles. Building on the solid business base constructed over the years, we will engage in close communication with customers to learn what they truly desire and create added value to deliver it. Tokyo Gas will further solidify the bond of trust it enjoys with customers by developing highly efficient, environmentally friendly gas appliances and providing new creative services, such as home security monitoring and fire insurance for household effects, in order to become appreciated as an all-around advisor on residential matters. On the basis of these initiatives, Tokyo Gas will strive to continue to be a company people choose for their home energy needs.

Attractive offerings




New services

For Industrial and Commercial Customers

# Pursuing Customer Benefits Through High Value-added Services

Relying on the most environmentally friendly fossil fuel, natural gas, as the main gas source, our energy services provide customers with a one-stop source of essential energy by fully exercising advanced technology and the ability to offer integrated solutions. Tokyo Gas supports its customers' energy requirements with these high value-added services.

"Tokyo Gas is upgrading its technological and solutions capabilities to meet the varied energy needs of customers."

Shigero Kusano (far right)
*Chief Executive, Energy Sales and Service Div.*

## Advanced Technological Capabilities Unrivaled in the Industrial Sector

In 2004, the scope of liberalization of the gas business was expanded to include retail sales to customers that consume 500,000 $m^3$ or more per year. The effect on the energy industry has been all-out competition pitting gas companies against one another as well as against oil companies and electric power companies. In another development, the Kyoto Protocol went into effect in February 2005, resulting in greatly heightened environmental awareness among the public.

In this business environment, Tokyo Gas has taken full advantage of the high energy efficiency and environmental benefits of natural gas cogeneration systems and steadily promoted conversion from oil to gas. Our sophisticated gas utilization technologies, perfected through long years of experience, have demonstrated competitiveness against new entrants into the gas business. In the coming years we aim to expand our trade area and develop demand within a 200 km-wide area centered on Tokyo. One way will be to capitalize on our unshakeable strengths in cogeneration and combustion technologies for heating furnaces, drying furnaces and other applications to build relationships of trust with customers and expand sales.

## Strengthening Sales Capability to Commercial and Public Facilities

Although commercial power rates were long considered to be high in comparison with gas rates, the gap has decreased owing to rate reductions by electric power companies. For this reason, for sales activities directed at commercial and public facilities it has become increasingly important to strengthen the ability to offer integrated solutions.

In response to this development, in April 2005 the Energy Sales and Service Division implemented a major reorganization. Abandoning a geographical based organization, it adopted a new structure organized by major customer categories: for instance, hotels, hospitals, schools and restaurants. This structure enables the sales force to develop and refine industry specializations, strengthen relationships with customers and propose higher-level solutions.

In addition, office-building renovation is a field in which demand is expected to grow. To capture demand for air conditioning in this market, we will approach sales through solution proposals based on accurate assessment of customer needs.

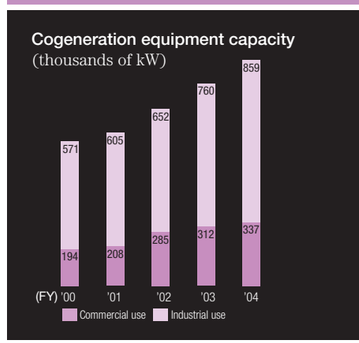
## Energy Services—A Business in the Spotlight

Collaboration with ENERGY ADVANCE Co., Ltd., a Group company that provides energy services, is an important element of sales activities in the industrial, commercial and public sectors.

In the Group's energy services business scheme, ENERGY ADVANCE constructs and retains ownership of gas cogeneration systems and other energy facilities as company assets and provides with a one-stop source of air conditioning, electricity, hot water supply, lighting and other energy customers require. The offer of this "asset-free" and "personnel-free" energy supply is drawing increased attention from customers, and through March 31, 2005, ENERGY ADVANCE had signed 67 contracts for cogeneration systems delivering a total of 140 MW. The company is utilizing the rock-solid engineering capabilities of the Tokyo Gas Group to expand its energy services beyond cogeneration systems into gas-absorption air-conditioning systems, gas boilers and other facilities.

In the coming years, we aim to further leverage this type of flexible response to customer needs for increased gas sales.

Competitive technology




Flexible response

# Constructing a Value Chain to Lower LNG Procurement Costs

Tokyo Gas participates in gas field development projects and engages in the transport business using company-owned LNG carriers. By participating in upstream operations and constructing a natural-gas value chain, we seek to ensure competitive advantage in gas resource procurement.

"Tokyo Gas is pursuing greater sophistication in its gas resource procurement and transport operations in order to provide customers with a stable supply of city gas at competitive prices."

Tadaaki Maeda (right)
*Chief Executive, Energy Resources Div.*

## Tireless Efforts to Ensure Competitive Gas Resources Procurement

Because Tokyo Gas relies on imports for nearly all the natural gas source used for its core gas operations, stable, low-cost resource procurement is extremely important to our business. For this reason, Tokyo Gas has continuously worked to ensure stability and low cost in gas-resource procurement since becoming the first company in Japan to import LNG in 1969.

Tokyo Gas currently imports LNG from nine projects in six countries. Unlike oil, which is found in only certain parts of the world, natural gas is produced widely in the world. This makes it possible to spread the risk and ensure stable procurement by trading with geographically diverse producers in the Middle East, Southeast Asia, Australia, Alaska and other locations with competitive contract terms and conditions.

Yet another factor that promotes stable procurement is that long-term sales contracts are commonplace owing to the fact that the natural gas business requires enormous investment in launching a greenfield project. While the contracts are based on a long-term commitment, we have built into them flexible adjustment of offtake volume to cope with demand fluctuation. On the other hand, on the occasion of signing a new long-term contract or renewing an existing long-term contract, there are opportunities to negotiate price reductions. Tokyo Gas takes advantage of these opportunities to reduce procurement costs.

Although LNG market prices are linked to oil prices, the price formula produces smaller fluctuations, and we hold down prices by negotiating contracts that allow control of the oil price increase curve.

## Tokyo Gas Acquires Its Second LNG Vessel

In recent years, Tokyo Gas has actively participated in transportation, upstream resource development and liquefaction business with the aim of further reducing resource procurement costs. In March 2005, Tokyo Gas put into service the Energy Advance, its second company-owned LNG carrier. The operation of a second vessel marked progress in the establishment of a structure to reduce ocean freight charges, taking advantage of FOB contracts. The industry trend is toward more flexible LNG contracts, including looser destination clauses. This trend creates opportunities that we will pursue to maximize the benefits of vessel ownership through expanding transportation business by providing transportation and charter service for the other buyers.

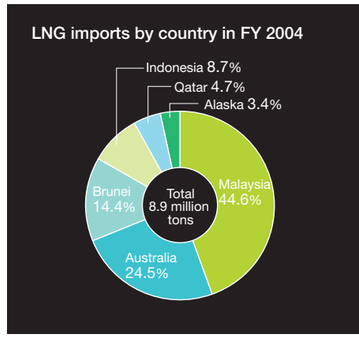
A third vessel will be chartered from December 2006, and a fourth one will enter service in March 2008.

## Constructing a Natural Gas Value Chain by Participating in Upstream Development

In 2003, Tokyo Gas formally decided to participate in the Bayu-Undan gas field development project (off Australia and East Timor), in which Tokyo Electric Power Co. and Tokyo Gas jointly own a 10% interest (in a ratio of two to one). Tokyo Gas has decided to purchase one million tons of LNG per year over a 17-year period beginning in 2006 from this source, for the purpose of stabilizing gas resource procurement and reducing costs.

In the Sakhalin II Project, Tokyo Gas has entered into an agreement to purchase up to 1.1 million tons of LNG per year over a 24-year period beginning in 2007. In addition to obtaining terms that make us more competitive from the standpoint of price and flexibility, we expect substantial transport cost reductions owing to the geographical proximity of the field to Japan and the use of company-owned carriers.

Cost advantage




Enhanced security

# Pursuing Advances in Gas-Related Technologies to Become More Competitive

Japan is the world's most advanced country in the use of natural gas. As the leader in Japan's gas industry, Tokyo Gas continues to develop new technologies that open the way to the future of natural gas.

"Tokyo Gas is further refining its world-class gas infrastructure technologies and developing gas utilization technologies centered on cogeneration."

Shigeru Muraki (far right)
*Chief Executive, R&D Div.*

## Besting Competitors with Our R&D Edge

As the Tokyo Gas Group seeks to develop and grow a comprehensive energy business with natural gas at its core, it is critical to provide timely and sophisticated technology as an advantage over competitors. The R&D Division engages in research and development with a sense of great urgency.

Specifically, we focus on "strategic technology," which aims at increasing our competitive edge through total energy services, and on "platform technology," which addresses the risks associated with gas supply, such as accidents and disruptions, with the goal of reducing costs.

In the area of strategic technology, cogeneration technologies involving gas engines and fuel cells are a key priority and, thanks to our R&D, we now market fuel cell cogeneration systems. Today, it is important to propose both systems as well as appliances tailored to customer requirements for industrial and commercial use, which the R&D Division promotes and researches in the area of systems development. The division maintains a special focus on "holonic energy systems" and has begun a demonstration test program, while also promoting research by sponsoring a course at the University of Tokyo. Holonic energy systems involve the balanced deployment and supply of energy from distributed power, such as cogeneration, solar-power and wind-power generation systems in a given area. The national government has indicated interest in the holonic energy concept as a means of saving energy and reducing $CO_2$ emissions.

## Revitalizing R&D through the Sponsor System and Reform of the Compensation System

Concentrating its 350 researchers in the R&D Division rather than attaching them to operating divisions enables Tokyo Gas to flexibly shift personnel to projects as needed. Since 1997 we have applied the Sponsor System, by which the R&D Division undertakes research and development on the basis of commissions from corporate divisions and strategic business units. Because R&D costs are borne by the commissioning party, solid results are required and a sense of urgency is maintained that leads to actual accomplishments.

In 2004, Tokyo Gas reformed the compensation system applied to research and development, effectively abolishing the upper limit on compensation. By adopting a rational procedure for evaluating annual income generated by the discoveries and inventions, and paying out about 5% as compensation with the intention to revitalize the research and development activities.

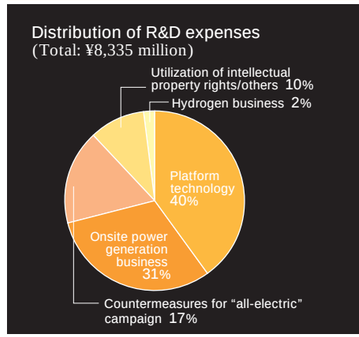
## Active Acquisition and Utilization of Patents and Trademark Registrations

In addition to concrete research and development activities, the R&D Division is focusing on the management and utilization of intellectual property rights. Tokyo Gas owns about 1,700 patents, not all of which have been fully utilized. We are currently reviewing our intellectual property, and the Intellectual Property Office will take the lead in systematically acquiring and strategically utilizing rights, while minimizing the risk of rights infringement.

Tokyo Gas has nearly 900 trademark registrations, which it regards as both a source of royalty revenues and a precious asset for increasing the value of the Tokyo Gas brand. Trademark registrations are another resource we plan to take full advantage of.

For further information, please visit the website at http://www.tokyo-gas.co.jp/techno/index_e.html

Technology innovation




Robust infrastructure