CONSOLIDATED BALANCE SHEETS

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2004	2003	2004
Property, plant and equipment (Notes 3 and 6):			
Production facilities	¥ 713,910	¥ 688,339	$ 6,734,997
Distribution facilities	2,018,459	1,952,210	19,042,069
Service and maintenance facilities	182,075	194,047	1,717,684
Other	611,749	591,542	5,771,221
Construction in progress	38,496	75,443	363,170
	3,564,689	3,501,581	33,629,141
Accumulated depreciation	(2,394,260)	(2,284,116)	(22,587,360)
	1,170,429	1,217,465	11,041,781
Intangibles	18,856	20,610	177,890
Investments and other non-current assets:			
Investments in unconsolidated subsidiaries and affiliated companies	29,715	20,271	280,332
Investment securities (Notes 4 and 6)	78,771	51,274	743,121
Long-term loans	13,230	10,238	124,814
Deferred tax assets (Note 9)	51,252	44,307	483,507
Other investments and non-current assets	47,131	49,592	444,634
Allowance for doubtful accounts	(1,659)	(2,244)	(15,650)
	218,440	173,438	2,060,758
Current assets:			
Cash and cash equivalents	43,961	52,130	414,724
Marketable securities (Note 4)	1	1	12
Notes and accounts receivables:			
Trade	125,244	132,235	1,181,549
Allowance for doubtful accounts	(1,215)	(1,448)	(11,465)
Inventories (Note 5)	22,827	21,125	215,345
Deferred tax assets (Note 9)	11,588	11,481	109,319
Other current assets	56,697	49,027	534,880
Total current assets	259,103	264,551	2,444,364
	¥ 1,666,828	¥ 1,676,064	$ 15,724,793

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY	2004	2003	2004
Long-term debt due after one year (Note 6)	¥ 545,845	¥ 598,322	$ 5,149,477
Employees' severance and retirement benefits (Note 8)	157,808	120,896	1,488,753
Allowance for repairs of gas holders	3,445	3,457	32,496
Deferred tax liability	2,396	792	22,600
Other non-current liabilities	24,853	28,105	234,465
Current liabilities:			
Bank loans (Note 6)	30,029	41,900	283,295
Long-term debt due within one year (Note 6)	106,870	91,079	1,008,212
Notes and accounts payable:			
Trade	35,747	37,677	337,236
Other	36,902	43,486	348,130
Income taxes payable (Note 9)	32,808	35,058	309,508
Accrued expenses	44,958	45,122	424,131
Deferred tax liability	—	13	—
Other current liabilities	42,456	46,412	400,530
Total current liabilities	329,770	340,747	3,111,042
Commitments and contingent liabilities (Note 13)			
Minority interest	4,258	4,039	40,174
Shareholders' equity (Note 10):			
Common stock:			
Authorized: 6,500,000,000 shares			
Issued: 2,810,171,295 shares in 2004			
2,810,171,295 shares in 2003	141,844	141,844	1,338,155
Capital surplus	2,065	2,065	19,485
Retained earnings	457,924	429,653	4,320,038
Net unrealized holding gains on securities	35,655	17,003	336,365
Foreign currency translation adjustments	(227)	4	(2,144)
	637,261	590,569	6,011,899
Treasury stock, at cost			
109,025,944 shares in 2004			
32,173,308 shares in 2003	(38,808)	(10,863)	(366,113)
Total shareholders' equity	598,453	579,706	5,645,786
	¥1,666,828	¥1,676,064	$15,724,793

CONSOLIDATED STATEMENTS OF INCOME

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net sales (Note 11)	¥1,151,825	¥1,127,634	$10,866,270
Costs and expenses (Note 11):			
Cost of sales	578,530	571,930	5,457,830
Selling, general and administrative	421,008	432,410	3,971,770
	999,538	1,004,340	9,429,600
Operating income (Note 11)	152,287	123,294	1,436,670
Other income (expenses):			
Interest and dividend income	1,399	1,089	13,194
Interest expense	(14,823)	(17,472)	(139,839)
Adjustments of charges for construction of distribution facilities	(4,145)	(4,649)	(39,102)
Losses on unsecured notes redemption	(6,575)	(6,328)	(62,024)
Gains from sale of securities	589	3,196	5,555
Reversal of environmental conditioning costs	1,650	—	15,568
Losses on impairment of fixed assets(Note 11)	(3,322)	—	(31,337)
Gains resulting from changes to pension system	5,665	—	53,443
Write-off of unrecognized actuarial differences of pension plans	(58,956)	—	(556,189)
Foreign exchange gains (losses)	(15)	737	(140)
Equity in net income of an affiliated company	236	220	2,226
Other, net	(859)	(4,204)	(8,106)
	(79,156)	(27,411)	(746,751)
Income before income taxes and minority interest in net income of consolidated subsidiaries	73,131	95,883	689,919
Income taxes (Note 9):			
Current	44,266	43,622	417,606
Deferred	(16,367)	(7,245)	(154,401)
	45,232	59,506	426,714
Minority interest in net income of consolidated subsidiaries	(445)	(305)	(4,195)
Net income	¥ 44,787	¥ 59,201	$ 422,519

	Yen		U.S. dollars (Note 1)
	2004	2003	2004
Amounts per share of common stock (Note 2):			
Net income	¥16.44	¥21.18	$0.16
Diluted net income	14.98	19.11	0.14
Cash dividends applicable to the year	7.00	6.00	0.07

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen						
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	2,810,165	¥141,843	¥2,064	¥387,315	¥ 32,836	¥ 115	¥ (95)
Net income				59,201			
Net unrealized holding gains on securities					(15,833)		
Foreign currency translation adjustments						(111)	
Treasury stock							(10,768)
Cash dividends paid (¥6.00 per share)				(16,768)			
Bonuses to directors				(95)			
Shares issued upon conversion of convertible bonds	6	1	1				
Balance at March 31, 2003	2,810,171	¥141,844	¥2,065	¥429,653	¥ 17,003	¥ 4	¥(10,863)
Net income				44,787			
Net unrealized holding gains on securities					18,652		
Foreign currency translation adjustments						(231)	
Treasury stock				(1)			(27,945)
Cash dividends paid (¥6.00 per share)				(16,438)			
Bonuses to directors				(77)			
Balance at March 31, 2004	2,810,171	¥141,844	¥2,065	¥457,924	¥ 35,655	¥(227)	¥(38,808)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	$1,338,155	$19,485	$4,053,326	$160,401	$ 41	$(102,480)
Net income			422,519			
Net unrealized holding gains on securities				175,964		
Foreign currency translation adjustments					(2,185)	
Treasury stock			(8)			(263,633)
Cash dividends paid ($0.06 per share)			(155,074)			
Bonuses to directors			(725)			
Balance at March 31, 2004	$1,338,155	$19,485	$4,320,038	$336,365	$(2,144)	$(366,113)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interest in net income of consolidated subsidiaries	¥ 73,131	¥ 95,883	$ 689,919
Adjustments to reconcile income before income taxes and minority interest in net income of consolidated subsidiaries to net cash provided by operating activities:			
Depreciation (Note 11)	143,129	137,300	1,350,270
Losses on impairment of fixed assets	3,322	—	31,337
Amortization of long-term prepayments	3,766	3,728	35,533
Loss on disposal of property, plant and equipment	3,790	2,482	35,759
Loss (gain) on sale of property, plant and equipment	673	(5,380)	6,345
Loss on reduction of acquisition costs of property, plant and equipment for tax purposes	1,608	4,416	15,169
Gains from sale of securities	(589)	(3,196)	(5,555)
Loss on unsecured notes redemption	6,575	6,328	62,024
Increase (decrease) in employees' severance and retirement benefits	36,912	(4,658)	348,227
Interest and dividend income	(1,399)	(1,089)	(13,194)
Interest expense	14,823	17,472	139,839
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable	5,157	(6,777)	48,649
Decrease (increase) in inventories	(1,701)	7,634	(16,047)
Increase (decrease) in notes and accounts payable	274	(1,785)	2,585
Decrease in consumption taxes payable	(1,552)	(219)	(14,638)
Bonuses paid to directors	(77)	(95)	(725)
Other—net	(10,045)	14,897	(94,768)
	277,797	266,941	2,620,729
Cash received for interest and dividends	1,381	1,166	13,024
Cash paid for interest	(15,053)	(18,069)	(142,010)
Cash paid for income taxes	(46,517)	(36,505)	(438,837)
Net cash provided by operating activities	217,608	213,533	2,052,906
Cash flows from investing activities:			
Purchases of investment securities	(15,371)	(7,297)	(145,011)
Proceeds from sales of securities	7,683	5,861	72,483
Purchases of property, plant and equipment	(101,012)	(98,149)	(952,941)
Purchases of intangible fixed assets	(12,211)	(9,015)	(115,199)
Long-term prepayments	(2,103)	(1,800)	(19,840)
Proceeds from sale of tangible and intangible fixed assets	1,235	6,888	11,649
Expenditure of long-term loans receivable	(3,886)	(4,256)	(36,664)
Other—net	(373)	(2,376)	(3,519)
Net cash used in investing activities	(126,038)	(110,144)	(1,189,042)
Cash flows from financing activities:			
Net repayments of short-term bank loans	(11,871)	(809)	(111,988)
Net repayments of commercial paper	—	(12,000)	—
Proceeds from long-term debt	87,790	37,341	828,207
Repayments of long-term debt	(131,042)	(75,450)	(1,236,244)
Cash dividends paid	(16,482)	(16,831)	(155,494)
Payments for acquiring treasury stock	(28,038)	(10,768)	(264,508)
Other—net	(101)	—	(954)
Net cash used in financing activities	(99,744)	(78,517)	(940,981)
Effect of exchange rate changes on cash and cash equivalents	5	(3)	49
Net increase (decrease) in cash and cash equivalents	(8,169)	24,869	(77,068)
Cash and cash equivalents at beginning of year	52,130	27,261	491,792
Cash and cash equivalents at end of year	¥ 43,961	¥ 52,130	$ 414,724

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

1. Basis of presenting consolidated financial statements

Tokyo Gas Co., Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial reporting Standards. The Company, as a regulated company, also follows the Gas Business Law related accounting regulations for preparing such financial statements.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese-language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥106 to US$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation The consolidated financial statements include the accounts of the Company and all of its significant subsidiaries. For the years ended March 31, 2004 and 2003, 18 subsidiaries were consolidated. All significant inter-company transactions and account balances are eliminated in consolidation.

Equity method Significant investments in unconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence with regard to operating and financial policies of the investees, are accounted for by the equity method. For the years ended March 31, 2004 and 2003, one affiliated company was accounted for by equity method.

Property, plant and equipment Property, plant and equipment is generally stated at cost. Depreciation is determined mainly by the declining-balance method based on estimated useful life, except that buildings acquired after March 31, 1998 are depreciated using the straight-line method.

As the accounting standard for impairment of fixed assets ("Opinion on Setting Accounting Standard for Impairment of Fixed Assets," issued by the Business Accounting Council on August 9, 2002) and its implementation guidance (Financial Standards Implementation Guidance No. 6, "Implementation Guidance for Accounting Standard for Impairment of Fixed Assets," issued by the Accounting Standards Board of Japan on October 31, 2003) can be adopted in the year ended March 31, 2004, the Company adopted the standard and its implementation guidance commencing in the year ended March 31, 2004. As a result, income before income taxes and minority interest in net income of consolidated subsidiaries decreased by ¥3,322 million (US$31,337 thousand).

The amounts of accumulated impairment losses are directly deducted from the acquisition costs of related fixed assets.

Software costs The Company and its consolidated subsidiaries include software in intangible assets and depreciate it using the straight-line method over the estimated useful life.

Cash and cash equivalents Cash and cash equivalents include cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase, which are readily convertible to known amounts of cash that they present insignificant risk of change.

Securities The Company and its consolidated subsidiaries classify their securities in one of the following three categories, in accordance with the Japanese Accounting Standard for Financial Instruments.

(a) Debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities") are stated at amortized cost.
(b) Equity securities issued by unconsolidated subsidiaries and affiliated companies which are not accounted for using the equity method are stated at moving-average cost.
(c) Available-for-sale securities, which are defined as securities other than held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and securities held for trading purposes, are stated at fair market value at the year-end, if their fair market values are readily available. The difference between acquisition cost and book values on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Available-for-sale securities with no available fair market values are stated at moving-average cost.

If the fair market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline.

Derivative financial instruments The Company and its consolidated subsidiaries use interest rate swaps, foreign exchange forward contracts, commodity swaps and weather derivatives only for the purpose of mitigating the risk of fluctuations in interest rates, foreign exchange rates, market prices of raw materials and affects of changes in temperature. The Company and its consolidated subsidiaries do not use derivative financial instruments for speculative trading purposes. The derivative financial instruments are executed with creditworthy financial institutions, and the Company's management believes there is little risk of default by counterparties. Derivatives are stated at fair market value at the year-end.

Inventories Inventories are stated at cost, cost being determined by the moving-average method.

Allowance for doubtful accounts The Company and its consolidated subsidiaries provide for doubtful accounts at an estimated amount of probable bad debts.

Employees' severance and retirement benefits The Company and its consolidated subsidiaries provide post-employment benefit plans, an unfunded lump-sum payment plan and a funded pension plan, under which employees' severance and retirement benefits are based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Company and its consolidated subsidiaries determine benefit obligation and expenses for employees' severance and retirement benefits based on the amounts actuarially calculated using certain assumptions.

The liability for employees' severance and retirement benefits is provided based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

The estimated amount of all retirement benefits to be paid at the future retirement date is assumed as generating equally to each service year using the estimated number of total service years. Past service costs are charged to income when incurred, and actuarial gains and losses are charged to income in the fiscal year following the year when they arise.

With enactment of the Defined Benefit Corporate Pension Plan Law in Japan, the Company carried out a revision in its pension plans during the year ended March 31, 2004, including a shift from the tax-qualified pension plan to the contract-type funded pension plan as well as introduction of a cash balance pension plan. As a result, the overall benefit ratio was lowered and, therefore, ¥5,665 million (US$53,443 thousand) gain resulting from changes to pension system has been recorded as other income. In addition, upon this plan revision, the Company changed its accounting for unrecognized actuarial differences from amortizing them over ten years to writing them off in one year, resulting in write-off of ¥58,956 million (US$556,189 thousand) in actuarial differences incurred in previous years. The purpose of this change is not only to timely reflect the funded status of the benefit obligation in the consolidated financial statements, but also to secure financial strength of the Company.

As a result of the changes described above, income before income taxes and minority interest in net income of consolidated subsidiaries decreased by ¥52,640 thousand (US$496,603 thousand), compared with what would have been recorded under the previous plans and accounting method.

Allowance for repairs of gas holders The Company and certain consolidated subsidiaries provide for periodic repairs of gas holders by estimating future expenditures and charging them to income in equal annual amounts. The difference between the actual expenditure and the amount provided is charged to income in the year repairs are completed.

Accounting for certain lease transactions Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

Income taxes Income taxes comprise corporation tax, inhabitants' taxes and enterprise tax. The Company and its consolidated subsidiaries recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

Enterprise tax Enterprise tax normally constitutes income taxes. However, in the case of companies engaged in gas businesses, enterprise tax is levied, not on taxable income, but on net sales. In the accompanying consolidated statements of income, enterprise tax levied on net sales is accounted for in "Selling, general and administrative" expenses in the amount of ¥11,145 million (US$105,139 thousand) and ¥10,633 million for the years ended March 31, 2004 and 2003, respectively. Enterprise taxes calculated based on taxable income of certain consolidated subsidiaries are included in income taxes.

Foreign currency translation Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Amounts per share of common stock Effective April 1, 2002, the Company and its consolidated subsidiaries adopted the new accounting standard for earnings per share (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share") and related guidance (Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share," issued by the Accounting Standards Board of Japan on September 25, 2002).

Basic net income per share is computed based on the net income available for distribution to common shareholders and the weighted-average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if convertible bonds were converted into common stocks.

Cash dividends per share have been presented on an accrual basis and include dividends approved or to be approved after the balance sheet dates, but applicable to the year then ended.

3. Property, plant and equipment

Property, plant and equipment is generally recorded at cost. However, in cases where the Company and its consolidated subsidiaries receive government grants toward the cost of construction, such amounts are offset against the acquisition cost of the related asset. Such offsets recorded at March 31, 2004 and 2003 were ¥238,670 million (US$2,251,885 thousand) and ¥236,141 million, respectively.

4. Securities

Acquisition costs, book values and fair values of securities with available fair market values at March 31, 2004 and 2003 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Securities with fair value exceeding book value:			
Book value	¥35	¥34	$330
Fair value	36	37	344
Difference	¥ 1	¥ 3	$ 14

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Securities with fair value not exceeding book value:			
Book value	¥10	¥ —	$92
Fair value	10	—	91
Difference	¥ —	¥ —	$ 1

(b) Available-for-sale securities

	Millions of yen		
For 2004	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition cost:			
Equity securities	¥ 9,908	¥66,363	¥56,455
Bonds	6	6	—
Subtotal	9,914	66,369	56,455
Securities with book values not exceeding acquisition cost:			
Equity securities	615	583	(32)
Total	¥10,529	¥66,952	¥56,423

	Millions of yen		
For 2003	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition cost:			
Equity securities	¥10,692	¥37,910	¥27,218
Bonds	5	6	1
Subtotal	10,697	37,916	27,219
Securities with book values not exceeding acquisition cost:			
Equity securities	1,523	1,151	(372)
Total	¥12,220	¥39,067	¥26,847

	Thousands of U.S. dollars		
For 2004	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition cost:			
Equity securities	$93,471	$626,065	$532,594
Bonds	55	56	1
Subtotal	93,526	626,121	532,595
Securities with book values not exceeding acquisition cost:			
Equity securities	5,803	5,497	(306)
Total	$99,329	$631,618	$532,289

Available-for-sale securities sold amounted to ¥2,613 million (US$24,655 thousand) and ¥5,374 million for the years ended March 31, 2004 and 2003, respectively. Gains on available-for-sale securities amounted to ¥597 million (US$5,635 thousand) and ¥3,045 million and losses on available-for-sale securities amounted to ¥7 million (US$66 thousand) and ¥50 million for the years ended March 31, 2004 and 2003, respectively.

Available-for-sale securities with no available fair values, which were stated at moving-average cost, amounted to ¥11,732 million (US$110,683 thousand) and ¥11,840 million at March 31, 2004 and 2003, respectively.

5. Inventories

Inventories at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished products	¥ 1,949	¥ 2,391	$ 18,388
Raw materials	11,372	9,762	107,279
Supplies	8,177	7,745	77,141
Work in process	1,329	1,227	12,537
	¥22,827	¥21,125	$215,345

6. Bank loans and long-term debt

At March 31, 2004 and 2003, bank loans consisted of short-term notes, bearing interest at average annual rates of 0.29% and 0.33%, respectively. Long-term debt at March 31, 2004 and 2003 were as follows:

		Millions of yen		Thousands of U.S. dollars
		2004	2003	2004
Domestic unsecured notes	Due 2014 at a rate of 5.1%	¥ —	¥ 10,000	$ —
	Due 2015 at a rate of 4.1%	13,800	23,300	130,188
	Due 2016 at a rate of 4.0%	27,700	29,000	261,321
	Due 2018 at a rate of 2.625%	40,000	40,000	377,358
	Due 2009 at a rate of 1.68%	30,000	30,000	283,020
	Due 2009 at a rate of 1.73%	30,000	30,000	283,020
	Due 2010 at a rate of 2.01%	20,000	20,000	188,679
	Due 2011 at a rate of 1.39%	30,000	30,000	283,020
	Due 2012 at a rate of 1.35%	20,000	20,000	188,679
	Due 2004 at a rate of 1.03%	3,000	3,000	28,302
	Due 2009 at a rate of 1.18%	4,000	4,000	37,736
	Due 2023 at a rate of 1.01%	20,000	—	188,679
	Due 2013 at a rate of 1.41%	30,000	—	283,020
Domestic unsecured convertible bonds	1st issue due 2003 at a rate of 1.5%	—	51,439	—
	3rd issue due 2005 at a rate of 1.5%	82,877	82,877	781,858
	5th issue due 2009 at a rate of 1.2%	49,963	49,969	471,349
	6th issue due 2007 at a rate of 1.1%	49,965	49,968	471,368
DM bearer bonds due 2005 at a rate of 7.0%		18,333	18,333	172,956
Loans from banks, insurance companies and government agencies due through 2028 at rates of 0.18% to 6.40%				
Secured		9,074	6,373	85,600
Unsecured		174,003	191,142	1,641,538
		652,715	689,401	6,157,689
Less—Amounts due within one year		106,870	91,079	1,008,212
		¥545,845	¥598,322	$5,149,477

The indentures covering the third, fifth and sixth domestic convertible bonds provide, among other conditions, for (1) conversion into shares of common stock at the conversion prices per share of ¥1,105.70 (US$10.43), ¥339.00 (US$3.20) and ¥339.00 (US$3.20), respectively (subject to adjustment in certain circumstances), (2) conversion periods through March 30, 2005, March 30, 2009 and March 29, 2007, respectively, and (3) redemption at the option of the Company, commencing in April 1998 for the 3rd issue, at prices ranging from 106% to 100% of the principal amount.

At March 31, 2004, investment securities and property, plant and equipment at book value amounting to ¥13,787 million (US$130,064 thousand) were pledged as collateral for secured loans and notes issued by consolidated subsidiaries.

As is customary in Japan, a lending bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default or certain other specified events, against all debt payable to the bank. To date no such offset request has been made to the Company and its consolidated subsidiaries.

Certain loan agreements provide, among other things, that, upon request, the Company and its consolidated subsidiaries submit to the lenders for approval of their proposed appropriation of retained earnings (including dividends) before such appropriation is submitted to the shareholders. Neither the Company nor any of its consolidated subsidiaries has ever received any such request.

The annual maturities of long-term debt at March 31, 2004 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥106,870	$1,008,212
2006	46,723	440,782
2007	67,295	634,857
2008	31,039	292,820
2009	81,233	766,348
2010 and thereafter	319,555	3,014,670
	¥652,715	$6,157,689

7. Derivative transactions

Contract amounts, market values and recognized gains on the interest rate swap contracts, except those accounted for using hedge accounting, at March 31, 2004 and 2003 were as follows:

	Millions of yen			
	At March 31, 2004			
	Contract amounts	Beyond one year	Market value	Recognized gains (losses)
Currency option contracts:				
Purchased cap option	¥ —	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	At March 31, 2004			
	Contract amounts	Beyond one year	Market value	Recognized gains (losses)
Currency option contracts:				
Purchased cap option	$ —	$ —	$ —	$ —

	Millions of yen			
	At March 31, 2003			
	Contract amounts	Beyond one year	Market value	Recognized gains (losses)
Currency option contracts:				
Purchased cap option	¥3,000	¥0	¥0	¥0

8. Employees' severance and retirement benefits

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation	¥328,518	¥ 331,622	$ 3,099,225
Unrecognized prior service costs	1,148	178	10,830
Unrecognized actuarial differences	(8,579)	(64,194)	(80,937)
Less fair value of pension assets	(163,350)	(146,710)	(1,541,039)
Prepaid pension costs	71	—	674
Employees' severance and retirement benefits	¥157,808	¥ 120,896	$ 1,488,753

Included in the consolidated statements of income for the years ended March 31, 2004 and 2003 were severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service costs—benefits earned during the year	¥ 9,659	¥10,132	$ 91,121
Interest cost on projected benefit obligation	8,182	9,093	77,190
Expected return on plan assets	(3,057)	(4,662)	(28,836)
Amortization of prior service costs	(3,761)	(13)	(35,484)
Amortization of actuarial differences	59,446	2,825	560,814
Other	101	—	953
Severance and retirement benefit expenses	¥70,570	¥17,375	$665,758

The discount rate and the rate of expected return on plan assets used by the Company and its consolidated subsidiaries are approximately 2.3% and 2.0%, respectively, at March 31, 2004, and approximately 2.5% and 3.0%, respectively, at March 31, 2003.

9. Income taxes

The Company is subject to a number of taxes based on taxable income, which, in the aggregate, indicate a statutory rate in Japan of approximately 36.2% for the years ended March 31, 2004 and 2003.

The significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the year ended March 31, 2004 is as follows. The differences between the statutory tax rate and the effective tax rate for financial statement purposes for the year ended March 31, 2003 was not significant

	2004
Statutory tax rate	36.21%
Tax credit for R&D expenses	(1.43)
Unrecognized net operating loss of consolidated subsidiary	1.04
Items for which tax planning strategies have not been determined	0.93
Other—net	1.40
Effective tax rate	38.15%

Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing assessment by estimation on the basis of the size of business. Due to the change of income tax rates, at March 31, 2003, certain consolidated subsidiaries changed the tax rates used for calculation of deferred taxes assets and liabilities. The effect of the change of effective tax rates was not significant.

Significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Liabilities for retirement benefits	¥52,847	¥36,530	$498,557
Other—net	33,731	34,376	318,221
Less valuation allowance	(2,030)	(595)	(19,155)
Subtotal	84,548	70,311	797,623
Deferred tax liabilities:			
Net unrealized holding gains on securities	20,734	9,830	195,603
Reserve for tax purposes cost reduction of certain pipelines	1,462	1,883	13,793
Other—net	1,908	3,617	18,001
Subtotal	24,104	15,330	227,397
Deferred tax assets—net	¥60,444	¥54,981	$570,226

10. Shareholders' equity

At the current conversion prices, 369,744 thousand shares of common stock were issuable at March 31, 2004 upon full conversion of the outstanding convertible bonds (see Note 6).

Under the Japanese Commercial Code, the excess of the total additional paid-in capital and legal reserve over 25% of common stock is available for dividends by resolution of the general meeting of shareholders. Additional paid-in capital is included in capital surplus and legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Japanese Commercial Code.

Effective April 1, 2002, the Company and its consolidated subsidiaries adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves," issued by the Accounting Standards Board of Japan on February 21, 2002). The effect on net income of adopting the new standard is not significant.

11. Segment information

The Company's and its consolidated subsidiaries' primary business activities include (1) gas sales, (2) gas appliance sales, (3) related construction, (4) real estate rental and (5) other business.

A summary of net sales, costs and expenses, operating income, identifiable assets, depreciation, losses on impairment of fixed assets and capital expenditures by business segments for the years ended March 31, 2004 and 2003 was as follows:

	Millions of yen						
	Gas sales	Gas appliance sales	Related construction	Real estate rental business	Other	Elimination or corporate	Consolidation
For 2004							
Sales:							
Outside customers	¥ 826,567	¥132,254	¥64,944	¥ 14,151	¥113,909	¥ —	¥1,151,825
Inside group	4,548	1,619	3,090	21,293	58,251	(88,801)	—
Total	831,115	133,873	68,034	35,444	172,160	(88,801)	1,151,825
Costs and expenses	641,749	125,969	63,578	27,561	160,890	(20,209)	999,538
Operating income	¥ 189,366	¥ 7,904	¥ 4,456	¥ 7,883	¥ 11,270	¥ (68,592)	¥ 152,287
Identifiable assets	¥1,027,776	¥ 45,445	¥23,137	¥208,213	¥184,816	¥177,441	¥1,666,828
Depreciation	117,150	506	136	13,370	13,516	(1,549)	143,129
Losses on impairment of fixed assets	1,652	—	—	1,667	3	—	3,322
Capital expenditures	85,873	550	303	2,833	18,066	(2,287)	105,338
For 2003							
Sales:							
Outside customers	¥ 789,688	¥141,225	¥67,045	¥ 14,944	¥114,732	¥ —	¥1,127,634
Inside group	2,766	1,411	3,523	21,402	43,595	(72,697)	—
Total	792,454	142,636	70,568	36,346	158,327	(72,697)	1,127,634
Costs and expenses	632,230	134,794	66,393	28,723	148,701	(6,501)	1,004,340
Operating income	¥ 160,224	¥ 7,842	¥ 4,175	¥ 7,623	¥ 9,626	¥ (66,196)	¥ 123,294
Identifiable assets	¥1,067,439	¥ 52,532	¥23,058	¥215,197	¥185,981	¥131,857	¥1,676,064
Depreciation	111,343	502	141	14,590	12,216	(1,492)	137,300
Capital expenditures	88,573	538	276	1,408	21,287	(1,894)	110,188

	Thousands of U.S. dollars						
	Gas sales	Gas appliance sales	Related construction	Real estate rental business	Other	Elimination or corporate	Consolidation
For 2004							
Sales:							
Outside customers	$7,797,799	$1,247,680	$612,679	$ 133,498	$1,074,614	$ —	$10,866,270
Inside group	42,905	15,277	29,149	200,877	549,537	(837,745)	—
Total	7,840,704	1,262,957	641,828	334,375	1,624,151	(837,745)	10,866,270
Costs and expenses	6,054,234	1,188,390	599,794	260,011	1,517,826	(190,655)	9,429,600
Operating income	$1,786,470	$ 74,567	$ 42,034	$ 74,364	$ 106,325	$ (647,090)	$ 1,436,670
Identifiable assets	$9,695,999	$ 428,727	$218,270	$1,964,274	$1,743,551	$1,673,972	$15,724,793
Depreciation	1,105,187	4,770	1,284	126,129	127,514	(14,614)	1,350,270
Losses on impairment of fixed assets	15,582	—	—	15,722	33	—	31,337
Capital expenditures	810,118	5,186	2,855	26,725	170,438	(21,571)	993,751

Costs and expenses under Elimination or corporate that cannot be allocated to business segments are related mainly to general administrative expenses of the Company.

Assets under Elimination or corporate mainly comprise cash and cash equivalents, current and noncurrent securities and deferred tax assets of the Company.

Geographic segment information is not shown due to the Company having no overseas consolidated subsidiaries. Information for overseas sales is not disclosed due to overseas sales being immaterial compared to consolidated net sales.

12. Information for certain leases

Information as lessee

Lease payments in the years ended March 31, 2004 and 2003, and future minimum lease payments at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease payments	¥ 958	¥ 972	$ 9,039
Future minimum lease payments inclusive of interest:			
Current	¥ 840	¥ 808	$ 7,927
Noncurrent	1,683	1,685	15,878
	¥2,523	¥2,493	$23,805

The Company and its consolidated subsidiaries use certain production facilities, distribution facilities, service and maintenance facilities and other assets under lease arrangements. Acquisition cost, accumulated depreciation and net book value for property held under finance leases which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2004			
Production facilities	¥ 115	¥ 49	¥ 66
Distribution facilities	890	385	505
Service and maintenance facilities	370	109	261
Other	3,643	1,952	1,691
	¥5,018	¥2,495	¥2,523
For 2003			
Production facilities	¥ 98	¥ 25	¥ 73
Distribution facilities	841	397	444
Service and maintenance facilities	189	83	106
Other	3,655	1,785	1,870
	¥4,783	¥2,290	¥2,493

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2004			
Production facilities	$ 1,089	$ 466	$ 623
Distribution facilities	8,395	3,635	4,760
Service and maintenance facilities	3,488	1,024	2,464
Other	34,369	18,413	15,956
	$47,341	$23,538	$23,803

Information as lessor

Lease income for the years ended March 31, 2004 and 2003, and future minimum lease payments to be received at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease income	¥ 4,473	¥ 4,477	$ 42,198
Future minimum lease payments to be received:			
Current	¥ 4,553	¥ 4,343	$ 42,952
Noncurrent	12,989	13,008	122,540
	¥17,542	¥17,351	$165,492

Some of the consolidated subsidiaries lease other assets under direct financing leases as lessors. Leased assets under direct financing leases were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2004			
Other assets	¥25,214	¥15,470	¥9,744
For 2003			
Other assets	¥24,007	¥16,359	¥7,648

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2004			
Other assets	$237,867	$145,944	$91,923

13. Commitments and contingent liabilities

The Company and its consolidated subsidiaries were contingently liable (1) for debt guarantees in the amount of ¥7,719 million (US$72,817 thousand) at March 31, 2004 for bank loans to affiliated companies, other than consolidated subsidiaries (2) to banks in the amount of ¥401 million (US$3,782 thousand) at March 31, 2004 with respect to joint and several liabilities upon default of other debtors and (3) as guarantors for domestic unsecured notes in the amount of ¥38,700 million (US$365,094 thousand) issued by the Company, which were assigned to certain banks under the debt assumption agreements made in the years ended March 31, 2004, 2003 and 2002.

At March 31, 2004, the Company had several long-term purchase contracts for the supply of LNG. The purchase price determinable under such contracts is contingent upon fluctuations in the market price of crude oil.

14. Subsequent events

(1) Acquisitions of treasury stock

On May 17, 2004, the Board of Directors approved the acquisition of treasury stock based upon the approval of the general meeting of shareholders.

Number of shares: Limited to 50,000,000 shares

Cost of shares acquisitions: Limited to ¥20,000 million (US$188,679 thousand)

(2) Issuance of domestic unsecured notes

On May 27, 2004, the Company issued domestic unsecured notes with conditions described below:

(a) Amount issued: ¥20,000 million (US$188,679 thousand)
Due: May 27, 2014
Coupon rate: 1.59%

(b) Amount issued: ¥10,000 million (US$94,340 thousand)
Due: May 27, 2024
Coupon rate: 2.29%

(3) Appropriation of retained earnings

At the general meeting of shareholders held on June 29, 2004, the Company's shareholders approved (i) payment of year-end cash dividends of ¥4.0 (US$0.04) per share aggregating ¥10,805 million (US$101,930 thousand) to the shareholders of record as of March 31, 2004, and (ii) payment of bonuses to directors totaling ¥65 million (US$613 thousand).

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of TOKYO GAS CO., LTD.

We have audited the accompanying consolidated balance sheets of TOKYO GAS CO., LTD. (a Japanese corporation) and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOKYO GAS CO., LTD. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the change in accounting policy for actuarial differences of pension plans at TOKYO GAS CO., LTD. and the adoption of new accounting standards relating to impairment of fixed assets at TOKYO GAS CO., LTD. and subsidiaries, as described in Note 2, to the consolidated financial statements. We also draw attention to Note 14 (1) and (2). Subsequent to March 31, 2004, TOKYO GAS CO., LTD. decided to acquire treasury stock and issue domestic unsecured notes.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2004