Financial Section

Contents

Financial Data and Graphs

For purposes of presentation in this annual report, all amounts less than one billion yen or one million yen, and hundredths of a percentage point, have been rounded to the nearest whole number. In addition, all graphs represent fiscal years ended March 31 of the respective years.

Management's Discussion and Analysis

Summary

- Consolidated gas sales volume increased by 6.8% year on year to 14,215 million m³. Gas sales volume was firm in all sectors, particularly in the industrial and wholesale sectors.
- Although sales increased by 8.0% to ¥1,487.5 billion, operating income decreased by 56.8% to ¥70.0 billion, and net income decreased by 57.8% to ¥42.5 billion. One reason for these results was the increase in operating expenses. The gas resource cost was higher due to higher sales volumes and the steep rise in the price of LNG, and there were higher personnel costs caused by a greater burden from the actuarial differential on retirement benefits and higher depreciation costs due to the impact of the tax revision.

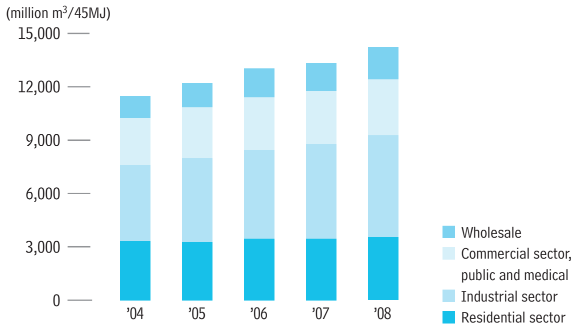
Sales Trends in the Core Gas Business

Sales Volume Increases in All Sectors

Residential Sector

In the first half of fiscal 2007, temperatures were 0.6°C higher on average than in the previous fiscal year, resulting in decreased demand for hot water. In the second half, however, when gas demand is seasonally higher, the average temperature was 1.1°C lower than in the previous year, resulting in increased demand for hot water and heating. As a result, sales volume increased by 77 million m³, or 2.3%, to 3,529 million m³.

Gas sales volume by sector



Commercial Sector, Public and Medical

Temperatures were higher year on year in the first half and lower in the second. Air conditioning demand grew, with the result that gas sales volume increased by 154 million m³, or 5.2% to 3,126 million m³.

Industrial Sector

Gas sales increased by 396 million m³, or 7.4%, to 5,732 million m³. This was mainly attributable to steady growth in the operations of new and existing customers.

Wholesaling to Other Gas Companies

Sales increased by 274 million m³, or 17.6%, year on year to 1,828 million m³. This was attributable to steady growth in the operations of new and existing customers in the service areas of the purchasing suppliers of 27 companies and also to increased demand for heating and hot water due to lower temperatures in the second half, when gas demand is seasonally higher.

Total gas sales volume increased in all sectors and overall it increased by 900 million m³, or 6.8%, to 14,215 million m³. Sales exceeded the forecast for the current year by 330 million m³, or 2.4%.

Analysis of Income

Income Substantially Lower Due to Higher Gas Resource Costs, Higher Personnel Costs Resulting from a Greater Burden from the Actuarial Differential on Retirement Benefits, and Higher Depreciation Costs Due to the Impact of the Tax Revision

Gas sales increased by 8.8% in the year ended March 31, 2008. Contributing factors included growth in gas sales, and higher unit prices under the gas rate adjustment system. Results from other segments included an increase in sales from the energy services business. Total net sales increased by ¥110.5 billion, or 8.0%, over the previous year's figure to ¥1,487.5 billion.

Operating income fell by ¥92.3 billion, or 56.8% year-on-year, to ¥70.0 billion. Reasons for the fall included higher gas resource costs resulting from higher gas sales volumes and a steep rise in the price of LNG, an increase in personnel costs resulting from an actuarial differential on retirement benefits, and an increase in depreciation costs due to the tax revision.

Gas Sales

Higher Sales and Lower Income as the Increase in Gas Resource Costs Partially Cancels Out High Unit Prices under the Gas Rate Adjustment System

There was a 6.8% volume increase in total gas sales and unit prices also rose under the Gas Rate Adjustment System, so in value terms gas sales increased by ¥87.5 billion, or 8.8%, to ¥1,087.0 billion. At the non-consolidated level, sales increased by ¥85.0 billion; sales volumes had positive impacts of ¥41.6 billion, including ¥10.2 billion by temperature-related factors, while higher unit prices under the gas rate adjustment system used to adjust for gas resource costs made a positive contribution of ¥46.2 billion. This was offset by a

Business results by segment (¥ million)

Sales

Years ended March 31	2008	2007	2006
Gas Sales	1,087,045	999,521	910,321
Gas Appliance Sales	132,327	135,407	130,826
Related Construction	57,326	59,230	59,747
Real Estate Rental	35,169	34,035	34,187
Other Business	320,361	285,407	252,596
Total	1,632,228	1,513,600	1,387,677
Elimination or corporate	(144,731)	(136,642)	(121,175)
Consolidation	1,487,497	1,376,958	1,266,502

Operating income

Years ended March 31	2008	2007	2006
Gas Sales	111,664	203,566	160,020
Gas Appliance Sales	2,909	1,169	4,617
Related Construction	828	1,751	2,976
Real Estate Rental	7,963	6,731	5,459
Other Business	12,769	13,848	9,647
Total	136,133	227,065	182,719
Elimination or corporate	(66,084)	(64,750)	(70,373)
Consolidation	70,049	162,315	112,346

Note: Segment sales and operating income include intra-group transactions.

¥2.8 billion negative impact from other factors, leaving a total price-related contribution of ¥43.4 billion.

The contribution of gas sales to total sales increased from 66.1% in the previous year to 66.6%.

Factors that included a steep rise in prices for LNG and higher gas sales volumes led to an increase in gas resource costs and as a result operating expenses increased by ¥179.4 billion, or 22.5%, despite our efforts to reduce existing expenditure items.

Operating income decreased by ¥91.9 billion, or 45.1%, to ¥111.7 billion.

Gas Appliance Sales

Lower Sales and Higher Income as Sales in Value Terms and Expenses Decline

Sales of highly efficient water heaters, bathroom heater-dryers with mist sauna functions, cooktops, etc., were firm; however, the switch to highly efficient water heaters led to declining sales of kitchen water heaters. Sales of gas appliances decreased by ¥3.1 billion, or 2.3%, to ¥132.3 billion, while operating expenses also decreased by ¥4.8 billion, or 3.6%. As a result, operating income increased by ¥1.7 billion, or 148.8% to ¥2.9 billion.

The contribution made by gas appliance sales to total net sales declined from 8.9% to 8.1%.

Related Construction

Reduced Installation Numbers Reflected in Lower Sales and Income

Sales decreased by ¥1.9 billion, or 3.2%, year on year to ¥57.3 billion, reflecting a reduction in the number of new installations. Operating expenses also decreased by ¥1.0 billion, or 1.7%, to ¥56.5 billion, while operating income decreased ¥0.9 billion, or 52.7%, to ¥0.8 billion.

This segment's contribution to total net sales declined from 3.9% to 3.5%.

Real Estate Rental

Sales increased by ¥1.1 billion, or 3.3% to ¥35.2 billion mainly due to increased revenue from facilities management and operating expenses were ¥27.2 billion, about the same level as in the previous fiscal year. As a result, operating income increased ¥1.2 billion, or 18.3%, to ¥8.0 billion.

This segment's contribution to total net sales was 2.2%, the same as last year.

Other Business

Energy Service and LPG Businesses Expanding

Sales of other business segments increased by ¥35.0 billion, or 12.2%, year on year to ¥320.4 billion. Reasons for the higher result include the expansion of the on-site energy service business, and the increase in sales in the LPG division due to higher prices for LPG and higher sales volumes. Operating expenses rose by ¥36.0 billion, or 13.3% due to the impact of the increased initial depreciation burden associated with the on-site energy service business. Operating income decreased by ¥1.1 billion, or 7.8%, to ¥12.8 billion.

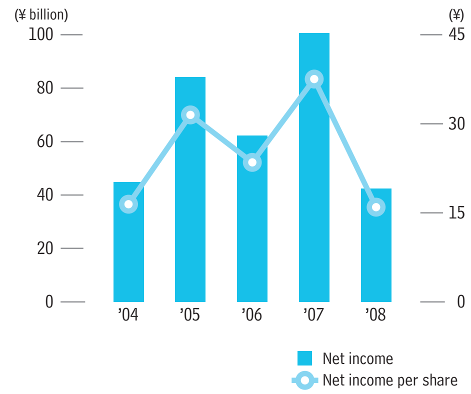
This segment's contribution to total net sales increased from 18.9% to 19.6%.

Other Revenues and Income/Net Income

Total other income increased by ¥0.6 billion to ¥20.6 billion. Although foreign exchange profits increased to ¥4.4 billion (¥0.2 billion expenses in the previous fiscal year) and return on investment accounted for under the equity method increased ¥2.4 billion to ¥3.8 billion, gains from sales of fixed assets decreased by ¥6.1 billion to ¥1.8 billion and gains from sales of investment securities decreased by ¥2.5 billion to ¥3.4 billion.

Other expenses increased overall by ¥1.2 billion to ¥21.0 billion. Contributing factors included a ¥2.7 billion increase in the balance on commissioned construction to ¥3.7 billion, and a ¥2.3 billion increase in environmental development expenses arising from soil

Net income and net income per share



improvements on land owned by Tokyo Gas to ¥2.7 billion, but these effects were offset by factors such as a ¥6.5 billion decrease in losses on reduction of fixed assets to ¥0.7 billion.

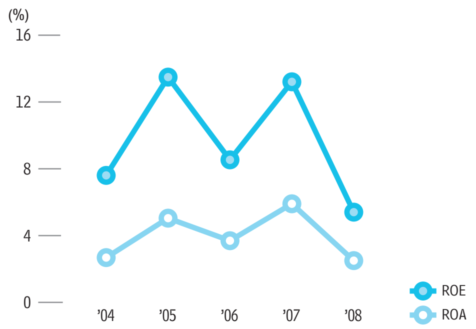
As a result of the above, other income (expenses) worsened from the previous year's result of ¥0.2 billion income to ¥0.4 billion net expenses. Net income for the current fiscal year decreased by 57.8%, to ¥42.5 billion.

■ Decrease in Net Income—ROA at 2.5%

Net income fell by ¥58.2 billion from the previous year's level, in part because of under-recovery of some portion of higher gas resource costs, caused by the upwardly sliding time lag under the gas rate adjustment system. As a result, ROA fell to 2.5%, from 5.9% in the previous fiscal year. Total assets increased by ¥11.1 billion year on year to ¥1,703.7 billion. As a result of ongoing depreciation, the tangible fixed asset portion of this amounted to ¥1,124.1 billion. Investments and other assets increased by ¥12.0 billion to ¥229.0 billion, in part because of increased subsidiaries and affiliates investment. Despite a ¥8.2 billion reduction in other current assets, current assets rose by ¥6.2 billion to ¥327.3 billion. This reflects increases of ¥6.5 billion in notes and accounts receivable-trade and ¥3.5 billion in cash and cash equivalents.

In future, we will continue to combine aggressive investment activities in order to build a foundation for future profitability paying careful attention to the efficiency in order to improve the level of ROA.

ROA and ROE



ROE = net income/equity
(average of positions at start and end of fiscal year)

■ ROE at 5.4%

Net income decreased 57.8% to ¥42.5 billion and as a result ROE fell to 5.4% from 13.2% in the previous fiscal year. Because of a reduction in retained earnings resulting from dividend payments and share repurchasing and retiring, equity fell by ¥26.0 billion year on year to ¥769.1 billion. In future, we will continue to aim to build an optimal capital structure and maintain continuous improvement in the level of ROE.

■ Fiscal 2008 Projection

Higher Revenues and Income Predicted for Fiscal Year Ending March 31, 2009

In fiscal 2008 (the year ending March 31, 2009), we expect net sales to increase by ¥224.5 billion, or 15.1%, to ¥1,712.0 billion, based on an assumption of $95 per barrel and an exchange rate of ¥105 to the dollar for the year. Operating income is also expected to increase by ¥5.0 billion, or 7.1%, to ¥75.0 billion and net income by ¥7.5 billion, or 17.7%, to ¥50.0 billion.

Forecast of an increase in income compared with the fiscal 2007 results are analyzed below on the basis of non-consolidated ordinary income.

In fiscal 2007, non-consolidated ordinary income amounted to ¥44.4 billion. The result for fiscal 2008 is expected to be higher, with a year-on-year increase of ¥7.6 billion, or 17.2%, to ¥52.0 billion. An improvement in the gross margin on gas accounts for ¥19.5 billion of this projected increase, offset by an increase in fixed costs and other factors of ¥11.9 billion.

The gross margin on gas accounts is expected to increase by ¥19.5 billion from fiscal 2007 due to an increased volume of gas sales, the impact of the revision in gas rates, and the time-lag in the gas rate adjustment system. Regarding gas sales in volume terms, if it is assumed that fiscal 2008 temperatures are the same as those in an average year, residential, commercial, and other demand will decline, mainly due to lower than average temperatures in the previous year, while industrial and wholesale demand will continue to increase. As a result, we forecast that gas sales volumes will increase by a slight 0.1% year-on-year but there will be a ¥1.6 billion worsening of the gross margin due to changes in the sector structure—decreases in the residential sector, increases in the industrial sector—of each type of gas use. We expect the downward revision in gas rates for small-volume customers that we implemented on April 15, 2008 will drive down the gross margin by ¥9.7 billion. But in fiscal 2008, the overall gross margin on gas will improve by ¥19.5 billion, because we will maintain a fixed gas resource price and a fixed exchange rate throughout the fiscal year. Thus, the shortfall in recovery from the time lag will decrease by ¥30.8 billion compared with fiscal 2007.

The rise in fixed costs was the result of a ¥7.4 billion increase in the actuarial differential on retirement benefits caused by worsening performance of pension assets with the downturn in the stock market in fiscal 2007, and investment in and strengthening of new measures such as the establishment of the new regional energy company.

Tax Revision-related to Depreciation in Fiscal 2007

Revisions to the taxation system in fiscal 2007 had the effect of abolishing the upper limit on the depreciation ceiling (95% of acquisition cost). There is a post-revision change in the method of calculating depreciation under Corporation Tax Law for tangible fixed assets acquired on or after April 1, 2007. For assets acquired on March 31, 2007 or earlier, the effect on the amount of depreciation will mainly be seen between fiscal 2007 and fiscal 2011 because the residual amount will be subject to straight line depreciation for the five years from the accounting year after the year in which the residual value reached 5% of the cost of acquisition. The above effect resulted in an increase of ¥13.0 billion in depreciation at the consolidated level. However, we expect the long-term effects of this change to be positive because depreciation costs are an expense without cash outflow and will reduce our expenses in later fiscal years.

■ Challenges in Fiscal 2008

Fiscal 2008 is the third year of the current 2006–2010 medium-term management plan, and we will continue to build a foundation for sustainable growth in the 2010s. We will focus on the following key priorities.

- Steadily promote the measures in the current medium-term management plan
- Strengthen our strategies to resist electrification and develop demand
- Launch our new regional energy company, LIFEVAL
- Respond to the privatization of the government-owned gas operators
- Further build the sense of security, safety and reliability customers feel toward Tokyo Gas

Rising global crude oil and LNG prices and changes to the competitive environment in the energy market are having a big impact on Tokyo Gas, and social demands for global environmental preservation and safer gas appliances are increasing. Therefore, we will review these change of management environment, aim for the "deepening and development of our integrated energy business" aimed at realizing sustainable growth, and the "strengthening of a corporate foundation" to carry out our business strategies, and formulate and announce a new management plan in the fiscal year 2008.

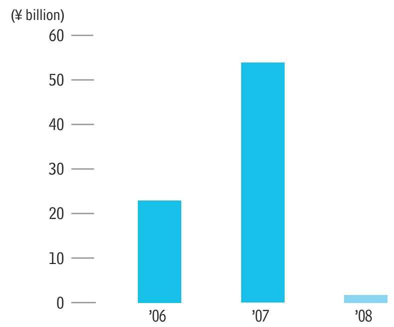
Tokyo Gas Original Indicator: TEP

Our goal is to generate profit in excess of capital costs. This is reflected in our adoption of Tokyo Gas Economic Profit (TEP—Net ordinary income after tax prior to interest payments minus the cost of capital), as our main management indicator. TEP is also being used as a management indicator for group companies, and as a benchmark for business restructuring and integration.

In fiscal 2007 Net Ordinary Profit After Tax Prior to Interest Payments (NOPAT) declined ¥53.6 billion year-on-year to ¥49.8 billion. The main reasons for this decline were under-recovery of gas resource costs due to a time lag in the gas rate adjustment system, the increase in the actuarial differential on retirement benefit reserves, and the increase in depreciation. However, the Weighted Average Cost of Capital (WACC) fell from 3.8% to 3.6% with the result that the cost of capital declined by ¥1.5 billion to ¥48.1 billion.

As a result, TEP declined by ¥52.1 billion to ¥1.7 billion.

TEP



TEP: NOPAT – cost of capital (Invested capital x WACC)
NOPAT: Net ordinary income after tax prior to interest payments

Cash Flows and Financial Position

■ Cash Flows from Operating Activities

Net cash and cash equivalents from operating activities decreased by ¥8.4 billion from the previous year to ¥182.2 billion. Although there was a ¥37.9 billion increase in retirement benefit reserves and a ¥50.0 billion increase in trade, income before income taxes and minority interest declined by ¥92.8 billion.

■ Cash Flows from Investing Activities

Net cash and cash equivalents used in investment activities amounted to ¥155.4 billion, an increase of ¥24.5 billion compared with the previous year's figure. This total consists mainly of an increase of ¥9.0 billion in payments resulting from the loaning of long-term loan receivables and an increase in payments of ¥6.5 billion due to the acquisition of investment securities.

■ Cash Flows from Financing Activities

Net cash and cash equivalents used in financing activities decreased by ¥40.6 billion year on year to ¥25.2 billion. Although there was a decrease of ¥16.4 billion due to repayment of long-term debt and a decrease of ¥12.0 billion in commercial paper, income from long-term loans increased by ¥44.7 billion and income from the issuance of corporate bonds increased by ¥30.0 billion.

Years ended March 31 (unit : million yen)	2008	2007	2006
Net cash provided by operating activities	182,204	190,597	181,529
Net cash used in investing activities	(155,366)	(130,922)	(116,071)
Net cash used in financing activities	(25,190)	(65,844)	(83,041)

■ Operating Cash Flow

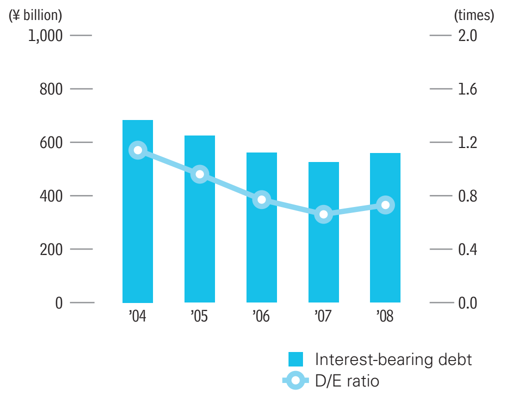
Tokyo Gas has made operating cash flow a major management indicator in its medium-term management plan for fiscal 2006–2010. Free cash flow is calculated by subtracting the capital expenditures of our major businesses so in the current medium-term management plan, which is aiming to aggressively invest in the gas business, we have stipulated operating cash flow, which is calculated by adding depreciation to net income, as our key indicator.

Operating cash flow for the fiscal year ended March 31, 2008, amounted to ¥184.9 billion, a year-on-year decrease of ¥48.9 billion. The lower figure reflects a decrease of ¥58.2 billion in net income, and an increase of ¥9.3 billion in depreciation.

■ Interest-bearing Debt

In fiscal 2007 interest-bearing debt increased by ¥33.2 billion to ¥558.7 billion, because of the increase in the demand for funds, particularly for capital investments and investment and financing activities. As a result the D/E ratio rose 0.07 percentage points to 0.73.

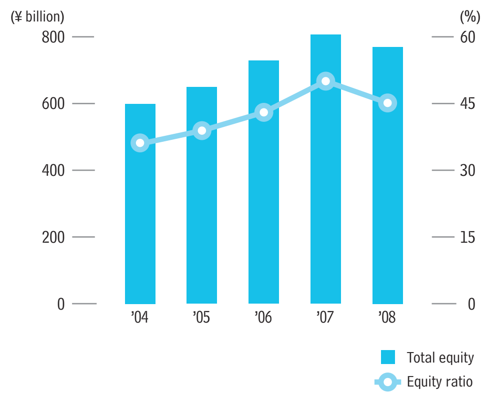
Interest-bearing debt and D/E ratio



Interest-bearing debt = long-term debt due after one year + long-term debt due within one year + bank loans

D/E ratio = interest-bearing debt / total equity (as of end of fiscal year)

Total equity and equity ratio



■ Equity Ratio

In fiscal 2007 the equity ratio fell 1.9 points to 45.1%. This result reflected a ¥25.6 billion decrease in net assets, despite an ¥11.1 billion increase in total assets. The decrease in net assets was caused by dividends of ¥22.8 billion and acquisition of own stock worth ¥39.6 billion, despite posting net income of ¥58.2 billion. Another factor was that net unrealized holding gains on securities were ¥17.8 billion lower this year.

■ Total Payout Ratio

In its current medium-term management plan, Tokyo Gas has introduced the concept of a 60% total payout ratio as an indicator of its commitment to shareholder returns. We define this new indicator as the ratio of the sum of the income distributed as dividends funded by net income in FY n and share repurchasing in FY n+1 to the net income in FY n. We aim to maintain a total payout ratio of 60% while maintaining a balance between dividends and stock repurchases.

We will maintain the dividend for fiscal 2007 at ¥8.0 per share. We also finished repurchase 25 million shares worth ¥10.0 billion yen in fiscal 2008. Result in a total payout ratio of 74.0% in fiscal 2007.

Our repurchasing programs are based on the cancellation of the shares and in fiscal 2007 we cancelled all of our repurchased shares, 68.6 million shares worth ¥34.5 billion, in October 2007. As a result, the number of issued shares declined by the same amount, to 2,741,571 thousand shares.

External Risks Affecting Business Activities

■ Gas Resource Fluctuation Risk

City gas supplied by Tokyo Gas is produced mainly from imported LNG. Since contracts are denominated in U.S. dollars, earnings are at risk from fluctuations in the yen-dollar exchange rate. Also, the dollar-denominated LNG prices are linked to crude oil prices on a sliding scale, which exposes the Company to risk from changes in the international market price for crude oil.

The provisional calculation of the extent to which these fluctuations affected gas resource costs in the year ending March 31, 2009 is as follows.

Approx. ¥6.7 billion for each ¥1 movement in the yen-dollar exchange rate

Approx. ¥4.9 billion for each $1 movement in the per-barrel price of crude oil

Fluctuations in the cost of gas resources are passed on to gas rates after at most six months under the "gas rate adjustment" system. Under this system, although earnings may be subject to temporary increases and decreases in a given fiscal year, the effect on operating income in fiscal 2008, after consideration of the time lag in the gas rate adjustment system, will be approximately ¥2.3 billion with an exchange rate fluctuation of ¥1/dollar and approximately ¥1.8 billion with a fluctuation in crude oil price of $1/barrel.

In fiscal 2007, the crude oil price averaged $78.67 per barrel, and the average exchange rate was ¥114.44 to one dollar. Forecasts for fiscal 2008 are based on an average crude oil price of $95 per barrel and an exchange rate of ¥105 to one dollar.

■ Temperature Fluctuation Risk

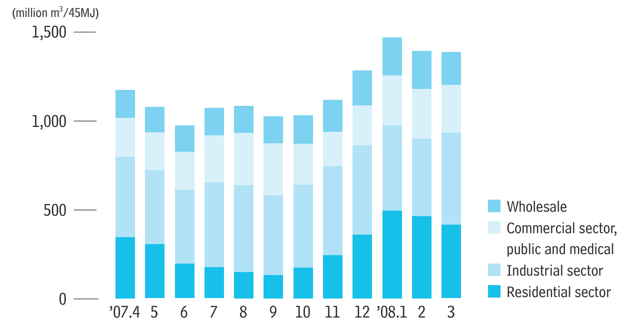
Temperatures affect the volume of city gas sales, which account for around 70% of consolidated sales and more than 80% of operating income. In the residential sector gas is used mainly for water heating and space heating. Mild winter weather can erode revenues and income by reducing the volume of gas sold. On the other hand, in the commercial sector gas is mainly used for air conditioning systems so if temperatures are high in the summer or low in the winter the gas sales volume increases.

The average temperatures in fiscal 2007 were 22.6°C in the first half of the year, 10.6°C in the second half, and 16.6°C over the whole year. Forecasts for fiscal 2008 are based on an average of 17.0°C over the whole year.

Impact of 1°C temperature rise on whole gas sales volume

	Rate of change
Summer (June – September)	+0.1%
Winter (December – March)	−2.0%
Intervening months (April, May, October, November)	−1.5%
Annual	−1.2%

Monthly gas sales volumes for fiscal 2007 (Non-consolidated)



■ Gas Rate Decline Risk

Progress in deregulation has caused competition to intensify among energy suppliers. In order to offer better services to our customers while also maintaining competitive energy prices, Tokyo Gas is aggressively cutting fixed costs and returning the benefits of more efficient management to our customers in the form of lower gas rates.

In April 2008 Tokyo Gas implemented a reduction in our tariffs averaging 1.51% across the entire small-volume segment. We have reduced gas rates four times full rate reduction since 1999, by 12% in total. Against the background of rising energy prices in recent times the unit price of gas has also been rising under the gas rate adjustment system but Tokyo Gas will continue to monitor the situation and study a strategic rates policy with a view to maintaining and improving our competitiveness.

■ Interest Rate Fluctuation Risk

Tokyo Gas mostly procures both short-term and long-term interest-bearing debt at fixed interest rates so there is only a very small risk of interest rate fluctuation during the term of an obligation. However, there may be risk of fluctuation when loans are refinanced.

■ Stock Price Fluctuation Risk

Tokyo Gas primarily holds equities to become good partners with the companies in order to grow together and conduct its business operations. Equity of publicly listed companies is subject to market risk. Tokyo Gas has established management policies and rules and regularly reviews the necessity of equity holdings and their asset valuations for handling of such equities.

Business Risks

Described below are aspects of the information provided in the financial statements concerning the business and financial situation that could have a significant influence on investor decisions. Forward-looking statements are based on judgments as of the end of the current consolidated accounting year (March 31, 2008).

1. Accident and Disaster Risks

1 Disruption of production and supply

The business operations of Tokyo Gas are based on the production and supply of city gas. A major gas leak, explosion relating to the production or supply of gas or disruption of supply could result not only in direct damages, but also tangible and intangible losses, including a social liability.

2 Ensuring the safety of gas and quality problems affecting gas equipment

Tokyo Gas has a responsibility to ensure the safe supply of gas. Tokyo Gas sells gas appliances and other equipment under the Tokyo Gas brand through consolidated subsidiaries and related companies, etc. Costs accompanying responses to accidents caused by supply, gas appliances and other equipment could affect future earnings, and there could also be other tangible and intangible losses.

3 Damage to reputation resulting from gas accidents caused by other gas companies

Accidents involving gas supply by other gas companies could have a serious effect on the reputation of the city gas industry as a whole. This could result in tangible and intangible losses.

4 Natural disaster risk

Tokyo Gas engages in facility-dependent businesses because city gas production and supply facilities are the foundation of its business. Accordingly, earthquakes, typhoons or other major natural disasters may cause damage to LNG terminals and other production facilities or pipelines and other supply facilities and disrupt the supply of city gas. Costs accompanying recovery efforts could affect revenues.

5 Resource procurement supply interruption risk

Because Tokyo Gas relies on imports for the majority of its natural gas and other city gas resources, supplier country risk, accidents at gas fields or LNG liquefaction plants, accidents to LNG vessels in transit or other situations preventing the smooth procurement of gas resources may disrupt the supply of natural gas.

2. Market Risks

1 Market risk

Tokyo Gas might incur losses in the event of changes in the market price of company-owned real estate, financial assets, pension assets or other assets and fluctuation of gas resource costs and interest rates.

3. Business Strategy Risks

1 Risk faced by existing business

A. Risks arising from the establishment and commencement of operations of the new regional energy company

Starting April 2008, the Tokyo Gas Group will gradually restructure and integrate its residential sector service operations to establish a new regional energy company, Tokyo Gas LIFEVAL, which will execute all these operations in an integrated manner. The new company will develop regional demand for gas, primarily among residential customers. We made careful preparations to ensure that the launch of the company went smoothly without operational errors. However, this change constitutes a fundamental revision of our regional marketing structure; thus, if unforeseen changes to the situation were to occur, they could affect the smooth commencement of the business.

B. Competitive risk

Increasing competition with electric utilities and companies entering into the gas business, as well as possible loss of LNG competitiveness against other energy sources due to crude oil price fluctuation, may have a greater impact on Tokyo Gas business performance.

C. Risk of under-recovery or over-recovery of gas resource costs

Under the gas rate adjustment system, changes in the gas resource costs are in principle reflected in gas rates, but the fluctuation is reflected in the rates as much as six months later. If this occurs over the accounting year, revenues for a single fiscal year may be affected due to under-recovery or over-recovery of gas resource costs. In particular, if crude oil prices or the exchange rate fluctuate suddenly or to an extreme degree, this effect on revenues for a single fiscal year may be large.

D. Changes to the gas resource procurement environment

If demand increases more than the amount procured through LNG projects based on long-term contracts, or trouble occurs at a shipping terminal or during transportation, or there are delays of LNG supply by new projects, etc., revenues may be affected by increases in gas resource costs due to our procurement of spot LNG.

E. Weather risk

Abnormal weather conditions, particularly summer heat waves and warm winters, reduce gas sales volume in the residential sector, where gas is mainly used to supply hot water and heating, thereby affecting revenues.

F. Demand risk

Advancement of energy conservation activities, changes in lifestyles and industry structure, economic recession or other factors may result in a partial decrease in existing demand.

G. Technology development risk

If we are unable to develop or commercialize in a timely manner the new products and new technologies necessary for the performance of our business, we may lose competitiveness with other forms of energy and this may affect business performance.

H. Legal and regulatory risk

Tokyo Gas manages its operations in compliance with the Gas Utility Industry Law, the Japanese Corporate Law, and the Financial Instruments and Exchange Law and other laws, regulations and institutions. Any revisions to these laws, regulations or institutions that prove detrimental to the Tokyo Gas Group may affect business performance.

2 ROI risk

Tokyo Gas continues to make large investments in keeping with the goal of "establishing a total energy business" as expressed in the medium-term management plan. Doing so involves investments channeled into the electric power business, energy service business, and gas field and other development projects, the LNG transportation business and other new businesses, as well as large investments into the foundations or to expand existing businesses such as long-distance transmission line construction and IT. Such investments run the risk of not bringing in appropriate returns or not producing the expected results due to changes in the economic situation, which could affect revenues.

4. Information Risks

1 Risk of information leaks

Improper disclosure of customers' personal information gathered and managed in the conduct of business as a public utility may result not only in direct costs required to remedy the situation, but also in tangible and intangible loss, including damage to the trust of customers and others, with more serious consequences than for other companies.

2 Risk of failure or malfunctioning of IT backbone systems

The failure or malfunctioning of IT backbone systems connected with the manufacture and supply of gas or the calculation of gas rates may result not only in a disruption in gas supply and delays in customer service, but also in tangible and intangible loss including damage of the Tokyo Gas Group's brand image.

3 Interruption of communication with call centers

Most communication with customers takes place via call centers. Interruptions to telephone service to call centers would not only disrupt service to customers over wide areas, but may also incur serious tangible and intangible loss, including damage of the Tokyo Gas Group's brand image.

5. Social Responsibility Risks and Others

1 Environmental risks

The need to comply with new environmental laws or additional obligations to improve the environment might have an effect on the business operation of the Tokyo Gas Group, and it could affect revenues.

2 Compliance risks

Any violations of laws, rules and regulations or inappropriate responses to information disclosure that contravene corporate ethics may result not only in direct costs required to remedy the situation, but also in tangible and intangible loss, including receiving social sanctions.

3 Risks associated with corporate responsibility and customer service

Inadequate responses to customer needs or inappropriate customer services may result in declining corporate competitiveness and in tangible and intangible loss, including damage of the Tokyo Gas Group's brand image.

12-year Summary

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries

Millions of yen, except per share amounts

For the years ended March 31	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Net sales	¥1,487,497	¥1,376,958	¥1,266,502	¥1,190,783	¥1,151,825	¥1,127,634	¥1,097,589	¥1,086,771	¥ 992,255	¥ 997,767	¥1,009,155	¥ 988,077
Gas sales	1,087,045	999,521	910,321	834,658	831,115	792,454	750,439	740,731	672,069	674,997	686,649	663,066
Gas appliance sales	132,237	135,407	130,826	135,109	133,873	142,636	149,203	146,517	127,916	133,925	127,880	135,057
Related construction	57,326	59,230	59,747	64,795	68,034	70,568	71,338	71,908	68,651	68,817	71,060	74,767
Real estate rental	35,169	34,035	34,187	34,701	35,444	36,346	37,551	37,601	37,841	37,616	38,978	40,916
Other business	320,361	285,407	252,596	234,721	172,160	158,327	156,011	159,578	158,819	155,045	154,602	144,032
Operating income	70,049	162,315	112,346	145,349	152,287	123,294	110,608	103,659	69,233	72,303	76,485	62,163
Net income	42,487	100,700	62,115	84,047	44,787	59,201	51,912	27,595	26,698	17,764	17,241	15,432
Depreciation*	142,422	133,142	136,377	140,271	146,895	141,027	145,564	150,374	140,306	143,009	—	—
Capital expenditures**	138,006	124,557	119,435	107,529	107,441	111,988	105,296	111,397	124,975	151,126	—	—
Free cash flow	46,903	109,285	79,057	116,789	84,241	88,240	92,178	66,572	42,029	9,647	—	—
Amounts per share of common stock (yen)												
Net income	¥ 15.94	¥ 37.50	¥ 23.48	¥ 31.47	¥ 16.44	¥ 21.18	¥ 18.47	¥ 9.82	¥ 9.50	¥ 6.32	¥ 6.14	¥ 5.49
Diluted net income	15.50	35.69	21.70	28.24	14.98	19.11	16.66	9.13	8.84	5.94	5.76	5.37
Net assets	289.49	293.11	270.48	244.73	221.53	208.65	200.75	196.72	172.33	149.98	148.67	147.65
Cash dividends applicable to the year	8.00	8.00	7.00	7.00	7.00	6.00	6.00	6.00	5.00	5.00	5.00	5.00
At year-end (March 31)												
Total assets	¥ 1,703,651	¥1,692,635	¥1,693,899	¥1,668,734	¥1,666,828	¥1,676,064	¥1,702,713	¥1,797,669	¥1,805,086	¥1,707,446	¥1,720,684	¥1,772,132
Long-term debt due after one year	487,138	465,896	496,740	547,139	545,845	598,322	680,887	708,329	843,634	820,753	765,304	878,674
Total net assets	780,455	806,046	—	—	—	—	—	—	—	—	—	—
Total shareholders' equity	—	—	728,232	648,766	598,453	579,706	564,078	552,790	484,239	421,442	417,755	414,906
Ratios												
Operating income to net sales	4.7%	11.8%	8.9%	12.2%	13.2%	10.9%	10.1%	9.5%	7.0%	7.2%	7.6%	6.3%
Net income to net sales	2.9%	7.3%	4.9%	7.1%	3.9%	5.3%	4.7%	2.5%	2.7%	1.8%	1.7%	1.6%
ROE	5.4%	13.2%	9.0%	13.5%	7.6%	10.4%	9.3%	5.3%	5.9%	4.2%	4.1%	3.7%
ROA	2.5%	5.9%	3.7%	5.0%	2.7%	3.5%	3.0%	1.5%	1.5%	1.0%	1.0%	0.9%
Equity ratio	45.1%	47.0%	43.0%	38.9%	35.9%	34.6%	33.1%	30.8%	26.8%	24.7%	24.3%	23.4%

Notes: 1. Segment sales include intra-group transactions.

2. Free cash flow = net income + depreciation* − capital expenditures**
*including amortization of long-term prepayments
**purchases of tangible fixed assets + purchases of intangible fixed assets + long-term prepayments (accounting basis)

3. Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard for presentation of net assets ("Accounting Standard for Presentation of Net Assets in the Balance Sheet and its Implementation Guidance" issued by the Business Accounting Deliberation Council on December 9, 2005.)

Consolidated Balance Sheets

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2008**	2007	**2008**
Property, plant and equipment (Note 3):			
Production facilities	¥ 719,708	¥ 713,984	$ 7,197,077
Distribution facilities (Note 4)	2,257,852	2,196,766	22,578,523
Service and maintenance facilities (Note 4)	167,754	170,539	1,677,543
Other facilities (Notes 4 and 16)	730,135	707,259	7,301,345
Shutdown facilities	2,240	2,798	22,402
Construction in progress	72,419	52,791	724,196
	3,950,108	3,844,137	39,501,086
Accumulated depreciation	(2,825,986)	(2,713,656)	(28,259,862)
Total property, plant and equipment	1,124,122	1,130,481	11,241,224
Intangible assets:			
Goodwill	1,834	1,396	18,338
Other intangible assets (Note 16)	21,386	22,672	213,859
Total intangible assets	23,220	24,068	232,197
Investments and other assets:			
Investment securities (Notes 4 and 5)	131,444	144,667	1,314,438
Long-term loan receivables (Note 4)	18,485	3,779	184,853
Deferred tax assets (Note 11)	31,636	28,044	316,360
Prepaid pension costs (Note 10)	9,028	12	90,276
Other investments and non-current assets	39,045	41,277	390,444
Allowance for doubtful accounts	(615)	(752)	(6,142)
Total investments and other assets	229,023	217,027	2,290,229
Current assets:			
Cash and cash equivalents (Note 4)	43,706	40,232	437,065
Marketable securities (Notes 4 and 5)	6	3	63
Notes and accounts receivable			
Trade (Note 6)	172,890	166,382	1,728,898
Other	13,797	13,818	137,968
Allowance for doubtful accounts	(517)	(930)	(5,170)
Inventories (Note 7)	38,526	36,132	385,263
Deferred tax assets (Note 11)	13,704	11,989	137,041
Other current assets (Note 4)	45,174	53,433	451,734
Total current assets	327,286	321,059	3,272,862
Total assets	¥ 1,703,651	¥ 1,692,635	$17,036,512

Accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2008**	2007	**2008**
Non-current liabilities			
Long-term debt due after one year (Notes 4 and 8)	¥ 487,138	¥ 465,896	$ 4,871,380
Deferred tax liabilities (Note 11)	3,066	4,716	30,663
Reserve for retirement benefits (Note 10)	93,558	92,948	935,577
Reserve for gas holder repairs	3,559	3,438	35,585
Reserve for safety measures	2,957	5,427	29,575
Other non-current liabilities	26,347	29,029	263,469
Total non-current liabilities	616,625	601,454	6,166,249
Current liabilities:			
Long-term debt due within one year (Notes 4 and 8)	63,200	42,617	632,000
Notes and accounts payable:			
Trade (Note 6)	99,352	59,728	993,523
Other	37,283	40,454	372,829
Bank loan payable (Notes 4 and 8)	8,379	10,955	83,787
Income taxes payable	25,150	43,854	251,506
Deferred tax liabilities (Note 11)	2	107	16
Other current liabilities (Note 4)	73,205	87,420	732,049
Total current liabilities	306,571	285,135	3,065,710
Commitments and contingent liabilities (Note 17)			
Net assets (Note 13):			
Shareholders' equity:			
Common stock:			
Authorized: 6,500,000,000 shares			
Issued: 2,741,571,295 shares as of 2008			
2,810,171,295 shares as of 2007	141,844	141,844	1,418,444
Capital surplus	2,066	2,066	20,655
Retained earnings	634,116	644,652	6,341,161
Treasury stock, at cost			
84,937,500 shares as of 2008			
97,537,522 shares as of 2007	(42,774)	(44,565)	(427,741)
Valuation and translation adjustments			
Net unrealized holding gains on securities	31,917	49,707	319,172
Deferred gains on hedge, net of taxes	424	1,095	4,241
Foreign currency translation adjustments	1,479	302	14,792
Minority interests	11,383	10,945	113,829
Total net assets	780,455	806,046	7,804,553
Total liabilities and net assets	¥ 1,703,651	¥ 1,692,635	$17,036,512

Consolidated Statements of Income

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Net sales (Note 15)	¥ 1,487,497	¥ 1,376,958	$ 14,874,970
Costs and expenses (Note 15):			
Costs of sales	974,111	799,468	9,741,110
Selling, general and administrative expenses	443,337	415,175	4,433,375
	1,417,448	1,214,643	14,174,485
Operating income (Note 15)	70,049	162,315	700,485
Other income (expenses):			
Interest and dividend income	1,960	2,051	19,595
Interest expenses	(10,460)	(10,370)	(104,604)
Gains (losses) from weather derivatives	(1,755)	1,621	(17,549)
Gains from sales of fixed assets	1,849	7,870	18,497
Losses on reduction of fixed assets	(710)	(7,228)	(7,102)
Impairment losses (Note 12)	(568)	—	(5,679)
Gains from sales of investment securities (Note 5)	3,356	5,851	33,560
Losses on valuation of investment securities	(1,078)	(595)	(10,784)
Adjustments of charges for construction of distribution facilities	(3,723)	(1,022)	(37,233)
Environment maintenance expenses	(2,722)	(394)	(27,222)
Foreign exchange gains (losses)	4,442	(188)	44,426
Equity in net income of affiliated companies	3,775	1,347	37,753
Other, net	5,267	1,275	52,677
	(367)	218	(3,665)
Income before income taxes and minority interests	69,682	162,533	696,820
Income taxes:			
Current	22,749	49,335	227,487
Deferred	3,238	11,711	32,381
	25,987	61,046	259,868
Minority interests	(1,208)	(787)	(12,077)
Net income	¥ 42,487	¥ 100,700	$ 424,875

	yen		U.S. dollars (Note 1)
	2008	2007	2008
Amounts per share of common stock:			
Net income	¥15.94	¥ 37.50	$0.16
Diluted net income	15.50	35.69	0.16
Cash dividends applicable to the year	8.00	8.00	0.08

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen									
		Shareholders' equity				Valuation and translation adjustments				
	Number of issued shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Deferred gains on hedge, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2006	2,810,171	¥141,844	¥2,066	¥572,600	¥(44,840)	¥56,510	—	¥ 52	¥10,255	¥738,487
Cash dividends paid (appropriation of retained earnings approved at general shareholders' meeting in June 2006) (¥3.5 per share)				(9,424)						(9,424)
Cash dividends paid (¥3.5 per share)				(9,350)						(9,350)
Bonuses paid to directors (appropriation of retained earnings approved at general shareholders' meeting in June 2006)				(67)						(67)
Net income				100,700						100,700
Acquisition of treasury stock					(34,658)					(34,658)
Disposal of treasury stock				(8,403)	34,933					26,530
Decrease due to addition of consolidated subsidiaries				(1,404)						(1,404)
Net changes in net assets other than shareholders' equity						(6,803)	1,095	250	690	(4,768)
Net changes during the year	—	—	—	72,052	275	(6,803)	1,095	250	690	67,559
Balance at March 31, 2007	2,810,171	141,844	2,066	644,652	(44,565)	49,707	1,095	302	10,945	806,046
Cash dividends paid (¥8.5 per share)				(22,832)						(22,832)
Net income				42,487						42,487
Acquisition of treasury stock					(39,572)					(39,572)
Disposal of treasury stock				(2,098)	6,824					4,726
Retirement of treasury stock	(68,600)			(34,539)	34,539					—
Increase due to addition of consolidated subsidiaries				114						114
Increase due to addition of affiliated companies accounted for by equity method				6,332						6,332
Net changes in net assets other than shareholders' equity						(17,790)	(671)	1,177	438	(16,846)
Net changes during the year	(68,600)	—	—	(10,536)	1,791	(17,790)	(671)	1,177	438	(25,591)
Balance at March 31, 2008	2,741,571	¥141,844	¥2,066	¥634,116	¥(42,774)	¥31,917	¥ 424	¥1,479	¥11,383	¥780,455

	Thousands of U.S. dollars (Note 1)								
	Shareholders' equity				Valuation and translation adjustments				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Deferred gains on hedge, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2007	$1,418,444	$20,655	$6,446,522	$(445,649)	$497,066	$10,952	$ 3,020	$109,447	$8,060,457
Cash dividends paid ($0.09 per share)			(228,319)						(228,319)
Net income			424,875						424,875
Acquisition of treasury stock				(395,722)					(395,722)
Disposal of treasury stock			(20,985)	68,236					47,251
Retirement of treasury stock			(345,394)	345,394					—
Increase due to addition of consolidated subsidiaries			1,137						1,137
Increase due to addition of affiliated companies accounted for by equity method			63,325						63,325
Net changes in net assets other than shareholders' equity					(177,894)	(6,711)	11,772	4,382	(168,451)
Net changes during the year	—	—	(105,361)	17,908	(177,894)	(6,711)	11,772	4,382	(255,904)
Balance at March 31, 2008	$1,418,444	$20,655	$6,341,161	$(427,741)	$319,172	$ 4,241	$14,792	$113,829	$7,804,553

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 69,682	¥ 162,533	$ 696,820
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	138,133	128,998	1,381,326
Impairment losses	568	—	5,679
Amortization of goodwill	685	305	6,845
Amortization of long-term prepayments	4,289	4,144	42,887
Losses on disposal of property, plant and equipment	1,569	3,157	15,685
Net gains and losses from sales of fixed assets	(1,644)	(7,904)	(16,441)
Losses on reduction of fixed assets	710	7,228	7,102
Gains from sales of investment securities	(3,356)	(5,851)	(33,560)
Losses on valuation of investment securities	1,078	595	10,784
Increase (decrease) in allowance for doubtful accounts	(550)	109	(5,495)
Increase (decrease) in reserve for retirement benefits	621	(37,274)	6,212
Decrease (increase) in prepaid pension costs	(9,016)	128	(90,159)
Increase (decrease) in reserve for safety measures	(2,470)	5,427	(24,697)
Interest and dividend income	(1,960)	(2,051)	(19,595)
Interest expenses	10,460	10,370	104,604
Equity in net income of affiliated companies	(3,775)	(1,347)	(37,753)
Changes in operating assets and liabilities:			
Increase in trade notes and accounts receivable	(3,004)	(17,369)	(30,043)
Increase in inventories	(2,542)	(1,535)	(25,421)
Increase (decrease) in trade notes and accounts payable	35,883	(14,076)	358,833
Increase (decrease) in consumption taxes payable	(4,574)	4,451	(45,736)
Increase in other accounts receivable	(560)	(271)	(5,601)
Other – net	1,885	(1,610)	18,845
	232,112	238,157	2,321,121
Cash received for interest and dividends	2,784	2,011	27,846
Cash paid for interest	(10,196)	(10,244)	(101,964)
Cash paid for income taxes	(42,496)	(39,327)	(424,961)
Net cash provided by operating activities	182,204	190,597	1,822,042
Cash flows from investing activities:			
Purchase of time deposits	(5,467)	(5,517)	(54,672)
Proceeds from redemption of time deposits	5,466	6,616	54,660
Purchases of investment securities	(19,111)	(12,625)	(191,110)
Proceeds from sales of investment securities	9,631	9,912	96,307
Purchases of property, plant and equipment	(128,972)	(124,174)	(1,289,720)
Purchases of intangible fixed assets	(6,787)	(8,611)	(67,867)
Long-term prepayments	(3,023)	(2,472)	(30,233)
Proceeds from sales of fixed assets	1,496	5,986	14,965
Expenditure of long-term loan receivables	(9,835)	(840)	(98,349)
Collection of long-term loan receivables	1,185	135	11,847
Other – net	51	668	513
Net cash used in investing activities	(155,366)	(130,922)	(1,553,659)
Cash flows from financing activities:			
Net decrease of short-term bank loan payable	(3,235)	(6,523)	(32,353)
Net increase (decrease) in commercial paper	(6,000)	6,000	(60,000)
Proceeds from long-term debt	89,579	14,935	895,795
Repayments of long-term debt	(43,162)	(26,986)	(431,623)
Cash dividends paid	(22,824)	(18,781)	(228,236)
Cash dividends paid for minority shareholders	(278)	(93)	(2,782)
Proceeds from sales of treasury stock	302	323	3,022
Purchases of treasury stock	(39,572)	(34,658)	(395,722)
Other – net	—	(61)	—
Net cash used in financing activities	(25,190)	(65,844)	(251,899)
Effect of exchange rate changes on cash and cash equivalents	525	10	5,250
Net increase (decrease) in cash and cash equivalents	2,173	(6,159)	21,734
Cash and cash equivalents at beginning of year	40,232	45,634	402,318
Increase in cash and cash equivalents due to addition of consolidated subsidiaries	1,301	799	13,013
Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation	—	(42)	—
Cash and cash equivalents at end of year	¥ 43,706	¥ 40,232	$ 437,065

Accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

1 Basis of presenting consolidated financial statements

Tokyo Gas Co., Ltd. (the "Company") and its consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly Securities and Exchange Law) and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from 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 accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

The accompanying consolidated financial statements have been restructured and translated into English 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 Financial Instruments 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 is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100 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

(1) Consolidation — The consolidated financial statements include the accounts of the Company and all of its significant subsidiaries. For the years ended March 31, 2008 and 2007, 55 and 52 subsidiaries, respectively, were consolidated. All significant inter-company transactions and account balances are eliminated in consolidation.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on their fair value at the time the Company acquired control of the respective subsidiary.

The following five subsidiaries were newly included in the scope of consolidation from the current fiscal year due to those increased significance of subsidiaries in the year ended March 31, 2008.

Tokyo Gas International Holdings B.V.
Tokyo Gas Bajio B.V.
TOKYO GAS-MITSUI&CO. HOLDINGS SDN. BHD.
TK Customer Service Co., Ltd.
Tokyo Gas Pluto Pty Ltd

The Company's percentage of shareholders' voting rights in the East Japan Housing Evaluation Center Co., Ltd. fell, and TG IT Service Co., Ltd. was dissolved, since it was merged with a consolidated subsidiary TG Information Network Co., Ltd. Thus, these two companies were excluded from the scope of the consolidation.

The Company's major unconsolidated subsidiaries include Ohgishima Power Co., Ltd.

Unconsolidated subsidiaries were not included in the scope of the consolidation because total assets, sales and the amount of net income/loss equivalent to the portion of the Company's interests or the amount of retained earnings, etc. equivalent to the portion of the Company's interests is small, and lacking in qualitative significance, and therefore they do not have a significant impact on the consolidated financial statements.

(2) 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, 2008 and 2007, 4 and 1 affiliated companies, respectively, were accounted for by equity method.

The unconsolidated subsidiaries and affiliates not accounted for by the equity method were excluded from the scope of application of equity methods, due to the immaterial effect of Company's total interest on their net income and retained earnings to the consolidated financial statement and totally insignificance.

(3) Accounting period of consolidated subsidiaries — Though the Company's fiscal year ends on March 31, the following companies end their year on December 31:

TOKYO GAS AUSTRALIA LTD
Tokyo Gas International Holdings B.V.
Tokyo Gas Bajio B.V.
Tokyo Gas Darwin LNG Pty Ltd
TOKYO GAS–MITSUI&CO. HOLDINGS SDN. BHD.
Tokyo Gas Pluto Pty Ltd

All significant adjustments considered necessary during the period from December 31 to the consolidated fiscal year end have been made on consolidation.

(4) 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 certain buildings are depreciated using the straight-line method.

As a result of the revision of the Corporation Tax Law, as of the year under review, the Company and its domestic consolidated subsidiaries have changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007, to the depreciation method prescribed by the revised Corporation Tax Law. In consequence, operating income and income before income taxes and minority interests each declined by ¥1,335 million (US$13,352 thousand).

In addition, as to property, plant and equipment acquired on or before March 31, 2007, as of the fiscal year following that in which assets reach 5% of their acquisition cost pursuant to the depreciation method prescribed by the Corporation Tax Law prior to its revision, the difference between an amount equal to 5% of the acquisition cost and the memorandum value is depreciated uniformly over five years and included in depreciation expenses. In consequence, operating income and income before income taxes and minority interests were each stated at ¥11,651 million (US$116,514 thousand) lower than under the previous method.

The effect of these accounting changes on segment information is shown in Note 15. Segment Information.

Accumulated impairment losses on property, plant and equipment are deducted directly from the balances of corresponding assets.

(5) 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.

(6) Accounting for certain lease transactions — Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases.

(7) Goodwill — Goodwill and negative goodwill are amortized on a straight-line basis within 20 years (mainly 10 years).

(8) 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.

(9) 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 that are not accounted for using the equity method are stated at moving-average cost.

(c) Other securities with fair value, 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 value at the year-end, if their fair values are readily available. The difference between acquisition costs and book values of these securities are reported, net of applicable taxes, as a separate component of net assets. Other securities with no fair values are stated at moving-average cost.

If the fair value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and other securities, declines significantly, and the decline is not considered recoverable, such securities are stated at fair value and the difference between fair value and the carrying amount is recognized as loss in the period of the decline.

(10) Derivative financial instruments — The Company and its consolidated subsidiaries use currency swap contracts, interest rate swap contracts, foreign exchange forward contracts, commodity swap contracts and weather derivatives only for the purpose of mitigating the risk of fluctuations in foreign exchange rates, interest rates, market prices of raw materials and finished products, 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 and its consolidated subsidiaries' management believes there is little risk of default by counterparties. The derivative financial instruments are used based on internal policies and procedures on risk control.

Derivatives are stated at fair market value at the year-end. The Company and its consolidated subsidiaries use hedging accounting, provided that the conditions of the accounting were applicable to the rules. Regarding forward exchange contracts and foreign currency swap contracts that fulfilled certain conditions, the hedged foreign currency receivable and payable are recorded using the Japanese yen amount of the contracted forward rate or swap rate. Regarding interest rate swap contracts that fulfilled certain conditions, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the liabilities for which the swap contract was executed.

(11) Inventories — Inventories are stated at cost, being determined by the moving-average method.

(12) Allowance for doubtful accounts — For normal receivables, an allowance for doubtful accounts is provided using the historical experienced default ratio. For specific receivables such as bankruptcy/rehabilitation claims, an allowance for doubtful accounts is provided for the estimated amounts considered to be uncollectible after reviewing individual collectability.

(13) Reserve for retirement benefits — The Company and its consolidated subsidiaries provide an unfunded lump-sum payment plan and a funded pension plan as retirement benefit schemes. The Company and certain consolidated subsidiaries provide defined benefit plan and defined contribution plan. Retirement benefits under these plans are determined based on the level of wages and salaries, length of service and certain other factors.

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

Reserve for 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 mainly charged to income when incurred, and actuarial gains and losses are charged to income mainly in the fiscal year following the year when they arise.

(14) Reserve for gas holder repairs — 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.

(15) Reserve for safety measures — The Company provides for expenses necessary to secure safety for gas consumers by estimating total amount of such expenses which are expected to incur after the year-end date.

(16) Translation of financial statements denominated in foreign currency — Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates, and the resulting translation gains or losses are charged to current income/expense. Assets and liabilities of the foreign subsidiaries are translated into Japanese yen at the exchange rates prevailing at the consolidated year-end date. Profit and loss accounts for the year are translated into Japanese yen at the exchange rates prevailing at the consolidated year-end date as well. Differences in yen amounts arising from the use of different rates are presented as "Foreign currency translation adjustments" and "Minority interests" in net assets.

(17) Income taxes — Income taxes comprise corporation tax, inhabitants' taxes and enterprise tax (excluding enterprise taxes based on "amount of added value" and "amount of capital"). 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. The Company and its consolidated subsidiaries do not recognize deferred tax assets which are not expected to reduce future income taxes.

(18) Enterprise tax — In the case of companies engaged in gas businesses, enterprise tax which is levied, not on taxable income but on net sales, is accounted for in "Selling, general and administrative expenses". Enterprise taxes based on "amount of added value" and "amount of capital" are also included in "Selling, general and administrative expenses".

In the accompanying consolidated statements of income, enterprise tax included in "Selling, general and administrative expenses" amounted to ¥15,267 million (US$152,666 thousand) and ¥13,933 million for the years ended March 31, 2008 and 2007, respectively.

(19) Amounts per share of common stock — 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.

At the current conversion prices, 2,754,495 thousand shares of common stock were issuable at March 31, 2008 upon full conversion of the outstanding convertible bonds.

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.

(20) Reclassifications — Certain prior year amounts have been reclassified to conform to 2008 presentation. These changes had no impact on previously reported results of operations.

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 acquisition, such amounts are offset against the acquisition cost of the related asset ("reduction entry accounting"). Such accumulated reduction of fixed assets recorded at March 31, 2008 and 2007 were ¥273,657 million (US$2,736,569 thousand) and ¥262,818 million, respectively.

4 Pledged assets

Pledged assets at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Distribution facilities	¥ 6,779	¥ 6,493	$ 67,795
Service and maintenance facilities	93	83	933
Other facilities	13,792	18,034	137,920
Investment securities	31	36	309
Long-term loan receivables	38	39	374
Cash and cash equivalents	1,736	—	17,361
Marketable securities	5	2	50
Other current assets	1	—	6
	¥ 22,475	¥ 24,687	$ 224,748

Liabilities secured by the above assets at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Long-term debt (including current portion)	¥ 11,326	¥ 13,537	$ 113,255
Bank loan payables	—	584	—
Other current liabilities	59	61	594
	¥ 11,385	¥ 14,182	$ 113,849

5 Securities

Acquisition costs, book values and fair values of securities with available fair values at March 31, 2008 and 2007 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Securities with fair value exceeding book value:			
Book value	¥ 45	¥ 27	$ 449
Fair value	46	27	460
Difference	¥ 1	¥ 0	$ 11

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Securities with fair value not exceeding book value:			
Book value	¥ 200	¥ 220	$ 1,998
Fair value	200	220	1,997
Difference	¥ 0	¥ 0	$ (1)

(b) Other securities with fair value

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Securities with fair values exceeding acquisition cost:			
Equity securities			
Acquisition cost	¥ 22,142	¥ 19,196	$ 221,423
Fair value	73,250	98,132	732,505
Difference	¥ 51,108	¥ 78,936	$ 511,082

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Securities with fair values not exceeding acquisition cost:			
Equity securities			
Acquisition cost	¥ 3,473	¥ 2,324	$ 34,732
Fair value	2,960	2,230	29,595
Difference	¥ (513)	¥ (94)	$ (5,137)

Other securities sold amounted to ¥3,715 million (US$37,146 thousand) and ¥9,449 million for the years ended March 31, 2008 and 2007, respectively. Gains on sale of other securities amounted to ¥3,356 million (US$33,560 thousand) and ¥5,851 million for the years ended March 31, 2008 and 2007, respectively.

Other securities with no available fair value, which were stated at moving-average cost, amounted to ¥21,030 million (US$210,296 thousand) and ¥16,964 million at March 31, 2008 and 2007, respectively. Investments in unconsolidated subsidiaries and affiliated companies amounted to ¥33,959 million (US$339,595 thousand) and ¥27,089 million for the years ended March 31, 2008 and 2007, respectively.

6 Effect of the Bank Holiday

As financial institutions in Japan were closed on March 31, 2007, ¥700 million of trade notes receivable and ¥1,049 million of trade notes payable maturing on March 31, 2007 were settled on the following business day and accounted for accordingly.

7 Inventories

Inventories at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished products	¥ 3,730	¥ 4,341	$ 37,306
Raw materials	24,997	22,357	249,967
Supplies	9,722	9,227	97,223
Work in process	77	207	767
	¥ 38,526	¥ 36,132	$ 385,263

8 Bank loan payables and long-term debt

The average annual interest rates of short-term bank loan payables at March 31, 2008 and 2007 were 0.9% and 0.7%, respectively.

Long-term debt at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Domestic unsecured bonds			
Due in 2016 at a rate of 4.0%	¥ 27,700	¥ 27,700	$ 277,000
Due in 2018 at a rate of 2.625%	40,000	40,000	400,000
Due in 2009 at a rate of 1.68%	30,000	30,000	300,000
Due in 2009 at a rate of 1.73%	30,000	30,000	300,000
Due in 2010 at a rate of 2.01%	20,000	20,000	200,000
Due in 2011 at a rate of 1.39%	30,000	30,000	300,000
Due in 2012 at a rate of 1.35%	20,000	20,000	200,000
Due in 2023 at a rate of 1.01%	20,000	20,000	200,000
Due in 2013 at a rate of 1.41%	30,000	30,000	300,000
Due in 2014 at a rate of 1.59%	20,000	20,000	200,000
Due in 2024 at a rate of 2.29%	10,000	10,000	100,000
Due in 2025 at a rate of 2.14%	10,000	10,000	100,000
Due in 2015 at a rate of 4.1%	13,800	13,800	138,000
Due in 2009 at a rate of 1.18%	4,000	4,000	40,000
Due in 2027 at a rate of 2.29%	19,996	—	199,961
Due in 2015 at a rate of 1.4%	9,993	—	99,933
Domestic unsecured convertible bonds			
5th issue due in 2009 at a rate of 1.2%	28,195	32,618	281,950
Loans from banks, insurance companies and government agencies due through 2020 at rates of 0.31% to 5.50%:			
Secured	11,326	13,537	113,255
Unsecured	175,328	156,858	1,753,281
	550,338	508,513	5,503,380
Less-Amounts due within one year	63,200	42,617	632,000
	¥ 487,138	¥ 465,896	$ 4,871,380

The indentures covering fifth domestic convertible bonds provide, among other conditions, for (1) conversion into shares of common stock at the conversion prices per share of ¥339.00 (US$3.39) (subject to adjustment in certain circumstances), (2) conversion periods through March 30, 2009.

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.

The annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 63,200	$ 632,000
2010	88,011	880,113
2011	53,119	531,193
2012	47,759	477,591
2013	41,057	410,570
2014 and thereafter	257,192	2,571,913
	¥ 550,338	$ 5,503,380

Note: The Company has the specific commitment line contract with the main correspondent financial institution, at ¥30,000 million ($300,000 thousand) in total.

9 Derivative transactions

Contract amounts, fair values and recognized gains on the commodity derivatives except those accounted for using hedge accounting and weather derivatives at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	At March 31, 2008			
	Contract amounts			
	Total	Beyond one year	Fair value	Recognized gains (losses)
Commodity derivatives	¥ 765	¥ —	¥ 815	¥ 815
Weather derivatives	1,100	—	—	—
	—	—	—	¥ 815

	Millions of yen			
	At March 31, 2007			
	Contract amounts			
	Total	Beyond one year	Fair value	Recognized gains (losses)
Commodity derivatives	¥1,538	¥ —	¥ (61)	¥ (61)
Weather derivatives	3,600	1,000	—	—
	—	—	—	¥ (61)

Fair value of commodity derivatives contracts was calculated based on the information presented by financial institution. Contract amounts of the commodity derivatives are solely nominal values, and not indicative of the magnitude of market risk or credit risk concerning derivatives transactions. Contract amounts of weather derivatives were stated at the maximum receivable or payable amounts under the contracts. Fair values of weather derivatives were not stated because the calculation of the fair values was impossible.

	Thousands of U.S. dollars			
	At March 31, 2008			
	Contract amounts			
	Total	Beyond one year	Fair value	Recognized gains (losses)
Commodity derivatives	$ 7,648	$ —	$8,154	$8,154
Weather derivatives	11,000	—	—	—
	—	—	—	$8,154

10 Reserve for retirement benefits

Reserve for retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥ 363,729	¥ 364,288	$3,637,288
Unrecognized prior service costs	2,220	1,778	22,200
Unrecognized actuarial differences	(25,244)	(16,791)	(252,438)
Less fair value of pension assets	(256,175)	(256,339)	(2,561,749)
Prepaid pension costs	9,028	12	90,276
Reserve for retirement benefits	¥ 93,558	¥ 92,948	$ 935,577

Net periodic retirement benefit expenses for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service costs – benefits earned during the year	¥ 9,848	¥ 9,657	$ 98,476
Interest cost on projected benefit obligation	6,500	6,876	65,001
Expected return on plan assets	(5,168)	(4,623)	(51,684)
Amortization of actuarial differences	13,393	(13,095)	133,932
Amortization of prior service costs	(166)	(332)	(1,658)
Other	4,828	6,669	48,285
Net periodic retirement benefit expenses	¥29,235	¥ 5,152	$292,352

The discount rate and the rate of expected return on plan assets used by the Company and its consolidated subsidiaries are mainly 1.8% and 2.0%, respectively, at March 31, 2008, and mainly 1.8% and 2.0%, respectively, at March 31, 2007.

Certain domestic consolidated subsidiaries obtained approval from the Minister of Health, Labour and Welfare on April 10, 2007 for exemption from the obligation of benefits related to future employee services under the substitutional portion of the welfare pension fund.

Regarding the transfer to the Japanese government of the substitutional portion of the welfare pension fund, the transferred amount (minimum actuarial liability) measured as of March 31, 2008 was ¥4,168 million (US$41,675 thousand). If payment of this transferred amount (minimum actuarial liability) had been carried out on March 31, 2008 and Paragraph 44-2 of "Practical Guidelines for Accounting for Retirement Benefits (Interim Report)" (The Japanese Institute of Certified Public Accountants, Accounting System Committee Report No. 13) had been applied, the expected loss would have been ¥1,560 million (US$15,599 thousand).

11 Income taxes

The Company is subject to multiple taxes based on taxable income, which, in the aggregate, indicate a statutory rate in the Company of approximately 36.2% for the years ended March 31, 2008 and 2007.

Reconciliation of the difference between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2008 and 2007 are not presented as they are negligible.

Significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Reserve for retirement benefits	¥ 34,277	¥ 33,954	$ 342,775
Other	42,582	39,752	425,818
Less valuation allowance	(7,094)	(5,228)	(70,943)
Subtotal	69,765	68,478	697,650
Deferred tax liabilities:			
Net unrealized holding gains on securities	18,642	29,093	186,415
Other	8,851	4,175	88,513
Subtotal	27,493	33,268	274,928
Deferred tax assets – net	¥ 42,272	¥ 35,210	$ 422,722

12 Impairment losses

In the fiscal year ended March 31, 2008, the Company recorded losses on impairment of fixed assets in the following asset group.

Location	Purpose	Type	Amount (million yen)
Negishi LNG Terminal (Isogo Ward, Yokohama City, Kanagawa Prefecture)	13C methane production facility	Shutdown facility	558 (US$5,579 thousand)

For measurement of the losses on impairment of fixed assets, the Company group assets by the smallest unit which generates cash flows largely independent of the cash flows of other assets or asset groups.

The 13C methane production facility was established for the purpose of sales of raw materials for diagnostic agents; however, its production has been temporarily stopped.

In the current consolidated fiscal year a decision was made to abandon the development of diagnostic agents. As it was judged that this business would not be profitable in future, the book value of the asset group for the 13C methane production facility manufacturing these raw materials was reduced to its recoverable value. As a result, impairment losses of ¥558 million (US$5,579 thousand) was recorded under other expenses. This amount mainly includes ¥33 million (US$330 thousand) related to buildings, ¥13 million (US$127 thousand) related to structures, and ¥512 million (US$5,117 thousand) related to machinery and equipment.

The recoverable value of this asset group is measured by the usable value.

⓭ Net assets

(a) Distribution to the shareholders

Under the Japanese Corporate Law ("the Law"), dividends can be paid at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Interim dividends may also be paid upon resolution by the Directors' meeting provided that the articles of incorporation of the company so stipulate, and that the company meets certain criteria.

The Law provides certain limitations on the amounts available for dividends and/or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, and it is calculated mainly based on other capital surplus, other retained earnings and treasury stock, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the general meeting of shareholders held on June 27, 2008, the Company's shareholders approved payment of year-end cash dividends of ¥4.0 (US$0.04) per share aggregating ¥10,627 million (US$106,265 thousand) to the shareholders of record as of March 31, 2008.

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Such appropriations have not been accrued in the consolidated financial statements for the year ended March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

(b) Increases/decreases and transfer of common stock, reserve and surplus

Under the Law, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as legal capital surplus, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of legal capital surplus and legal retained earnings must be set aside as legal capital surplus or legal retained earnings. Legal retained earnings is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal retained earnings and legal capital surplus could be used to eliminate or reduce a deficit, or could be capitalized generally by a resolution of the shareholders' meeting.

Legal capital surplus and legal retained earnings may not be distributed as dividends. Under the Law, however, all legal capital surplus and all legal retained earnings may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

(c) Treasury stock

The Law provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Directors' meetings. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

⓮ Additional information for cash flows

Significant non-cash transactions for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Decrease in treasury stock due to the conversion of convertible bonds	¥ 6,543	¥ 34,697	$ 65,430
Losses on disposal of treasury stock due to the conversion of convertible bonds	(2,120)	(8,490)	(21,200)
Decrease in convertible bonds	¥ 4,423	¥ 26,207	$ 44,230

⓯ 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, impairment losses, and capital expenditures by business segments for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen						
	Gas sales	Gas appliance sales	Related construction	Real estate rental	Other business	Elimination or corporate	Consolidation
For 2008							
Sales:							
Outside customers	¥ 1,056,101	¥ 129,202	¥ 53,570	¥ 12,361	¥ 236,263	¥ —	¥ 1,487,497
Intra group	30,944	3,125	3,756	22,808	84,098	(144,731)	—
Total	1,087,045	132,327	57,326	35,169	320,361	(144,731)	1,487,497
Costs and expenses	975,381	129,418	56,498	27,206	307,592	(78,647)	1,417,448
Operating income	¥ 111,664	¥ 2,909	¥ 828	¥ 7,963	¥ 12,769	¥ (66,084)	¥ 70,049
Identifiable assets	¥ 993,803	¥ 43,551	¥ 18,891	¥ 179,857	¥ 256,632	¥ 210,917	¥ 1,703,651
Depreciation	107,313	606	122	9,908	22,245	(2,061)	138,133
Impairment losses	—	—	—	—	568	—	568
Capital expenditures	94,405	649	35	4,301	37,701	(2,108)	134,983

	Millions of yen						
	Gas sales	Gas appliance sales	Related construction	Real estate rental	Other business	Elimination or corporate	Consolidation
For 2007							
Sales:							
Outside customers	¥ 976,358	¥132,742	¥ 55,527	¥ 11,933	¥ 200,398	¥ —	¥ 1,376,958
Intra group	23,163	2,665	3,703	22,102	85,009	(136,642)	—
Total	999,521	135,407	59,230	34,035	285,407	(136,642)	1,376,958
Costs and expenses	795,955	134,238	57,479	27,304	271,559	(71,892)	1,214,643
Operating income	¥ 203,566	¥ 1,169	¥ 1,751	¥ 6,731	¥ 13,848	¥ (64,750)	¥ 162,315
Identifiable assets	¥ 1,009,880	¥ 46,187	¥ 20,619	¥ 185,909	¥ 248,139	¥ 181,901	¥ 1,692,635
Depreciation	97,969	544	165	10,400	21,951	(2,031)	128,998
Impairment losses	—	—	—	—	—	—	—
Capital expenditures	83,449	576	64	3,332	37,496	(2,832)	122,085

	Thousands of U.S. dollars						
	Gas sales	Gas appliance sales	Related construction	Real estate rental	Other business	Elimination or corporate	Consolidation
For 2008							
Sales:							
Outside customers	$10,561,009	$ 1,292,016	$ 535,699	$ 123,609	$ 2,362,637	$ —	$ 14,874,970
Intra group	309,437	31,252	37,560	228,086	840,976	(1,447,311)	—
Total	10,870,446	1,323,268	573,259	351,695	3,203,613	(1,447,311)	14,874,970
Costs and expenses	9,753,811	1,294,176	564,977	272,061	3,075,926	(786,466)	14,174,485
Operating income	$ 1,116,635	$ 29,092	$ 8,282	$ 79,634	$ 127,687	$ (660,845)	$ 700,485
Identifiable assets	$ 9,938,025	$ 435,512	$ 188,915	$ 1,798,572	$ 2,566,319	$ 2,109,169	$ 17,036,512
Depreciation	1,073,128	6,055	1,222	99,078	222,449	(20,606)	1,381,326
Impairment losses	—	—	—	—	5,679	—	5,679
Capital expenditures	944,047	6,489	354	43,010	377,014	(21,083)	1,349,831

Costs and expenses under Elimination or corporate that cannot be allocated to business segments are related mainly to general administrative expenses of the Company, amounted to ¥67,096 million (US$670,963 thousand) and ¥65,392 million at March 31, 2008 and 2007, respectively.

Assets under Elimination or corporate mainly comprise cash and bank deposits, investment securities and deferred tax assets of the Company and its consolidated subsidiaries, and they amounted to ¥243,678 million (US$2,436,782 thousand) and ¥223,419 million at March 31, 2008 and 2007, respectively.

As described in Note 2. Significant accounting policies (4) Property, plant and equipment, as a result of the revision of the Corporation Tax Law, as of the year under review, the Company and its domestic consolidated subsidiaries have changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007, to the depreciation method prescribed by the revised Corporation Tax Law. As a result of this change, compared with the figures under the previous method, operating expenses in the fiscal year under review were up by ¥1,107 million (US$11,071 thousand) in gas operations, by ¥22 million (US$224 thousand)in gas appliances operations, by ¥1 million (US$7 thousand) in contracted construction work, by ¥11 million (US$111 thousand) in building leasing operations, and by ¥194 million (US$1,939 thousand) in other operations, and operating income declined by an identical amount.

In addition, as to property, plant and equipment acquired on or before March 31, 2007, as of the fiscal year following that in which assets reach 5% of their acquisition cost pursuant to the depreciation method prescribed by the Corporate Tax Law prior to its revision, the difference between an amount equal to 5% of the acquisition cost and the memorandum value is depreciated uniformly over five years and included in depreciation expenses. As a result of this change, compared with the figures under the previous method, operating expenses in the fiscal year under review were up by ¥10,996 million (US$109,960 thousand) in gas operations, by ¥48 million (US$485 thousand) in gas appliances operations, by ¥4 million (US$40 thousand) in contracted construction work, by ¥238 million (US$2,382 thousand) in building leasing operations, and by ¥365 million (US$3,647 thousand) in other operations, and operating income declined by an identical amount.

Geographic segment information is not shown since more than 90% of both consolidated net sales and total assets are generated in Japan. Information for overseas sales is not disclosed due to overseas sales being immaterial compared to consolidated net sales.

16 Information for certain leases

Finance leases

Information as lessee

Lease payments and the amount corresponding to depreciation expenses in the years ended March 31, 2008 and 2007, and future minimum lease payments inclusive of interest at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Lease payments	¥ 547	¥ 552	$ 5,475
Depreciation expenses	547	552	5,475
Future lease payments inclusive of interest:			
Current	¥ 556	¥ 501	$ 5,559
Non-current	3,146	2,130	31,462
	¥ 3,702	¥ 2,631	$ 37,021

The Company and its consolidated subsidiaries use certain other facilities and other intangibles 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, 2008 and 2007 were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2008			
Other facilities	¥ 5,311	¥ 1,715	¥ 3,596
Other intangible assets	201	95	106
	¥ 5,512	¥ 1,810	¥ 3,702
For 2007			
Other facilities	¥ 4,174	¥ 1,688	¥ 2,486
Other intangible assets	314	169	145
	¥ 4,488	¥ 1,857	¥ 2,631

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2008			
Other facilities	$ 53,112	$ 17,150	$ 35,962
Other intangible assets	2,009	950	1,059
	$ 55,121	$ 18,100	$ 37,021

Information as lessor

Lease income, depreciation expenses and the amount corresponding to interest income in the years ended March 31, 2008 and 2007, and future lease payments to be received at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Lease income	¥ 4,720	¥ 4,609	$ 47,199
Depreciation expenses	1,636	1,680	16,365
Interest income	1,408	1,274	14,077
Future lease payments to be received:			
Current	¥ 5,518	¥ 5,134	$ 55,177
Non-current	19,880	15,502	198,802
	¥25,398	¥ 20,636	$253,979

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 for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2008			
Other facilities	¥ 26,241	¥ 14,375	¥ 11,866
Other intangible assets	1,091	755	336
	¥ 27,332	¥ 15,130	¥ 12,202
For 2007			
Other facilities	¥ 24,029	¥ 14,709	¥ 9,320
Other intangible assets	1,030	674	356
	¥ 25,059	¥ 15,383	¥ 9,676

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2008			
Other facilities	$ 262,416	$ 143,753	$118,663
Other intangible assets	10,908	7,549	3,359
	$ 273,324	$ 151,302	$122,022

Operating leases

Information as lessee

Future lease payments at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Future lease payments:			
Current	¥ 33	¥ 1	$ 330
Non-current	125	2	1,254
	¥ 158	¥ 3	$1,584

Information as lessor

Future lease payments to be received at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Future lease payments:			
Current	¥ 327	¥ 444	$3,265
Non-current	457	632	4,572
	¥ 784	¥ 1,076	$7,837

17 Commitment and contingent liabilities

At March 31, 2008, the Company and its consolidated subsidiaries were contingently liable for (1) debt guarantees in the amount of ¥6,471 million (US$64,714 thousand) for financial institution loans to companies other than consolidated subsidiaries, (2) ¥38,700 million (US$387,000 thousand) as guarantors for domestic unsecured bonds issued by the Company, and assigned to certain banks under the debt assumption agreements made in the years ended March 31, 2004, 2003 and 2002.

At March 31, 2008, 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.

Adjustment of the cost for raw materials is subject to movements on trading contract renewals or price negotiations thereof with gas resource suppliers.

18 Subsequent events

(1) Resolution on acquisition of treasury stock

The Directors' meeting held on April 25, 2008 resolved the acquisition of treasury stock.

Number of shares: Limited to 25,000 thousand shares

Cost of shares acquisitions: Limited to ¥10,000 million (US$100,000 thousand)

Period of acquisitions: From April 28, 2008 to October 28, 2008

(2) Acquisitions of treasury stock

The following acquisition of treasury stock was carried out based upon a resolution at the Directors' meeting as in (1).

Number of shares purchased: 23,984 thousand shares

Cost of shares acquisitions: ¥10,000 million (US$99,997 thousand)

Period of acquisitions: June 4 to June 13, 2008 (commitment basis)

(3) Bond Issuance

The Company issued the 30th unsecured bond based on a resolution of board of directors held on March 27, 2008 as follows:

Total amount issued: ¥20,000 million (US$200,000 thousand)

Annual interest rate: 1.658%

Issue price: ¥100 (US$1.00) of the denomination of each ¥100 (US$1.00) bond

Payment date: May 29, 2008

Maturity date: May 29, 2015

Term: 7 years

Redemption method: Bullet repayment

Interest payment date: May 29 and November 29 of each year

Application of funds: Repayment of commercial paper

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 consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets 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 consolidated subsidiaries as of March 31, 2008 and 2007, 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 following:

(1) As discussed in Note 2(4) to the consolidated financial statements, as a result of the revision of the Corporation Tax Law, as of the year under review, Tokyo Gas Co., Ltd. has changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007, to the depreciation method prescribed by the revised Corporation Tax Law.

(2) As discussed in Note 2(4) to the consolidated financial statements, as a result of the revision of the Corporation Tax Law, as of the year under review, as to assets acquired on or before March 31, 2007, as of the fiscal year following that in which assets reach 5% of their acquisition cost pursuant to the depreciation method prescribed by the Corporation Tax Law prior to its revision, Tokyo Gas Co., Ltd. writes off the difference between an amount equal to 5% of the acquisition cost and the memorandum value uniformly over five years and records as depreciation expenses.

(3) As discussed in Note 18(1) to the consolidated financial statements, subsequent to March 31, 2008, Tokyo Gas Co., Ltd. decided to acquire the treasury stock on April 25, 2008.

(4) As discussed in Note 18(2) to the consolidated financial statements, subsequent to March 31, 2008, Tokyo Gas Co., Ltd. effectuated acquisition of treasury stock based upon the resolution noted in (3).

(5) As discussed in Note 18(3) to the consolidated financial statements, subsequent to March 31, 2008, Tokyo Gas Co., Ltd. published the 30th unsecured bond that should be paid by May 29, 2008.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 27, 2008