TOKYO GAS

Enhancing Value for Tomorrow

Tokyo Gas Co., Ltd.

Annual Report 2008

Profile and Steps

Face-to-Face with Change, Every Day

In more than 120 years since its founding in 1885, Tokyo Gas has grown from an initial 343 customers to more than 10 million customers in 2007, and it is now Japan's biggest city gas supplier. Its area of operations is the prosperous Kanto region, in which energy demand is concentrated and the urban population continues to increase. We deliver gas to our customers through more than 50,000 kilometers of pipeline. We imported LNG (liquefied natural gas) for the first time from Alaska in 1969 and its environmental advantages have been highly appreciated. Currently, nearly 100% of our city gas is sourced from LNG. While establishing this clean natural gas as its core business, the Tokyo Gas Group is determined to achieve sustainable growth and development as a leading player in the integrated energy business.

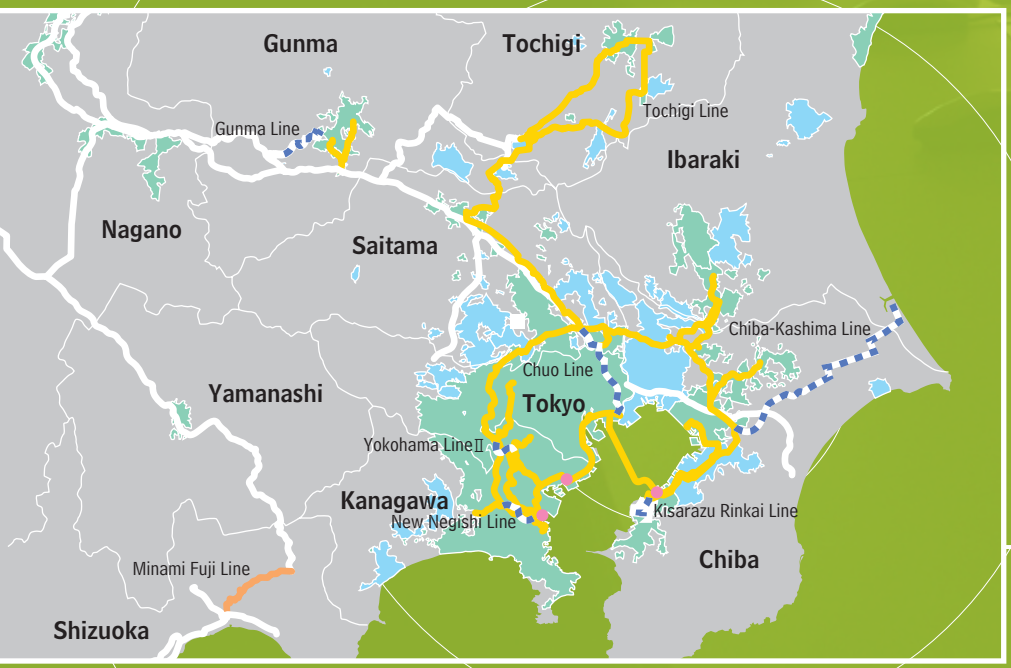
Contents

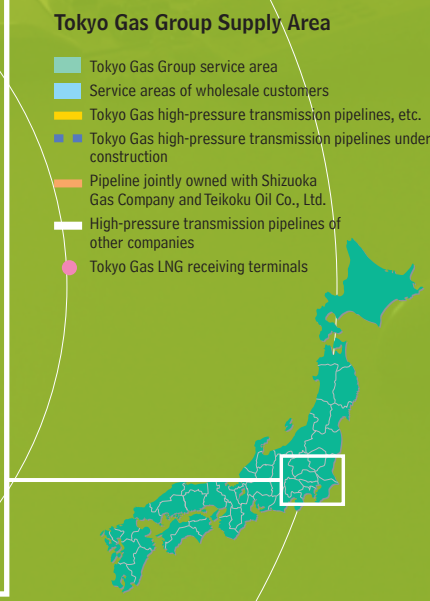
Operating Base

Evolving Ever-better Ways to Serve Our Customers

Tokyo Gas is Japan's biggest city gas supplier, with approximately 10 million customers. Its area of operations encompasses the Tokyo metropolitan area and the surrounding Kanto region, a prosperous market of huge potential demand.

Even though Japan overall faces population decline, growth in the Kanto region is expected to continue due to economic migration. We can maximize many advantages arising from our Kanto Plain service area, since it is easy to extend pipelines, even to outlying industrial zones. As stated in our medium-term management plan for fiscal 2006–2010, we will capture new demand by expanding to a wider area extending for a radius of 200 km from Tokyo.





The Japanese Gas Industry

Gas Sales Volume of Tokyo Gas by Sector (Consolidated) and in Japan (Fiscal Year Ended March 31, 2008) (Million m^3, 45 MJ/m^3)

3,529	Residential
3,126	Commercial
5,732	Industrial
1,828	Wholesale

Japan	33,391 (100%)
Tokyo Gas	14,215 (42.6%)

Source: The Japan Gas Association HP (Gas Sales Volume JGA Newsletter)

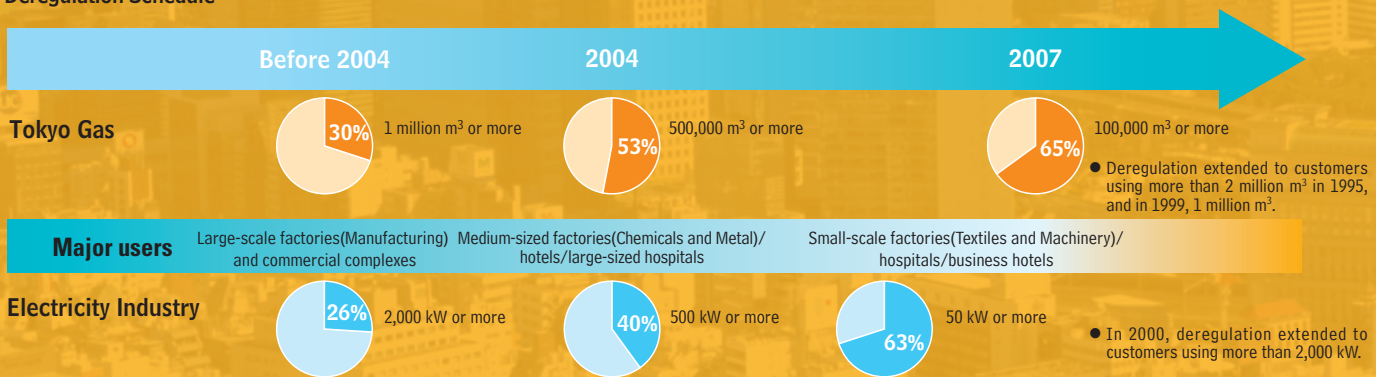
In Japan, which has many mountainous regions, there are few concentrations of population and industrial activity that are highly economical for city gas businesses delivering natural gas to customers through pipelines. For this reason, the availability of city gas is limited to about 5% of Japan's territory. Though there are around 210 city gas suppliers in Japan, the three biggest (Tokyo Gas, Osaka Gas and Toho Gas) together account for approximately 80% of nationwide city gas sales in volume terms. In addition to these city gas suppliers, there are around 1,600 community gas suppliers and about 24,600 LPG suppliers, most of which are small- or medium-sized operators.

Features of Japan's City Gas Companies

Stable Business Structure and Customer Orientation

Mountainous terrain and lack of resources have had a major impact on the gas rate system and development of gas infrastructure in Japan. Most natural gas, the main resource for city gas, must be imported as liquid natural gas (LNG), and gas rates must cover the cost of liquefaction and regasification. Furthermore gas suppliers are responsible for ensuring safe use of gas at the customer's site, so rates must also include the cost of periodic inspections and safety measures at customers' premises—making prices generally higher than in Europe or North America. Deregulation of the electric power and gas industries in Japan has progressed since the 1990s to the point where annual contracted volumes of 100,000 m^3 or more are now unregulated.

Deregulation Schedule



Deregulated Areas and Regulated Areas

In Japan's gas market, suppliers are limited to either city gas suppliers or community gas suppliers for a given district. Japan's city gas market is divided into regulated areas, such as small-volume customers, in which rates are set under the Gas Utility Industry Law, and deregulated areas, such as large-volume customers, in which consumers can freely choose their supplier.

REGULATED AREAS: In order to avoid overlapping investment in pipelines and the like, monopolistic supply is permitted for specified city gas companies within their supply districts. At the same time, supply obligations are imposed on those companies, and small-volume customers are protected by gas-rate and maintenance regulations.

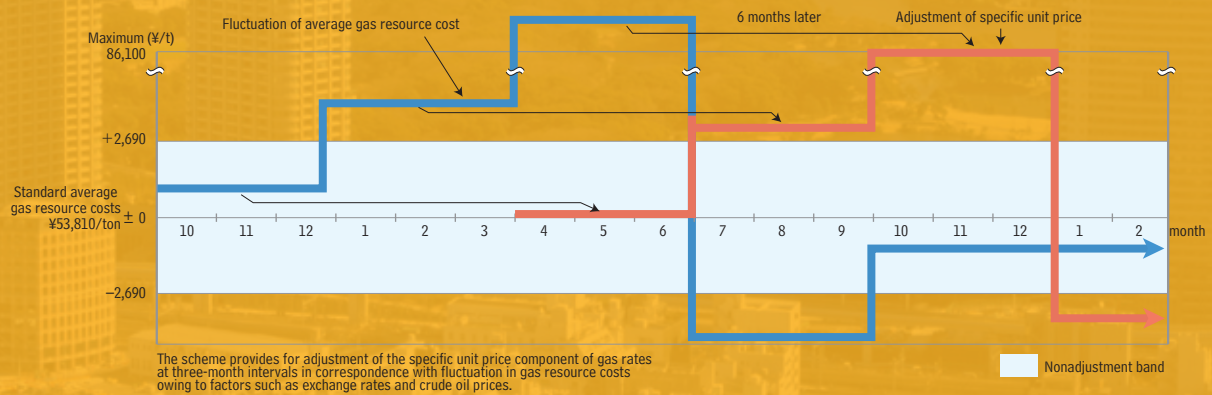
DEREGULATED AREAS: Only consumers with annual contracts for 100,000 m^3 of gas or more are eligible to take part. Business entry into these areas is open to new entrants, such as large-volume gas suppliers or city gas suppliers outside their supply districts.

Unlike Europe and North America, Japan has no nationwide pipeline network. Each city gas supplier delivers and sells city gas through a pipeline network developed for its own service area.

Features of the Rate Structure

Many city gas companies import LNG as their source of natural gas, and gas resource costs can be influenced dramatically by trends in crude oil prices and exchange rates. To adjust gas rates automatically in line with fluctuations with gas resource costs, the gas rate adjustment system has been introduced. The system is intended to increase the transparency of gas companies' efforts to achieve more efficiency and to quickly reflect economic conditions in their rates. Under this system, the meter rate gas unit price is readjusted every three months based on the three-month average of the gas resource price from customer clearance statistics. Thanks to this system, the impact of fluctuations in crude oil prices and exchange rates on the revenue and expenditure of gas companies is neutral over the long term.

Gas Rate Adjustment System

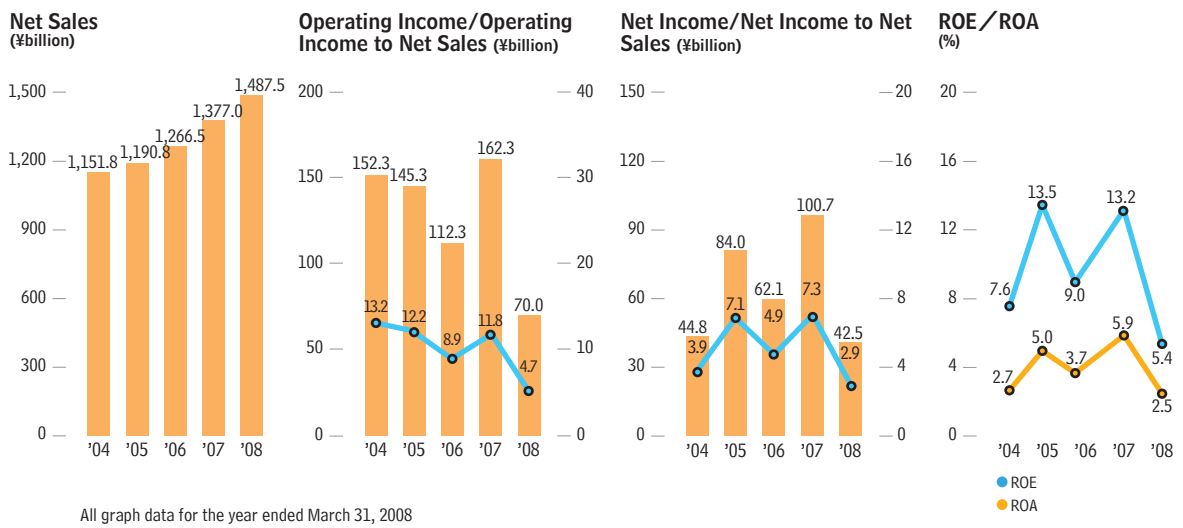


The scheme provides for adjustment of the specific unit price component of gas rates at three-month intervals in correspondence with fluctuation in gas resource costs owing to factors such as exchange rates and crude oil prices.

Financial Highlights

For the Years ended March 31	Millions of yen except per share amounts 2008	2007	2006	Thousands of U.S. dollars except per share amounts 2008
Net sales	1,487,497	1,376,958	1,266,502	14,874,970
Operating income	70,049	162,315	112,346	700,485
Net income	42,487	100,700	62,115	424,875
Amounts per share of common stock				
Net income	15.94	37.50	23.48	0.16
Net income (Diluted)	15.50	35.69	21.70	0.16
Net assets	289.49	293.11	270.46	2.89
Cash dividends applicable to the year	8.00	8.00	7.00	0.08
At Year-end (March 31)				
Total assets	1,703,651	1,692,635	1,693,899	17,036,512
Long-term debt due after one year	487,138	465,896	496,740	4,871,380
Net assets	780,455	806,046	728,232	7,804,553
Ratios				
Operating cash flow	184,909	233,842	198,492	1,849,088
Operating income to net sales	4.7%	11.8%	8.9%	4.7%
Net income to net sales	2.9%	7.3%	4.9%	2.9%
ROE	5.4%	13.2%	9.0%	5.4%
ROA	2.5%	5.9%	3.7%	2.5%
Equity Ratio	45.1%	47.0%	43.0%	45.1%
D/E ratio	0.73	0.66	0.77	0.73

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥100=U.S.$1, the Tokyo foreign exchange market rate as of March 31, 2008.
2. Operating cash flow = net income + depreciation* *including amortization of long-term prepayments
3. ROE = net income/total equity (average of positions at start and end of fiscal year)
4. ROA = net income/total assets (average of positions at start and end of fiscal year)
5. D/E ratio = interest-bearing debt (year-end)/total equity (year-end)



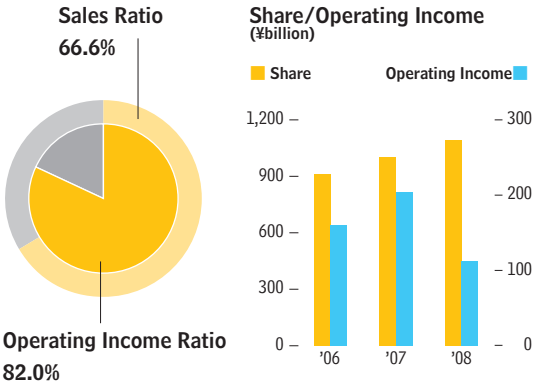
All graph data for the year ended March 31, 2008

Overview by Segment

Gas Sales

Tokyo Gas uses its three LNG terminals along the shores of Tokyo Bay to gasify LNG, its main gas resource. It sells city gas to more than 10 million customers, primarily in the Kanto region, through a pipeline network of more than 50,000 km. In future, we will continue to ensure the reliability of supply and aim to capture new demand by extending our pipeline effectively with a strong focus on achieving a good return from our investment.
(External sales ratio: 97.2%)

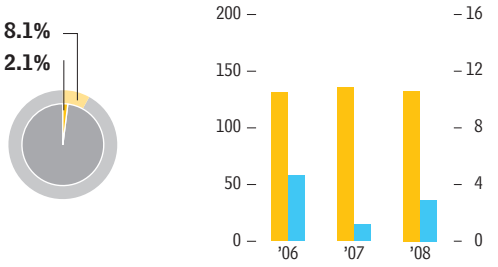
- The gas sales volume increased by 6.8% over the previous fiscal year to 14,215 million m^3.
- Gas sales volume increased in all sectors, with 2.3% growth in the residential sector, 7.4% in the industrial sector, 5.2% in the commercial, public and medical sectors, and 17.6% in wholesaling to other gas companies.
- Due to higher unit prices under the gas rate adjustment system and the increase in the sales volume, sales increased by 8.8% over the previous fiscal year to ¥1,087.0 billion.
- Operating income declined by 45.1% to ¥111.7 billion due to a large rise in gas resource costs resulting from the rise in crude oil prices.



Gas Appliance Sales

We sell gas cooktops, water heaters, the TES system (a gas air conditioning system using hot water) and other products that we procure from gas appliance manufacturers. The sales are mainly handled by the service network of Tokyo Gas, LIFEVAL, Enesta and Enefit.
(External sales ratio: 97.6%)

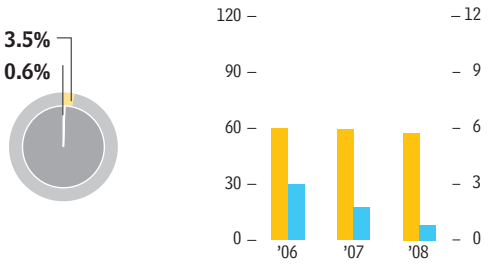
- Although sales of high value-added products were firm, overall sales declined by 2.3% to ¥132.3 billion due to the impact of lower sales of kitchen water heaters, caused by our switch to more efficient water heaters.
- Operating income increased by 148.8% to ¥2.9 billion due to the decline in operating expenses and other factors.



Related Construction

This segment carries out new construction (e.g., the installation of gas pipes/valves on the sites of customers who use gas within our service area) and expansion work in existing buildings, for example, to increase the number of gas valves.
(External sales ratio: 93.4%)

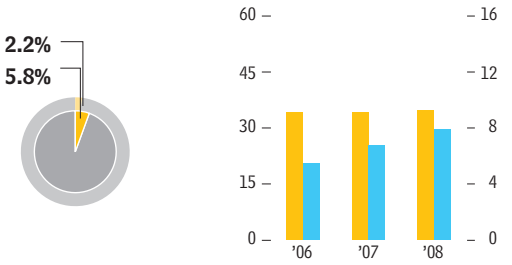
- There was a reduction in the number of new installations. Sales fell by 3.2% over the previous fiscal year to ¥57.3 billion and operating income declined by ¥900 million to ¥800 million.



Real Estate Rental

This segment is mainly involved in leasing, management and the like for the Shinjuku Park Tower and other office buildings conducted by our consolidated subsidiary, Tokyo Gas Urban Development Co., Ltd. In addition, it owns land mainly in Toyosu, Tamachi, Ginza and Gofukubashi.
(External sales ratio: 35.1%)

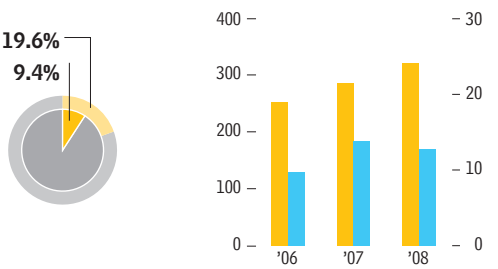
- Sales increased by 3.3% over the previous fiscal year to ¥35.2 billion due to the growth in revenues from facility management. Operating expenses were at about the same level as in the previous period, so operating income grew by 18.3% to ¥8.0 billion.



Other Business

This segment includes district heating and cooling, energy services, LPG sales, industry gas sales, credit and leases, system integration services and comprehensive engineering services.
(External sales ratio: 73.7%)

- Sales in this segment increased by 12.2% over the previous fiscal year to ¥320.4 billion. Reasons for the higher results include the sustained expansion of the on-site energy service business and the higher sales in the LPG division, caused by a combination of rising LPG prices and a higher LPG sales volume.
- Operating income declined by 7.8% to ¥12.8 billion due to a number of factors, including the increased initial depreciation burden characteristic of the on-site energy service business and rising LPG prices.



Segment sales include intra-group transactions.
All graph data for the year ended March 31, 2008

An Interview with the President

Q **Looking back, what kind of year was fiscal 2007? In particular, what was the impact of rising crude oil prices on revenue and expenditure?**

TORIHARA Fiscal 2007 was the second year of the medium-term management plan for fiscal 2006–2010. Crude oil prices reached all-time highs, so the business environment for Tokyo Gas continued to be severe, because natural gas is at the core of our business.

Reflecting this situation, net sales in fiscal 2007 reached an all-time high of ¥1,487.5 billion as a result of an increased gas sales volume and higher unit gas rates under the gas rate adjustment system. However, operating income declined by ¥92.3 billion from the previous fiscal year to ¥70.0 billion and net income declined by ¥58.2 billion to ¥42.5 billion. The major factors behind these declines were: rising gas resource costs resulting from the recent rise in crude oil prices; rising labor costs due to an actuarial differential on retirement benefits*; and an increase in depreciation due to a tax revision. Despite these large declines, we maintained a total payout ratio of 74% by allocating dividends of ¥8 per share to our shareholders and carrying out stock repurchases of ¥10.0 billion in fiscal 2008. We intend to continue the policy of returning the benefits to our shareholders through more efficient management, as promised in the medium-term management plan.

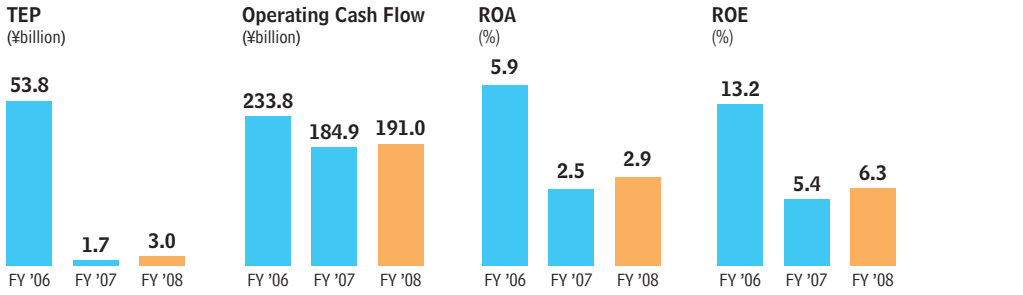
Tokyo Gas imports liquefied natural gas (LNG), a major source of city gas, from overseas. The prices of LNG imported by Japan are generally linked to crude oil prices, which have been continuously rising in recent times. Under the gas rate adjustment system, fluctuations in gas resource costs are reflected in the gas rates after six months at most. However, crude oil prices rose on and off throughout fiscal 2007, so we were not able to completely pass on the gas resource costs, which had already increased dramatically, via sales price throughout the year. As a result, we ended up with large excess expenditures for which we were unable to compensate through our management efforts to cut costs.

Trends in crude oil prices are still uncertain, but Tokyo Gas intends to continue its efforts to keep down the procurement cost of the gas resources. Furthermore, during the current fiscal year we expect to commence importing LNG from Sakhalin II project. Its transportation distance is shorter than that of any other project. We hope that this economic advantage will contribute to reductions in gas resource costs.

As for our business environment, demand for air conditioning in the commercial sector as well as for heating and hot water in the residential sector increased due to high temperatures in summer and cold weather in winter. Moreover, due to the price competitiveness and environmental advantages of natural gas relative to petroleum products, both industrial demand and wholesale supply saw an increase in sales volume, resulting in a healthy overall gas sales volume of 14.22 billion m^3—6.8% higher than the previous fiscal year. The number of our customers exceeded 10 million on September 13, 2007, 122 years after our founding, reflecting the influx of population into major urban areas. We will continue to endeavor to be a company that continuously achieves sustainable growth and development based on the long-term trust that we have built up with our customers.

* Tokyo Gas calculates its retirement benefit liabilities and expenditures using actuarial computations based on specific assumptions. Actuarial differentials are all shown and depreciated as cost items in the accounts for the following year.

Meeting Management Targets Ahead of Schedule



TEP (Tokyo Gas Economic Profit) = net operating profit after tax prior to interest payments – cost of capital (invested capital x WACC)

WACC FY06 Results : 3.8%
WACC FY07 Results : 3.6%
WACC FY08 Outlook : 3.4%

Operating cash flow =net income + depreciation

ROA = net income/total assets (average of positions at start and end of fiscal year)

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

Q Please tell us your plans for restoring business performance in fiscal 2008. Will there be any changes to the promotion or execution of the medium-term management plan going forward?

TORIHARA We are assuming that in fiscal 2008 crude oil prices will remain high and the environment surrounding Tokyo Gas will continue to be severe. Furthermore, the aggressive sales efforts by electric power companies to promote the all-electric concept will continue to have an impact, so we must remain extremely vigilant regarding our competitors. Based on this situation, Tokyo Gas announced its fiscal 2008 earnings estimates on April 25. Net sales in the current fiscal year are expected to be ¥1,712.0 billion—a 15.1% year-on-year increase. Both operating income and ordinary income are expected to recover somewhat, relative to the previous fiscal year, and to reach ¥75.0 billion and ¥68.0 billion, respectively. To achieve these figures in the face of all obstacles, we set priorities for the current fiscal year as follows.

Firstly, we must steadily promote the various measures laid out in the current medium-term management plan. Tokyo Gas is currently operating an "integrated energy business" in an area extending for a radius of 200 km from Tokyo. While developing the strong latent demand for natural gas in the Kanto region, we are providing utility services, including electric power, to customers in an optimal format as

energy services. In April 2008, Kawasaki Natural Gas Power Generation Co., Ltd., which is 49% owned by Tokyo Gas, began operation of an 800-MW facility. This enables us to further deepen our integrated energy business, using the weapon of the greenness of natural gas and high efficiency of the combined-cycle generator.

Secondly, we must strengthen our strategy against the all-electric systems for homes and develop further demand. For this reason, in April 2008 Tokyo Gas launched Tokyo Gas LIFEVAL, a new regional energy company. The purpose is to let the new company lead our future efforts to compete with electricity. By integrating Tokyo Gas Customer Service Co., Ltd., which previously provided customer services such as meter reading and safety inspections, etc., and Enesta, which carried out maintenance and sales of gas appliances, we are aiming for more meticulous one-stop services to increase contact points with customers and identify customer needs more appropriately.

Thirdly, we must respond to the recent privatization of a variety of government-owned gas businesses. To strengthen our response to this trend, Tokyo Gas launched the Gas Business Privatization Department in April 2008. Of course, when participating in such businesses, we carry out sufficient business value evaluations and carefully verify the maintenance conditions of facilities and a given project's potential to enhance our corporate value. Through these initiatives, we are aiming to expand the scale of our business and intend to build a solid business foundation in an area extending for a radius of 200 km from Tokyo.

Finally, as the business environment surrounding Tokyo Gas undergoes rapid changes, we will formulate a new medium-term management plan during fiscal 2008. We are aware that the current business environment is extremely severe due to higher LNG prices resulting from the global rise in crude oil prices. In order to achieve sustainable growth, Tokyo Gas will aim for the deepening and development of our integrated energy business and further reinforce our business platform.

In April 2008, we established a new IR Department. We have continued to monitor the expectations of the capital market through dialogues with investors. These expectations will be more clearly reflected in the various measures of the management.

Q In April 2008, you revised the gas rates downward by an average of 1.5%. Why did you carry out the revision at that time?

TORIHARA I believe that our customers are important stakeholders, just like our shareholders. In our current medium-term management plan, we promised a total payout ratio of 60% to our shareholders. At the same time, we promised our customers that we would carry out rate reductions during the period of the plan in order to return some of the benefits of reducing our fixed costs through more efficient management. The rate revision is a part of that policy.

Currently, Tokyo Gas is operating in a severe business environment marked by rising gas resource costs and intensifying competition among different forms of energy. However, due to the sharp increase in global energy prices in recent times, gas rates continue to move upward, based on the gas rate adjustment system. Therefore, we carried out this gas rate revision by returning some of the benefits of the reduced fixed costs, in order to alleviate the burden on our customers as quickly as possible.

The change resulting from this revision is a reduction averaging 1.51% in our tariffs for the entire small-volume segment encompassing both service and optional agreement tariffs in Tokyo and in other districts that have the greatest numbers of customers. The financial impact on Tokyo Gas caused by this rate reduction is expected to be approximately ¥10.0 billion per annum.

Q Is a restructuring of the gas industry possible in Japan? Also, please tell us your views on M&A involving Tokyo Gas.

TORIHARA In Japan, there are currently over 200 city gas suppliers, with nearly 60 of those suppliers concentrated in the Kanto region alone. Furthermore, in addition to these city gas suppliers, there are approximately 1,600 community gas suppliers and approximately 24,600 LPG gas businesses nationwide, all of which provide energy supplies for their respective customers. In Europe and North America, the realignment of the energy industry is occurring rapidly, and investors often ask me if industry realignment is likely to happen in Japan, which has so many energy companies. Although I cannot rule out that possibility, I think that the development of infrastructure is a precondition for such realignment in Japan, where the electricity and gas infrastructure connecting different regions is not as developed as it is in Europe and North America.

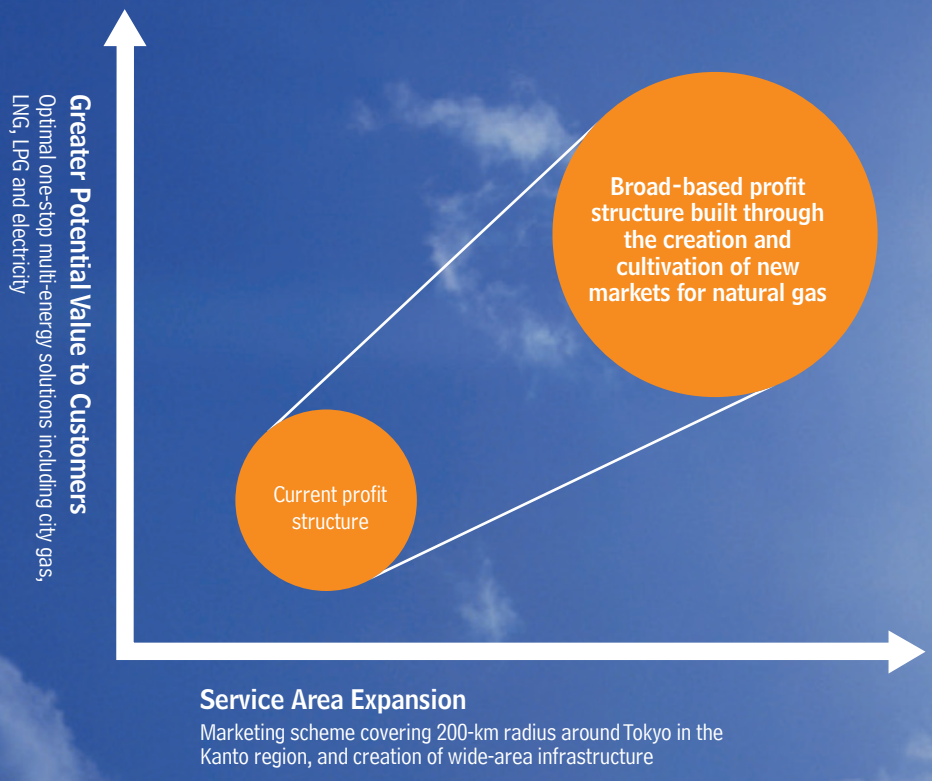
Tokyo Gas is already supplying wholesale gas to 26 gas suppliers in its service area. The sales volume to these companies accounts for approximately 13% of our total sales volume. Unlike M&A transactions, the wholesale supply business earns income with high capital efficiency. That is why we are aggressively developing this business. We do not intend to propose any purchases of stakes in other companies. However, if a company approaches us with such a proposal, we may consider entering into a capital partnership after evaluating the corporate value of the company. In April 2008, we launched the new Gas Business Privatization Project Department to respond to government-owned gas suppliers' privatization projects. Tokyo Gas will participate in this kind of project utilizing our previous experience of purchasing government-owned gas suppliers, including the Konosu City and Nagano City gas businesses, if we are convinced that this business will enhance our corporate value and increase benefits to our customers through the promotion of sound due diligence.

Mitsunori Torihara, president

New Market Development

Our operating conditions have changed significantly with ongoing deregulation of gas and electric power, shifting demand and growing public concern about social and environmental issues. At the same time, customer needs have diversified. To adapt to this environment, in April 2006 the Tokyo Gas group announced a medium-term management plan covering the period to fiscal 2010 and reflecting our vision for the decade beyond. The focus is on being an integrated energy business that optimally supplies utility services including city gas, electric power, LNG and LPG. We will create and develop new markets for natural gas and establish a business structure with a broad profit base in the energy sector. Furthermore, strategically centered on the still-growing Kanto region, we will develop the enormous potential demand for natural gas, and expand our service area substantially.

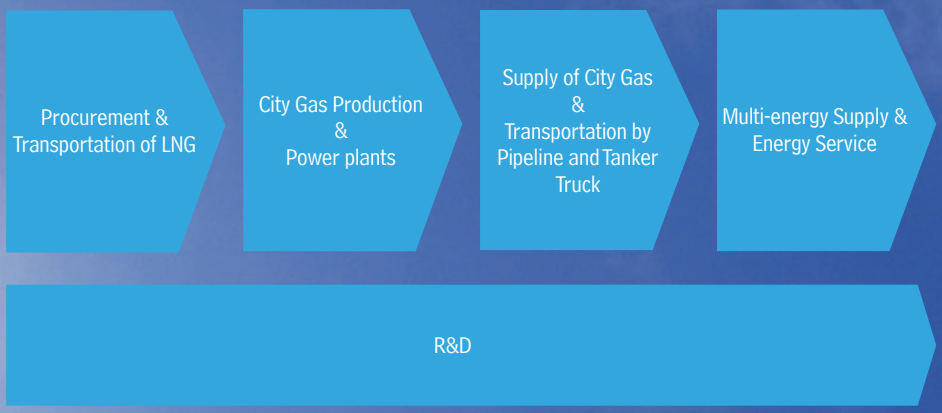
Business Strategy



Creating New Value at Every Step

Tokyo Gas Group possesses a value chain in the gas business, in other words, we have a value-creating management foundation for the development of a competitive integrated energy business from upstream to downstream (from natural gas field development, transportation, LNG terminals to power plants, pipeline network, marketing and customer sales). By integrating and optimizing these elements, we will utilize the strengths of our value chain to develop multi-energy supply with the provision of one-stop energy solutions such as gas and electric power, and energy services on one hand, and solutions based on our technical and marketing capabilities, on the other, and expand our area of business. In future, we will strive to achieve sustained growth through competitive resource procurement and an expanded profit structure.

Value Chain



Maintenance and improvement of core technologies, development of challenging new technologies and the utilization of information technology form the backbone of today's gas business. We will use these technologies to increase value to our customers by enhancing and expanding our value chain. This includes enhancing our resource procurement, LNG terminal and pipeline networks and our energy marketing.

Locking In Long-term Stability and Security

Liquefied natural gas (LNG) is produced by transforming natural gas from its natural gaseous state into a liquid by lowering its temperature to around minus 160°C. This precious natural resource is brought to Japan across thousands of kilometers of ocean with specially designed carriers. LNG is environmentally superior to other fossil fuels and enjoys a good reputation among our many customers. Tokyo Gas first imported LNG from Alaska in 1969. In the four decades since then, we have switched our city gas resources to LNG.

Energy Navigator started operation in June 2008

Reliable, Competitive Access to Resources

Tokyo Gas is continually working to maintain reliable and competitive access to LNG sources by expanding its LNG value chain through the organic linkage of domestic and international business activities. Specifically, we are involved with development, production and liquefaction in gas fields, transport with LNG tankers, regasification at terminals, and supply to customers. We are also implementing diversification of resource procurement destinations.

Reliable Procurement

In order to deal with steadily increasing gas demand, Tokyo Gas has smoothly expanded its LNG imports over the past four decades, mainly focusing on politically stable source countries located relatively near Japan. Tokyo Gas is currently procuring more than ten million tons of LNG per annum, mainly from ten projects in six countries in the Asia-Pacific region, including Malaysia, Australia, Brunei and Indonesia, under long-term contracts. In fiscal 2008, supply is scheduled to commence from Sakhalin II in Russia, which will become our seventh source country. We are also planning long-term procurement of 1.75 million tons annually from the Pluto project in Australia from 2010 onwards. We promote diversi-

fication of LNG sources in order to undertake reliable resource procurement. In addition, wherever possible, we are switching our contract format to FOB, which enables us to reduce transportation costs using our LNG tankers and allows us freedom to change destination points or to conclude flexible contracts based on contract volume. We believe these efforts will help ensure adaptable and competitive gas resource procurement in line with customer demand.

Participation in Upstream Business

Tokyo Gas is increasing its participation in upstream business by building its own LNG value chain that extends from upstream business through to downstream business. In this way, we can achieve long-term, reliable and competitive gas resource procurement and expand the possibilities of our LNG business. Tokyo Gas holds an upstream interest of 3% in the Darwin project in Australia. In addition, we have obtained an interest of 5% in the Pluto project, which will commence production in 2010. In future, we are considering investment in other new projects in Australia, including Gorgon. Participation in upstream business allows natural hedging of price fluctuation risks; therefore, this approach is also useful for stabilizing profits.

Fleet Expansion

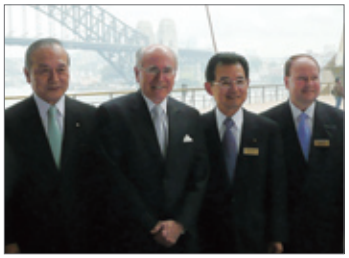
We currently operate a fleet of six vessels, including *Energy Navigator*, which went into service in June 2008. We plan to add one new vessel in 2009 and another in 2011, at which time we will be carrying approximately 50% of our total LNG cargos in our own vessels. By increasing the volumes carried, we aim to achieve further reductions in our transportation costs. The use of our fleet for short-term and spot procurement as well as procurement under long-term contracts will provide increased mobility. We also intend to expand the scope of our transportation business by carrying LNG for third parties and chartering out our vessels.

Tokyo Gas LNG-term Imports

Pluto Gas Field Agreements

Tokyo Gas reached a final agreement with Woodside Energy Limited for a five percent interest participation in and purchase of LNG from the Pluto LNG project in Australia. The Pluto project acquired environmental approval from the Australian government in October 2007, and in November 2007, this agreement officially came into effect, marked the start of construction.

Also in October 2007, Tokyo Gas acquired a five percent interest in the Cazadores blocks, adjacent to the Pluto project. The blocks are likely to be tied into Pluto as development continues, assuring additional gas resources. These agreements hold the promise of an expanding profit foundation.



Participating at the signing ceremony: Mr. Mitsunori Torihara, President of Tokyo Gas (far left), former Australian Prime Minister Mr. John Howard (center left), Mr. Shosuke Mori, President of Kansai Electric Power (center right) and Mr. Don Voelte, CEO and Managing Director of Woodside Energy (far right).

City Gas Production and Supply

Reaching More Customers for Increasingly Lower Cost

Delivering clean and safe city gas to more than 10 million customers in a stable manner is one of the most important missions for Tokyo Gas. We strive for efficient and safe management, taking advantage of know-how acquired as Japan's biggest gas company.

Negishi LNG terminal, which has operated since 1969.

Aiming for Efficient and Safe Operation of LNG Terminals

Tokyo Gas imports liquefied natural gas (LNG) from various parts of the world at its Negishi, Sodegaura and Ohgishima LNG Terminals in the Tokyo Bay area. The LNG is transported to the three terminals by LNG vessels, from which it is transferred to storage tanks, taking approximately half a day. To maximize shipping efficiency, the gas is cryogenically liquefied at the point of production to reduce its volume about 600 times. In the LNG receiving facilities, the LNG is regasified using vaporizers, and then LPG is added to adjust the caloric value. Finally, the so-called city gas mixture is odorized, so that customers will be aware of the presence of gas. It is then sent out through pipelines.

Two of our three LNG terminals, Negishi and Sodegaura, are jointly operated with Tokyo Electric Power Company. The benefits of this arrangement include lower capital investment and operating costs as well as higher operating rates, and load leveling based on the differences between peak demand patterns for electric power and gas. Because of these factors, both companies can efficiently conduct terminal management.

The LNG terminals of Tokyo Gas are among the largest in the world. Despite the scale, all processes—from the unloading of LNG to the delivery of the city gas through pipelines—are automatically controlled by computers. As a result,

our day-to-day operations require only 5–10 workers. Safety is of paramount importance. Our world's-largest underground tank can store enough LNG to meet the needs of around 280,000 households for one year. Tokyo Gas adopted buried underground LNG tanks to minimize the risk of above-ground LNG leaks—even in the event of tank damage. Through these efforts, we have realized both the maintenance of advanced safety levels and low running costs.

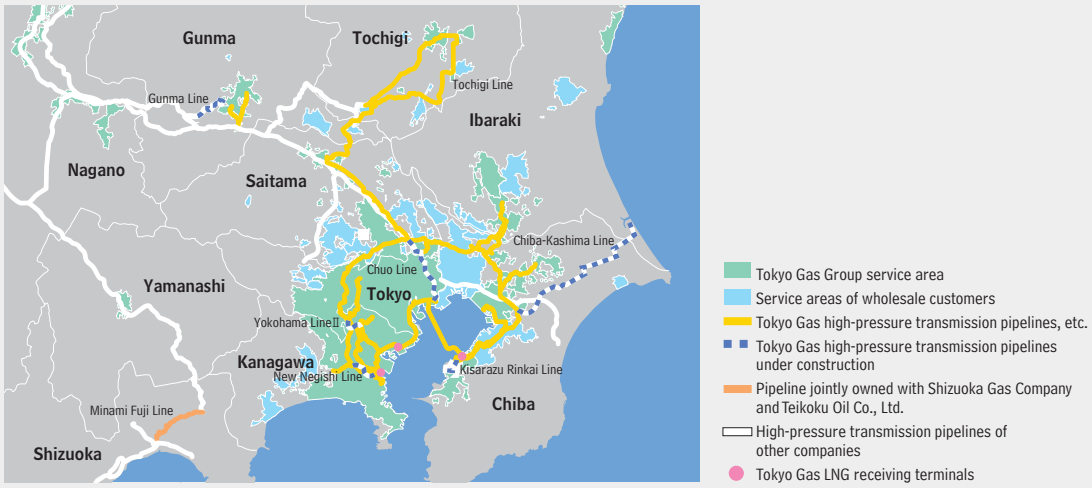
A Strong Pipeline Network

Tokyo Gas has constructed the largest city gas supply network in Japan. It is supported by reliable safety systems and based on the engineering and maintenance technologies we have accumulated over many years. The high-pressure trunk pipelines circling the Tokyo metropolitan area and the three LNG terminals complement each other to realize a more reliable supply system.

We have also constructed pipelines that not only enhance supply reliability, but also meet the enormous potential demand that exists in the Kanto region. We completed the Tochigi Line in 2005 to develop natural gas demand across the northern part of the Kanto region, specifically Tochigi Prefecture, and further improve supply reliability. Continuing, we plan to complete the Gunma Line, designed to meet the strong demand in the Gunma area, in March 2010, and to invest approximately ¥26.0 billion to complete the 73-km Chiba-Kashima Line designed to develop the latent industrial demand in the Kashima industrial area in Ibaraki Prefecture, by December of the same year.

Furthermore, in order to meet the long-term increase in demand for natural gas, we plan to complete the Chuo Trunk Line I in 2009 to further enhance the supply capacity and reliability of the high-pressure trunk lines circling Tokyo. (The Chuo Trunk Line II will commence operation in 2010.)

Service Area Facility Map



Shield Tunnel Technology

Shield tunneling involves rotating the drill at the tip of a tunnel-boring machine, known as a shield machine, to excavate the tunnel. It can produce longer tunnels at greater speed, and much of the process is now automated. Tokyo Gas has employed this technology in the construction of high-pressure pipelines traveling under urban areas, in particular, in the first phase of construction of the Chuo Trunk Line I, scheduled for completion in 2009. It will connect the densely populated area that lies between Edogawa Ward in Tokyo and Soka City in Saitama Prefecture via a 23.1-km shield tunnel. This approach improves the speed and reliability of the overall project because the shield machine will excavate a tunnel 40 to 50 meters below the surface, where the ground is geologically stable, and we will need to access the tunnel underground at only two points. The Japan Society of Civil Engineers gave Tokyo Gas a technical award in May 2008, commending the Company's construction project management for being well adapted to an era in which speed is required.

Shield Machine

Staying at the Forefront with Advanced Energy Solutions

The outlook for Japan's economy is increasingly uncertain due to the instability of stock and foreign exchange markets originating in the so-called sub-prime loan problem, and the rise in international crude oil prices, among other factors. However, there has also been an accelerating switch to the use of natural gas as a fuel in the industrial sector due to its price advantage relative to increasingly expensive crude oil and also because of its being environmentally friendly. In the commercial sector, which is seeing escalating competition in the energy market, Tokyo Gas is building its competitiveness by offering outstanding solutions that meet the needs of a wide range of customers. We will continue to create new value along with our customers as a business partner that is trusted regarding all aspects of energy.

Kawasaki Natural Gas-fired Power Plant commenced first unit operation in April 2008 (first and second unit total: 847.4 MW)

Aiming for Establishment of an Integrated Energy Business

There is escalating competition among different types of energy and among suppliers of the same type of energy. Tokyo Gas is responding to the changing and increasingly sophisticated energy needs of industrial and commercial customers by aiming to establish itself as an integrated energy business. This offers diverse solutions and value to customers. The concept includes being a multi-energy supplier that provides one-stop access to gas, heat and electric power, and offering energy services that make optimal use of the strengths of each energy system. Furthermore, companies are establishing an increasing number of factories and large-scale commercial facilities on the outskirts of the Tokyo metropolitan area, which enables us to develop as an integrated energy business over a wider area. Our strategies for the development of potential demand in the Kanto region surrounding Tokyo include the building of wide-area pipeline networks and construction of LNG satellite terminals in areas where gas pipelines have not been installed. We believe that we can achieve further demand growth within a 200-km radius surrounding Tokyo by strengthening our alliances with local energy suppliers to supply multiple forms of energy, including gas, LNG, heat and electric power, and by offering one-stop energy services.

Working to Provide Sophisticated Energy Solutions

In order to be a multi-energy supplier that provides one-stop solutions to all of the energy needs of our customers, Tokyo Gas is developing its power generation business while seeking to maximize synergies with its gas business. We supply electric power competitively by combining a range of strategies, including the construction of power plants close to demand areas, the use of existing infrastructure already available at our LNG terminals and other facilities, as well as the introduction of the latest Gas Combined Cycle technology, which is highly efficient and promotes energy conservation. Tokyo Gas Bay Power and Tokyo Gas Yokosuka Power are already fully operational. In April 2008, Kawasaki Natural Gas Power Generation Co., Ltd. (Tokyo Gas: 49%, Nippon Oil Corporation: 51%) commenced operations, and construction of Ohgishima Power Station (Tokyo Gas: 75%, Showa Shell Sekiyu: 25%) is proceeding smoothly.

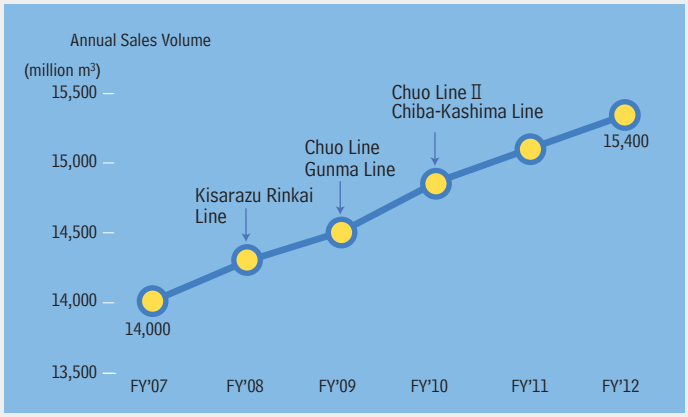
Integrated Utility Services for Diversified Needs

We are expanding our collaboration with ENERGY ADVANCE Co., Ltd. (ENAC), which separated from Tokyo Gas as an independent company in 2002. This relationship is crucial to the full-scale development of an energy services business which provides the optimal mix of energy systems.

The knowledge and technical expertise accumulated through construction and operation of these facilities are the foundation for a wide range of energy services. ENAC's professional engineers select, design and install systems that precisely match customer needs, providing benefits that include energy conservation and reduced CO_2 emissions and costs. ENAC is the industry leader and is currently providing these services to 208 customers (as of the end of March 2008).

The services provided by ENAC are not limited to energy. The company has been able to evolve into an integrated utility service company offering one-stop solutions for a wide range of customer needs by expanding its business to include utility services, such as the supply of pure water and compressed air, and contracting services in areas such as biomass utilization and facility operation and management.

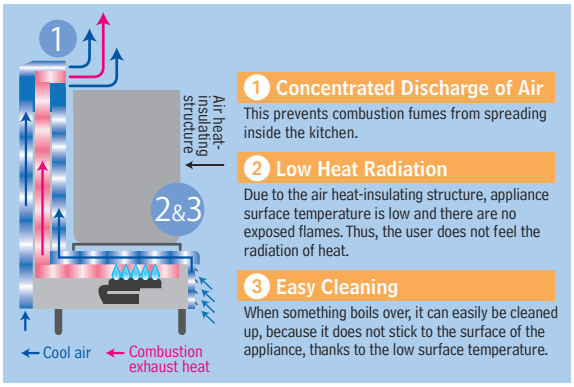
Demand Outlook and Capital Investment Plan (non-consolidated)



Initiatives on the Front Line of Sales: Commercial Kitchens

Gas is ideal for cooking delicious food. In terms of economics too, gas kitchen appliances have a huge advantage over electric units. In recent years, however, the competitive environment on the sales front has been severe due to consumers' perception that kitchens become too hot when gas is used. Now Tokyo Gas offers our customers an optimized "cool kitchen." By providing the four elements necessary for a kitchen plan "economy," "ecology," "deliciousness" and "cleanliness", this kitchen achieves an ideal mix of energy to meet each customer's needs.

Design of Cool Kitchen Appliances



Residential Customers

LIFEVAL Realizes More Pleasant and Satisfying Lifestyles for Customers

The mission of Tokyo Gas is to help residential customers experience the lifestyle enhancements made possible by city gas, including the enjoyment of delicious food cooked over a real flame and the convenience of being able to produce just the required amount of hot water whenever it is needed. We actively propose new value for living by developing products and services that reflect customer needs, including environmental and health needs. We are also determined to enhance our ability to communicate with each customer by developing a marketing structure based on even stronger links with regional communities.

Maximizing the Value of Customer Contacts

In recent years, it has become increasingly difficult to prevent declines in gas sales per residential customer because of Japan's falling birthrate and an increase in the number of houses with effective draft-proofing and thermal insulation. There is also escalating competition from all-electric houses, a concept that is being promoted primarily by electric power companies.

Our market strategy in the residential sector is to maintain and expand gas sales volumes per customer through in-depth marketing. All Tokyo Gas companies have numerous opportunities for customer contacts, and we are determined to maximize these opportunities. We also work to expand our gas sales volumes through dynamic marketing activities targeted toward expansion of our customer base.

To address customer needs and services, we have created regionally focused marketing approaches coordinated by branch offices and are working to expand gas sales volume. With a view to further strengthening our marketing organization, we are moving ahead with the establishment of Tokyo Gas LIFEVAL, a new regional energy company that restructures and integrates sales and service functions, including appliance sales, repair services and safety inspections. This

new company is aiming to increase our contacts with customers and create a structure to provide one-stop access to products and services with the potential to add value to customer lifestyles. In April 2008, the new company commenced operations in 12 districts (service blocks), with approximately 60 districts (blocks) to be added by the end of fiscal 2009.

To market our products to sub-users, we have created a marketing structure that allows gas development in different markets for developers, house manufacturers, contractors/design offices, electronics retail stores and others.

We are encouraging households to use gas in a wide variety of ways by strategically introducing attractive gas appliances, such as floor-heating systems and mist saunas, which anticipate changing lifestyles. Through these efforts, we are offering enhanced lifestyle features and comfort to as many customers as possible. We are promoting these strategic appliances aggressively to communicate to our customers the attractiveness of gas. In addition to mass-media advertising, such as via television, newspapers, magazines and the Internet, we are increasing the number of opportunities for consumers to experience gas appliances at our showrooms, through third-party events and in condominium and housing displays. We are also encouraging customers to use these gas appliances by developing and promoting an attractive range of gas charging options.

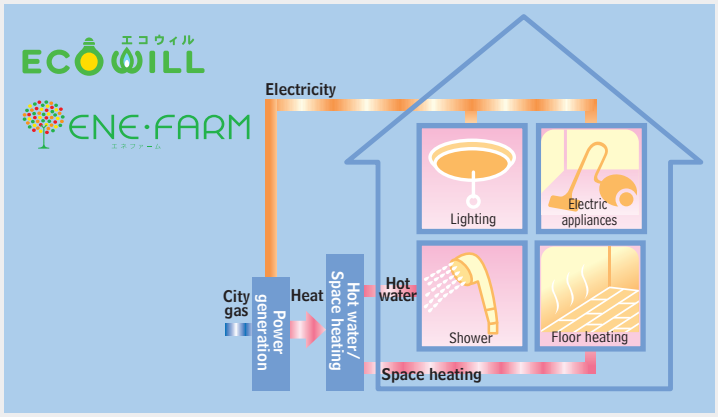
By promoting these various initiatives, Tokyo Gas intends to achieve sustainable growth in the residential sector.

Capturing Residential Electric Power Demand—Home Power Generation

Tokyo Gas promotes home power generation systems as a way of expanding residential gas demand and countering competition from all-electric systems. Our flagship products in this area, the ECOWILL gas engine cogeneration system and the ENE·FARM fuel cell cogeneration system, are being marketed primarily to customers living in detached houses.

We are using home power generation to develop a new residential electric power market. These strategic products have the potential to drive future growth in gas sales. By fiscal 2010, we aim to sell a cumulative total of approximately 43,000 units as a foundation for large-scale adoption of this technology.

Home Power Generation System



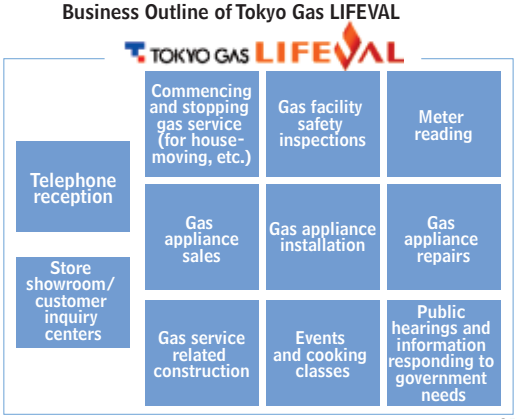
Tokyo Gas is studying strategies for entry into the market for energy systems for condominium housing. In this area, we will provide one-stop solutions, including the installation, ownership and maintenance of cogeneration systems designed to meet the energy needs of condominium residents.

*The name of our residential fuel cell changed from "LIFUEL" to "ENE・FARM" in June 2008.

Tokyo Gas LIFEVAL

Enesta, Tokyo Gas Customer Service and Tokyo Gas were previously responsible for different aspects of customer services, such as sales and repairs of gas appliances, meter reading and safety inspections of gas facilities. We have combined these entities to create the new Tokyo Gas LIFEVAL company, which provides one-stop services to meet the diverse needs of regional customers. It plays a central role in our regionally focused marketing approach, contributing to the realization of comfortable lifestyles using gas. We have divided our supply area* in Tokyo, Kanagawa, Chiba and Saitama prefectures into approximately 60 districts (service blocks). We have integrated all gas-related services in each of these districts under the new company, which is carrying out sales and offering services as the new customer interface for Tokyo Gas in each of these regions. Tokyo Gas has invested more than one-third of the equity in Tokyo Gas LIFEVAL, and it is aiming to create a structure that will result in closer relationships with its customers. *excluding some parts of Saitama

Business Outline of Tokyo Gas LIFEVAL



Giving Ourselves the Tools We Need to Thrive

Tokyo Gas places a high value on technology and accepts the challenge of creating new technology as the driving force for business development and growth. Particularly important are technologies relating to the gas business, such as combustion technology and pipeline technology. As a leading company in the Japanese energy sector, we aim to achieve sustainable growth in partnership with society by actively contributing to the development of new technologies for the energy society of the future.

Pilot sewage biomass power generation system

Developing both "strategic" and "platform" technologies

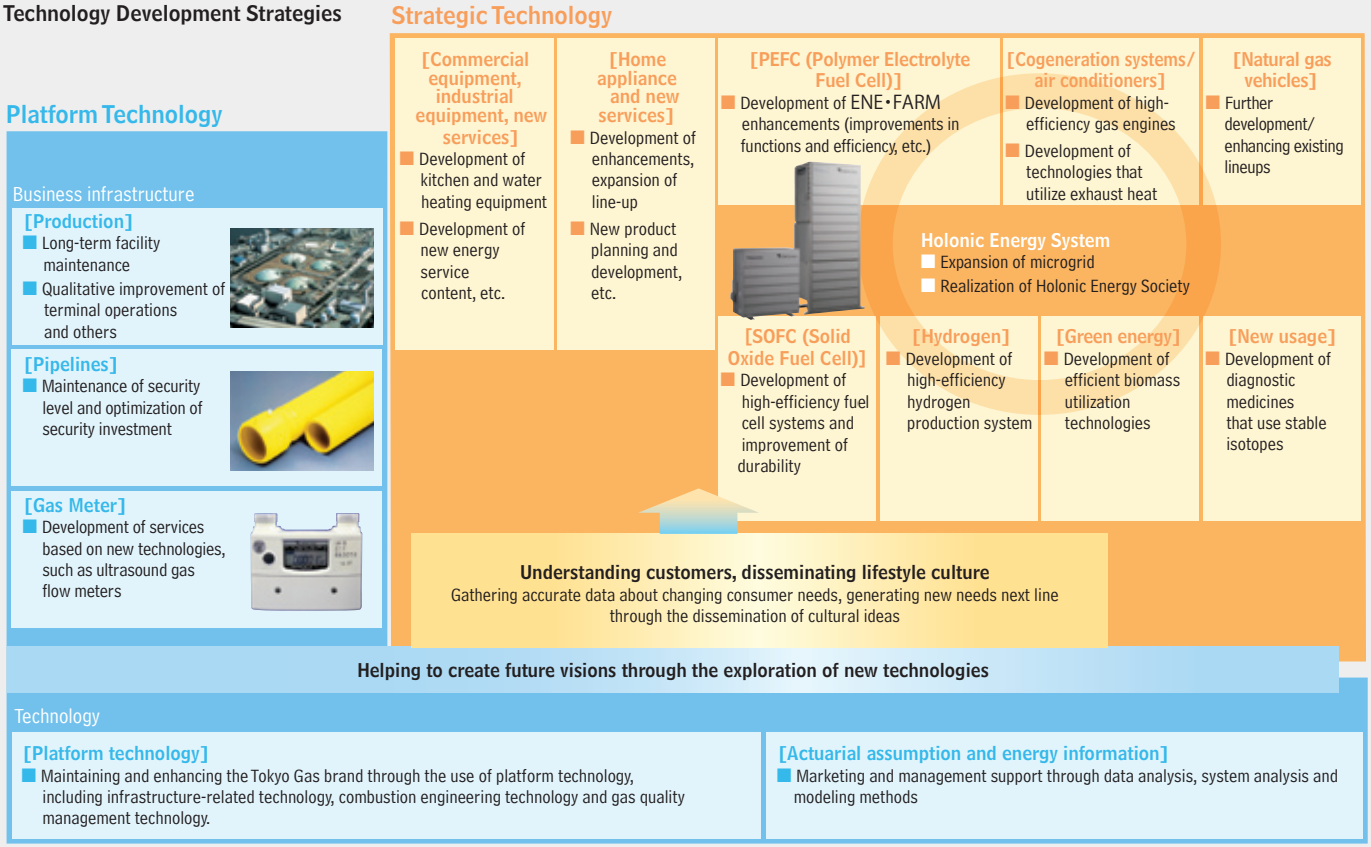
Our research and development activities are broadly divided into two areas. Strategic technology development contributes to the sustainable growth of our integrated energy business, with an emphasis on natural gas. Platform technology development helps to enhance our competitiveness while also fulfilling society's needs in terms of reliability, safety and environmental considerations. By developing both forms of technology, we achieve reliable and efficient use of natural gas in each phase of the value chain—production, supply and sales. We seek to create new gas demand while contributing to sustainable growth and supporting a platform for an environmentally friendly and competitive energy supply business.

Our strategic technology development includes development of appliances through insightful exploration of the needs of customers. We work to create concepts that resonate with our customers and to provide energy conservation and comfort features. As for residential use products, we promote the advanced "Pipitto Konro + do" cooktop, which features the strengths of gas. In addition, we continuously enhance hot water heater systems such as floor-heating systems and mist saunas, with an emphasis on our highly efficient "Eco-JOES" water heaters. As for com-

mercial equipment, we have created "cool kitchens" equipped with gas kitchen appliances featuring low radiation heat. In addition, as support for in-house power generation businesses such as ECOWILL and ENE·FARM, and as proactive initiatives to achieve a low-carbon society, we have been working on the development of holonic energy systems. Technologies utilizing renewable energy sources such as biomass, solar heat and sunlight are being developed as well, along with hydrogen and CO_2 management technologies.

Our platform technology development plays a crucial role in promoting not only advancement of technologies for laying and maintaining natural gas infrastructures with a focus on pipeline networks but also development for cost reduction. These technologies help us deliver natural gas safely to our customers and thus give them security. Furthermore, we are aiming to improve, pass on and utilize platform technologies that will support the business platform of Tokyo Gas in the long term. These include technologies related to infrastructure-related technology, combustion engineering technology and gas quality management technology.

Technology Development Strategies



Holonic Energy Systems

Holonic energy systems involve networks over wide area, such as between buildings or between regions, and allow the flexible exchange and joint use of energy within such networks. This enables energy conservation and CO_2 reductions for the overall zone that cannot be achieved for individual buildings. We are working to maximize energy conservation and CO_2 reduction through effective use of the heat expelled from natural gas cogeneration systems, efficient operation during times of day when energy demand is low, priority use of renewable energy and other means. We can also build energy supply systems that remain strong in times of disaster because they employ dispersed power systems. Tokyo Gas has established a sponsored course at the University of Tokyo on "holonic energy systems" aimed at the realization of this kind of wide-area, networked energy use, and is collaborating with the university on research and development.

Giving Ourselves the Tools We Need to Thrive

As we work toward the realization of a low-carbon society, use of natural gas is destined to grow due to its outstanding environmental properties, and city gas will become the core of a comfortable and environmentally friendly lifestyle. We will propose highly efficient equipment suited to use in homes, buildings and service areas. Seeking further energy conservation and reduction of CO_2 emissions, we will take initiatives for the more effective use of energy, including the creation of energy networks and dispersed energy systems based on natural gas systems that give priority to the use of renewable energy.

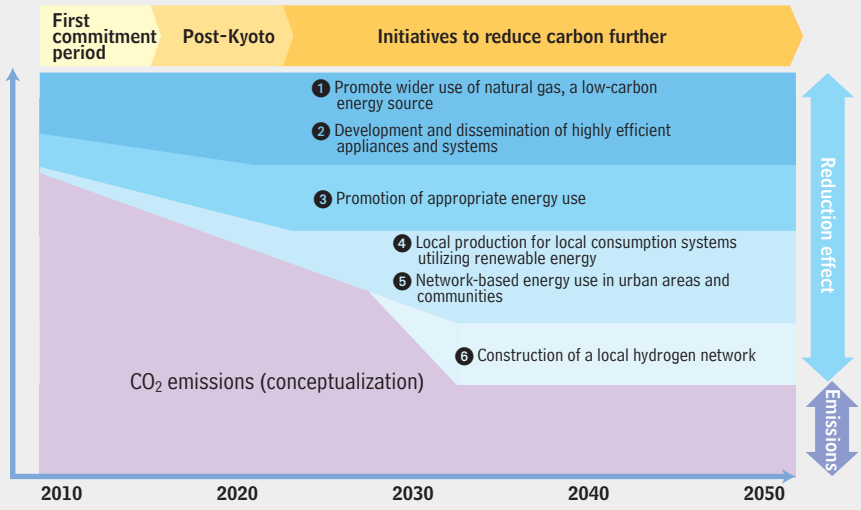
Environmental Technology Development in the Energy Sectors

Now more than ever, it is necessary to take care of limited natural resources and the environment, create added value through technology and contribute to the sustainable development of society.

Tokyo Gas so far has been promoting a switch to clean natural gas fuel through the introduction of LNG. In addition, we have been working on improving the efficiency of energy use and wider use of highly efficient appliances and systems. For example, we have increased the use of gas air conditioning and cogeneration systems that utilize natural gas.

In the future, Tokyo Gas will continue to promote expanded use of environmentally friendly natural gas. It will also work toward the realization of a low-carbon society that utilizes hydrogen and dispersed energy systems that prioritize the use of renewable energy, based on advanced energy use technology and energy conservation technology.

City gas energy contributes to a wide range of energy conservation and CO_2 emission reduction measures



Expansion of Sophisticated Uses for Natural Gas

Tokyo Gas has developed technologies to realize higher consumer acceptance of and a lower environmental burden for gas appliances by improving their safety, making them more efficient and more compact and reducing their nitrogen oxide (NOx) emissions.

In the residential sector, we will further advance these technologies to provide for a lifestyle that enables users to enjoy both energy conservation and comfort features. In the commercial and industrial sectors, we will increase the demand for city gas, which will contribute to improving the global environment through the use of optimal energy solutions.

Residential-use Fuel Cell ENE•FARM

ENE-FARM fuel cells are economical and ecological since they generate electricity to be used on the spot and their exhaust heat can be used for hot water. Therefore, they make it possible for people to conserve energy while enjoying comfortable lives with floor-heating systems, mist saunas and the like. Current Polymer Electrolyte Fuel Cell (PEFC) appliances realize an electricity generation efficiency of 37% (LHV standard), an energy conservation rate of 31%, and a CO_2 reduction rate of 45%. Since their introduction to the market in 2005, a total of over 500 units have gone into operation.

Hydrogen filling station

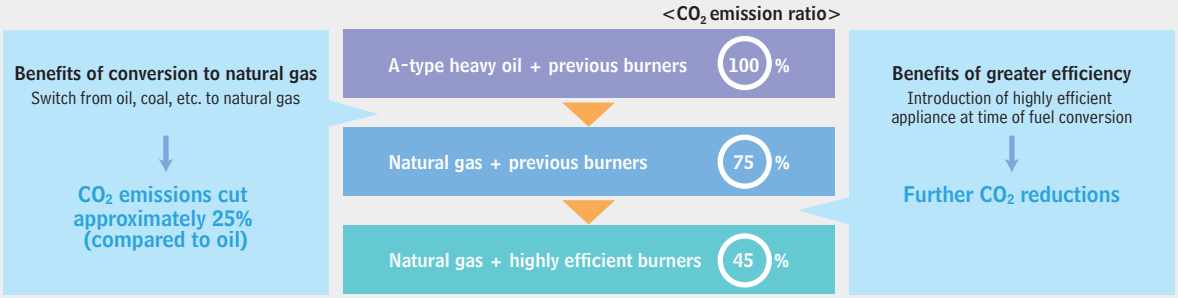

High-efficiency burner for industrial furnaces

We are aiming to make their use much more widespread through further development efforts that will make them even more compact and affordable. We are also focusing our efforts on development of the Solid Oxide Fuel Cell (SOFC), which offers greatly improved electricity generation efficiency. The SOFC is expected to become the next-generation fuel cell.

Commercial and Industrial Sectors

To achieve significant CO_2 reductions, we are promoting the use of natural gas, which emits less CO_2 than any other fossil fuel, as a fuel. We are also introducing highly efficient appliances. Insert a pattern diagram of gasification of natural gas in an industrial furnace.

Reduce CO_2 emissions by converting energy sources of industrial furnaces to natural gas



In order to realize energy conservation and CO_2 reductions, it is important not only to introduce highly efficient appliances but also to select appropriate appliances in accordance with the energy use pattern of the consumer. In the residential sector, Tokyo Gas offers highly efficient appliances tailored to family structures and lifestyles; in the commercial and industrial sectors, we promote the most appropriate high-efficiency facilities and cogeneration plants for different heat and electricity ratios of different applications and industry types.

Moving Closer to the Low-carbon Society of the Future

In order to move toward the realization of a low-carbon society, Tokyo Gas is promoting the utilization of renewable energy that has a strong CO_2 reduction effect.

We have positioned the use of biomass as one item on the menu of our one-stop energy services. Our aim is to expand its use among industrial customers such as breweries and among public-sector customers, including sewage treatment and waste processing plants. The output and caloric value of biomass-derived gas (biogas) varies depending on the season and time; therefore, we mix and combust it with caloric-stable city gas so that cogeneration facilities can be operated continuously. This leads to the use of more efficient, high value-added renewable energy.

We are also working on increasing the use of hydrogen, a future energy source that has the potential to reduce CO_2 emissions even further. We are aiming to develop a compact hydrogen-separating reformer, which produces high-purity hydrogen from natural gas at an efficiency of over 80%, for deployment in hydrogen filling stations.

Tokyo Gas is realizing suitable uses of energy for a low-carbon society by managing energy use from a variety of angles. Such perspectives include "concentration and diffusion," "large scale and small scale," "energy conversion and use" and "utilization of renewable energy and unused energy."

Biotope on the roof of the Energy & Earth Exploratorium

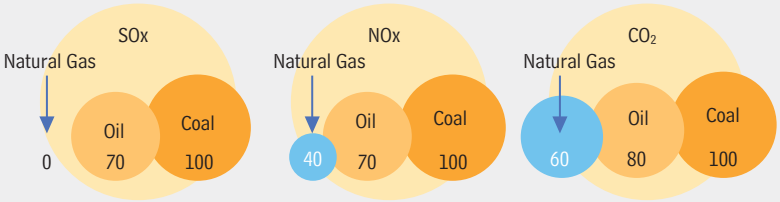
Environmental Activities of Tokyo Gas Group

"Tokyo Gas group recognizes the vital importance of the natural environment and is determined to make a positive contribution to global environmental conservation and sustainable social development by promoting the use of environmentally sound resources and energy technologies." This philosophy is reflected in four policies that are making Tokyo Gas group a leader in environmental management and an active participant in efforts to solve global environmental problems.

1. Reducing the environmental load resulting from the use of energy by our customers.
2. Reducing the total environmental load resulting from our own business activities.
3. Strengthening our environmental partnerships with local and international communities.
4. Promoting research and development relating to environmental technologies.

Our core business activity is to supply city gas, and the main resource for city gas is natural gas, which has the smallest environmental footprint of any general-purpose fossil fuel. It emits almost no sulfur oxide (SOx) during combustion, while nitrogen oxide (NOx) and CO_2 emissions are lower than those of oil or coal.

Comparison of Emission Lives (Coal = 100)



We aim to fully exploit the advantages of natural gas in our business activities by developing highly efficient equipment and systems, such as cogeneration systems, that minimize the environmental load. We see this as an excellent strategy for reducing global warming and atmospheric pollution. Another priority is making natural gas available to as many customers as possible.

Tokyo Gas has developed its own environmental protection guidelines to ensure that the environmental advantages of its city gas business are fully exploited. These guidelines call for the reduction of CO_2 emissions resulting from gas use by Tokyo Gas customers by 8 million tons-CO_2 by fiscal 2010.

Results for Fiscal 2007 and Targets for Fiscal 2010

		Target for FY2007	Result for FY2007	Target for FY2010
Global Warming	Reduction of CO_2 emissions from customers facilities	7.00 million tons	7.24 million tons	8.00 million tons
	Unit energy use in gas production facilities (Per unit of gas production)	1% or more reduction	2.5% reduction*	1% or more reduction
	Unit energy use in district cooling/heating systems (Per heat sales volume unit)	1% or more reduction	0.8% reduction*	1% or more reduction
	Unit energy use at power plants (Per power transmitted)	1% or more reduction	1.3% reduction*	1% or more reduction
	Unit energy use in Tokyo Gas business offices (Per city gas sales volume unit)	1% or more reduction	4.1% reduction*	1% or more reduction
Global Warming	Production waste	4 sites/10 sites	6 sites/10 sites	10 sites/10 sites
	Other waste (Construction waste, etc.)	More than 91%	91%	More than 91%
	Reduction ratio of waste paper	4% reduction	10% reduction	10% reduction from fiscal 2005
	Recycling of waste paper	More than 85%	90%	More than 85%
	Sheets of copy paper used per person per year	6,800	7,244	5,000
	Excavation spoil ratio	19%	18%	16%
Green Purchasing	Green procurement ratio	More than 62%	61%	More than 70%
	Number of affiliated companies that have already introduced an electronic catalog purchasing system	40 companies	41 companies	48 companies

* Annual average reduction ratio

Taking All Steps to Assure Trust and Safety

The supply of energy is vital to the continuation of economic activity and modern life. Throughout its history, Tokyo Gas has remained keenly aware of its responsibilities as a supplier of energy, including the responsibility to ensure safety. We continue to fulfill these responsibilities through a wide range of measures.

Advanced Disaster Prevention Measures

Tokyo Gas is working on three levels of safety and disaster prevention, namely, Prevention Countermeasures, Emergency Response Countermeasures, and Restoration Countermeasures. We have positioned these as the key measures for maintaining a reliable gas supply.

Control room

Gaslight 24

First, it is essential for Prevention Countermeasures to include preparations for the possibility of a major earthquake, as Japan is an earthquake-prone country. Tokyo Gas maintains a high standard of safety by adopting measures to ensure that key gas production and supply facilities are sufficiently able to withstand major earthquakes on the similar scale of the disaster that struck the Hanshin-Awaji area in 1995 (seismic motion with an intensity of seven on the Japanese scale). We are promoting the adoption of polyethylene gas pipes (which account for 90% of our pipelines) when laying new low-pressure pipelines, because they absorb the impact of ground movements and minimize the damage from earthquakes.

Looking at Emergency Response Countermeasures, when an earthquake with an intensity of five or higher on the Japanese scale occurs, the computerized meters in each household detect the seismic motion and shut off the supply of gas automatically. Moreover, in order to prevent secondary disasters such as fire and explosions, our Super-dense Real-time Monitoring of Earthquakes (SUPREME) system instantly monitors information from earthquake sensors deployed at the high concentration of one every square kilometer. This makes it possible to divide a disaster-stricken region into blocks and shut off the gas automatically. These technologies have reduced the estimated time required to stop the gas supply from 40 hours to just 15 minutes. In addition, our emergency mobilization team Gaslight 24, staffed with specialist personnel around the clock, is able to handle emergency situations such as gas leaks and is ready to respond immediately on a 24/7 basis.

Looking at our Restoration Countermeasures, in order to restore the supply of gas as rapidly as possible, we utilize our Restoration Support System to carry out the required work quickly.

In addition, we have adopted safety measures across a wide range of applications. For example, we promote the development of gas cooktops with high-level safety functions for residential use as well as for underground shopping areas and skyscrapers containing numerous gas kitchens.

Elimination of Carbon Monoxide Poisoning

Tokyo Gas, which always prioritizes customer safety and security as its first concern, has been encouraging customers in the Tokyo Gas service area to replace kitchen and bathroom water heaters that are not equipped with imperfect-oxygen-depletion safety shutoff devices with new units that incorporate this important safety feature. The new units prevent accidents in which incomplete combustion leads to carbon monoxide poisoning. In particular, in fiscal 2006, Tokyo Gas announced enhanced safety measures to prevent carbon monoxide poisoning accidents, which have been occurring frequently.

Since January 2007, the "switchover promotion campaign" has been implemented as well. There are around 11,450,000 kitchen and bathroom water heaters in operation in the Tokyo Gas service area, and 298,000 of these are not equipped with imperfect-oxygen-depletion safety shutoff devices. Through the campaign, we encourage the owners of these devices to switch to safe units that are equipped with imperfect-oxygen-depletion safety shutoff devices as soon as possible. The campaign has made a steady contribution to improving safety, with the number of units not equipped with this safety device declining from 298,000 before the campaign began to 217,000 by the end of March 2008.

Q:1 How does Tokyo Gas structure its rates?

Service Agreement

In cases where Tokyo Gas supplies gas through the pipelines to meet general demand, the rate schedule "regulated" under the service agreement used to require an approval from the Minister of Economy, Trade and Industry. Under the amendments to the Gas Utility Industry Law in 1999, however, it became possible to change these rates simply by notifying the Minister, provided that these changes do not adversely affect any customers.

Optional Agreement

Tokyo Gas is permitted to offer rates and service terms other than those outlined in the above service agreement. This enables the Company to make efficient use of its gas production and supply facilities. These agreements have to be reported to the Minister and the selection of this option is up to the customer.

Large-volume Supply

Under the Gas Utility Industry Law, the conditions for gas rate setting and market entry for service providers in the large-volume market are gradually deregulated. Effective from April 2004, customers who used 500,000 m^3 or more qualified as large-volume customers. Moreover, from April 2007, the designation point for large-volume customers shifts to 100,000 m^3 or more.

"Regulated" rates are calculated using a rate-base system. A simplified version of this calculation is shown below:

Operating cost, etc.	+	Fair return	−	Deductions, etc.	=	Total fair cost
• Cost of gas resources • Personnel expenses • Overhead • Depreciation • Non-operating expenses • Income taxes		Calculated using the rate-base system, which involves multiplying fixed-asset investments, etc. by the appropriate ratio of fair return		• Profit from gas appliance sales, etc. • Profit from real estate business, etc.		Represents an appropriate profit added to an appropriate cost under efficient management

* Price fluctuations in the foreign exchange rates and/or crude oil prices are reflected in the meter rate gas unit price every three months in accordance with the gas resource cost adjustment system (refer to page 5). Consequently, the impact of such price fluctuations on revenue and expenditure is neutral in the medium or longer term.

Q:2 How are the rate adjustments carried out?

Tokyo Gas believes that our customers are important stakeholders, just like our shareholders. In the medium-term management plan for fiscal 2006–2010 that we are currently executing, we planned rate reductions with the objective of returning some of the savings from more efficient management to our customers. In April 2008, we implemented the first rate reductions since we started our current medium-term management plan. We determine the frequency and timing of rate revisions in light of the business and competitive environments at the time, the progress of management streamlining and other factors. As for the particulars of the revisions, in order to maximize the benefits of the rate reductions, we invest resources primarily in highly competitive sectors and for customers who use large volumes of gas.

Q:3 What is your relationship with Tokyo Electric Power Company (TEPCO)?

Tokyo Gas and Tokyo Electric Power Company (TEPCO) source about 70% of the total volume of their LNG purchases from joint LNG projects and are joint participants in projects based on upstream interests. Joint purchasing strengthens our bargaining power, since we can contract for large volumes.

Two of our three LNG terminals, the Negishi and Sodegaura Terminals, are operated jointly with TEPCO. This allows us to reduce capital investment and operating costs, and we can also improve operating rates through load leveling based on differences between peak demand patterns for electric power and gas. These advantages are reflected in lower production costs per unit of gas.

At the marketing level, however, we are competitors. TEPCO has moved into the gas market and is now a competing supplier of gas, especially for commercial and industrial use. We have always competed with electric power in the residential market, but in recent years this competition has intensified with the advent of all-electric systems. In fiscal 2006 we successfully implemented a range of strategies, including market promotions for gas appliances, and in-depth demand development focusing on major subusers. As a result of these initiatives, we are able to hold the percentage of newly built houses with all-electric systems in our service area to a minimum.

Tokyo Gas responds to various forms of competition by going beyond the supply of individual energy products, such as gas and electric power. Our ultimate goal is to provide our customers with optimal value by responding to their real needs, including their energy service needs.

Q:4 What processes are used by Tokyo Gas when making investment decisions?

Since fiscal 2003, Tokyo Gas has based decisions on new investments, the continuation of investments and exits from investments on Tokyo Gas Economic Profit (TEP), together with Net Present Value (NPV) and Internal Rate of Return (IRR). These three indicators are used as common standards throughout the Tokyo Gas Group. TEP is an evaluation method to ensure that the amount of profit exceeds the cost of capital.

The Investment Evaluation Committee assesses plans that involve investment, equity participation or debt guarantees on the basis of risks and returns. The results of these deliberations are reflected in decisions at management meetings or meetings of the Board of Directors. Derivative transactions are subject to market risk management rules.

Management meetings are held each week and are attended by executives at the senior executive officer level and above, as well as the two corporate auditors. Final decisions on important management issues are made after in-depth discussion, including deliberations by the Investment Evaluation Committee in the case of investment decisions. To follow the results and monitor the invested projects, Tokyo Gas evaluates them regularly in the Investment Evaluation Committee and reports findings at the Management Report Meeting.

Q:5 What is the definition of the"energy service business"?

Energy service providers build facilities to provide one-stop sources of energy services, such as cogeneration systems that produce both electricity and heat. This type of service has major advantages for customers, including reduced energy costs and ease of implementation, as there is no need for a large initial investment. There are also significant environmental benefits. Efficiency improvements have turned the energy service business into a high growth area characterized by rapidly improving profitability.

In 2002, Tokyo Gas moved to expand its involvement in the energy service business by establishing a wholly owned subsidiary, ENERGY ADVANCE Co., Ltd. The company operates very efficiently by capitalizing on the LNG procurement systems and advanced engineering capabilities of the Tokyo Gas Group, making the most of the high added value that can be achieved with cogeneration systems. It targets environmentally concerned customers, especially in the Kanto region, where demand is high.

It is the top company in its field, with a cumulative total of 208 contracts as of March 2008.

Q:6 What do you see as the role of the power generation business within the integrated energy business?

Tokyo Gas has established its power generation business as a multi-energy supply measure to provide all forms of energy customers require in a one-stop service. We intend to achieve an optimal mix with facilities such as cogeneration systems.

Furthermore, we believe our power generation business has a number of strengths.

1. It allows for competitive fuel procurement backed by our bargaining power.
2. Power plants are located close to demand areas utilizing existing infrastructure such as LNG terminals.
3. Synergy effects with the gas business are possible, such as improved terminal utilization rates and one-stop services.

Currently, we have four power plants in operation, under construction or planned (refer to the table below), with a combined generating capacity of 2,400 MW.

Tokyo Gas Bay Power Co. Ltd.	100 MW	In operation since October 2003
Tokyo Gas Yokosuka Power Co. Ltd.	240 MW	In operation since June 2006
Kawasaki Natural Gas Power Generation Co., Ltd.	840 MW	In operation since April 2008
Ohgishima Power Co., Ltd.	1,220 MW	Commencing in March 2010

Q:7 What is your policy on the utilization of real estate owned by Tokyo Gas?

Our core business is the integrated energy business, and we see the real estate business as a support segment for this. Earnings from the real estate business are used in core business activities. If there are opportunities to improve the asset value of large sites, we undertake appropriate development projects that allow us to maximize the potential and value of those sites while also minimizing risk.

In principle, development projects are funded from the proceeds of land sales, and care is taken to avoid any impact on our integrated energy business. Risk limitation is a priority, and our strategies in this area include joint development with outside partners.

The Tokyo Gas Group has numerous business sites in the Tokyo metropolitan area. We see effective real estate management as an important means of strengthening the competitiveness of our integrated energy business by improving efficiency and reducing costs. For this reason, we are also actively targeting improvements in the efficiency of our real estate activities and centralizing our facilities to achieve an optimal distribution of sites.

Q:8 How have the Kyoto Protocol and emissions trading affected Tokyo Gas? What are the target CO_2 reductions for the industry and how are they allocated to each company?

The targets set down in the Kyoto Protocol for the reduction of Japanese greenhouse gas emissions will require urgent action to strengthen energy conservation, which is a key component of countermeasures against global warming. Natural gas is expected to play an increasingly important role in this context. For example, the "Kyoto Protocol Target Achievement Plan" formulated by the government in April 2005 and revised in March 2008 acknowledges that natural gas produces the lowest CO_2 emissions of any fossil fuel during combustion and identifies the increased use of highly efficient natural gas equipment and systems as an important way to combat global warming.

The needs and expectations of gas customers and society in general toward natural gas are expected to expand still further in the future. The natural gas business is the core segment for the Tokyo Gas Group, and this trend is seen as an opportunity to achieve further growth and development.

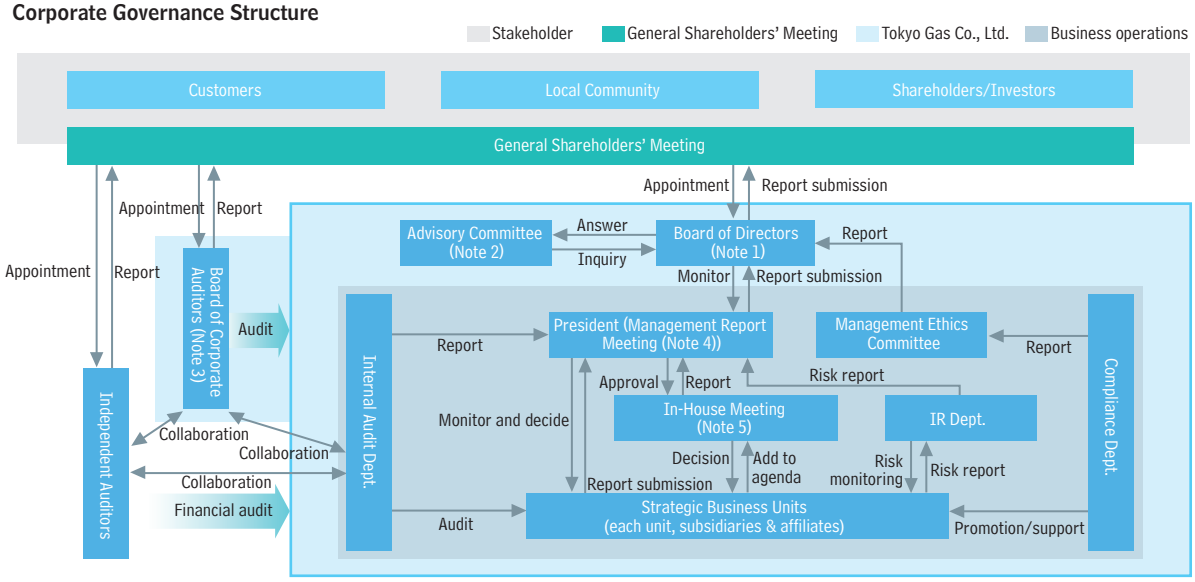
Under the Keidanren Voluntary Action Plan, the gas industry is expected to reduce its CO_2 emissions per unit and in terms of total outputs. Tokyo Gas has made steady progress toward the achievement of these targets through measures that include a conversion to high-caloric gas and the implementation of various energy-saving initiatives at its city gas production plants.

Our Fundamental Concept of Corporate Governance

As an "energy frontier corporate group" centered on natural gas, Tokyo Gas has a management philosophy that aims at the realization of comfortable lifestyles and environmentally friendly cities. We work to ensure continued development while consistently earning the trust of customers, shareholders and society. Based on this philosophy, our fundamental concept of enhancing corporate governance is intended to achieve a continuous increase in our corporate value by maximizing the value provided to all of our stakeholders.

We are also endeavoring to develop systems and measures to further augment corporate governance, and we are implementing them with a commitment to management legality, soundness and transparency. Tokyo Gas continues to emphasize the importance of accurate decision-making, clear separation of management functions and executive functions, efficient business operations, strengthening of auditing and monitoring functions, clarification of management and executive responsibilities.

Corporate Governance Structure



Note 1: Board of Directors: 11 directors (3 outside directors, and 8 internal directors)

Note 2: Advisory Committee: 2 outside directors, and 1 outside auditor, Chairman, and President

Note 3: Board of Corporate Auditors: 5 corporate auditors (3 outside auditors, and 2 internal auditors)

Note 4: Management Report Meeting: President, 2 Executive Vice Presidents, 9 senior executive officers (Three of the representative directors also serve as President and Executive Vice Presidents.)

Note 5: In-House Meeting: Management Ethics Committee, Safety Committee, Customer Satisfaction Promotion Committee, CSR Promotion Meeting, Environmental Meeting, and others

Enhancement of IR Activities

IR activities rank alongside internal control, risk management and the promotion of compliance as some of the most important ways to ensure management soundness and transparency and earn the understanding and confidence of all stakeholders, including shareholders and investors. As distinctive characteristics of the IR activities of Tokyo Gas, our top management diligently participates in our IR activities, and we not only disclose a wide range of information, but also engage in interactive communication with investors. We believe that through these activities, we can put the expectations and the opinions of the stock markets to good use in the management of the company and enhance discussion of the thinking of our management with all of our investors. In so doing, we eliminate the gap between our true corporate value and the market assessment of the company. Based on this belief, in Japan, we launched a specialist IR unit in 1998 and it has maintained ongoing dialogue with investors and analysts since then. Currently, primarily in the period after the announcement of our financial results, we are engaged in IR activities including visits by top management to institutional investors in Japan and overseas. They also use briefings and individual meetings as opportunities for wide-ranging discussions.

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

In April 2008, we newly launched an IR Department, comprising the Investor Relations Section split off from the Corporate Planning Department. As a result, our IR activities have been greatly strengthened. The IR Department has combined and enhanced risk management functions that had been dispersed throughout various departments. We intend to continue increasing corporate value while also considering risk management.

Internal Governance System

Under our internal control system, the Board of Directors, which includes three independent outside directors, determines the basic policies for the development of the important business operations plans and the internal control systems and monitors the performance of the directors. In accordance with the basic policies determined by the Board, the executive officers act to carry out business operations as well as to develop and operate the internal control system. We have established the Management Report Meeting as a deliberative body to assist the Board. This body undertakes prior discussions on the agenda for upcoming meetings of the Board and deliberates on important matters related to management.

The five corporate auditors, three of which are outside auditors, monitor the performance of the directors' duties. In addition, the Internal Audit Department, which reports directly to the President, monitors the business activities in each segment of Tokyo Gas and its consolidated subsidiaries, as well as the state of the development and operation of internal control and risk management. To implement specialized audits efficiently, the Internal Audit Department, with its 43 staff members (as of April 1, 2008), has developed a structure of four groups, specializing in financial, operational, information system and compliance audits.

In order to meet the requirements of the Internal Control Reporting System based on the Financial Instruments and Exchange Law, we established the Internal Control Promotion Committee and a project team, which takes charge of actual operations in April 2006. Documentation and evaluation of the state of development and operation were completed in March 2008, and Tokyo Gas is ready for the initiation of the Internal Control Reporting System.

Establishment of the Enterprise Risk Management System

In fiscal 2003, we established the Enterprise Risk Management (ERM) system, which includes risk management regulations and documented rules concerning major risks that require management intervention. To promote ERM, the IR Department's Risk Management Group runs the Risk Management Promotion Section, and approximately 100 Risk Management Promotion Officers have been deployed in Tokyo Gas and all of its consolidated subsidiaries. The Risk Management Group and its Promotion Section exchange information regularly to promote ERM. The Promotion Section, which reviews risks, evaluates fluctuations of the risk importance, assesses the implementation status of the countermeasures and the like and reports to the Management Report Meeting every year. Moreover, the results of the risk revisions are reported to the Board of Directors for approval.

The Risk Management Group is also in charge of development of the internal control system. We have built a system under which ERM and internal control are executed together in an integrated manner.

In the case that a disaster, an accident or another such incident actually occurs, the Emergency Response Organization immediately deals with the situation in accordance with the Emergency Response Organization Regulations.

Major Risks Requiring Management Intervention

Disaster and accident risks	Disruption of production and supply, maintenance problems of gas safety, product quality problems of gas appliances, etc., reputation damage resulting from other companies' gas-related accidents, natural disasters, disruptions to gas resource procurement
Market risks	Market price fluctuations affecting real estate and financial assets, etc.
Business strategy risks	Risks to existing businesses (risks arising from the establishment and commencement of operation of new regional energy companies, increased competition, risks of under- or over-recovery of gas resource costs, changes in the gas resource procurement environment, weather changes, declines in existing demand, technology development risks, changes of laws/regulations and regimes), ROI risks
Information risks	Information leaks, failures or malfunctions in mission-critical IT systems, loss of telephone services to call centers
Social responsibility risks and other risks	Environmental risks, compliance risks, customer satisfaction and customer service risks

Compliance

Promoting Compliance

Compliance with laws and regulations based on high ethical standards is the foundation on which the Tokyo Gas Group continually builds the value of its brand. "Security, safety and reliability" are the sources of our competitiveness. Our stance is reflected in three basic policies calling for the fostering of compliance awareness, the cooperation of each workplace with compliance efforts based on the Group policy and the establishment of compliance PDCA cycles.

We have established the Management Ethics Committee, chaired by the President. This committee at the management level discusses basic compliance policies and all aspects of compliance initiatives by the Group, monitors the implementation of compliance-related measures and confirms activity programs from the following year and thereafter.

We have also established the Compliance Department, a specialized unit that provides leadership in compliance-related activities. These include development of compliance promotion systems for each unit, awareness and educational campaigns about the code of conduct, compliance risk reduction measures, maintenance of advisory systems and the distribution of information within and beyond the Tokyo Gas Group companies.

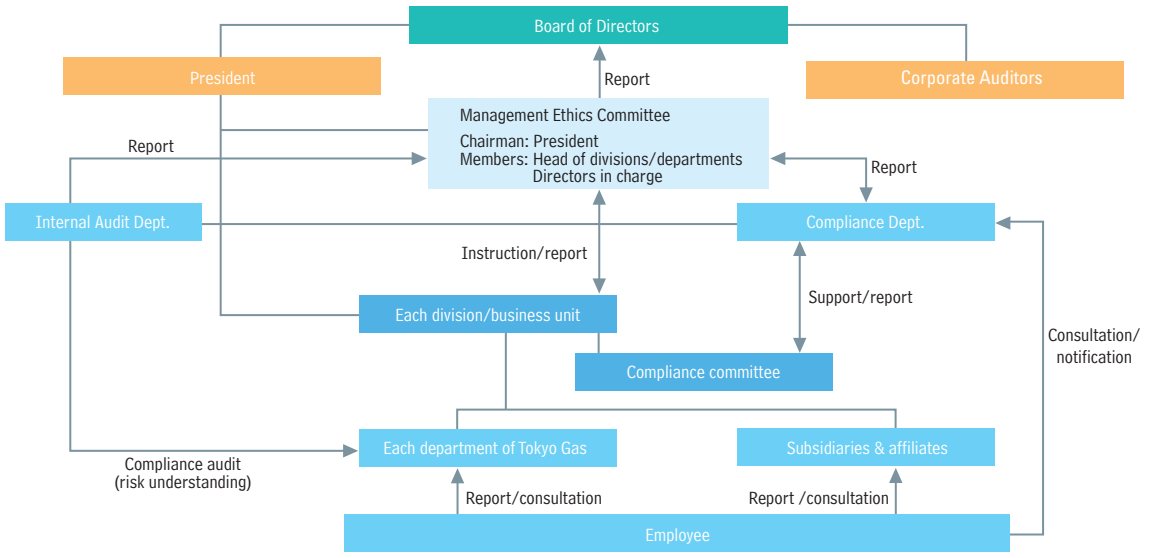
In addition to continuous education about activities related to "Our Code of Conduct" (revised in 2004), we are moving forward with a compliance casebook designed for applying the code of conduct to various problems in the workplace, so as to achieve the permeation of compliance.

Compliance risk countermeasures include internal and external advisory systems. By operating these systems effectively, we are endeavoring to ensure that compliance-related problems are discovered and resolved quickly so that our corporate self-regulatory processes will continue to function effectively.

Dedicated to auditing the observance of laws, regulations and corporate ethics, the Compliance Audit Group has also been established within the Internal Audit Department. It has been steadily working to mitigate risks by implementing follow-up audits to verify progress in tackling concerns identified at first auditing.

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

Compliance Structure



Management Structure

In June 2002, we reduced the number of directors dramatically (from a maximum of 30 to a maximum of 15) so as to streamline and speed up management decision-making. In order to clarify the separation between management and executive functions and to strengthen the decision-making and management functions of the Board of Directors, we invited three outside directors, all of whom have extensive expert knowledge, to join the board. The outside directors monitor the appropriateness of management activities flexibly and objectively. We have created a structure that supports prompt, effective decision-making while maintaining proper management transparency. We have also established an advisory committee to discuss matters relating to candidates for director positions, officer remuneration and other similar issues. This committee is comprised of outside directors, outside auditors and Tokyo Gas directors. As of the end of June 2008, there are 11 directors.

Tokyo Gas has adopted an executive officer system that provides clearly defined accountability. By delegating substantial authority to the executive officers, the system also supports speedy execution by the executive officers of operational matters, based on major business operation plans and the like determined by the Board of Directors. As of the end of June 2008, there are 23 executive officers.

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

The three outside auditors and two corporate auditors strictly audit the legality and appropriateness of the performance of duties by the directors from a position of complete independence. Further, they actively make recommendations at the Management Report Meetings and Directors' Meeting to enhance the effectiveness of monitoring.

Reforming the Remuneration System

In 2005, Tokyo Gas restructured its officer remuneration system and published details of the new system with the aim of further enhancing management objectivity and transparency as well as clarifying the management responsibility toward business performance. The main features of the new system are as follows:

1. Abolition of Retirement Benefits

Retirement benefits for directors have been abolished. Yearly retirement benefits have been integrated into monthly payments to officers.

2. Introduction of a Performance-linked Remuneration Scheme

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

3. Share Purchasing Guidelines

All directors, excluding outside directors, will acquire Tokyo Gas shares each month through the Employee Shareholding Association. The amount purchased is determined according to our newly introduced share purchasing guidelines. The ownership of those shares will be retained during their terms of office.

Total Remuneration for Directors and Corporate Auditors (Fiscal 2007)

	Millions of yen	Thousands of dollars
Remuneration for 11 directors	427	4,272
Remuneration for 5 corporate auditors	96	962
Total	523	5,234

Compensation for Independent Auditors (Fiscal 2007)

	Millions of yen	Thousands of dollars
Remuneration for auditing services	245	2,445
Remuneration for other services	46	465
Total	291	2,910

Board of Directors and Corporate Auditors

Director, Chairman **Norio Ichino**

Year of Birth	1941
March 1964	Degree in law, Waseda University
April 1964	Joined Tokyo Gas Co., Ltd.
July 1990	Manager, Sales Planning Division
July 1991	Deputy Chief Executive, Northern Business Division
June 1993	Director responsible for Government Relations Department
June 1996	Director, General Manager, Corporate Planning Department, Strategic Planning Division
June 1998	Managing Director, Chief Executive, Business Development Division
June 2000	Senior Managing Director, Chief Executive, Business Development Division
June 2001	Senior Managing Director
June 2002	Representative Director, Executive Vice President, Executive Officer, Chief Executive, Corporate Communication Division, Internal Audit Department
June 2003	Representative Director, President and Chief Executive Officer, Executive Officer
April 2006	Director, Vice Chairman
April 2007	Director, Chairman

Representative Director, President **Mitsunori Torihara**

Year of Birth	1943
March 1967	Degree in economics, University of Tokyo
April 1967	Joined Tokyo Gas Co., Ltd.
July 1992	Manager, Management Planning Group, Corporate Planning Department
August 1993	General Manager, Planning Department, Kanagawa Business Division
June 1994	Vice Chief Executive, Kanagawa Business Division
June 1996	General Manager, Gas Resources Department
June 1998	Director, General Manager, Gas Resources Department
June 2000	Managing Director
June 2002	Director, Senior Executive Officer, Chief Executive, Strategic Planning Division, Internal Audit Department, Compliance Department
June 2003	Representative Director, Executive Vice-President, Chief Executive, Strategic Planning Division
April 2004	Representative Director, Executive Vice-President, Chief Executive, Corporate Communication Division, responsible for Compliance Department
April 2006	President and Chief Executive Officer

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

Year of Birth	1946
March 1970	Completed masters degree in engineering, University of Tokyo
April 1970	Joined Tokyo Gas Co., Ltd.
July 1992	Acting Manager, Corporate Planning Department
July 1993	Acting Manager, Technology Planning Group, Manager, Research Planning Group
July 1994	General Manager, Planning Department, Western Business Division
June 1996	Deputy Chief Executive, Western Business Division
June 1997	General Manager, Product Development Department
June 2000	Director, General Manager, Energy Sales and Service Planning Department, Energy Sales Division
June 2002	Senior Executive Officer, Chief Executive, R&D Division
April 2004	Senior Executive Officer, Chief Executive, Energy Resources Division, Internal Audit Department
June 2004	Director, Senior Executive Officer, Chief Executive, Energy Resources Division, Internal Audit Department
April 2006	Representative Director, Executive Vice President, Executive Officer, Chief Executive, Strategic Planning Division
April 2007	Representative Director, Executive Vice President, Executive Officer, Chief Executive, Energy Production Division, responsible for Environmental Affairs Department

Senior Executive Officer **Shigeru Muraki**

Year of Birth	1949
March 1972	Degree in engineering, University of Tokyo
July 1972	Joined Tokyo Gas Co., Ltd.
July 1997	Manager, Gas Resources Research and Development Group, Gas Resources Department
June 2000	Manager, Gas Resources Department
June 2002	Executive Officer, General Manager, Gas Resources Department, Planning Division
April 2004	Senior Executive Officer, Chief Executive, R&D Division
April 2006	Senior Executive Officer, Chief Executive, Technology Development Division
April 2007	Senior Executive Officer, Chief Executive, Energy Solutions Division
June 2007	Director, Senior Executive Officer, Chief Executive, Energy Solutions Division

Senior Executive Officer **Toshiyuki Kanisawa**

Year of Birth	1948
March 1972	Degree in economics, Keio University
April 1972	Joined Tokyo Gas Co., Ltd.
July 1997	General Manager, Residential Sales Department, Kanagawa Business Division
June 1999	Business Planning Department, Business Development Division
June 2001	Related Business Department, Related Business Division
June 2003	Executive Officer, General Manager, Service Planning Department, Customer Service Division
April 2004	Executive Officer, Manager, Corporate Planning Department, Planning Division
April 2006	Senior Executive Officer, Chief Executive, Residential Sales Division
April 2007	Senior Executive Officer, Chief Executive, Residential Sales Promotion Division
June 2007	Director, Senior Executive Officer, Chief Executive, Residential Sales Promotion Division

Outside Director **Kazumoto Yamamoto**

Current position	Advisor, Asahi Kasei Corporation
Year of Birth	1933
March 1957	Degree in engineering, Kyushu Institute of Technology
April 1957	Joined Asahi Chemical Industry Co., Ltd.
August 1971	General Manager, Chikushino Factory
April 1976	General Manager, Housing Construction Department, Housing Division
June 1982	General Manager, Housing Division
June 1983	Director
June 1987	Managing Director
June 1990	Senior Managing Director
June 1992	General Manager, Housing Division
June 1993	Representative Senior Managing Director
June 1995	Vice-President and Representative Director
June 1997	President Representative Director
January 2001	Company name changed to Asahi Kasei Corporation (January 1)
April 2003	Director, Vice-Chairman
June 2003	Advisor
June 2005	Director, Tokyo Gas Co., Ltd.

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

Year of Birth	1947
March 1990	Degree in economics, Hitotsubashi University
April 1970	Joined Tokyo Gas Co., Ltd.
July 1994	Acting Manager, Gas Resources Department, Manager, Gas Resource Research and Development Group
June 1996	General Manager, Planning Department, Northern Business Division
June 1997	Deputy Chief Executive, Northern Business Division
June 1998	General Manager, Government Relations Department
June 1999	General Manager, Japan Gas Association
June 2002	Executive Officer, General Manager, Strategic Planning Division
April 2004	Senior Executive Officer, Chief Executive, Strategic Planning Division
June 2004	Director, Senior Executive Officer, Chief Executive, Corporate Planning Department
April 2006	Director, Senior Executive Officer, Chief Executive, Corporate Communication Division, Compliance Department, Internal Audit Department
April 2007	Representative Director, Executive Vice President, Executive Officer responsible for Personnel Department, Secretary Department, General Administration Department, Compliance Department, Internal Audit Department

Director, Senior Executive Officer **Masaki Sugiyama**

Year of Birth	1947
March 1970	Degree in engineering, Hokkaido University
April 1970	Joined Tokyo Gas Co., Ltd.
July 1995	Manager, Production Group, Production Division
June 1996	Business Planning Department, Business Development Division
June 2000	General Manager, Production Department, Production Division
June 2002	Executive Officer, Manager, Pipeline Department, Pipeline and Safety Management Division
April 2004	Senior Executive Officer, Chief Executive, Pipeline Network Division
June 2006	Director, Senior Executive Officer, Chief Executive, Pipeline Network Division, Pipeline Planning Department
April 2007	Director, Senior Executive Officer, Chief Executive, Technology Development Division
April 2008	Director, Senior Executive Officer, Chief Executive, Technology Development Division, IT Division

Senior Executive Officer **Toshio Tezuka**

Year of Birth	1946
March 1970	Degree in engineering, Tokyo Institute of Technology,
April 1970	Joined Tokyo Gas Co., Ltd.
July 1995	Business Planning Department, Business Development Division
June 1999	Group Manager, Technology Planning Group, Corporate Planning Department, Strategic Planning Division
June 2001	General Manager, Commercial Customer Development & Service Department, Energy Sales and Service Division, Acting Manager, Volume Sales Department, Energy Sales and Service Division
June 2002	Executive Officer, General Manager, Commercial Customer Development & Service Department, Energy Sales and Service Division
June 2003	Executive Officer, Manager, Commercial Customer Development & Service Department, Energy Sales and Service Division, Acting Manager, Volume Sales Department
April 2004	Senior Executive Officer, Chief Executive, Regional Development Marketing Division
April 2007	Senior Executive Officer, Chief Executive, Housing Development Division
June 2007	Director, Senior Executive Officer, Chief Executive, Housing Development Division

Outside Director **Katsuhiko Honda**

Current position	Director, Advisor, Japan Tobacco Inc.
Year of Birth	1942
March 1965	Completed law degree, University of Tokyo
April 1965	Japan Tobacco and Salt Public Corporation
June 1992	Director, Japan Tobacco Inc.
June 1994	Managing Director, Japan Tobacco Inc.
June 1996	Senior Director, Japan Tobacco Inc.
June 1998	Representative Director, Deputy President, Japan Tobacco Inc.
June 2000	Representative Director, President, Japan Tobacco Inc.
June 2006	Director, Advisor, Japan Tobacco Inc.
June 2007	Director, Tokyo Gas Co., Ltd.

Outside Director **Sanae Inada**

Current occupation	Attorney
Year of Birth	1944
March 1967	Degree in law, Keio University
1967	Passed bar examination
March 1970	Completed training at Judicial Research and Training Institute
April 1970	Registered as attorney (Daiichi Tokyo Bar Association)
June 2007	Director, Tokyo Gas Co., Ltd.

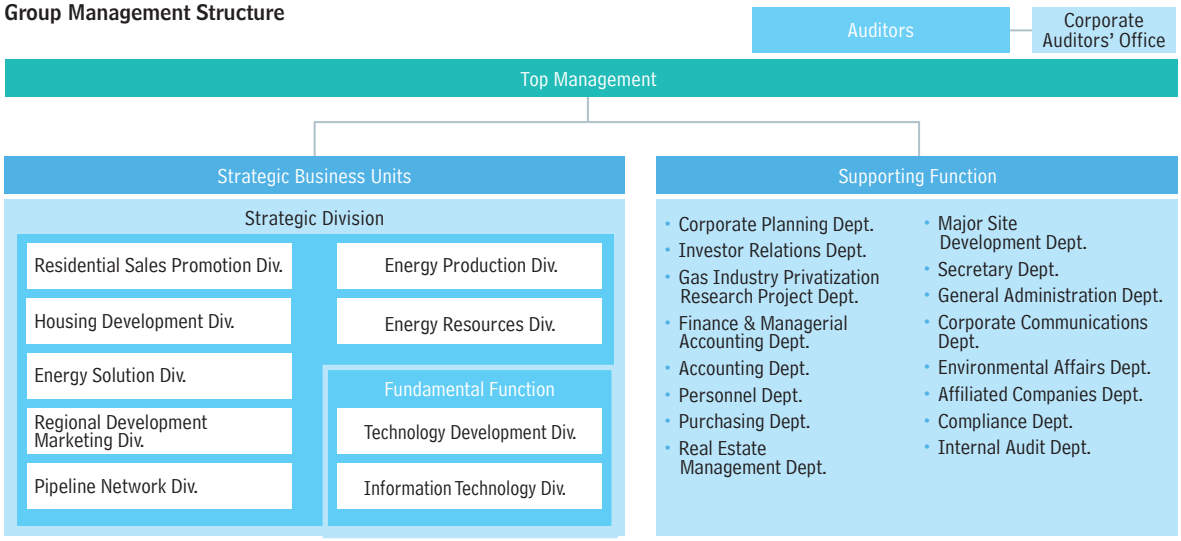
Auditor	Tsunenori Tokumoto
Auditor	Yasunori Takakuwa
Outside Auditor	Toshimitsu Shimizu (President, Yokohama Industrial Development Corporation)
Outside Auditor	Shoji Mori (Vice Chairman, Institute for International Socio-Economics Studies)
Outside Auditor	Yukio Masuda (Standing Consultant, Mitsubishi Corporation)

Group Company Management Structure

Group Management Structure

The Tokyo Gas Group currently consists of Tokyo Gas Co., Ltd., together with 55 subsidiaries and four equity-method affiliated companies. With the deregulation of the energy sector, Tokyo Gas now faces escalating competition from both inside and outside the industry. In April 2004, we introduced a new group structure known as the "Strategic Business Unit" (SBU) system, which is designed to focus all of the resources of the Tokyo Gas Group toward the task of surviving and succeeding in the increasingly competitive environment. Under this structure, Tokyo Gas corporate divisions are linked with group companies to form business units in each business area. The divisions and companies work closely together on tasks ranging from the formulation of business strategies to the allocation of management resources and the management of operations, all under the responsibility of unit managers. The aim of this cooperative approach is to maximize our group potential and further strengthen our competitiveness.

Group Management Structure



Executive Officers

President	Senior Executive Officers	Executive Officers
Mitsunori Torihara	Masaki Sugiyama Chief Executive, Technology Development Div., Chief Executive, IT Div.	Kazuo Yoshino General Manager, IR Dept. and Manager, Enterprise Risk Management Sect.
Executive Vice President	Toshio Tezuka Chief Executive, Housing Development Div.	Hisao Watanabe General Manager, Technology Planning Dept., Technology Development Div.
Tadaaki Maeda Chief Executive, Energy Production Dept., Environmental Affairs Dept.	Shigeru Muraki Chief Executive, Energy Solution Div. and General Manager, Volume Sales Dept.	Akio Maekawa Coordinator, Energy Solution Div.
Tsuyoshi Okamoto Chief Executive, Personnel Dept., Secretary Div., General Administration Div. Compliance Dept., Internal Audit Div.	Toshiyuki Kanisawa Chief Executive, Residential Sales Promotion Div.	Manabu Fukumoto General Manager, Regional Development Planning Dept., Regional Development Marketing Div.
	Tsutomu Oya Chief Executive, Energy Resources Div.	Matsuhiko Hataba General Manager, Corporate Planning Dept.
	Norikazu Hoshino Chief Executive, Purchasing Dept., Real Estate Management Dept., Major Site Development Dept., Corporate Communication Dept.	Yuji Akiyama General Manager, Kanagawa Service Branch, Residential Sales Promotion Div.
	Kunihiro Mori Dispatched to the Japan Gas Association	Koichi Aonuma General Manager, Sales Marking Ⅱ Dept., Housing Development Div.
	Mikio Itazawa Chief Executive, Pipeline Network Div.	Yutaka Kunigo General Manager, Industrial Gas Sales Dept., Energy Solutions Div.
	Michiaki Hirose Chief Executive, Corporate Planning Div., IR Dept., Gas Industry Privatization Research Project Dept., Financial & Managerial Accounting Dept., Accounting Dept., Affiliated Companies Dept.	Masahiro Mikami General Manager, General Administration Dept.
	Hirokazu Hayashi Chief Executive, Regional Development Marketing Div.	Hiroaki Kubota General Manager, Energy Production Dept., Energy Production Div.

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.**

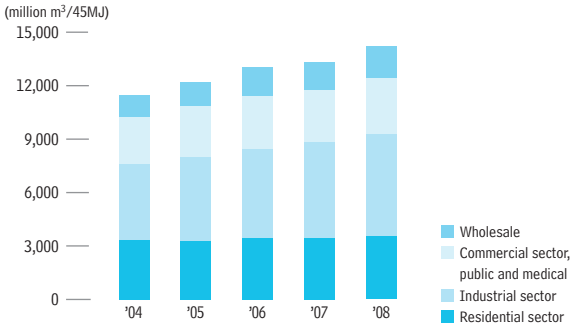
Sales Trends in the Core Gas Business

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.

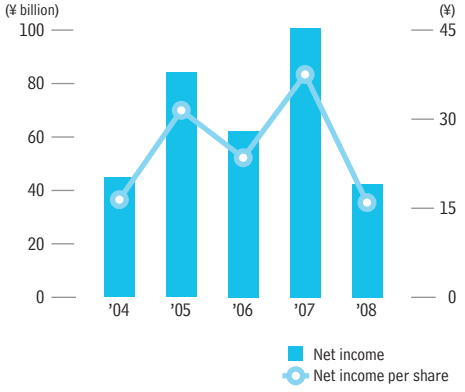
This segment's contribution to total net sales increased from 18.9% to 19.6%.

■ 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.

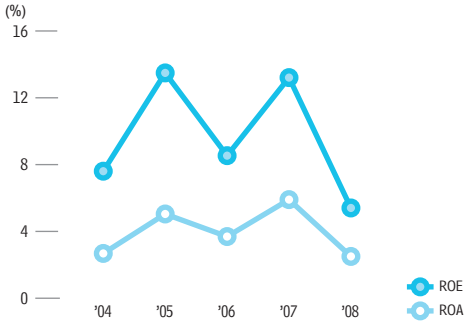
As a result of the above, other income (expenses) worsened from the previous year's result of ¥0.2 billion income to ¥0.4 billion net expenses. Net income for the current fiscal year decreased by 57.8%, to ¥42.5 billion.

■ 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

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.

¥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.

■ 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

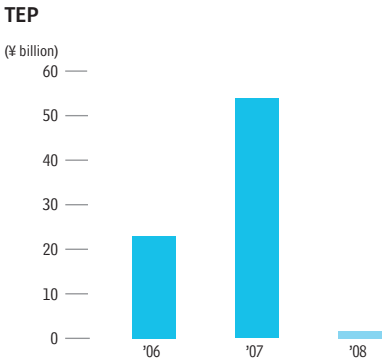
Rising global crude oil and LNG prices and changes to the competitive environment in the energy market are having a big impact on Tokyo Gas, and social demands for global environmental preservation and safer gas appliances are increasing. Therefore, we will review these change of management environment, 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: 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

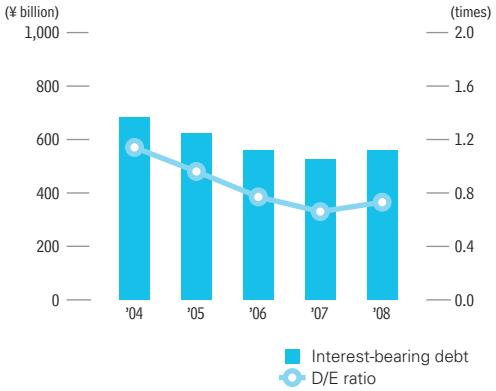
Tokyo Gas has made operating cash flow a major management indicator in its medium-term management plan for fiscal 2006–2010. Free cash flow is calculated by subtracting the capital expenditures of our major businesses so in the current medium-term management plan, which is aiming to aggressively invest 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.

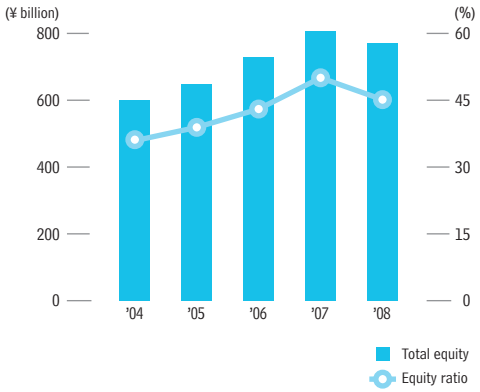
Interest-bearing debt and D/E ratio



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.

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

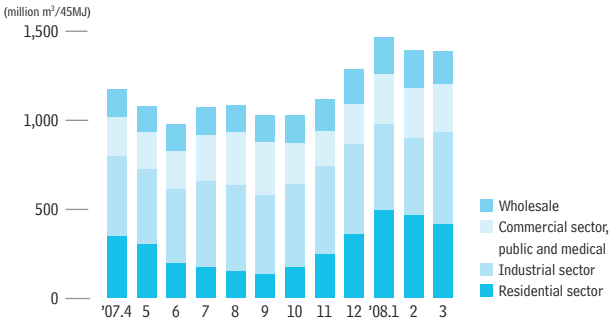
Temperatures affect the volume of city gas sales, which account for around 70% of consolidated sales and more than 80% of operating income. In the residential sector gas is used mainly for water heating and space heating. Mild winter weather can erode revenues and income by reducing the volume of gas 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

For the years ended March 31	2008	2007	2006	2005	2004
Net sales	¥1,487,497	¥1,376,958	¥1,266,502	¥1,190,783	¥1,151,825
Gas sales	1,087,045	999,521	910,321	834,658	831,115
Gas appliance sales	132,237	135,407	130,826	135,109	133,873
Related construction	57,326	59,230	59,747	64,795	68,034
Real estate rental	35,169	34,035	34,187	34,701	35,444
Other business	320,361	285,407	252,596	234,721	172,160
Operating income	70,049	162,315	112,346	145,349	152,287
Net income	42,487	100,700	62,115	84,047	44,787
Depreciation*	142,422	133,142	136,377	140,271	146,895
Capital expenditures**	138,006	124,557	119,435	107,529	107,441
Free cash flow	46,903	109,285	79,057	116,789	84,241
Amounts per share of common stock (yen)					
Net income	¥ 15.94	¥ 37.50	¥ 23.48	¥ 31.47	¥ 16.44
Diluted net income	15.50	35.69	21.70	28.24	14.98
Net assets	289.49	293.11	270.48	244.73	221.53
Cash dividends applicable to the year	8.00	8.00	7.00	7.00	7.00
At year-end (March 31)					
Total assets	¥ 1,703,651	¥1,692,635	¥1,693,899	¥1,668,734	¥1,666,828
Long-term debt due after one year	487,138	465,896	496,740	547,139	545,845
Total net assets	780,455	806,046	—	—	—
Total shareholders' equity	—	—	728,232	648,766	598,453
Ratios					
Operating income to net sales	4.7%	11.8%	8.9%	12.2%	13.2%
Net income to net sales	2.9%	7.3%	4.9%	7.1%	3.9%
ROE	5.4%	13.2%	9.0%	13.5%	7.6%
ROA	2.5%	5.9%	3.7%	5.0%	2.7%
Equity ratio	45.1%	47.0%	43.0%	38.9%	35.9%

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 subsidaries 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.)

Millions of yen, except per share amounts

2003	2002	2001	2000	1999	1998	1997
¥1,127,634	¥1,097,589	¥1,086,771	¥ 992,255	¥ 997,767	¥1,009,155	¥ 988,077
792,454	750,439	740,731	672,069	674,997	686,649	663,066
142,636	149,203	146,517	127,916	133,925	127,880	135,057
70,568	71,338	71,908	68,651	68,817	71,060	74,767
36,346	37,551	37,601	37,841	37,616	38,978	40,916
158,327	156,011	159,578	158,819	155,045	154,602	144,032
123,294	110,608	103,659	69,233	72,303	76,485	62,163
59,201	51,912	27,595	26,698	17,764	17,241	15,432
141,027	145,564	150,374	140,306	143,009	—	—
111,988	105,296	111,397	124,975	151,126	—	—
88,240	92,178	66,572	42,029	9,647	—	—
¥ 21.18	¥ 18.47	¥ 9.82	¥ 9.50	¥ 6.32	¥ 6.14	¥ 5.49
19.11	16.66	9.13	8.84	5.94	5.76	5.37
208.65	200.75	196.72	172.33	149.98	148.67	147.65
6.00	6.00	6.00	5.00	5.00	5.00	5.00
¥1,676,064	¥1,702,713	¥1,797,669	¥1,805,086	¥1,707,446	¥1,720,684	¥1,772,132
598,322	680,887	708,329	843,634	820,753	765,304	878,674
—	—	—	—	—	—	—
579,706	564,078	552,790	484,239	421,442	417,755	414,906
10.9%	10.1%	9.5%	7.0%	7.2%	7.6%	6.3%
5.3%	4.7%	2.5%	2.7%	1.8%	1.7%	1.6%
10.4%	9.3%	5.3%	5.9%	4.2%	4.1%	3.7%
3.5%	3.0%	1.5%	1.5%	1.0%	1.0%	0.9%
34.6%	33.1%	30.8%	26.8%	24.7%	24.3%	23.4%

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.

LIABILITIES AND NET ASSETS	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 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.

13 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.

14 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

15 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

Consolidated Subsidiaries and Equity-method Affiliates

As of March 31, 2008

Main Consolidated Subsidiaries

Company	Business	Capital (¥ million)	Equity owned by Tokyo Gas (%)	FY2007 Net sales (¥ million) [% of outside sales]	Operating income (¥ million)
Tokyo Gas Urban Development Co., Ltd.	Real estate leasing, management and brokerage, etc.	11,530	100.0	33,013 [33.5]	7,043
Tokyo Gas Toyosu Development Co., Ltd.	Real estate leasing and management	5,000	100.0	657 [97.2]	204
Nagano Toshi Gas Co., Ltd.	Gas Supply in Nagano	3,800	89.2	11,909 [100.0]	586
ENERGY ADVANCE Co., Ltd.	Energy service, district heating and cooling, cogeneration orders and maintenance businesses	3,000	100.0	52,872 [94.5]	1,501
Gastar Co., Ltd.	Production, sales and maintenance of gas appliances	2,450	66.7	29,655 [43.7]	1,146
Tokyo LNG Tanker Co., Ltd.	LNG and LPG transportation and chartering of carriers	1,200	100.0	11,549 [20.6]	1,606
Tokyo Gas Energy Co., Ltd.	Sales of liquefied petroleum gas (LPG)	1,000	100.0	36,531 [81.7]	21
Capty Co., Ltd.	Installation of gas supply lines, water supply and lines and air conditioning systems, new construction, construction of gas mains and branch lines	1,000	100.0	58,130 [36.0]	1,376
Tokyo Gas Chemicals Co., Ltd.	Sales of gas for industry and chemicals and development of LNG cryogenetic utilization technology	1,000	100.0	20,226 [73.2]	609
Park Tower Hotel Co., Ltd.	Management of Hotel "Park Hyatt Tokyo" and restaurants	1,000	100.0	9,589 [96.6]	–41
Chiba Gas Co., Ltd.	Supply of gas to Yachiyo City, Narita City and surrounding cities	480	100.0	16,332 [97.4]	1,116
TG Credit Services Co., Ltd.	Leasing of information equipment, gas appliances and office equipment, and credit administration connected with installations	450	100.0	9,188 [65.7]	723
Tokyo Oxygen and Nitrogen Co., Ltd.	Production and sales of liquefied oxygen, nitrogen and gas for medical use	400	54.0	2,135 [43.2]	224
TG Information Network Co., Ltd.	Information processing services, software development and sales of computer equipment, etc.	400	100.0	18,977 [14.2]	605
Tsukuba Gakuen Gas Co., Ltd.	Supply of gas in Tsukuba City	280	100.0	7,681 [97.8]	456
TG Enterprise Co., Ltd.	Financial administration and building leasing for Tokyo Gas and related companies	200	100.0	723 [41.7]	341
Tokyo Gas Engineering Co., Ltd.	Comprehensive engineering services with a particular focus on energy-related work	100	100.0	33,678 [76.3]	928
Tokyo Gas Customer Service Co., Ltd.	Periodic safety checks, meter and billing services	50	100.0	6,677 [2.1]	366
Capty-Livelic Co., Ltd.	Gas facilities construction, gas appliance sales and maintenance	50	100.0	7,833 [72.7]	112

Notes: Consolidated subsidaries comprise 55 companies as of the end of March 2008.

Other Subsidiaries

TOKYO GAS AUSTRALIA PTY LTD, Tokyo Gas International Holdings B. V.,
Tokyo Gas Bajio B. V., Tokyo Gas Darwin LNG Pty Ltd,
Tokyo Gas Yokosuka Power Co., Ltd., Tachikawa Urban Center Co., Ltd.,
Living Design Center Co., Ltd., Tokyo Gas Baypower Co., Ltd.,
TOKYO GAS-MITSUI&CO. HOLDINGS SDN. BHD., TG Showa Co., Ltd.,
Tokyo Carbonic Co., Ltd., Tokyo Gas Pluto Pty Ltd,
Japan Super Freeze Co., Ltd., Miho Gas Co., Ltd., Shoei Gas Co., Ltd.,
Tokyo Gas Auto Service Co., Ltd., TG Telemarketing Co., Ltd.,
Tokyo Gas LPG Terminal Co., Ltd., Kawasaki Gas Pipeline Co., Ltd.,
Tokyo Gas Remodeling Co., Ltd., Washimiya Gas Co., Ltd.,
Urban Communications, Inc., Tochigi Gas Co., Ltd.,
Tokyo Gas Techno-Service Co., Ltd., Tokyo Gas Building Service Co., Ltd.,
Showa Bussan Co., Ltd., Tosetz Co., Ltd., Tokyo Kiko Co., Ltd.,
Capty Customer Service Co., Ltd., TK Customer Service Co., Ltd.,
Enelife Carieer Co., Ltd., Showa Unyu Co., Ltd.,
Tokyo Gas Plant Tech Co., Ltd., Tokyo Rare Gases Co., Ltd.,
Tokyo Auto Gas Co., Ltd., Capty Tech Co., Ltd.

Equity-method Affiliates

TOKYO TIMOR SEA RESOURCES INC.
GAS MALAYSIA SDN. BHD.
Bajio Generating VOF
East Japan Housing Evaluation Center Co., Ltd.

Investor Information

As of March 31, 2008

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Asia Pacific Regional Office
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Tel: +60-3-2144-2928 Fax: +60-3-2144-2930

Date of Establishment October 1, 1885

Paid-in Capital ¥141,844,398,888

Aggregate Number of Shares Issuable 6,500,000,000 shares

Issued Number of Shares 2,741,571,295 shares

Number of Shareholders 162,457

Stock listings Tokyo Stock Exchange,
Osaka Securities Exchange and
Nagoya Stock Exchange (Trade code: 9531)

Independent Auditors KPMG AZSA & Co.

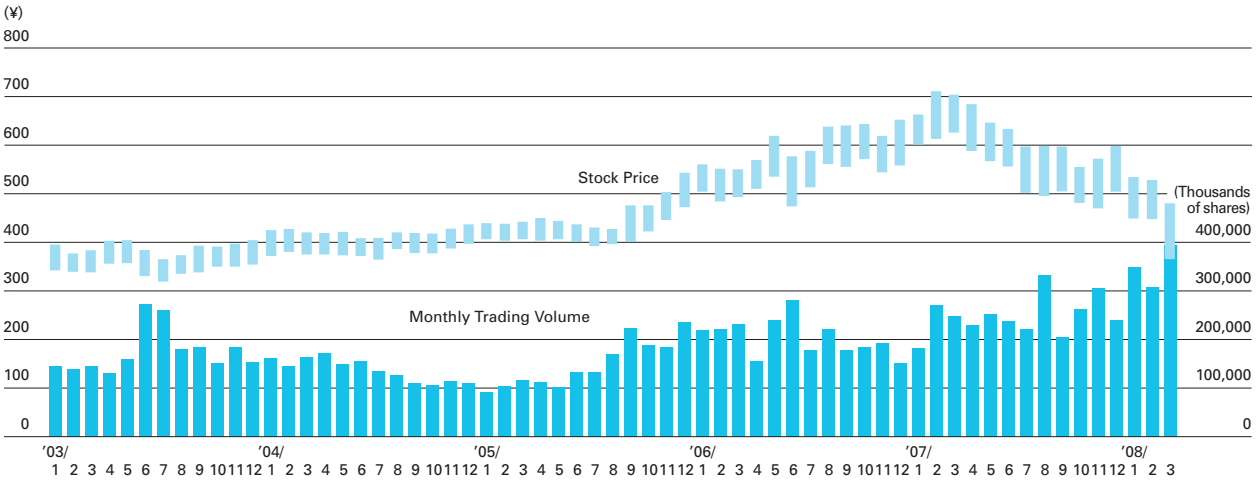
Agent to Manage Shareholders Registry
The Chuo Mitsui Trust & Banking Co., Ltd. 3-33-1 Shiba, Minato-ku, Tokyo 105-8574, Japan

Number of Employees 15,900 (Consolidated basis, excluding part-time workers)

Principal Shareholders

Name	Number of shares held (Thousands)	Percentage of total shares outstanding (%)
Nippon Life Insurance Company	163,000	5.95
The Dai-ichi Mutual Life Insurance Company	155,962	5.69
Japan Trustee Services Bank, Ltd. (Trust Account)	115,998	4.23
The Master Trust Bank of Japan, Ltd. (Trust Account)	103,378	3.77
Fukoku Mutual Life Insurance Company	68,504	2.50
JPMorgan Chase Bank, N.A. (380055)	58,710	2.14
State Street Bank and Trust Company	47,021	1.72
Employees Shareholding Association	37,082	1.35
State Street Bank and Trust Company (505103)	33,030	1.20
JPMorgan Chase Bank, N.A. (385067)	29,644	1.08

Monthly Stock Price Range (Tokyo Stock Exchange)



FURTHER INFORMATION

Please direct comments regarding the content of this report or requests for other publications to:

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Forward-Looking Statements
Statements made in this annual report with respect to Tokyo Gas plans, strategies and beliefs, and other statements that are not expressions of fact are forward-looking statements about the future performance of the company. As such, they are based on management's assumptions and opinions stemming from currently available information, and therefore involve risks and uncertainties. These risks and uncertainties include, without limitation, general economic conditions in Japan, the exchange rate between the yen and the U.S. dollar, and Tokyo Gas ability to continue to adapt to rapid technological developments and deregulation.

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.

TOKYO GAS

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eco-life

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