Financial Section

Contents

SUMMARY

- Consolidated gas sales volume steadily increased by 7.1% year on year, reflecting sales promotion efforts and low temperatures throughout the year.
- Operating income decreased owing to the impact of higher gas resource costs caused by a steep rise in crude oil prices and the gas rate reduction implemented in January 2005.
- Every possible effort was made to minimize the impact of these external factors through cost reductions. However, net income decreased by ¥21.9 billion year on year to ¥62.1 billion.

Sales Trends in the Core Gas Business

Favorable Expansion of Gas Sales Volume in All Sectors

Residential Sector

Demand for hot water and heating increased due to the lower temperature over the course of the year (down 0.9C° on average) in addition to satisfactory increases in the number of customers. Overall sales volume surged to 3,547 million m³, up 230 million m³, or 6.9%, year on year. Of this volume, approximately 141 million m³ is attributable to the effects of temperature and approximately 60 million m³ to growth in the number of customers.

Commercial Sector, Other

Increased demand for heating in the cold winter combined with the attraction of new customers countered the slowdown in growth of demand for cooling that reflected the backlash against the hot summer of the previous year. Gas sales in this sector increased 116 million m³ to 3,085 million m³, or 3.9%, year on year. Of this growth, 11 million m³ is attributable to temperature-related factors and 56 million m³ to the increase in the number of customers.

Industrial Sector

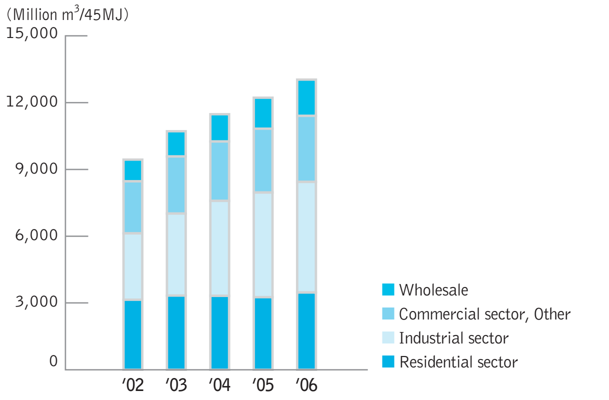
As in the previous year, there was sustained growth in sales volumes. Contributing factors included the start-up of facilities by new customers using gas to generate power. There was also a steady increase of other industrial uses including cogeneration systems and boilers, which resulted in a sales increase of 299 million m³, or 6.3%, year-on-year to 5,043 million m³. Gas sales for power generation accounted for approximately 73 million m³ of this increase, while other industrial uses contributed approximately 197 million m³.

Wholesaling to Other Gas Companies

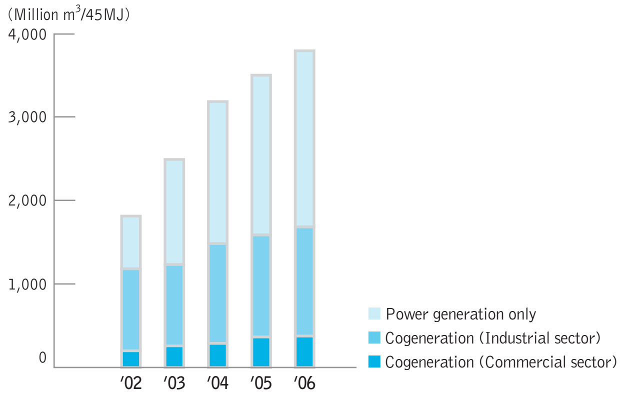
Sales increased by 223 million m³, or 18.7%, year on year to 1,422 million m³. Reasons for this growth include lower temperatures, which caused residential demand to expand in the service areas of other gas companies, and the development of new demand among gas suppliers.

There was volume growth in sales in all sectors. Total sales increased by 868 million m³, or 7.1%, year on year to 13,098 million m³.

Gas sales volume by sector



Gas sales volume for power generation (Nonconsolidated)



Analysis of Income

Despite a Sales Increase, Operating Income Declined on Rising Gas Resource Costs

Despite declining sales in some segments, including gas appliance sales, related construction and real estate rental business, higher gas sales brought an increase in overall sales of ¥75.7 billion, or 6.4%, year on year to a new record of ¥1,266.5 billion. Although efforts were made to increase operating efficiency and reduce costs to minimize the negative impact of higher gas resource costs, pegged by sharply rising crude oil prices and gas rate reductions implemented in January 2005, operating income fell ¥33.0 billion, or 22.7%, year on year to ¥112.3 billion.

Business results by segment (¥ million)

Sales

Years ended March 31	2006	2005	2004
Gas Sales	910,321	834,658	831,115
Gas Appliance Sales	130,826	135,109	133,873
Related Construction	59,747	64,795	68,034
Real Estate Rental	34,187	34,701	35,444
Other Business	252,596	234,721	172,160

Operating income

Years ended March 31	2006	2005	2004
Gas Sales	160,020	182,685	189,366
Gas Appliance Sales	4,617	7,054	7,904
Related Construction	2,976	3,575	4,456
Real Estate Rental	5,459	6,503	7,883
Other Business	9,647	13,415	11,270

Note: Segment sales include intra-group transactions.

Gas Sales

Higher Gas Resource Costs Bring Lower Income on Increased Sales

Sales in this segment increased to ¥910.3 billion, up by ¥75.7 billion or 9.1%, with contributions from the higher unit price under the gas rate adjustment system. There was also a 7.1% increase in gas sales volume in all sectors even though the revenue was lower due to the lower gas rate, of which average is 5.18% in the regulated rates, implemented in January 2005.

Nonconsolidated sales increased ¥71.3 billion, or 8.6%. Rising sales volume contributed ¥45.7 billion (of which ¥18.5 billion were attributable to the impact of lower temperatures), and higher unit prices had an adverse effect amounting to ¥25.6 billion, including ¥52.5 billion due to price adjustments under the gas rate adjustment system, –¥21.9 billion due to the impact of the rate reduction for regulated customers, and –¥5.0 billion due to other factors. The segment's contribution to total sales increased from 63.9% to 65.6%.

Regarding operating expenses, gas resource costs rose drastically by 33.2% in line with the increased gas sales volume and due to the impact of a steep rise in crude oil prices. This pushed the operating expenses to ¥750.3 billion, up by ¥98.3 billion or 15.1% on a year on year basis in spite of our cost cutting efforts, through which we have reduced costs by approximately ¥10 billion in excess of its initial plans on a nonconsolidated basis.

As a result, operating income decreased ¥22.7 billion or 12.4% to ¥160.0 billion.

Rate Reduction

In January 1, 2005, Tokyo Gas lowered its rates an average of 5.18% from previous levels for small-volume customers. The impact of the rate reduction on sales was a decrease of about ¥30.0 billion annually from sales to regulated customers.

In April–December 2005, there was a year-on-year reduction in revenue of approximately ¥21.9 billion.

In February 2006, Tokyo Gas decided to change the ratio of LPG and LNG in city gas because of the rising price of LPG. This lowered the calorific value from 46.04655 MJ/m³ to 45 MJ/m³. When calorific value is taken into effect, the cost savings we were able to pass on to consumers was 0.28% per equivalent calorific value after conversion. This action had a minimal impact on operating results for the year under review.

Tokyo Gas had two objectives in lowering gas rates: To return profits earned through corporate efforts to customers and to increase competitiveness. Resources to allow gas rate reductions to a certain level have been included in the medium-term management plan for 2006–2010 , and we plan to allocate these strategically.

Gas Appliances Sales

Income Declined due to New Investments to Compete with the "All-electric" Promotion

Despite solid sales of appliances, including TES-driven floor heaters, bathroom heater-dryers with a mist sauna function and gas cooktops, unit prices dropped and sales rebates continued to rise in the face of fiercer competition. Gas appliance sales decreased ¥4.3 billion, or 3.2%, year on year to ¥130.8 billion, while operating expenses decreased ¥1.8 billion, or 1.4%, year on year to ¥126.2 billion, and operating income decreased ¥2.4 billion, or 34.5%, year on year to ¥4.6 billion.

The segment's total contribution to total sales declined from 10.4% in the previous fiscal year to 9.4%.

Related Construction

Drop in the Number of Installations Leads to Lower Sales and Income

There were declines in the number of new installations and safety upgrades, and segment sales fell ¥5.0 billion, or 7.8%, year on year, to ¥59.7 billion. Operating expenses decreased ¥4.4 billion, or 7.3%, to ¥56.8 billion, and operating income decreased ¥0.6 billion, or 16.8%, to ¥3.0 billion.

The segment's contribution to total sales was lower at 4.3%, compared with 5.0% in the previous year.

Real Estate Rental

Higher Building Repair Costs Lower Income

Segment sales declined, in part because of rent reductions to reflect the state of the real estate market, falling ¥0.5 billion, or 1.5%, to ¥34.2 billion. Operating expenses increased ¥0.5 billion, or 1.9% due to an increase in building repair costs, and operating income decreased ¥1.0 billion, or 16.1%, to ¥5.5 billion.

The segment's contribution to total sales dropped from 2.7% to 2.5%.

Other Business

Energy Service Business Expanded

The sales of the other business segment increased by ¥17.9 billion, or 7.6%, year on year to ¥252.6 billion following various factors including the positive development of the on-site energy service business and the improved operating rate for the LNG carriers managed by the Company.

Meanwhile, the operating expenses increased year on year by ¥21.6 billion, or 9.8%, affected by the factors including the increased initial depreciation cost, usually associated with growth in on-site energy service business, and the increase of lease expendables in the credit leasing business. This led operating income to decrease by ¥3.8 billion, or 28.1% to ¥9.6 billion.

As a result, this segment's contribution to total sales increased from 18.0% in the previous year to 18.2%.

■ Other Revenues and Income / Net Income

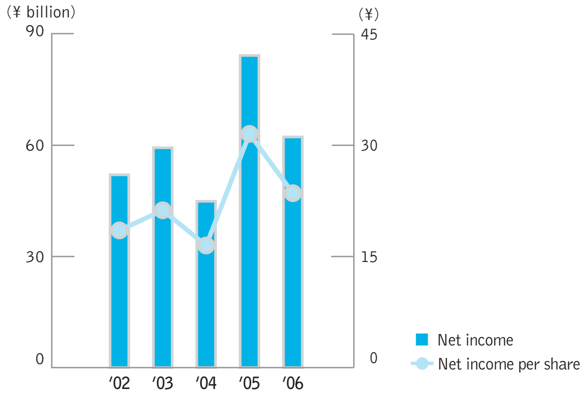
Other Revenues Improved although the Net Income Decreased from the Previous Term.

Other income totaled ¥18.5 billion, a year-on-year increase of ¥0.6 billion. No gain was recorded during the year under review from weather derivatives of ¥2.7 billion, a major component of other income of the previous year. However, gains of ¥2.4 billion on commodity derivatives, a ¥4.9 billion from the sale of securities, and a ¥2.2 billion from the sales of fixed assets were recorded.

The other expenses totaled ¥30.0 billion, up by ¥0.1 billion from the previous term. During this term, ¥5.7 billion payment incurred from weather derivative transactions as the temperature stayed lower than expected. On the one hand, interest payments and bond redemption losses fell by ¥2.1 billion and ¥2.9 billion respectively as a result of accelerated repayment of interest-bearing debts. During the previous term, ¥1.2 billion of the impairment loss on fixed assets and ¥3.5 billion of retirement benefit premiums were recorded as once-only losses and were not incurred during this term. On the other hand, a ¥5.1 billion extraordinary loss was incurred in relation to the cancellation of information system development.

Other expenses, net amounted to –¥11.5 billion, a slight improvement from –¥12.0 billion in the previous year. Net income declined ¥21.9 billion, or 26.1%, to ¥62.1 billion due to worsening operating income effects.

Net income and net income per share



■ Free Cash Flow

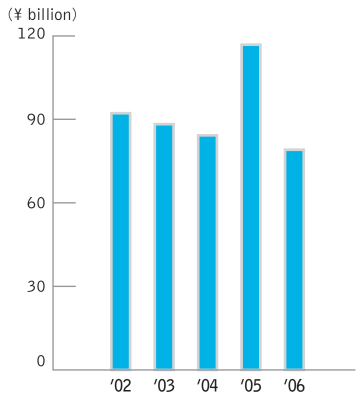
Capital Expenditure Increased for Total Energy Business Expansion

Free cash flow in this term decreased ¥37.7 billion or 32.3% to ¥79.1 billion in line with the fall in net income in the current term as well as a rise in capital expenditures by Tokyo Gas and its consolidated subsidiaries including Tokyo Gas Yokosuka Power Corporation and ENERGY ADVANCE Co., Ltd.

In addition, capital expenditure increased ¥11.9 billion, or 11.1%, year on year to ¥119.4 billion while depreciation decreased ¥3.9 billion, or 2.8%, to ¥136.4 billion.

Tokyo Gas is now implementing the new medium-term management plan for the period from fiscal 2006 to fiscal 2010. Tokyo Gas had been using "free cash flow", which is calculated by adding the depreciation to current term net income and deducting the capital expenditures, as one of the key management indicators of "Frontier 2007". However, in order to support the revised plan from the resource allocation standpoint, which initiates the transformation from the gas business into a total energy business, we have announced our decision to employ the "operating cash flow", which is calculated by adding depreciations to current net income, as the key management indicator and have also announced a resource allocation policy. (Refer to page 12)

Free cash flow



Free cash flow = net income + depreciation and amortization of long-term prepayments
– capital expenditures
Capital expenditures = acquisition amount of property, plant and equipment
+ acquisition amount of intangible assets
+ expenses amount of long-term prepayment

■ Fiscal 2006 Projection

Increased Sales and Income Projected for the Year Ending March 31, 2007

With regard to the core gas business in the year ending March 31, 2007, the gas sales volume in the residential sector is expected to decline by 3.0% based on an assumption that the temperature, which was low in fiscal 2005, will return to a normal level. We expect the gas sales volume in the industrial sector to grow by 2.3% by capturing new demand; while that in the commercial/others sectors is expected to decline by 0.7% due to the diminishing temperature effect despite Tokyo Gas efforts to develop new demand. Wholesale gas sales are projected to increase by 6.2%, which reflects an increase in new demand acquired by the gas companies and makes the total gas sales volume projection 79 million m^3 or 0.6% increase to 13.177 billion m^3.

Gas sales are projected to increase ¥76.6 billion, or 8.4%, to ¥986.9 billion given the fact that, alongside the rising gas sales volume, the gas unit rate will rise due to a unit price adjustment made under the gas rate adjustment system to reflect the increased gas resource cost of the second half of fiscal 2005.

Although gas appliances sales are expected to decline, sales of related construction and other businesses will expand, with the result that gross sales on a consolidated basis are expected to increase ¥103.5 billion, or 8.2%, to ¥1,370 billion.

On the other hand, Tokyo Gas forecasts an operating income increase of ¥21.7 billion, or 19.3%, to ¥134 billion, and a net income increase of ¥19.9 billion, or 32.0%, to ¥82 billion, on the back of reduced fixed costs driven by cost reductions as well as the decreased actuarial differentials on the retirement benefits even though gas resource costs are anticipated to increase in the year ending March 31, 2007 in line with the rising oil prices.

Furthermore, the year ending March 31, 2007 is the first year for the medium-term management plan for 2006–2010. In order to achieve the targets set in the plan, we will take the following steps:

◆ Establishment of marketing setups with deep local roots
◆ Compete against a serious challenge from electricity in residential and commercial sectors
◆ Aggressive demand development by making the most of the relative economical advantages of LNG due to high rises in the price of crude oil
◆ Further development of electricity business and energy services for one-stop services

We will focus on the above points and seek to implement them smoothly.

Tokyo Gas Original Indicator: TEP

With the aim of generating profits that exceed the cost of capital, Tokyo Gas formulated Tokyo Gas Economic Profit (TEP)*, as one of its key business performance indicators. TEP is a Tokyo Gas-specific variation of Economic Value Added (EVA®).

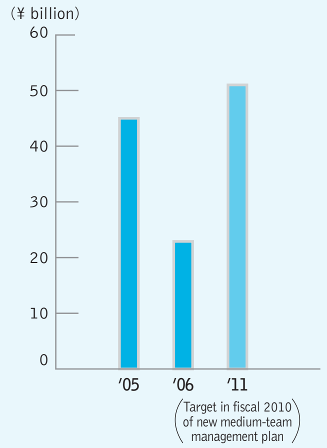
In fiscal 2005, NOPAT** decreased by ¥22.0 billion to ¥70.0 billion owing to the impact of the implementation of the gas rate revision in January 2005, and a significant rise in gas resource costs caused by sharply rising crude oil prices. On the other hand, the WACC remained at 3.7%, although the cost of capital decreased by ¥0.1 billion to ¥47.0 billion, resulting in a year-on-year decrease in TEP of ¥22.1 billion to ¥22.9 billion.

Tokyo Gas considers TEP as a performance indicator for Group companies and as a gauge for decisions on business restructuring and integration.

Tokyo Gas continues to position TEP as one of its key management indicators in the new medium-term management plan and aims to generate ¥50 billion equivalent TEP in fiscal 2010, which is the final fiscal year specified in the plan.

* TEP: NOPAT – cost of capital
** NOPAT: Net operating income after tax prior to interest payments

TEP (EVA® Tokyo Gas Version)



Cash Flows and Financial Position

Net Income Decreased Due to Rising Gas Resource Costs Occurring in Step with Rising Crude Oil Prices

■ Cash Flows from Operating Activities

Income before income taxes and minority interests in net income decreased by ¥32.5 billion year on year due to a sharp increase in the cost of gas resource in connection with the steep rise in the price of crude oil. Despite a reduction in employees' retirement benefits reserve funds, there were increases in inventories and stocking liabilities. Consequently, net cash provided by operating activities declined to ¥181.5 billion, down ¥33.5 billion year on year.

■ Cash Flows from Investing Activities

Turning to net cash used in investment activities, outflows mainly for the acquisition of tangible fixed assets such as distribution facilities rose by ¥16.9 billion, while outflows for intangible fixed assets dropped by ¥7.8 billion. Consequently, net cash used in investing activities declined to –¥116.1 billion, down ¥8.7 billion year on year.

■ Cash Flows from Financing Activities

Net cash used in financing activities increased ¥25.1 billion to ¥83 billion year on year due to redemption of debentures decreasing by ¥80.4 billion and the procurement of funds by issuance of bonds decreasing by ¥40.0 billion, while long-term debt repayment rose by ¥7.2 billion.

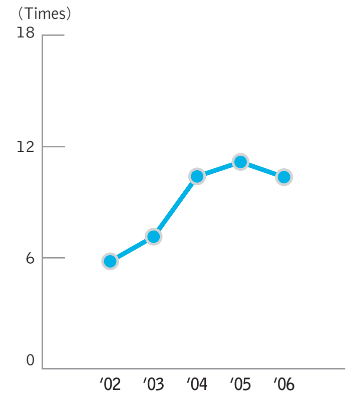
Years ended March 31	2006	2005	2004
Net cash provided by operating activities	181,529	215,038	217,608
Net cash used in investing activities	(116,071)	(107,376)	(126,038)
Net cash used in financing activities	(83,041)	(108,160)	(99,744)

As a result of the above factors, cash and cash equivalents at the end of the term decreased to ¥45.6 billion, down ¥5.0 billion year on year.

■ Interest Coverage Ratio

The interest coverage ratio declined from the previous year, reflecting the year-on-year drop in operating income due to increasing gas resource costs caused by sharply rising crude oil prices. The ratio decreased 0.82 point thus became 10.33 times. Nonetheless, Tokyo Gas steadily improved the soundness of its financial structure through the reduction of interest-bearing debt, thereby slashing interest expenses by ¥2.1 billion.

Interest coverage ratio

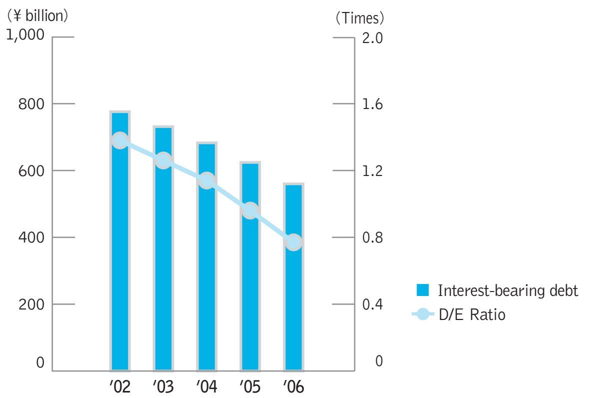


Interest coverage ratio=
(operating income + interest and dividend income)/interest expense

■ Target for Reduction of Interest-bearing Debt Achieved Ahead of Schedule

One of the main management targets of "Frontier 2007", our previous medium-term management plan, was to reduce interest-bearing debt, for which a reduction of ¥100 billion was planned over a five-year period. To achieve this target, a total of ¥171.4 billion was invested over the three-year period from fiscal 2003 to fiscal 2005. This reduced interest-bearing debt significantly, with the debt-equity ratio declining to 0.77 at the end of fiscal 2005. The new medium-term management plan starting from fiscal 2006 takes the view that the soundness of our financial structure has already been improved substantially. Consequently, this item has been removed from the list of main management targets, although efforts continue to be made to procure low-interest funds to improve the soundness of our financial structure. Reductions of ¥60 billion in interest-bearing debt are planned over the five-year period of the plan.

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 / shareholders' equity

■ ROA Target of 5.5%

As a result of increases in the gas resource cost associated with the steep rise in the price of crude oil, net income dropped by ¥21.9 billion year on year and return on assets (ROA) declined by 1.3 points to stand at 3.7% for the year under review. Total assets at the end of the year under review increased ¥25.2 billion to ¥1,693.9 billion year on year. Tangible fixed assets at the end of the year under review decreased by ¥19.2 billion to ¥1,140.3 billion, reflecting ongoing depreciation. Investments and other non-current assets increased ¥28.2 billion to ¥227.9 billion year on year due to an increase of ¥44.4 billion in investment securities, reflecting a favorable rise in stock prices. Although cash and cash equivalents declined by ¥4.1 billion, inventories increased by ¥9.2 billion over the level of the previous year and notes and accounts receivables rose by ¥7.3 billion. As a result, current assets increased by ¥15.4 billion to stand at ¥302.0 billion.

In the new medium-term management plan, the target for ROA is set at 5.5% in fiscal 2010. To achieve this target, Tokyo Gas takes a rigorous look at efficiency while undertaking active investments aimed at laying foundations for future profitability.

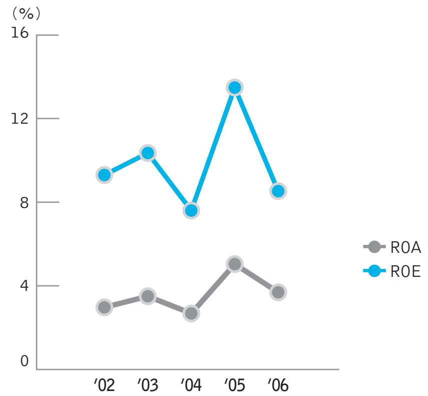
ROA = net income / total assets (average positions at start and end of fiscal year)

■ ROE Target of 10.9%, Based on Optimal Capital Structure

ROE at the end of the year under review slipped by 4.5 points to 9.0%. This decline was due to the decrease in net income caused by steep increases in the cost of gas resources. Shareholders' equity increased by ¥25.0 billion, reflecting the net unrealized holding gain on securities as well as an increase of ¥39.8 billion in retained earnings. In addition, treasury stock increased by ¥34.6 billion through switching convertible bonds to stocks, and a decrease of ¥14.3 billion in treasury stock resulted from Tokyo Gas repurchase of stock worth ¥20.0 billion (48.7 million stocks) in August 2005. As a result, shareholders' equity increased ¥79.5 billion to ¥728.2 billion year on year.

Aiming at an optimal capital structure, the new medium-term management plan targets an ROE of 10.9% in fiscal 2010.

ROA and ROE



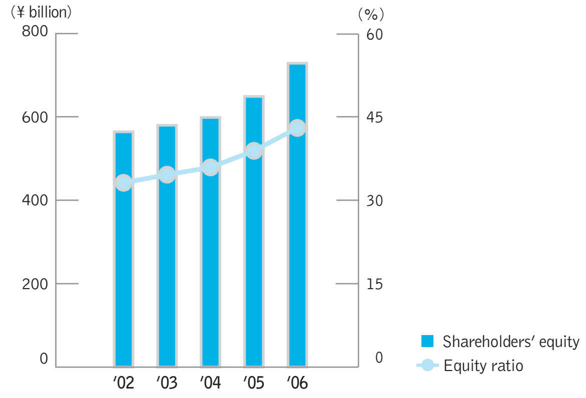
ROE=net income/shareholders' equity (average of positions at start and end of fiscal year)

■ Targeting a Total Payout Ratio of 60% with Ongoing Stock Repurchases

The new medium-term management plan clearly sets the target for the proportion of profits returned to shareholders at 60% in keeping with Tokyo Gas prioritization of returns to shareholders. Under this approach, the proportion is defined as the amount of dividend appropriated in FY n within the net income of FY n and the proportion of the net total of the amount of stock repurchases to be carried out in n + 1 FY based on the net income of FY n. Tokyo Gas aims to achieve 60% for the total payout ratio while keeping in mind a balance between dividends and stock repurchases.

As for previous stock repurchases issues of convertible bonds set for repayment in 2007 and 2009 (No. 5/No. 6 bonds: convertible price was ¥339) were carried out with the objective of preventing dilution due to the conversion of bonds into stocks. Tokyo Gas intends to continue stock repurchases in order to help improve shareholder value under the new medium-term management plan even after having completed repurchases to accommodate conversions.

Shareholders' equity and equity ratio



Equity ratio=Shareholders' equity (year-end)/total assets (year-end)

External Risks Affecting Business Activities

■ Gas Rate Decline Risk

Progress in deregulation has caused competition to intensify among energy suppliers. There is a risk that the price of gas will need to be reduced to attract and retain customers in the face of price reductions by the Tokyo Electric Power Company (TEPCO), which is the greatest competitor of Tokyo Gas.

Tokyo Gas has reduced gas rates three times full rate reduction since 1999, by about 10% in total. TEPCO also reduced its electricity rates four times, by about 21% in total, during the same period. Tokyo Gas will continue to implement strategic rate menu as necessary to prevail over competition.

■ Temperature Fluctuation Risk

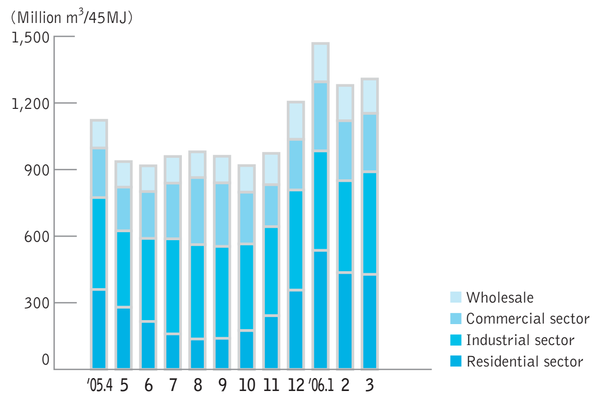
Temperatures affect the volume of city gas sales, which account for around 70% of consolidated sales and 90% of income. Gas is used mainly for water heating and space heating, especially in residential use. Mild winter weather can erode revenues and income by reducing the volume of gas sold.

The average temperatures in fiscal 2005 were 22.4°C in the first half of the year, 10.1°C in the second half, and 16.2°C over the whole year. Forecasts for fiscal 2006 are based on an average of 16.9°C over the whole year.

Impact of 1°C temperature rise on gas sales volume

	Rate of change
Summer (June–September)	0.2%
Winter (December–March)	-2.4%
Intervening months (April, May, October, November)	-1.7%
Annual	-1.4%

Monthly gas sales volumes for fiscal 2005 (Non-consolidated)



■ 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 extent to which these fluctuations affect gas resource costs over in the year ended March 31, 2006 is as follows.

Approx. ¥3.0 billion for each ¥1 movement in the yen-dollar exchange rate

Approx. ¥4.2 billion for each $1 movement in the per-barrel price of crude oil

Fluctuations in the cost of gas resources are reflected in gas rates after approximately six months under the "gas rate adjustment" system*. Under this system, although earnings may be subject to temporary increases and decreases, crude oil prices and currency exchange rates have no significant impact on results over the medium- to long-term perspective.

In fiscal 2005, the crude oil price averaged $55.79 per barrel, and the average exchange rate was ¥113.32 to one dollar. Forecasts for fiscal 2006 are based on an average crude oil price of $62.5 per barrel and an exchange rate of ¥120 to one dollar.

* Depending on the contract, changes may be reflected within a six-month time lag. Adjustment has an upper limit (please refer to the accompanying Investors' Guide 2006, P. 12).

■ Interest Rate Fluctuation Risk

Tokyo Gas negotiates fixed interest rates for both short-term and long-term interest-bearing debt, which precludes 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 maintain corporate relationships essential to the conduct of its business operations. Equity of publicly listed companies is subject to market risk. Tokyo Gas has established management policies and rules for handling of such equities.

Principal Management Risks

In fiscal 2003, Tokyo Gas established an integrated risk management system and stipulated the principal forms of risk with which management should be involved. This makes it possible to systematically ascertain important risks and to disclose appropriate information on the risks to stakeholders. The important risks are reconfirmed and revised each year in meetings of management and the Board of Directors.

Details of the principal risks with which management should be involved are described below. Forward-looking statements contained herein are based on assessments of Tokyo Gas as of March 31, 2006.

1) Production and supply interruption risk

Tokyo Gas business is founded on the production and supply of city gas, so a major gas leak or explosion attendant on the production or supply of gas or a major gas leak or explosion at a customer site may result not only in direct damages, but also in tangible and intangible loss including the need to bear public responsibility.

2) 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 plants and other production facilities or pipelines and other supply facilities and disrupt the supply of city gas.

3) 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.

4) 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. Additionally, fluctuations in the price of gas resources take about six months to show up in gas rates. This factor may affect revenues by breaking up a fiscal year, which could cause over- or under-collection of gas rates.

5) 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.

6) Risk faced by existing business

A. Competitive risk

As industry deregulation progresses, competition with electric power companies and new firms entering the gas business is increasingly fierce. Competition may have a greater impact on Tokyo Gas business performance. Specifically, demand might decrease or rates may fall owing to marketing offensives by electric power companies to promote electrification, electric power rate reductions or competition from new market entrants. Tokyo Gas is rolling out a strategic rate menu while keeping a close watch on the competitive situation; reductions in rates have been implemented since 1999.

Amid ongoing market liberalization and intensified competition between energy sources, Tokyo Gas may lose a portion of existing demand should competitors commence the supply of more competitive LNG in the Group's existing markets, should LNG lose competitiveness compared to other forms of energy, or should it become unable to purchase LNG at competitive prices due to problems concluding contracts or renewing existing contracts.

B. Demand risk

Changes in industry structure, economic recession, advancement of energy conservation activities or other factors may result in a partial decrease in existing demand, particularly from large-volume customers.

C. Legal and regulatory risk

Tokyo Gas manages its operations in compliance with the Gas Utility Industry 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.

7) Inappropriate handling of recalls, etc.

Tokyo Gas may suffer tangible and intangible loss, including the need to bear public responsibility, if it fails to make timely and appropriate responses, such as recalls, to safety problems with gas appliances.

8) 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 wide-area pipeline 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.

9) 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 the need to bear public responsibility more serious than that required of other companies.

10) Risk of failure or malfunctioning of backbone systems

The failure or malfunctioning of backbone computer 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 the need to bear public responsibility.

11) 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 the need to bear public responsibility.

12) Environmental and compliance risks

The need to comply with new environmental laws or additional obligations to improve the environment might increase costs. Also, any violations of laws, rules and regulations or actions that contravene corporate ethics may result not only in direct costs required to remedy the situation, but also in tangible and intangible loss including the need to bear public responsibility.

13) 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 the need to bear public responsibility. Moreover, because Tokyo Gas regards the enhancement of customer satisfaction as an important means of fortifying corporate competitiveness, and the importance of customer satisfaction is increasing, Tokyo Gas recognizes it as a business risk should the Company be unable to increase customer satisfaction or fail to meet the level of satisfaction required by customers.

Q1 What are some of the characteristics of city gas business in Japan?

Japan's mountainous terrain means there are few areas where the population and industry are concentrated in such a way as to be advantageous to gas suppliers. For this reason, only about 5% of Japan's land area currently has a ready supply of city gas.

Although about 210 city gas companies compete in this limited geographical area, three large companies Tokyo Gas, Osaka Gas Co., Ltd., and Toho Gas Co., Ltd. account for about 80% of the total gas sales volume: In addition to city gas suppliers, there are about 1,700 specific-area gas suppliers and 26,000 LPG suppliers, most of which are small or medium-sized firms. Approximately 90 percent of the city gas in Japan is sourced from natural gas, almost all of which is imported in the form of LNG. Only a few companies import and regasify LNG to supply city gas. Unlike the United States and Europe, Japan does not have a nationwide pipeline network; each city gas company maintains a network of pipelines in its service area through which it supplies and markets gas.

Q2 Does Tokyo Gas plan to acquire neighboring gas companies?

Tokyo Gas currently wholesales gas to 21 city gas companies around its service area. Wholesale volumes account for over 10% of total gas sales, and are expected to increase by an annual average of 6.6% over the next five years. The wholesale supply business allows Tokyo Gas to raise income without increasing assets, so its basic policy calls for an active development of this market. As hostile takeovers could have an adverse effect on the Company's wholesale business, it has no intention to aggressively pursue hostile M&A. The Company did, however, acquire the gas operations from Konosu City, Saitama in April 2002, and from Nagano Prefecture in April 2005 following the privatization. If any optimal M&A opportunity arises which appears likely to raise our corporate value and benefit our customers, we would of course explore the possibility of acting on such an opportunity if that complies with the intentions of the other party.

Q3 How does Tokyo Gas set its rates?

Service Agreement In case 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 use 500,000 m^3 or more will serve as large-volume customers.

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

Operating cost, etc. + **Fair return** − **Deductions, etc.** = **Total fair cost**

Operating cost, etc.	Fair return	Deductions, etc.	Total fair cost
• Cost of gas resources • Personnel expenses • Overheads • 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. Consequently, the impact of such price fluctuations on revenue and expenditure is neutral in the medium or longer term.

Q4 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. By March 2006, it had signed a cumulative total of 125 contracts for 226 MW, and it had received subsidies for 70 schemes totaling 173 MW.

Q5 What kind of relationship does Tokyo Gas have with Tokyo Electric Power Company (TEPCO)?

Tokyo Gas and TEPCO have been purchasing more than 70% of their LNG requirements from our joint LNG projects, and are also taking part in other projects that entitle both companies to upstream interests. Joint procurement increases the size of the contracts, which enables us to achieve bargaining power.

Two of the three LNG terminals owned by Tokyo Gas, Negishi and Sodegaura are operated jointly with TEPCO, which enables us to mitigate the capex cost burden, reduce operating costs, and achieve load leveling by leveraging the difference between the electricity and gas peak demand times, and lower gas production costs.

In contrast, Tokyo Gas and TEPCO compete fiercely at the marketing level. TEPCO has entered the gas market and we are competing head to head especially in the commercial and industrial sectors. Even in the residential sector, the competition between gas and electricity increased due to the marketing offensive from the electric power companies who are promoting "all-electric" promotion. Tokyo Gas seeks to provide customers with optimal solutions that meet their true needs. To achieve this, we offer a total energy service instead of limiting ourselves to being a single-energy provider offering only gas or electricity.

Q6 How do you utilize your holdings of real estate?

The real estate business is regarded as a complement to the core business of Tokyo Gas, the "total energy business." Accordingly, the fruits from the real estate business should be utilized to grow the core business. Large premises with asset values expected to rise will be developed properly to maximize their potential with the aim of growing asset value while limiting the downside risks.

The funds needed for development are in principle sourced from the land sale proceeds to insure that there is no impact on our core business. Moreover, we employ approaches that emphasize on limiting the business risk, such as joint development with an external partner.

Our group has operations in many locations in the Tokyo Metropolitan Area, so operational efficiency and cost reductions are essential to enhance our competitiveness in the total energy business. We use active management to increase the efficiency of the real estate business operation as well as to concentrate or relocate existing operations to optimal locations.

11-year Summary

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries

Millions of yen, except per share amounts

For the years ended March 31	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Net sales	1,266,502	1,190,783	1,151,825	1,127,634	1,097,589	1,086,771	992,255	997,767	1,009,155	988,077	958,662
Gas sales	910,321	834,658	831,115	792,454	750,439	740,731	672,069	674,997	686,649	663,066	633,253
Gas appliance sales	130,826	135,109	133,873	142,636	149,203	146,517	127,916	133,925	127,880	135,057	136,344
Related construction	59,747	64,795	68,034	70,568	71,338	71,908	68,651	68,817	71,060	74,767	73,784
Real estate rental	34,187	34,701	35,444	36,346	37,551	37,601	37,841	37,616	38,978	40,916	40,568
Other business	252,596	234,721	172,160	158,327	156,011	159,578	158,819	155,045	154,602	144,032	143,931
Operating income	112,346	145,349	152,287	123,294	110,608	103,659	69,233	72,303	76,485	62,163	67,109
Net income	62,115	84,047	44,787	59,201	51,912	27,595	26,698	17,764	17,241	15,432	16,762
Depreciation*	136,377	140,271	146,895	141,027	145,564	150,374	140,306	143,009	—	—	—
Capital expenditures**	119,435	107,529	107,441	111,988	105,296	111,397	124,975	151,126	—	—	—
Free cash flow	79,057	116,789	84,241	88,240	92,178	66,572	42,029	9,647	—	—	—
Per share (yen)											
Net income	¥23.48	¥31.47	¥16.44	¥21.18	¥18.47	¥9.82	¥9.50	¥6.32	¥6.14	¥5.49	¥5.97
Net income (Diluted)	21.70	28.24	14.98	19.11	16.66	9.13	8.84	5.94	5.76	5.37	—
Shareholders' equity	270.48	244.73	221.53	208.65	200.75	196.72	172.33	149.98	148.67	147.65	147.23
Cash dividends applicable for the year	7.00	7.00	7.00	6.00	6.00	6.00	5.00	5.00	5.00	5.00	5.00

At year-end (March 31)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Total assets	1,693,899	1,668,734	1,666,828	1,676,064	1,702,713	1,797,669	1,805,086	1,707,446	1,720,684	1,772,132	1,657,176
Long-term debt due after one year	496,740	547,139	545,845	598,322	680,887	708,329	843,634	820,753	765,304	878,674	743,177
Total shareholders' equity	728,232	648,766	598,453	579,706	564,078	552,790	484,239	421,442	417,755	414,906	413,725

Ratios

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Operating income to net sales	8.9%	12.2%	13.2%	10.9%	10.1%	9.5%	7.0%	7.2%	7.6%	6.3%	7.0%
Net income to net sales	4.9%	7.1%	3.9%	5.3%	4.7%	2.5%	2.7%	1.8%	1.7%	1.6%	1.7%
ROE	9.0%	13.5%	7.6%	10.4%	9.3%	5.3%	5.9%	4.2%	4.1%	3.7%	4.1%
ROA	3.7%	5.0%	2.7%	3.5%	3.0%	1.5%	1.5%	1.0%	1.0%	0.9%	1.0%
Equity ratio	43.0%	38.9%	35.9%	34.6%	33.1%	30.8%	26.8%	24.7%	24.3%	23.4%	25.0%

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)

Consolidated Balance Sheets

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2006	2005	2006
Property, plant and equipment (Note 3):			
Production facilities	710,890	714,527	6,075,982
Distribution facilities (Note 4)	2,141,478	2,069,325	18,303,227
Service and maintenance facilities (Note 4)	181,065	182,103	1,547,565
Other facilities (Note 4)	687,170	673,327	5,873,249
Shutdown facilities	2,798	—	23,912
Construction in progress	50,068	48,311	427,935
	3,773,469	3,687,593	32,251,870
Accumulated depreciation	(2,633,167)	(2,528,076)	(22,505,697)
	1,140,302	1,159,517	9,746,173
Intangibles:			
Consolidation difference	2,505	2,903	21,408
Other intangibles	21,144	19,877	180,722
	23,649	22,780	202,130
Investments and other non-current assets:			
Investment securities (Notes 4 and 5)	145,048	100,601	1,239,724
Long-term loans (Note 4)	3,554	4,047	30,374
Deferred tax assets (Note 10)	36,386	51,330	310,990
Other investments and non-current assets	43,668	45,503	373,235
Allowance for doubtful accounts	(725)	(1,711)	(6,195)
	227,931	199,770	1,948,128
Current assets:			
Cash and cash equivalents	45,634	50,665	390,030
Marketable securities (Notes 4 and 5)	2	8	19
Notes and accounts receivables:			
Trade	147,060	139,723	1,256,919
Other	13,457	11,701	115,019
Allowance for doubtful accounts	(848)	(963)	(7,250)
Inventories (Note 6)	34,597	25,436	295,702
Deferred tax assets (Note 10)	12,765	12,075	109,105
Other current assets	49,350	48,022	421,794
Total current assets	302,017	286,667	2,581,338
	1,693,899	1,668,734	14,477,769

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY	2006	2005	2006
Long-term debt due after one year (Note 7)	496,740	547,139	4,245,640
Deferred tax liability (Note 10)	5,329	2,599	45,547
Employees' severance and retirement benefits (Note 9)	130,222	141,480	1,113,010
Allowance for repairs of gas holders	3,229	3,464	27,599
Other non-current liabilities	26,425	24,196	225,854
Current liabilities:			
Long-term debt due within one year (Note 7)	45,501	51,843	388,900
Notes and accounts payable:			
Trade	76,926	60,564	657,483
Other	33,905	29,065	289,786
Bank loans (Note 7)	17,670	25,124	151,029
Income taxes payable (Note 10)	33,528	41,690	286,564
Deferred tax liability (Note 10)	178	167	1,521
Other current liabilities	85,759	84,006	732,979
Total current liabilities	293,467	292,459	2,508,262
Minority interest	10,255	8,631	87,653
Commitments and contingent liabilities (Note 14)			
Shareholders' equity (Note 11):			
Common stock:			
Authorized: 6,500,000,000 shares			
Issued: 2,810,171,295 shares	141,844	141,844	1,212,346
Capital surplus	2,066	2,067	17,654
Retained earnings	572,600	532,810	4,894,013
Net unrealized holding gains on securities	56,510	31,501	482,995
Foreign currency translation adjustments	52	(311)	444
	773,072	707,911	6,607,452
Treasury stock, at cost			
117,825,346 shares in 2006			
159,437,083 shares in 2005	(44,840)	(59,145)	(383,248)
Total shareholders' equity	728,232	648,766	6,224,204
	1,693,899	1,668,734	14,477,769

Consolidated Statements of Income

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales (Note 12)	**1,266,502**	1,190,783	**10,824,801**
Costs and expenses (Note 12):			
Costs of sales	**724,503**	624,722	**6,192,336**
Selling, general and administrative expenses	**429,653**	420,712	**3,672,244**
	1,154,156	1,045,434	**9,864,580**
Operating income (Note 12)	**112,346**	145,349	**960,221**
Other income (expenses):			
Interest and dividend income	**1,449**	1,086	**12,388**
Gains from commodity derivatives	**2,356**	653	**20,133**
Gains (losses) from weather derivatives	**(5,666)**	2,741	**(48,429)**
Gains from sales of fixed assets	**2,240**	472	**19,143**
Gains from sales of investment securities (Note 5)	**4,930**	5,262	**42,134**
Interest expense	**(11,014)**	(13,134)	**(94,138)**
Adjustments of charges for construction of distribution facilities	**(3,017)**	(4,043)	**(25,783)**
Losses on unsecured bonds redemption	**—**	(2,879)	**—**
Losses on cancellation of system development	**(5,128)**	—	**(43,828)**
Losses on impairment of fixed assets (Note 12)	**—**	(1,198)	**—**
Special severance payment	**—**	(3,487)	**—**
Foreign exchange losses	**(552)**	(52)	**(4,719)**
Equity in net income of an affiliated company	**693**	258	**5,926**
Other, net	**2,210**	2,295	**18,890**
	(11,499)	(12,026)	**(98,283)**
Income before income taxes and minority interest in net income of consolidated subsidiaries	**100,847**	133,323	**861,938**
Income taxes (Note 10):			
Current	**35,704**	45,074	**305,161**
Deferred	**2,498**	3,534	**21,348**
	38,202	84,715	**326,509**
Minority interest in net income of consolidated subsidiaries	**(530)**	(668)	**(4,532)**
Net income	**62,115**	84,047	**530,897**

	Yen		U.S. dollars (Note 1)
	2006	2005	2006
Amounts per share of common stock:			
Net income	**¥ 23.48**	¥ 31.47	**$ 0.20**
Diluted net income	**21.70**	28.24	**0.19**
Cash dividends applicable to the year	**7.00**	7.00	**0.06**

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen						
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	2,810,171	141,844	2,065	457,924	35,655	(227)	(38,808)
Net income				84,047			
Increase due to addition of consolidated subsidiaries				10,988			
Net unrealized holding gains on securities					(4,155)		
Foreign currency translation adjustments						(84)	
Treasury stock			2				(20,337)
Cash dividends paid (¥7.50 per share)				(20,084)			
Bonuses paid to directors				(65)			
Balance at March 31, 2005	2,810,171	141,844	2,067	532,810	31,501	(311)	(59,145)
Net income				62,115			
Increase due to addition of consolidated subsidiaries				5			
Net unrealized holding gains on securities					25,009		
Foreign currency translation adjustments						363	
Treasury stock			(1)	(3,768)			14,305
Cash dividends paid (¥7.0 per share)				(18,496)			
Bonuses paid to directors				(66)			
Balance at March 31, 2006	2,810,171	141,844	2,066	572,600	56,510	52	(44,840)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2005	1,212,346	17,666	4,553,932	269,239	(2,659)	(505,515)
Net income			530,897			
Increase due to addition of consolidated subsidiaries			39			
Net unrealized holding gains on securities				213,756		
Foreign currency translation adjustments					3,103	
Treasury stock		(12)	(32,208)			122,267
Cash dividends paid ($0.06 per share)			(158,087)			
Bonuses paid to directors			(560)			
Balance at March 31, 2006	1,212,346	17,654	4,894,013	482,995	444	(383,248)

See accompanying notes.

Consolidated Statements of Cash Flows

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interest in net income of consolidated subsidiaries	100,847	133,323	861,938
Adjustments to reconcile income before income taxes and minority interest in net income of consolidated subsidiaries to net cash provided by operating activities:			
Depreciation (Note 12)	132,300	136,421	1,130,771
Amortization of long-term prepayments	4,077	3,851	34,844
Losses on impairment of fixed assets (Note 12)	—	1,198	—
Losses on disposal of property, plant and equipment	3,251	3,388	27,789
Losses (gains) from sales of fixed assets	(2,221)	125	(18,981)
Gains from sales of securities	(4,930)	(5,262)	(42,133)
Losses on unsecured bonds redemption	—	2,879	—
Decrease in allowance for doubtful accounts	(1,101)	(1,293)	(9,407)
Decrease in employees' severance and retirement benefits	(11,189)	(17,456)	(95,635)
Interest and dividend income	(1,449)	(1,086)	(12,388)
Interest expense	11,014	13,134	94,138
Changes in operating assets and liabilities:			
Increase in major notes and accounts receivable	(7,102)	(7,597)	(60,699)
Increase in inventories	(9,170)	(778)	(78,379)
Increase in major notes and accounts payable	23,122	6,057	197,622
Decrease in consumption taxes payable	(2,081)	(1,140)	(17,784)
Decrease (increase) in other receivables	(1,552)	1,353	(13,265)
Bonuses paid to directors	(66)	(65)	(560)
Losses on cancellation of system development	4,518	—	38,613
Other – net	(2,232)	3,533	(19,081)
	236,036	270,585	2,017,403
Cash received for interest and dividends	1,446	1,057	12,355
Cash paid for interest	(11,410)	(13,003)	(97,521)
Cash paid for income taxes	(44,543)	(43,601)	(380,706)
Net cash provided by operating activities	181,529	215,038	1,551,531
Cash flows from investing activities:			
Purchase of time deposits	(7,367)	(6,667)	(62,968)
Proceeds from redemption of time deposits	6,466	9,123	55,265
Purchases of investment securities	(7,564)	(14,119)	(64,651)
Proceeds from sales of investment securities	5,220	6,263	44,615
Purchases of property, plant and equipment	(110,993)	(94,084)	(948,660)
Purchases of intangible fixed assets	(4,950)	(12,787)	(42,308)
Long-term prepayments	(2,503)	(2,332)	(21,393)
Proceeds from sales of tangible and intangible fixed assets	6,599	4,029	56,398
Proceeds from sales of investments in a consolidated subsidiary accompanied by change in the scope of consolidation	678	—	5,797
Expenditure of long-term loans receivable	(1,573)	(1,610)	(13,444)
Proceeds from long-term loans	162	4,428	1,387
Other—net	(246)	380	(2,102)
Net cash used in investing activities	(116,071)	(107,376)	(992,064)
Cash flows from financing activities:			
Net decrease of short-term bank loans	(8,685)	(2,691)	(74,228)
Proceeds from long-term debt	16,998	60,566	145,278
Repayments of long-term debt	(52,434)	(125,703)	(448,156)
Cash dividends paid	(18,591)	(20,144)	(158,895)
Payments for acquiring treasury stock	(20,355)	(20,442)	(173,975)
Other—net	26	254	223
Net cash used in financing activities	(83,041)	(108,160)	(709,753)
Effect of exchange rate changes on cash and cash equivalents	4	(2)	38
Net decrease in cash and cash equivalents	(17,579)	(500)	(150,248)
Cash and cash equivalents at beginning of year	50,665	43,961	433,030
Increase in cash and cash equivalents due to addition of consolidated subsidiaries	12,548	7,204	107,248
Cash and cash equivalents at end of year	45,634	50,665	390,030

See accompanying notes.

Notes to Consolidated Financial Statements

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

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 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 of International Financial Reporting Standards. The Company, as a regulated company, also follows the Gas Business Law related accounting regulations for preparing such financial statements.

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

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117 to US $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation The consolidated financial statements include the accounts of the Company and all of its significant subsidiaries. For the years ended March 31, 2006 and 2005, 54 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.

Consolidation differences are amortized on a straight-line basis over 10 years, except for minor amounts that are charged to income in the period of acquisition.

For the year ended March 31, 2006, 3 subsidiaries were newly included in the scope of consolidation due to those subsidiaries' increased significance. On the other hand, the Company sold its investments in one subsidiary, which as a result was excluded from the scope of consolidation.

Equity method Significant investments in unconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence with regard to operating and financial policies of the investees, are accounted for by the equity method. For the years ended March 31, 2006 and 2005, one affiliated company was accounted for by the equity method.

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

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

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

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

(a) Debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities") are stated at amortized cost.

(b) Equity securities issued by unconsolidated subsidiaries and affiliated companies that are not accounted for using the equity method are stated at moving-average cost.

(c) Available-for-sale securities, which are defined as securities other than held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and securities held for trading purposes, are stated at fair 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 income taxes, as a separate component of shareholders' equity. Available-for-sale securities with no available 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 available-for-sale 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.

Derivative financial instruments The Company and its consolidated subsidiaries use currency swap contracts, interest rate swaps, foreign exchange forward contracts, commodity swaps 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 effects 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 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 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 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.

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

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

Employees' severance and retirement benefits The Company and its consolidated subsidiaries provide post-employment benefit plans, an unfunded lump-sum payment plan and a funded pension plan, under which employees' severance and retirement benefits are based on the level of wages and salaries, length of service and certain other factors. The Company and its consolidated subsidiaries determine benefit obligation and expenses for employees' severance and retirement benefits based on the amounts actuarially calculated using certain assumptions.

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

The estimated amount of all retirement benefits to be paid at the future retirement date is assumed as generating equally to each service year using the estimated number of total service years. Past service costs are 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.

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

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

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.

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 tax 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 ¥12,626 million (US$107,917 thousand) and ¥11,607 million for the years ended March 31, 2006 and 2005, respectively.

Foreign currency translation 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 income currently.

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, 240,724 thousand shares of common stock were issuable at March 31, 2006 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.

Reclassifications Certain prior year amounts have been reclassified to conform to 2006 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. Such offsets recorded at March 31, 2006 and 2005 were ¥263,665 million (US$2,253,543 thousand) and ¥259,241 million, respectively.

4. Pledged assets

Pledged assets at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Distribution facilities	**5,472**	5,658	**46,771**
Service and maintenance facilities	**84**	141	**716**
Other facilities	**7,762**	10,807	**66,343**
Investment securities	**38**	36	**324**
Long-term loans	**39**	39	**336**
Marketable securities	**1**	—	**9**
	13,396	16,681	**114,499**

Liabilities secured by the above assets at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Long-term debt (including current portion)	**4,941**	5,299	**42,231**
Bank loans	**30**	—	**256**
Other current liabilities	**60**	60	**515**
	5,031	5,359	**43,002**

5. Securities

Acquisition costs, book values and fair values of securities with available fair values at March 31, 2006 and 2005 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Securities with fair value exceeding book value:			
Book value	**11**	45	**92**
Fair value	**11**	47	**95**
Difference	**0**	2	**3**

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Securities with fair value not exceeding book value:			
Book value	**236**	—	**2,019**
Fair value	**235**	—	**2,010**
Difference	**(1)**	—	**(9)**

(b) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Securities with book values exceeding acquisition cost:			
Equity securities			
Book value	**14,442**	12,454	**123,439**
Fair value	**104,118**	62,578	**889,899**
Difference	**89,676**	50,124	**766,460**

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Securities with book values not exceeding acquisition cost:			
Equity securities			
Book value	**1,060**	2,324	**9,058**
Fair value	**974**	2,126	**8,327**
Difference	**(86)**	(198)	**(731)**

Available for sale securities sold amounted to ¥5,194 million (US$44,395 thousand) and ¥6,040 million for the years ended March 31, 2006 and 2005, respectively. Gains on available-for-sale securities amounted to ¥4,954 million (US$42,340 thousand) and ¥5,398 million and losses on available-for-sale securities amounted to ¥24 million (US$206 thousand) and ¥136 million for the years ended March 31, 2006 and 2005, respectively.

Available-for-sale securities with no available fair values, which were stated at moving-average cost, amounted to ¥12,062 million (US$103,095 thousand) and ¥12,008 million at March 31, 2006 and 2005, respectively. Investments in unconsolidated subsidiaries and affiliated companies amounted to ¥27,639 million (US$236,234 thousand) and ¥23,832 million for the years ended March 31, 2006 and 2005, respectively.

6. Inventories

Inventories at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished products	**3,670**	3,173	**31,366**
Raw materials	**22,148**	13,570	**189,301**
Supplies	**8,656**	8,604	**73,982**
Work in process	**123**	89	**1,053**
	34,597	25,436	**295,702**

7. Bank loans and long-term debt

At March 31, 2006 and 2005, short-term bank loans, bearing interest at an average annual rate of 0.30% and 0.29%, respectively.

Long-term debt at March 31, 2006 and 2005 were as follows:

		Millions of yen		Thousands of U.S. dollars
		2006	2005	2006
Domestic unsecured bonds	Due in 2016 at a rate of 4.0%	**27,700**	27,700	**236,752**
	Due in 2018 at a rate of 2.625%	**40,000**	40,000	**341,880**
	Due in 2009 at a rate of 1.68%	**30,000**	30,000	**256,410**
	Due in 2009 at a rate of 1.73%	**30,000**	30,000	**256,410**
	Due in 2010 at a rate of 2.01%	**20,000**	20,000	**170,940**
	Due in 2011 at a rate of 1.39%	**30,000**	30,000	**256,410**
	Due in 2012 at a rate of 1.35%	**20,000**	20,000	**170,940**
	Due in 2023 at a rate of 1.01%	**20,000**	20,000	**170,940**
	Due in 2013 at a rate of 1.41%	**30,000**	30,000	**256,410**
	Due in 2014 at a rate of 1.59%	**20,000**	20,000	**170,940**
	Due in 2024 at a rate of 2.29%	**10,000**	10,000	**85,470**
	Due in 2025 at a rate of 2.14%	**10,000**	10,000	**85,470**
	Due in 2015 at a rate of 4.1%	**13,800**	13,800	**117,949**
	Due in 2009 at a rate of 1.18%	**4,000**	4,000	**34,188**
Domestic unsecured convertible bonds	5th issue due in 2009 at a rate of 1.2%	**39,700**	39,929	**339,316**
	6th issue due in 2007 at a rate of 1.1%	**19,321**	49,956	**165,137**
DM bearer bonds due 2005 at a rate of 7.0%		**—**	18,333	**—**
Loans from banks, insurance companies and government agencies due through 2020 at rates of 0.31% to 5.60%:				
Secured		**4,941**	5,299	**42,232**
Unsecured		**172,779**	179,965	**1,476,746**
		542,241	598,982	**4,634,540**
Less—Amounts due within one year		**45,501**	51,843	**388,900**
		496,740	547,139	**4,245,640**

The indentures covering fifth and sixth domestic convertible bonds provide, among other conditions, for (1) conversion into shares of common stock at the conversion prices per share of ¥339 (US$2.90) and ¥339 (US$2.90), respectively (subject to adjustment in certain circumstances), (2) conversion periods through March 30, 2009 and March 29, 2007, respectively.

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

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

The annual maturities of long-term debt at March 31, 2006 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	45,501	**388,900**
2008	40,848	**349,125**
2009	71,113	**607,807**
2010	85,056	**726,972**
2011	42,882	**366,517**
2012 and thereafter	256,841	**2,195,219**
	542,241	**4,634,540**

8. Derivative transactions

Contract amounts, fair values and recognized gains on the currency swap and commodity derivatives, except those accounted for using hedge accounting, and weather derivatives at March 31, 2006 and 2005 were as follows:

	Millions of yen			
	At March 31, 2006			
	Contract amounts			
	Total	Beyond one year	Fair value	Recognized gains (losses)
Commodity derivatives	**700**	**—**	**483**	**483**
Weather derivatives	**8,000**	**1,400**	**—**	**—**
	—	**—**	**—**	**483**

	Thousands of U.S. dollars			
	At March 31, 2006			
	Contract amounts			
	Total	Beyond one year	Fair value	Recognized gains (losses)
Commodity derivatives	**5,985**	**—**	**4,126**	**4,126**
Weather derivatives	**68,376**	**11,966**	**—**	**—**
	—	**—**	**—**	**4,126**

	Millions of yen			
	At March 31, 2005			
	Contract amounts			
	Total	Beyond one year	Fair value	Recognized gains (losses)
Currency swap contracts:				
Receive Euro, pay Japanese yen	105	—	32	32
Weather derivatives	5,625	—	—	—
	—	—	—	32

Fair value of currency swap and commodity derivatives contracts were calculated based on the information presented by financial institution. Contract amounts of the currency swap and commodity derivatives are 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 amount under the contracts. Market value of weather derivatives were not stated because the calculation of the fair value was impossible.

9. Employees' severance and retirement benefits

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	**348,820**	345,322	**2,981,371**
Unrecognized prior service costs	**2,165**	2,275	**18,507**
Unrecognized actuarial differences	**8,698**	(16,351)	**74,338**
Less fair value of pension assets	**(229,601)**	(190,056)	**(1,962,403)**
Prepaid pension costs	**140**	290	**1,197**
Employees' severance and retirement benefits	**130,222**	141,480	**1,113,010**

Severance and retirement benefit expenses for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service costs - benefits earned during the year	**9,586**	9,711	**81,928**
Interest cost on projected benefit obligation	**7,180**	7,475	**61,369**
Expected return on plan assets	**(3,808)**	(3,402)	**(32,544)**
Amortization of prior service costs	**(92)**	(155)	**(786)**
Amortization of actuarial differences	**10,569**	3,049	**90,333**
Other	**3,009**	1,038	**25,716**
Severance and retirement benefit expenses	**26,444**	17,716	**226,016**

The discount rate and the rate of expected return on plan assets used by the Company and its consolidated subsidiaries are primarily 2.0% and 2.0%, respectively, at March 31, 2006, and primarily 2.1% and 2.0%, respectively, at March 31, 2005.

10. Income taxes

The Company is subject to a number of 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, 2006 and 2005.

Reconciliation of the difference between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2006 and 2005 are not presented as they are negligible.

Significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Liabilities for severance and retirement benefits	47,082	49,043	402,412
Other—net	41,395	37,999	353,801
Less valuation allowance	(2,850)	(1,227)	(24,355)
Subtotal	85,627	85,815	731,858
Deferred tax liabilities:			
Net unrealized holding gains on securities	33,016	18,396	282,191
Reserve for depreciation of special gas pipeline construction	757	1,110	6,469
Other—net	8,210	5,672	70,171
Subtotal	41,983	25,178	358,831
Deferred tax assets - net	43,644	60,637	373,027

11. Shareholders' equity

Under the Japanese Commercial Code of Japan (the "Code"), the entire amount of the issue price of new shares is required to be designated as common stock, although a company may, designate an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

The Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays shall be appropriated and set aside as legal reserve until the total amount of additional paid-in capital and legal earnings reserve equals 25% of common stock. As of March 31, 2006, the total amount of additional paid-in capital and legal earnings reserve has already exceeded 25% of common stock and, therefore, no additional provision is required.

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

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

The Code provides that cash dividends are approved semiannually by the resolution of the annual general shareholders' meeting after the end of each fiscal year or by the resolution of the Board of Directors after the end of each interim semi-annual period. Such dividends are payable to shareholders of record at the end of each fiscal year or semi-annual period. Appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained. Retained earnings at March 31, 2006 include amounts representing the year-end cash dividends and bonuses to directors approved at the shareholders' meeting held on June 29, 2006 as discussed in Note 15 (2).

12. Segment information

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

A summary of net sales, costs and expenses, operating income, identifiable assets, depreciation, losses on impairment of fixed assets and capital expenditures by business segments for the years ended March 31, 2006 and 2005 was as follows:

	Millions of yen						
	Gas sales	Gas appliance sales	Related construction	Real estate rental	Other business	Elimination or corporate	Consolidation
For 2006							
Sales:							
Outside customers	898,553	128,376	55,772	11,055	172,746	—	1,266,502
Intra group	11,768	2,450	3,975	23,132	79,850	(121,175)	-
Total	910,321	130,826	59,747	34,187	252,596	(121,175)	1,266,502
Costs and expenses	750,301	126,209	56,771	28,728	242,949	(50,802)	1,154,156
Operating income	160,020	4,617	2,976	5,459	9,647	(70,373)	112,346
Identifiable assets	1,013,054	43,075	19,719	193,712	228,086	196,253	1,693,899
Depreciation	100,788	485	184	11,340	21,421	(1,918)	132,300
Losses on impairment of fixed assets	—	—	—	—	—	—	—
Capital expenditures	88,216	805	37	2,850	26,596	(1,572)	116,932

	Millions of yen						
	Gas sales	Gas appliance sales	Related construction	Real estate rental	Other business	Elimination or corporate	Consolidation
For 2005							
Sales:							
Outside customers	826,583	132,374	60,831	14,004	156,991	—	1,190,783
Intra group	8,075	2,735	3,964	20,697	77,730	(113,201)	-
Total	834,658	135,109	64,795	34,701	234,721	(113,201)	1,190,783
Costs and expenses	651,973	128,055	61,220	28,198	221,306	(45,318)	1,045,434
Operating income	182,685	7,054	3,575	6,503	13,415	(67,883)	145,349
Identifiable assets	1,006,673	42,681	21,426	205,079	222,241	170,634	1,668,734
Depreciation	107,082	515	185	12,358	18,142	(1,861)	136,421
Losses on impairment of fixed assets	—	—	—	—	1,198	—	1,198
Capital expenditures	74,980	534	297	3,218	29,621	(3,453)	105,197

	Thousands of U.S. dollars						
	Gas sales	Gas appliance sales	Related construction	Real estate rental	Other business	Elimination or corporate	Consolidation
For 2006							
Sales:							
Outside customers	7,679,942	1,097,234	476,680	94,487	1,476,458	—	10,824,801
Intra group	100,577	20,936	33,977	197,713	682,480	(1,035,683)	—
Total	7,780,519	1,118,170	510,657	292,200	2,158,938	(1,035,683)	10,824,801
Costs and expenses	6,412,825	1,078,708	485,224	245,540	2,076,484	(434,201)	9,864,580
Operating income	1,367,694	39,462	25,433	46,660	82,454	(601,482)	960,221
Identifiable assets	8,658,578	368,164	168,537	1,655,660	1,949,452	1,677,378	14,477,769
Depreciation	861,440	4,148	1,575	96,919	183,082	(16,393)	1,130,771
Losses on impairment of fixed assets	—	—	—	—	—	—	—
Capital expenditures	753,984	6,878	314	24,360	227,318	(13,434)	999,420

Costs and expenses under Elimination or corporate that cannot be allocated to business segments are related mainly to general and administrative expenses of the Company, and amounted to ¥71,570 million (US$611,706 thousand) and ¥66,945 million at March 31, 2006 and 2005, respectively.

Assets under Elimination or corporate mainly comprise cash and cash equivalents, current and noncurrent securities and deferred tax assets of the Company and its consolidated subsidiaries, and they amounted to ¥239,031 million (US$2,043,000 thousand) and ¥218,385 million at March 31, 2006 and 2005, respectively.

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

13. Information for certain leases

Finance leases

Information as lessee

Lease payments in the years ended March 31, 2006 and 2005, and future lease payments inclusive of interest at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Lease payments	569	613	4,867
Future lease payments inclusive of interest:			
Current	479	561	4,091
Noncurrent	1,485	1,324	12,692
	1,964	1,885	16,783

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, 2006 and 2005 were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2006	3,942	2,053	1,889
Other facilities	183	109	74
Other intangibles	4,125	2,162	1,963
For 2005			
Other facilities	3,994	2,109	1,885
	3,994	2,109	1,885

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2006			
Other facilities	33,696	17,548	16,148
Other intangibles	1,564	933	631
	35,260	18,481	16,779

Information as lessor

Lease income in the years ended March 31, 2006 and 2005, and future lease payments to be received at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Lease income	4,261	4,221	36,415
Future lease payments to be received:			
Current	4,222	4,117	36,085
Noncurrent	13,241	12,379	113,168
	17,463	16,496	149,253

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, 2006 and 2005 were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2006			
Other facilities	23,218	15,828	7,390
Other intangibles	2,147	1,333	814
	25,365	17,161	8,204
For 2005			
Other facilities	23,988	16,156	7,832

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2006			
Other facilities	198,443	135,280	63,163
Other intangibles	18,349	11,395	6,954
	216,792	146,675	70,117

Operating leases

Information as lessor

Future lease payments to be received at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Future lease payments:			
Current	491	544	4,194
Noncurrent	792	1,049	6,768
	1,283	1,593	10,962

14. Commitment and contingent liabilities

At March 31, 2006, the Company and its consolidated subsidiaries were contingently liable for (1) debt guarantees in the amount of ¥11,517 million (US$98,438 thousand) for financial institution loans to companies, other than consolidated subsidiaries, (2) ¥121 million (US$1,037 thousand) with respect to joint and several liabilities upon default of the other debtors and (3) ¥38,700 million (US$330,769 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, 2006, 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.

15. Subsequent events

(1) Acquisitions of treasury stock

The Directors' meeting held on May 22, 2006, and the general meeting of shareholders held on June 29, 2006 approved the acquisition of treasury stock based upon the approval of the general meeting of shareholders.

Type of shares: Common stock

Number of shares: Limited to 56,000,000 shares

Cost of shares acquisitions: Limited to ¥35,000 million (US$299,145 thousand)

Period of acquisitions: Within one year after the general meeting of shareholders held on June 29, 2006

(2) Appropriation of retained earnings

At the general meeting of shareholders held on June 29, 2006, the Company's shareholders approved (i) payment of year-end cash dividends of ¥3.5 (US$0.03) per share aggregating ¥9,423 million (US$80,540 thousand) to the shareholders of record as of March 31, 2006, and (ii) payment of bonuses to directors totaling ¥67 million (US$573 thousand).

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of TOKYO GAS Co., Ltd. (a Japanease corporation) and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOKYO GAS Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, 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.

As discussed in Note 15(1) to the consolidated financial statement, subsequent to March 31, 2006, TOKYO GAS Co., Ltd. decided to acquire treasury stock.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan

June 29, 2006