TOKYO GAS

Casting Wide, Going Deep

Tokyo Gas Co., Ltd.

Annual Report 2006

Our Advantage

The Tokyo Gas Group aims to enhance its corporate value by focusing on the development of a total energy business centering on natural gas. This vision is the key to our future as a high-profitability, high-growth group capable of achieving sustainable success and progress.

Tokyo Gas will continue to provide advanced energy solutions, primarily through the supply of natural gas to meet expanding demand.

As the most environmentally friendly, economical and convenient fossil fuel, natural gas has become a vital resource for modern society and lifestyles. Tokyo Gas has made natural gas the core of its diversified energy-related business.

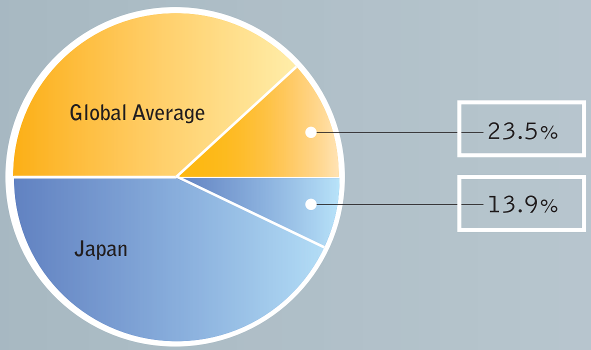
When Tokyo Gas was founded in 1885, Japan was just beginning to use gas on a significant scale. Since then, Tokyo Gas has helped to build the Japanese city gas and natural gas markets through its many pioneering achievements, including the introduction of natural gas as a resource for city gas in 1969. During its 120-year history, it has accumulated sophisticated gas utilization technology and earned a solid reputation for reliability as a supplier of gas to a wide spectrum of residential, industrial and commercial customers.

Today, Tokyo Gas serves over 9.8 million customers. With a brand image of "security, safety and reliability," it has extended its business to include advanced energy solutions and the provision of services that help to enhance the quality of life.

With an extensive network of gas pipelines and LNG receiving terminals, Tokyo Gas has steadily increased its advantage in the market. Its service area encompasses the Kanto region, which is the heart of the Japanese economy and the region with the greatest energy needs. Tokyo Gas is continually extending its pipeline network into areas where energy demand is expanding. The total length of pipelines in the network has reached 51,530 km.

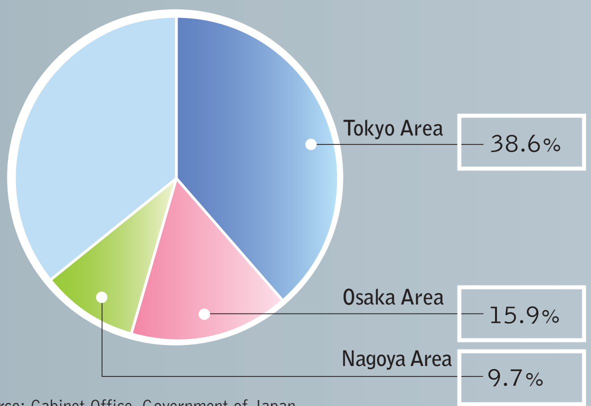
Natural gas demand is expected to grow because of its excellent environmental characteristics with the approach of the first Kyoto Protocol commitment period, which starts in 2008. Tokyo Gas is working to establish and expand its presence throughout the LNG value chain, participating in upstream projects and transportation as well as in import and supply operations in Japan. This strategy aims to ensure the Tokyo Gas Group's success in an energy sector that will become intensely competitive in the years ahead.

Share of Natural Gas in Primary Energy Supply in Japan and Worldwide



Source: BP Statistical Review of World Energy, June 2006

Breakdown of GDP of Japan by Major Areas



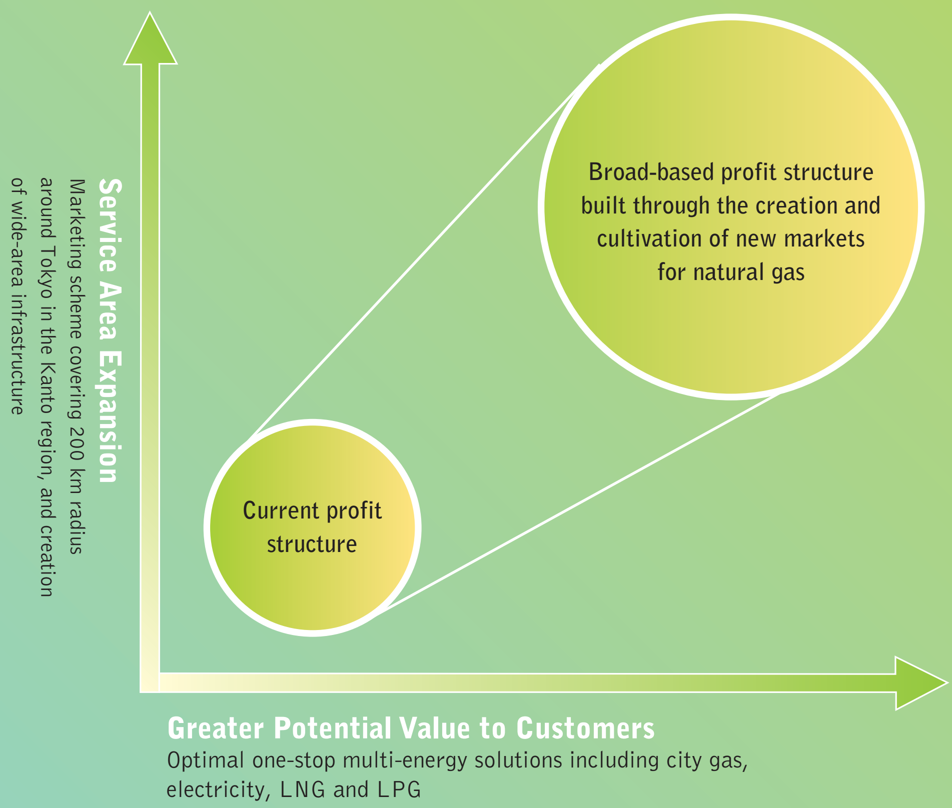
Source: Cabinet Office, Government of Japan
The Tokyo area includes Tokyo, plus Kanagawa, Saitama, Chiba, Ibaraki, Tochigi, Gunma, Yamanashi and Nagano prefectures. The Osaka area includes Osaka, as well as Hyogo, Kyoto, Shiga, Nara and Wakayama prefectures. The Nagoya area includes Aichi, Gifu and Mie prefectures.

Contents

I.F.C. Our Advantage
02 Outline of New Medium-term Management Plan
04 Financial Highlights
06 Segment Information
08 An Interview with the President
15 Creation and Cultivation of New Natural Gas Markets
16 For Residential Customers
18 For Industrial and Commercial Customers
20 Wide-area Development
22 Procurement of Gas Resources
24 Technology Development
25 Fulfilling our Commitment to Corporate Social Responsibility
26 Corporate Governance
26 Our Fundamental Concept of Corporate Governance
27 Management Structure
29 Board of Directors and Corporate Auditors
30 Internal Governance
31 Disclosure Policy
32 Group Management Structure
33 Initiatives for Environmental Protection and Safety
35 Financial Section
63 Consolidated Subsidiaries and Equity-method Affiliates
64 Investor Information

Tokyo Gas is establishing a broad-based profitable structure by creating and cultivating new markets for natural gas.

Business Strategy Tokyo Gas is extending its strategic focus on the Kanto region, an area of continuous economic growth, to capture the huge potential demand for environmentally friendly and economical natural gas through expanding its service area within a 200 km radius in the region. Another priority is to provide a one-stop solution to the changing and increasingly diversified and sophisticated needs of our customers. While procuring competitive feedstock and expanding our profit structure, we will achieve this by establishing multi-energy supply systems that include both gas and power, and by developing a diverse range of energy services based on the best mix of appliances and systems.



The business environment in which Tokyo Gas operates has changed dramatically in the past decade. In addition to the deregulation of the gas and power sector, shifts in demand patterns, and the emergence of increasingly diversified and sophisticated customer needs, there has also been a rise in public expectations regarding corporate social responsibility. These changes have been reflected in our medium-term management plans. The plan launched in 2000 focused on our evolution as a "new utility company," while our goal under the plan that began in 2003 was to develop Tokyo Gas as a corporate group on the energy frontier. We have extended the horizon for our latest medium-term management plan, which was launched in April 2006. It will cover the period from fiscal 2006 to fiscal 2010 and reflects our vision for the Tokyo Gas Group in the second decade of this century. Over the next five years we will focus our efforts on the "creation and cultivation of new markets for natural gas."

Financial Strategy In our new medium-term management plan, financial strategy is positioned alongside business strategy in terms of its importance to growth. In the five years between fiscal 2006 and fiscal 2010, we aim to generate operating cash flows* of ¥1,120 billion. We will work to optimize asset efficiency, capital and shareholder allocations, while maintaining a balance with a more aggressive business strategy focusing on 2010 and beyond. Our goal is to maximize shareholder value while achieving financial soundness and minimizing capital costs.

*Operating cash flow = Net income + depreciation

Assuring Financial Soundness

D/E ratio of around 0.6

Aim to have 0.6 D/E ratio to facilitate fundraising ability

Focusing on Asset Efficiency

ROA 5.5%

Enhance ROA and target a fiscal 2010 ROA of 5.5%, while actively investing for growth

Maximizing Shareholder Value

- Total dividend payout ratio 60%

Establish a total payout ratio target of 60% (dividends + stock repurchases divided by current net income)

Total payout ratio of year n = [(dividends from unappropriated profit in year n) + (amount of treasury stocks acquired in year n + 1)] / (consolidated net income in year n)

- Aim to achieve a continuous ROE of over 10%
- Implement TEP* of around ¥50 billion by fiscal 2010

* TEP (Tokyo Gas Economic Profit)
= net operating profit after tax prior to interest payments – cost of capital (cost of interest-bearing debt + cost of shareholders' equity)

Financial Highlights

In fiscal 2005, winter temperatures hit record lows. This factor, combined with aggressive marketing of gas, helped to boost gas sales volumes in all sectors. In value terms, net sales increased by 6.4% year on year to a new record of ¥1,266.5 billion. However, rising crude oil prices caused LNG prices to rise, and there was a sharp increase in gas resource costs. As a result, operating income declined by 22.7% year on year to ¥112.3 billion, and net income by ¥21.9 billion to ¥62.1 billion.

	Millions of yen except per share amounts			Thousands of U.S. dollars except per share amounts
For the Years ended March 31	2006	2005	2004	2006
Net sales	1,266,502	1,190,783	1,151,825	10,824,801
Operating income	112,346	145,349	152,287	960,221
Net income	62,115	84,047	44,787	530,897
Amounts per share of common stock (Yen and U.S. dollars)				
Net income	23.48	31,47	16.44	0.20
Net income (Diluted)	21.70	28.24	14.98	0.19
Shareholders' equity	270.48	244.73	221.53	2.31
Cash dividends applicable to the year	7.00	7.00	7.00	0.06
At Year-end (March 31)				
Total assets	1,693,899	1,668,734	1,666,828	14,477,769
Long-term debt due after one year	496,740	547,139	545,845	4,245,640
Total shareholders' equity	728,232	648,766	598,453	6,224,204
Ratios				
Free cash flow	79,057	116,789	84,241	675,698
Operating income to net sales	8.9%	12.2%	13.2%	8.9%
Net income to net sales	4.9%	7.1%	3.9%	4.9%
ROE	9.0%	13.5%	7.6%	9.0%
ROA	3.7%	5.0%	2.7%	3.7%
Equity Ratio	43.0%	38.9%	35.9%	43.0%
D/E ratio	0.77	0.96	1.14	0.77

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥117=U.S.$1, the Tokyo foreign exchange market rate as of March 31, 2006.

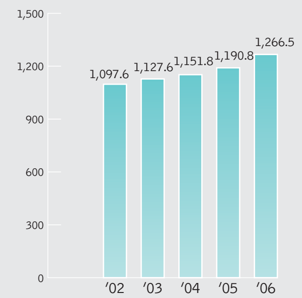
2. Free cash flow = net income + depreciation* – capital expenditures**
*including amortization of long-term prepayments
**purchases of tangible fixed assets + purchases of intangible fixed assets + long-term prepayments (accounting basis)

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

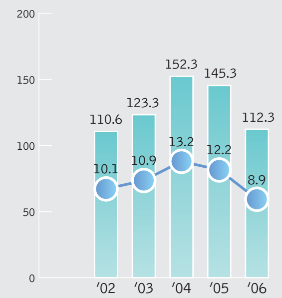
4. ROA = net income/total assets (average of positions at start and end of fiscal year)

5. D/E ratio = interest-bearing debt (year-end) / shareholders' equity (year-end)

Net Sales
(¥ billion)

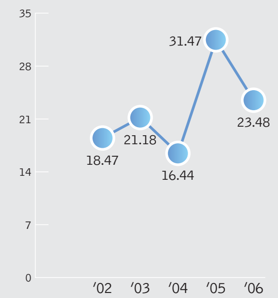


Operating Income/Operating Income to Net Sales (¥ billion/%)

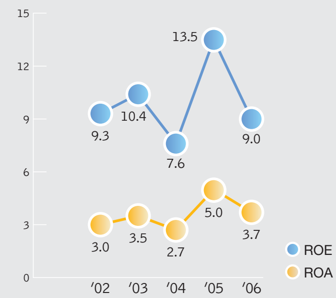


Net Income/
Net Income to Net Sales (¥ billion/%)

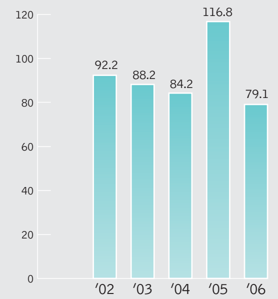
EPS
(¥)



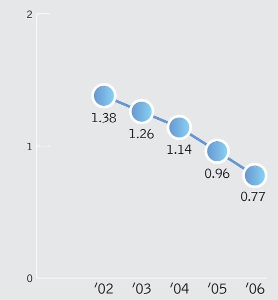
ROE/ROA
(%)



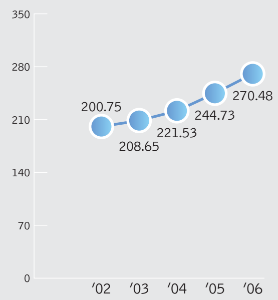
Free Cash Flow
(¥ billion)



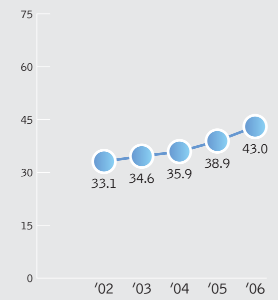
D/E Ratio



BPS
(¥)



Equity Ratio
(%)



All graph data for year ended March 31

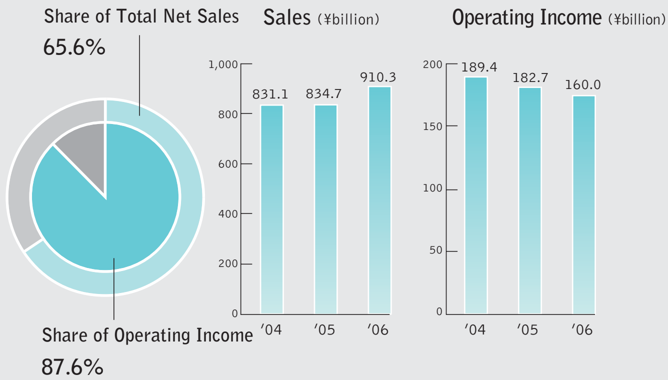
Segment Information

Gas Sales

Tokyo Gas produces city gas at three terminals, using LNG as the main resource, supplying it to over 9.8 million customers primarily in the Kanto region through a 51,530-km pipeline network.

We have Japan's largest gas supply capability, and are proactively extending pipelines to expand the customer base, focusing on the northern Kanto region, which offers strong potential for demand growth. In November 2005, the Tochigi Line was completed and began operation. Tokyo Gas also plans to extend its service area into areas where high demand is expected, while maintaining a steady supply.

[Sales excluding intra-group transactions constitute 98.7% of this segment's sales.]

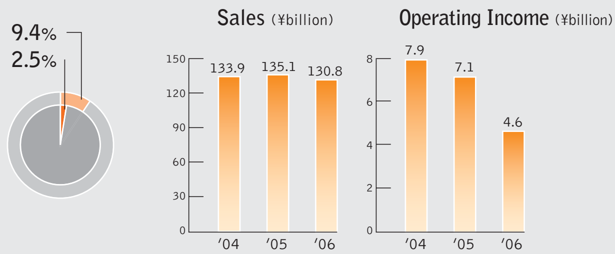


- In volume terms, gas sales increased by 7.1% year on year to 13,098 million m^3.
- Sales volumes exceeded the previous year's levels in all sectors. There were increases of 6.9% in the residential sector and 6.3% in the industrial sector, while sales to the commercial sector was 3.9% higher. Wholesaling to other gas companies increased by 18.6%.
- Despite the impact of rate revision implemented in January 2005, net sales increased by 9.1% year on year to ¥910.3 billion. This reflects a rise in unit prices made under the "gas rate adjustment system," combined with the expansion of sales volumes.
- Operating income declined 12.4% to ¥160.0 billion owing to a sharp increase in gas resource costs resulting from rising crude oil prices.

Gas Appliance Sales

This segment is involved in the sales of gas appliances bought from manufacturers, including gas cooktops, water heaters and TES (Tokyo Gas Eco System), which use hot water heated by gas to provide space heating and other home comforts, through about 320 outlets of Enesta and Enefit, service networks of Tokyo Gas.

[Sales excluding intra-group transactions constitute 98.1% of this segment's sales.]



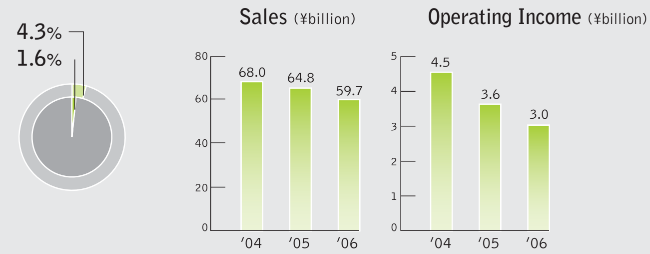
- Sales of high-value-added appliances remained strong. However, selling prices were eroded by escalating competition and other factors, with the result that segment sales decreased 3.2% to ¥130.8 billion.
- Investment in demand development to counter the "all-electric" promotion resulted in a 34.5% decrease in operating income to ¥4.6 billion.

Notes: 1) Segment sales include intra-group transactions.
2) All graph data for years ended March 31.

Related Construction

Tokyo Gas installs service pipes and gas cocks on the properties of new customers, as well as adding gas cocks and other equipment at buildings of existing customer sites.

[Sales excluding intra-group transactions constitute 93.3% of this segment's sales.]

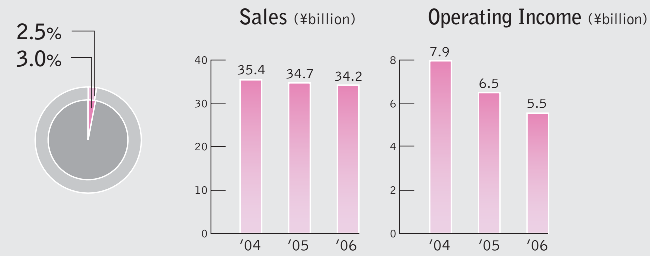


- There were declines in the number of new installations and safety upgrades. Segment sales fell by 7.8% year on year to ¥59.7 billion, and operating income by 16.8% to ¥3.0 billion.

Real Estate Rental

A subsidiary, Tokyo Gas Urban Development Co., Ltd., is primarily responsible for activities in this segment. The company leases and manages office buildings, including the Shinjuku Park Tower.

[Sales excluding intra-group transactions constitute 32.3% of this segment's sales.]

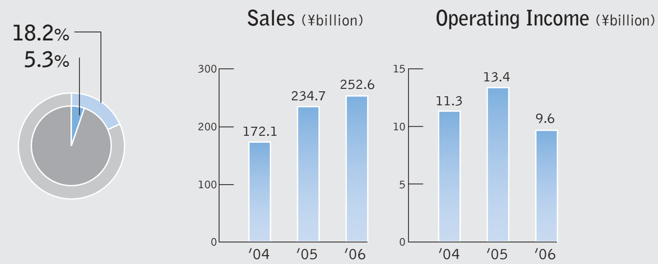


- Rent reductions caused segment sales to decline by 1.5% to ¥34.2 billion. Operating expenses were higher, in part because of expenditure on building renovation, with the result that operating income decreased by 16.1% to ¥5.5 billion.

Other Businesses

Business activities in this segment include district heating/cooling, energy services, LPG sales, industrial gas sales, credit leases, system integration and general engineering.

[Sales excluding intra-group transactions constitute 68.4% of this segment's sales.]



- There was healthy growth in the on-site energy service business. Other positive factors included increased operation of LNG vessels managed by Tokyo LNG Tanker Co., Ltd. Segment sales increased 7.6% to ¥252.6 billion.
- Operating income declined by 28.1% year on year to ¥9.6 billion. Reasons included an increase in the initial depreciation costs associated with the on-site energy service business.

Having largely achieved the targets for our five-year plan (fiscal 2003–fiscal 2007) in the first three years, we have now formulated a new medium-term management plan that allows Tokyo Gas to maintain its impetus and capitalize on business opportunities in a rapidly changing business environment. Our aim is to pursue further growth by creating and cultivating new markets for natural gas.

Mitsunori Torihara President

Q: Your appointment as President of Tokyo Gas coincided with the announcement of a new medium-term management plan at the start of the current year, 2006. You must be very determined to ensure that the plan's targets are achieved.

Torihara Competition is intensifying in the Japanese energy market. There is competition between different forms of energy, and between different companies within energy segments. I am confident that Tokyo Gas can continue to achieve growth and success in this business environment by further enhancing its strengths, including its outstanding technological and solid marketing capabilities.

As President, I intend to heed the wishes of all stakeholders, including shareholders and investors. My aim is to build a dynamic management approach based on trust. I am confident that we will be able to maximize our corporate value and enhance the attractiveness of the Tokyo Gas Group.

In April 2006, we took our first step on the path to this future by launching a new medium-term management plan for the period from fiscal 2006 to fiscal 2010. As Executive Vice President, I was deeply involved in the formulation of this plan, the content of which has been refined through repeated cycles of debate and discussion. My involvement in IR activities also dates from my time as Executive Vice President. I have attended numerous meetings with institutional investors in Japan and overseas, and I have had many opportunities to hear the views of investors about our management policies. I believe that those views are properly reflected in our new medium-term management plan. Our new plan is the product of long debate and thought. That process is now over, and the time has come to turn the plan into action.

Tokyo Gas must never betray the expectations and trust of its shareholders and investors. My task is to provide the leadership to ensure that the plan is implemented steadily.

This plan is an important step in our long-term strategy and I will use it to lead the Tokyo Gas Group to sustainable growth in the second decade of the 21st century.

Q: The previous medium-term management plan ended in fiscal 2005. How would you characterize that year?

Torihara We continued to make steady progress with policies contained in our "Frontier 2007", the Tokyo Gas Group's medium-term management plan for the period from fiscal 2003 to fiscal 2007. Fiscal 2005 was the third year of that plan, but our primary management targets were already within reach, and we also needed to adapt to market changes and utilize the business opportunities. We therefore decided to bring forward the transition to our newly formulated medium-term management plan. Fiscal 2005 in effect became the final year of "Frontier 2007". It was an extremely challenging year, mainly because of continuing deterioration in the external environment.

Net income decreased by ¥21.9 billion from the previous year to ¥62.1 billion. The main factor for this decline was a significant rise in the cost of gas resources compared with levels in fiscal 2004, resulting from an upward trend in LNG prices in step with dramatic increases in crude oil prices.

However, we achieved significant successes in our sales operations. Growth in all sectors boosted gas sales volumes by 7.1% year on year to 13.1 billion m^3. This expansion was led by the growth of the industrial and commercial cogeneration stock, which increased by 12% year on year to 1,340 MW.

Another impression from the previous year is that customers now have dramatically higher expectations for natural gas as a fuel providing greater economic and environmental benefits than crude oil, which has remained very expensive for the past year. We also made significant progress with our preparations for this expansion of demand, including the announcement of new pipeline expansion plans. One of these projects is the Chiba-Kashima Line, which is scheduled to start operation in fiscal 2010.

Q: Your previous five-year plan was scheduled to end in fiscal 2007 but was completed in just three years. Please tell us about your achievements under the plan.

Torihara Under the previous medium-term plan, we set quantitative targets for Tokyo Gas Economic Profit, or TEP, which is our version of EVA®, and for ROA, free cash flows and interest-bearing debt. Despite the serious erosion of profit levels by sharply higher gas resource costs led by appreciated crude oil costs, we had largely reached our final targets by fiscal 2005, the third year of the plan. In fact, we exceeded our target for the reduction of interest-bearing debt, and our D/E ratio in fiscal 2005 was significantly improved at 0.77.

We also achieved our target of reducing fixed costs per m^3 of gas sold by around 20%, through corporate restructuring measures designed to improve our cost structure.

"Frontier 2007" also stipulated the purposes for which free cash flows were to be allocated for use. Statistics for the three-year period show that approximately 17% of free cash flows were used for dividends, approximately 20% for stock repurchases designed to prevent dilution resulting from CB conversions, approximately 13% for new investments to expand our business in energy-related areas, and approximately 50% for the reduction of interest-bearing debt.

Compared to when we formulated the five-year plan, we allocated a smaller percentage to new business investment and larger percentages to shareholder returns in the form of dividends and stock repurchases, and the reduction of interest-bearing debt. Reasons for these changes include the fact that we were able to increase the dividend after it became apparent at the end of fiscal 2003 that free cash flows would exceed the level targeted in the plan, and the fact that investment in the electric power business, which accounts for a relatively large share of our business expansion in energy-related areas, was scheduled for the second half of the plan period. There has been no change in policy on the allocation of free cash flows.

The greatest achievement of "Frontier 2007" was the realization of our vision of Tokyo Gas as an energy frontier business group capable of generating added value not only from natural gas, but also from other energy forms and energy-related activities. I believe that we have built a solid foundation for our future growth. Of particular significance in the energy service business was our decision to integrate the operations of ENERGY ADVANCE Co., Ltd., with those of Tokyo Gas Co., Ltd. By the end of fiscal 2005 we had signed 125 contracts for capacity amounting to 226 MW, which is the highest performance in Japan.

In addition to this expansion of our energy-related business operations, we have also enhanced our presence throughout the natural gas value chain through our involvement in upstream projects, transportation and other areas. Tokyo Gas has made significant progress toward its next stage of development.

Q: What factors led to the formulation of the Tokyo Gas Group's new medium-term management plan, and what are the aims of the plan?

Torihara We have already made significant progress toward the realization of our vision for the future of Tokyo Gas under "Frontier 2007." However, the environment in which Tokyo Gas operates has changed dramatically over the past few years.

Natural gas is seen increasingly as an environmentally friendly form of energy to combat global warming, and the relative advantage of the price of natural gas have increased because of rising crude oil prices. The geographical extent of energy market is expanding, and new areas of demand are apparent. At the same time, deregulation has caused further intensification of competition between energy forms and companies in the market for large-volume energy supplies. We also face greater challenges in the market for regulated supplies for residential and commercial sectors. In addition to the decreasing trend of gas sales of each household due to decline of the number of people per household as well as more energy efficient appliances, aggressive all-electric promotion has intensified sharply.

Our medium-term management plan for the period from fiscal 2006 to fiscal 2010 is an action plan designed to enhance our competitiveness by anticipating changes in our business environment so that we can capitalize on business opportunities. The aim of the plan is to create and cultivate new markets for natural gas. We will go beyond "Frontier 2007" to create a broad-based profit structure in the energy sector.

I see this plan as an important step in a long-term strategy focusing on the future of the Tokyo Gas Group in the second decade of the 21st century. We need to concentrate our management resources and focus our efforts on aggressive investment. I am convinced that by achieving the goals of this plan we can ensure a future of sustainable growth for the Tokyo Gas Group. To do this, we must build up the abilities of the entire Tokyo Gas Group in a determined drive to strengthen our competitiveness at the organizational, marketing, technological and service levels.

Q: What are the key strategic points of your new medium-term management plan?

Torihara Our vision of the Tokyo Gas Group as the leading company in a total energy business beyond 2010 will require sustainable growth driven by solid competitiveness. To achieve this, we will use the strength of our global LNG value chain, which encompasses all stages from upstream to downstream, to provide our customers with wide-ranging value and services. We also intend to expand our services across an area within a 200 km radius around Tokyo in the Kanto region.

Specifically, we will work to meet the diverse needs of our customers through a multi-energy supply including city gas and electricity. We also aim to establish a one-stop energy service structure capable of providing the optimal mix of appliances and systems. By further expanding and enhancing our presence in the LNG value chain, we will transform the Tokyo Gas Group into a business structure with a broad earning base and the ability to translate a competitive advantage in the energy sector into profitability and high growth.

On the earning side, we estimate a 15.3% growth in total sales by fiscal 2010, as compared with fiscal 2005, and we also aim to achieve further cost savings. Our target is a 20% reduction in fixed costs per m^3 of gas sold by fiscal 2010, as compared with fiscal 2005*. We estimate that by achieving these goals we can lift our EPS to ¥38.2 by fiscal 2010, the final year of the current medium-term management plan. Of course, there can be no final goal for cost reductions. We will strengthen our corporate structure, build a more robust earning base and maximize our profits will continue after 2010.

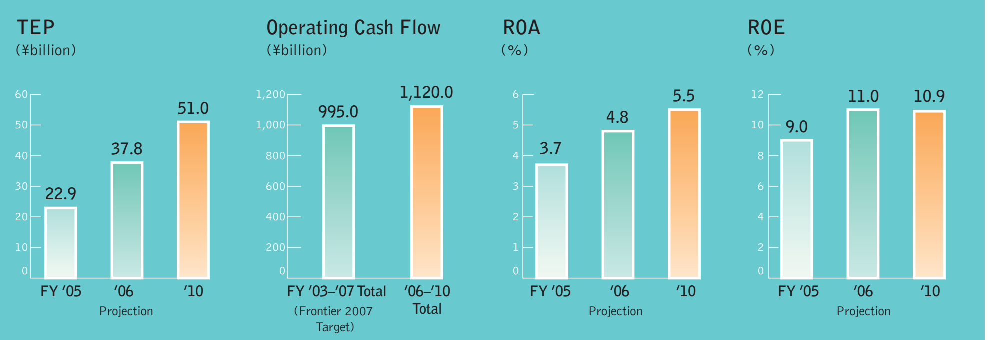
*Compared with projections of fiscal 2005 made in the medium-term management plan.

Q: What are your views on cash flow allocation strategy and financial strategy?

Torihara Financial strategy is as important to our future as business strategy. We will allocate cash flows of ¥1,190 billion to the implementation of our business strategy, including total operating cash flows of ¥1,120 billion over a five-year period, as well as ¥70 billion in other cash flows.

We will invest ¥860 billion in the whole of our core total energy business. Approximately 39% of this amount will be allocated to demand development, including investment in pipelines to increase

Meeting Management Targets Ahead of Schedule



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

Operating cash flow = net income + depreciation

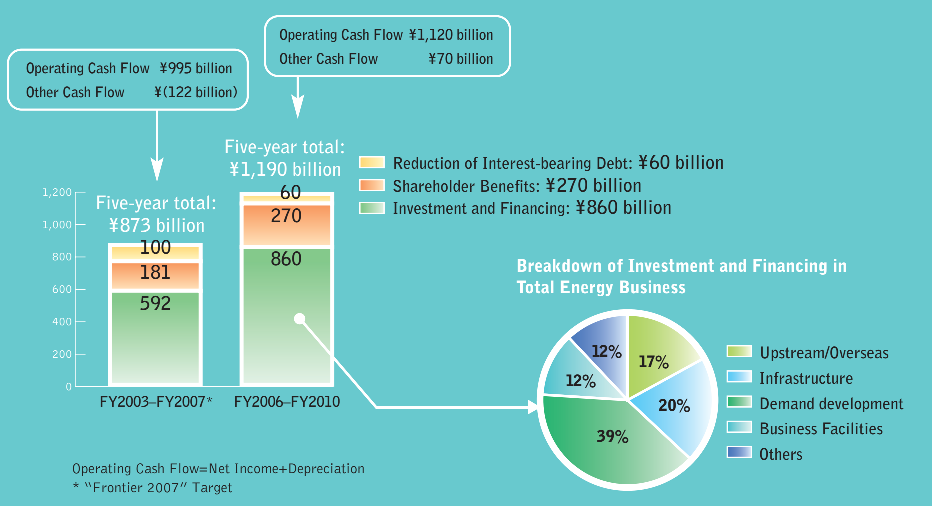
ROA = net income/total assets (average of positions at start and end of fiscal year)

ROE = net income/total shareholders' equity (average of positions at start and end of fiscal year) the gas sales volumes and the expansion of electric power business and energy services business. We will also invest in infrastructure development in readiness for future demand growth. Investment allocations will include 20% for infrastructure for pipelines and safety and approximately 17% for participation in upstream interests, LNG tanker construction and other priorities. We plan to allocate a total of ¥270 billion to shareholder returns over the next five years in order to regulate the total payout ratio to our shareholders (dividends plus stock repurchases divided by current net income). The reduction of interest-bearing debt was a key management issue under our previous medium-term management plan. As a result, our D/E ratio had reached 0.77 by the end of fiscal 2005. From a financial leverage perspective, I believe we have emerged from the rigorous reduction stage, and we are aiming for a reduction of ¥60 billion under the new medium-term management plan.

We have set four management targets: (1) ROA of 5.5% by 2010, (2) ROE of 10.9% by 2010, (3) Tokyo Gas Economic Profit (TEP, the Tokyo Gas version of EVA®) of ¥51 billion by 2010, and (4) total operating cash flows of ¥1,120 billion for the five-year period. During periods of active investment, maintaining a good ROA is an indicator of our ability to raise assets efficiency through investment while also placing appropriate weight on profitability. We aim to raise this indicator by 1.8 points from the fiscal 2005 result of 3.7%. Our ROE target represents an increase of 1.9 points from the fiscal 2005 result of 9.0%. Our aim is to build an appropriate capital structure, despite the conversion of convertible bonds during the period covered by the plan. Our TEP target will require an increase of ¥28.1 billion compared with the figure for fiscal 2005. Capital costs will remain a key focus as we work to achieve this. To generate operating cash flows of ¥1,120 billion during the five-year period, we will work tirelessly to increase our income.

To enhance our financial soundness, we intend to maintain and improve our fund procurement ability. At the same time, we will seek to reduce our D/E ratio to 0.51 by fiscal 2010. However, we have already made considerable progress with the reduction of our interest-bearing debt, so I am prepared to be flexible with this numerical target.

Basic Policy on Cash Flow Allocation (5 years)



Operating Cash Flow=Net Income+Depreciation
* "Frontier 2007" Target

Q: What are your thoughts on shareholder dividend allocations?

Torihara We intend to allocate a total of ¥270 billion to shareholder returns over the five years covered by our current medium-term management plan. For the first time we have announced the concept of a "total payout ratio" as an indicator of our position on profit distribution. Our target for this ratio, which is calculated by dividing the sum of dividends and stock repurchases by net income*, is 60%. We aim to meet shareholder expectations by raising both our profit level and per-share value. We have reached this position after talking to numerous shareholders and investors and considering how to meet their expectations as a company involved in a regulated utility business. I believe that, at present, this is the best way to meet the expectations of all stakeholders, including our customers and shareholders.

Stock repurchases have traditionally been used as a way of counteracting the dilution effect that occurs when convertible bonds are converted into shares. In the future, we intend to use this method primarily as a way of achieving a genuine improvement in corporate value, including the redemption of stock.

*Total payout ratio of year n = [(dividends from unappropriated profit in year n) + (amount of treasury stocks acquired in year n + 1)] / (consolidated net income in year n)

Q: Tell us about your vision for Tokyo Gas in the approach to the second decade of the 21st century?

Torihara As President of Tokyo Gas, my task is not only to implement our new medium-term management plan effectively and reliably, but also to maintain the status of Tokyo Gas as a company that is trusted and preferred by shareholders and investors, as well as customers, society and communities. My vision is based not just on short-term economic value, but on sustained long-term growth achieved through the continuing enhancement of our brand value, which is built on our long-accumulated expertise in security, safety and reliability. In addition to accelerated growth driven by the steady implementation of the business and financial strategies that I have outlined, I believe our reliability as a company is also extremely important to our future success.

I aspire to make Tokyo Gas corporate culture even more transparent and open. The changes made last year to our officer remuneration systems were part of this process. Meetings of our Board of Directors, which includes outside corporate directors, have become forums for lively debate. To ensure prompt, appropriate management decision-making, we have established an investment assessment committee to screen each investment proposal thoroughly.

Our new medium-term management plan includes strategies designed to create a foundation for strong growth performance in the period to 2010 and beyond. We began to put these strategies into effect on April 1, 2006, and must now maintain this momentum.

I intend to focus my greatest efforts on the following areas: First, we will target overall Group optimization. All of our business segments are linked to the LNG value chain, and I intend to ensure that Group optimization remains a continual focus in relation to the allocation of management resources, including personnel and money, so that we can achieve our full potential as a company.

Second, the Tokyo Gas Group will restructure its marketing scheme by strengthening the local roots. Our greatest asset is a customer base consisting of over 9.8 million customers. We aim to improve our services and reliability by building an integrated operational structure encompassing the various tasks handled by Tokyo Gas itself, its local agents, such as Enesta and Enefit, and Group companies involved in customer service and other areas.

Third, as President of Tokyo Gas, I am determined to ensure our success in this rapidly changing environment by making sustained progress toward the creation of a broad-based profit structure for the decade after 2010. We will also work to maximize our business opportunities by evolving from a conventional gas business into a total energy company, and seek to create and cultivate new markets for natural gas.

The path ahead will not be smooth. However, I am convinced that we can achieve sustainable growth by living up to the expectations and trust of all stakeholders. I approach my management role with a strong determination and commitment to the future success of Tokyo Gas.

Mitsunori Torihara, President

Creation and Cultivation of New Natural Gas Markets

Deregulation has started to drive escalating competition across industry segments in the market for industrial and commercial use. Tokyo Gas also faces increasing competition in the residential energy market. We see the advent of free competition as an opportunity for the Tokyo Gas Group to evolve into a total energy company. We aim to use the economic and environmental advantages of natural gas as the basis for the creation and cultivation of new markets. Our strategic assets include our strategic LNG value chain, which covers all stages from resource development to supply and services, and our advanced technology and solutions.





For Residential Customers

Expanding the One-stop Energy Service to Residential Customers

Deep Cultivation of the Residential Market

By expanding the number of customers in the residential sector, Tokyo Gas secures sales volume while also building further demand by promoting its business. Over the past few years, falling birthrates have resulted in a decline in the average number of people per household. In addition, more and more people are living in apartment-type housing with superior heat insulation and draught-proofing. These structural factors all make it more difficult to avoid a decline in the volume of gas sold per household.

Tokyo Gas is working to minimize the decline in gas sales volumes in the residential sector by increasing the percentage of households installing strategic products, such as floor-heating and mist saunas. We are also introducing and promoting attractive charge options to stimulate increased use of products already installed in customers' houses, such as TES floor-heating systems. We will try to increase the gas sales volume by capturing residential power demand through the promotion of home power generation.

Focusing on Strengthening Marketing Abilities

Japan's population began to shrink in 2006. A strong marketing scheme is needed to attract more customers and achieve sustainable growth in the residential sector. Tokyo Gas already has important marketing capabilities, and we intend to strengthen our systems still further.

We are strengthening our client marketing systems and systems targeting local building firms to reach as much of our target market as possible. We are also working to attract new customers by encouraging them to convert from other types of fuel, such as LPG. At the customer level, we plan to restructure and centralize appliance sales, maintenance services, safety services and other marketing and sales functions and develop regionally focused marketing approaches to provide a fine-tuned response to lifestyle diversification and changing needs. Through these strategies, we will improve our marketing coverage and enhance our ability to meet market needs by providing one-stop access to the products and services sought by customers.

There is growing competition from companies offering all-electric household systems. Tokyo Gas is countering this competition with effective marketing of a range of strategic products, including our "Pipitto Konro" gas cooktops and our highly efficient water heaters, the "Eco-JOES." We aim to increase the use of gas appliances by promoting the comfort and their economic, environmental and energy advantages of the products.

Capturing Residential Electric Power Demand with Upcoming "Power Generation in the Home"

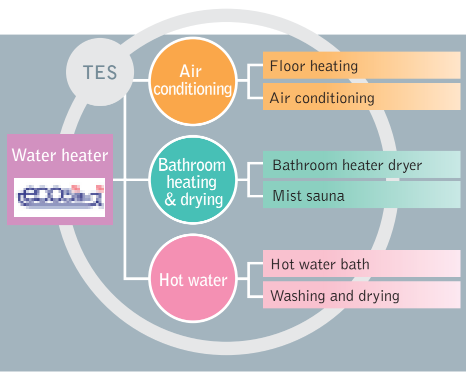
Tokyo Gas has introduced important new assets for its efforts to expand demand and counter the trend toward all-electric households: the LIFUEL fuel cell cogeneration system, and the ECOWILL gas engine cogeneration system. We plan to advance marketing activities for these systems under a project group setup.

We are currently marketing LIFUEL and ECOWILL systems to customers in newly built detached houses. Starting in fiscal 2007, we will expand the scope of marketing for ECOWILL systems to include existing homes. Marketing of LIFUEL will begin in earnest in the second half of fiscal 2008, following the introduction of a next-generation system with improved durability and economic performance. We plan to sell 43,000 LIFUEL and ECOWILL systems by fiscal 2010.

We estimate that households with in-house power generation systems, such as LIFUEL and ECOWILL systems, will use an average of 1,200 m^3 of gas per year. This represents an increase of 300 to 400 m^3 compared with existing systems. Because the number of households with these systems is still small, the impact on overall gas sales is marginal. However, we are very confident that this factor will make a major contribution to growth in residential sector gas sales volumes in the future. Tokyo Gas has also commenced studies concerning energy services for condominiums. We would provide cost-effective energy solutions that would combine energy-efficiency with enhanced comfort. The packages would include TES and new products and services. There would also be cogeneration facilities installed and owned by Tokyo Gas, and we would supply residents with electric power from these systems in conjunction with grid-connected electric power systems.

What kind of system is TES?

TES (Tokyo Gas Eco System) is a single system that can supply hot water for all household systems, including floor-heating, hot-water faucets, bathroom heater-dryers, and mist saunas. These systems are economically designed to heat just the required amount of water instantly. They are also extremely compact to save valuable space. More than one million households already use TES and Tokyo Gas is focusing on spreading TES in the residential sector.




Lifestyle solutions
Strong marketing
Residential cogeneration
TES over 1 million households

For Industrial and Commercial Customers

Tokyo Gas is a Trusted Business Partner across the Entire Energy Sector

An Advantage Based on Sophisticated Engineering Expertise and Solutions

To meet the changing and increasingly diverse needs of industrial and commercial customers, Tokyo Gas offers long-accumulated engineering expertise including combustion technology as well as the ability to provide wide-ranging solutions and value backed by reliable support systems. Though many new entrants are moving into the gas business, Tokyo Gas enjoys an overwhelming competitive advantage. For the industrial sector, Tokyo Gas is promoting its cogeneration systems based on advanced combustion technology to attract customers to switch from other fuels to natural gas.

For the commercial sector, we introduced in 2005 a segment-based marketing structure that supports powerful marketing activities based on specialized knowledge. Despite escalating competition in the commercial kitchen market, we have been able to expand our orders over the past few years by accurately and effectively promoting our superior technology to customers.

Highly Competitive Multi-energy Supply Using In-house Power Generation Capacity

Tokyo Gas offers one-stop, multi-energy solutions, including city gas, heat, steam and electric power, to meet the needs of its customers. In addition to cogeneration systems, which efficiently generate both heat and electric power, Tokyo Gas is also able to provide grid-connected power from its own generation systems as a back-up source of electric power. We have built a power plant on previously unused land to create our own generation capacity in anticipation of future demand for electric power. The power plant is equipped with advanced combined cycle technology to support highly efficient, competitive power production. Tokyo Gas Bay Power Co., Ltd. currently operates a 100 MW power station at the Sodegaura Terminal. A 240 MW facility operated by Tokyo Gas Yokosuka Power Co., Ltd. became operational in June 2006, to be followed by an 800 MW facility operated by Kawasaki Natural Gas Power Generation. In 2008, there are also plans for a 1,200 MW facility to be operated by Ohgishima Power. Environmental assessment work for this project is currently in progress. Tokyo Gas is now able to supply its customers with one-stop access to a wide range of energy requirements, including LNG and LPG.

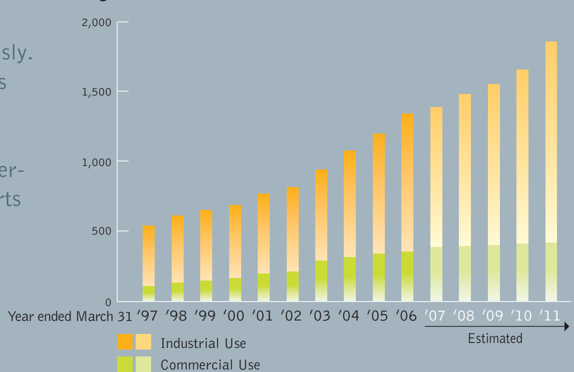
Expansion of Energy Service with Cogeneration Systems at the Core

As competition in the energy sector intensifies, Tokyo Gas endeavors to fully develop its multi-energy supply capabilities. Tokyo Gas has expanded its collaboration with ENERGY ADVANCE Co., Ltd., a wholly owned subsidiary, and is aggressively marketing its products and services at the same time as it strives to develop the best mix of energy and distribution systems. Moreover, by combining power supplied from its own substantial generation capacity with on-site generation, Tokyo Gas is able to make optimal proposals to various customer needs in the areas of comfort, economic merit, energy conservation and environmental performance.

Growth of Cogeneration Stock

Cogeneration systems use city gas to produce heat and electric power simultaneously. In addition to the economic benefits of reduced energy consumption, these systems are also seen increasingly as having the potential to contribute to the reduction of environmental problems. Tokyo Gas has achieved volume growth in gas sales by demonstrating the benefits of these systems for customers in industrial and commercial sectors. Cogeneration technology is an important asset in our continuing efforts to inform customers about the advantages of natural gas while helping them to achieve the best energy mixes that include in-house power generation.

Cogeneration Stock (MW)




LNG expertise
Multi-energy supply
Power generation
Cogeneration Stock
1,850MW
in FY 2010

Wide-area Development

Expanding the Market for the Total Energy Business

Aggressive Pipeline Investment for Developing Demand

Energy demand is still growing in the Kanto region, which accounts for around 40% of Japan's GDP. Tokyo Gas is responding to this demand through aggressive investment in its pipeline network, on the basis of detailed demand research and assessments of investment returns.

In November 2005, we completed the 69 km Tochigi Line linking Sano and Utsunomiya across the northern part of the Kanto region. Sales of natural gas to large-volume customers in this area have already commenced. The new pipeline was constructed to meet the growing needs of customers in the region's expanding industrial parks and strengthen supply. Our estimates indicate that we will be able to tap potential new demand of around 400 million m^3 annually. We have also decided to build a new Chiba–Kashima Line to meet demand growth in the Chiba and Ibaraki areas, where industrial demand has been expanding. We will invest ¥26 billion in construction of approximately 73 km of pipeline. Completion is expected in fiscal 2010.

Enhanced Environmental and Price Advantages of Natural Gas

Natural gas is the most environmentally friendly product among conventional fossil fuels. Large-volume customers are starting to convert to natural gas for both economic and environmental reasons. Furthermore, the relative advantage in price has increased, due to sharp rises in crude oil prices in recent years. This has also started to attract interest from customers who use other fuels, resulting in increasing demand for the installation of city gas facilities.

Tokyo Gas is responding to this trend by aggressively marketing cogeneration systems, especially its mainstay range of systems with medium- and large-capacity gas engines. Our strategy in this area is to attract new customers by promoting our advanced energy conservation and combustion technologies, and our ability to develop front-line solutions to meet the needs of our customers. In 2007, the Japanese government will expand the scope of energy sector deregulation. We are already preparing for this change by actively building and strengthening the relationship of trust with customers with a total annual demand below 500,000 m^3.

Enhancing the wide-area infrastructure	Enhancing the base for stable supply
■ Chiba–Kashima Line (FY2010) ■ Gunma Line (FY2010) ■ Minami–Fuji Line (FY2006)	■ Central Line (FY2009) ■ New-Negishi Line and Yokohama Line Phase II (FY2013) ■ Kisarazu Line (FY2008)

Diversified Formats for Natural Gas Sales in the Kanto Region within a 200 km Radius around Tokyo

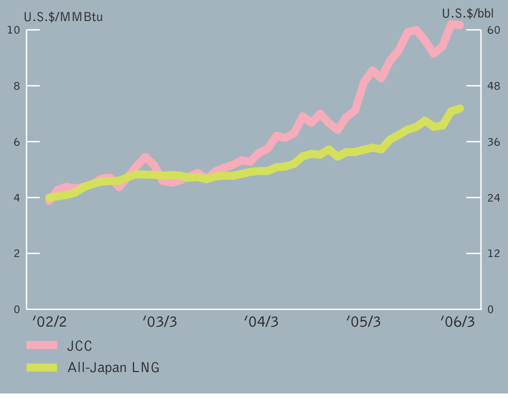
When Tokyo Gas constructs a new pipeline, it uses the concept of internal rate of return (IRR) as its standard for determining the number of years required to achieve a return on its investment. Only investments that satisfy this criterion are implemented. However, customers whose locations are remote from our pipelines may also wish to use natural gas. In these cases, we transport gas using trucks. This flexibility allows to meet the needs of customers and access the huge potential demand that still remains untapped in the area within a 200 km radius around Tokyo in the Kanto region.

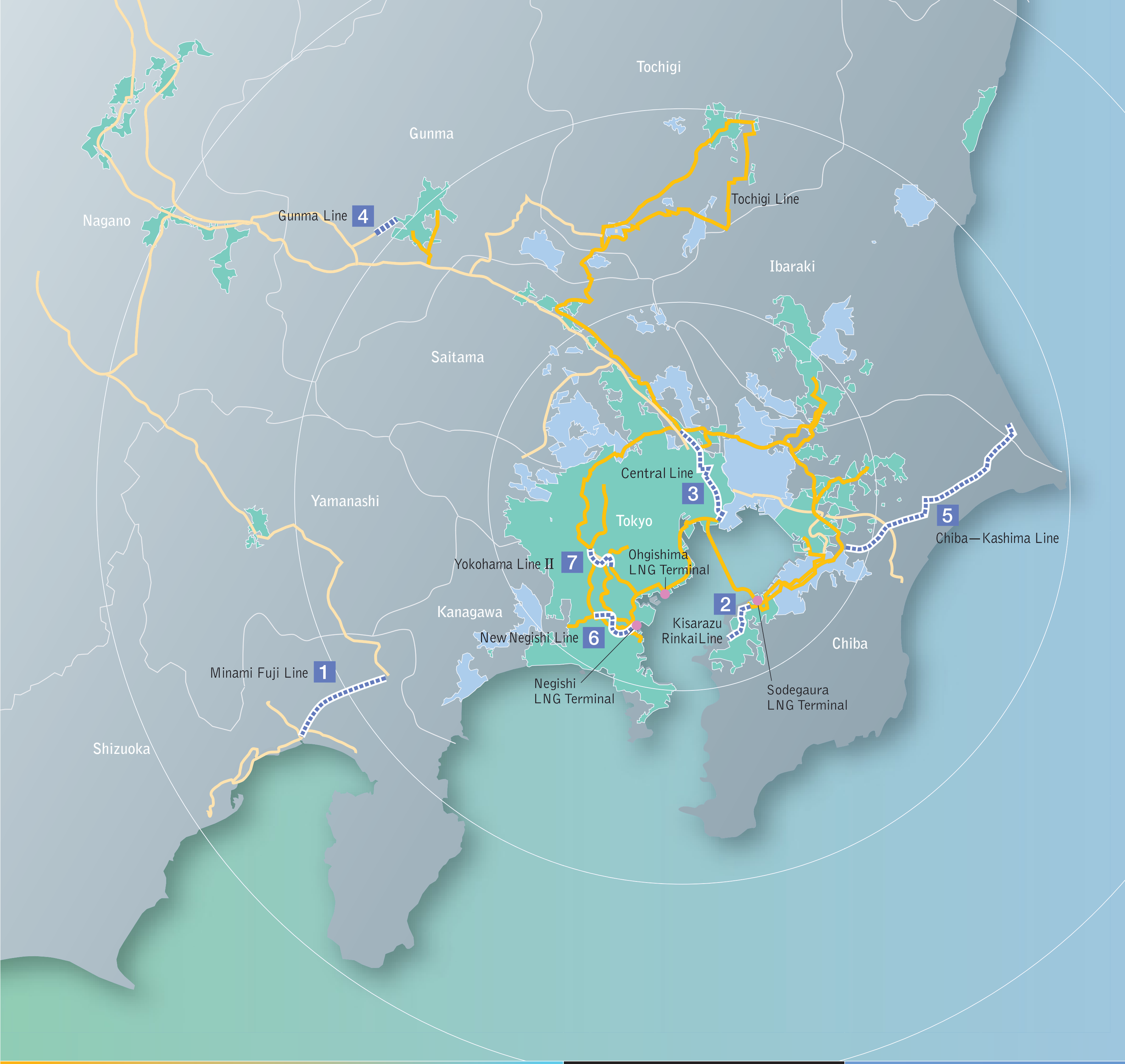
Loading an LNG tanker truck

LNG's Growing Price Advantage

LNG prices are determined primarily according to crude oil prices, such as the Japan Crude Cocktail (JCC) price or the Indonesian Crude Price (ICP). While persistently high crude oil prices have resulted in higher LNG prices, the percentage increase has been small compared with the crude oil price increase. This is because the pricing formula includes mechanisms designed to ease the effect of crude oil price movements.

All-Japan LNG/JCC Prices

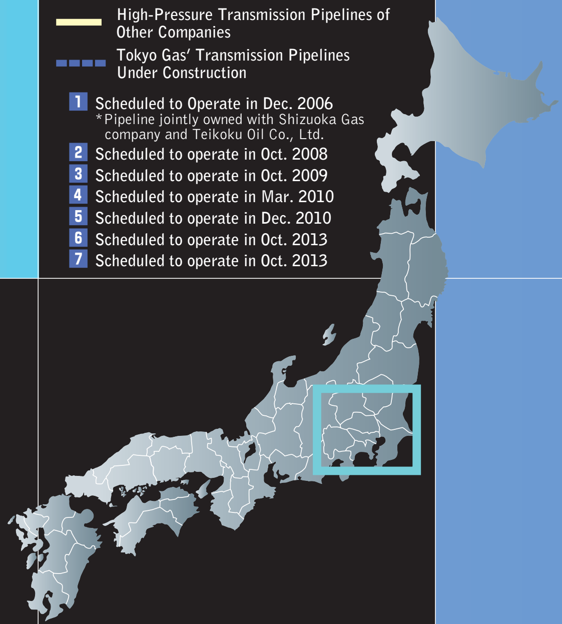




Expanding Services within a 200km Radius around Tokyo

- Tokyo Gas Group's Service Area
- Service Areas of Wholesale Customers
- Tokyo Gas' High-Pressure Transmission Pipelines
- High-Pressure Transmission Pipelines of Other Companies
- Tokyo Gas' Transmission Pipelines Under Construction

1 Scheduled to Operate in Dec. 2006
*Pipeline jointly owned with Shizuoka Gas company and Teikoku Oil Co., Ltd.
2 Scheduled to operate in Oct. 2008
3 Scheduled to operate in Oct. 2009
4 Scheduled to operate in Mar. 2010
5 Scheduled to operate in Dec. 2010
6 Scheduled to operate in Oct. 2013
7 Scheduled to operate in Oct. 2013



Procurement of Gas Resources

Gas Resource Procurement Strategy is Solidifying our Business Structure

Focusing on Competitive LNG Procurement

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

We are endeavoring to procure more competitive LNG from diversified sources, such as greenfield projects including Darwin Project, which started delivery in January 2006, and Sakhalin II Project, expected to launch between fiscal 2006 and fiscal 2010, as well as Gorgon and Pluto Projects in Western Australia, scheduled to commence after 2010. We will fully exercise our bargaining power based on the prospect of steady demand growth and realize flexible and stable LNG procurement. LNG prices are linked to crude oil prices. However, the current price regime includes a mechanism to alleviate the impact of fluctuating crude oil prices. Tokyo Gas has taken additional steps to limit dramatic price fluctuations, through adopting a pricing formula that is less sensitive to oil price movements.

Reducing Transportation Costs by Using Our Own Fleet

Regarding LNG transportation, Tokyo Gas currently operates a fleet of four vessels, including ships dedicated for projects. We will increase the number of vessels to seven by fiscal 2010, and to nine thereafter. Our goal is to reduce transportation costs by increasing the percentage of company-owned vessels by around 50% by fiscal 2010.

Because it operates its own LNG vessels, Tokyo Gas is not limited to transportation based on long-term contracts. It will be able to reduce gas resource costs and further improve its flexibility by taking advantage of opportunities to procure LNG through short-term and spot transactions. Tokyo Gas also plans to diversify into LNG trading and transportation services for third parties, when it is appropriate in the context of LNG market trends.

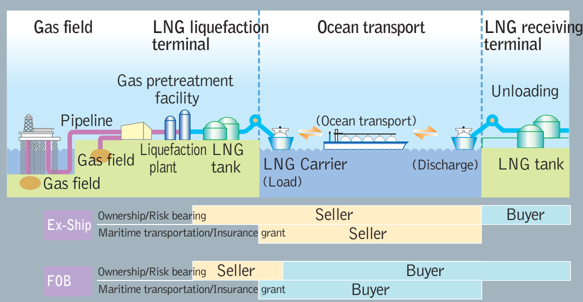
Measures for Aggressive Acquisition of Upstream Interests

In 2003, Tokyo Gas and Tokyo Electric Power Co., Ltd. jointly acquired a 10% interest in the Bayu-Undan Project in Australia (1:2 basis). Furthermore, we are currently involved in negotiations concerning participation in the Gorgon and Pluto Projects. In addition to income opportunities, participation in upstream projects allows natural hedging of price fluctuation risks. Another advantage is relatively early access to upstream information, which is essential to procurement activities. There is also increased potential for business opportunities in such areas as trading.

By expanding its business activities along the entire LNG chain, Tokyo Gas aims to establish a position for itself as a total energy company, to improve the competitiveness of its procurement activities, and to secure new business opportunities.

Ex-Ship/FOB

Goods are traded under various terms and conditions. With the delivered ex-ship (DES) system, ownership and risk are transferred at the point of landing (LNG terminal). Under this method, the seller arranges and pays for freight and insurance. With the free on board (FOB) system, ownership is transferred at the point of loading (liquefaction terminal), the buyer arranges and pays for freight and insurance. There is also the cost, insurance and freight (CIF or C&F) system, whereby ownership and risk are transferred at the point of loading for a price that includes the cost of insurance and freight, which are arranged by the seller. Tokyo Gas intends to expand its use of FOB transactions with the aim of further reducing gas resource costs by minimizing freight costs.



Competitive procurement

After FY 2010, Tokyo Gas will reach a fleet size of **9 ships**

Value-chain extension

Technology Development to Enhance Competitiveness and Contribute to Total Energy Businesses

Strategic and Platform Technology Development

Tokyo Gas broadly divides its technology development activities into strategic technology development and platform technology development. Strategic technology development focuses on areas that contribute to the evolution of a total energy business with natural gas as its core area, while platform technology development has as its goal the creation of basic technologies that will help to improve competitiveness while also ensuring social needs, including safety, security and the environment.

Priorities for strategic technology development include the development of highly efficient fuel cell systems, including PEFC and SOFC systems, and cogeneration systems based on high efficient gas engines as well as technology for biomass energy, which is renewable. This work aims to contribute to the evolution of Tokyo Gas as a total energy company, one of the goals defined in our medium-term management plan. We are also developing technology for advanced microgrid "holonic energy systems," which have the potential to contribute not only to energy conservation and the reduction of CO_2 emissions, but also to the improvement of supply stability. Demonstration testing will start in the current fiscal year.

We are also developing new gas appliances and services to meet potential social needs. For example, we are continually improving the performance of gas cooktops and other appliances and developing convenient energy-related services. Another important goal for our technology development activities is the proposal and dissemination of ideas about new ways to use gas to enhance the quality of life while helping to protect the environment.

Platform technology development is targeted toward the improvement of technology used in the construction, maintenance and management of infrastructure, especially pipeline networks, as part of our continuing efforts to ensure that natural gas can be supplied safely to our customers while continuing to improve competitiveness through cost reductions. Through this work, we are helping to improve platform technologies in areas of fundamental importance to Tokyo Gas, especially gas quality management and combustion engineering, and ensure that they are passed on to future generations.

Technology Development system Linked with Business Strategy

Under a new structure introduced in fiscal 2006, all technology development activities, from strategy formulation to project implementation, have been integrated under the Technology Development Division. We also use a "sponsorship" system, under which corporate divisions and strategic business units commission and pay for R&D projects. This approach ensures close collaboration and a strong linkage between technology development and business strategy.

Despite a downward trend in R&D expenditure over the past few years, there has been no reduction in R&D activities. Instead, the effectiveness of R&D is being enhanced by modifying approaches to technology development and focusing resources on key areas.

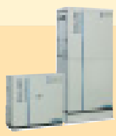
Technology Development Strategies

Strategic Technology

【Commercial equipment, industrial equipment, new services】
- Development of kitchen and water heating equipment
- Development of new energy service content, etc.

【Home appliance and new services】
- Development of enhancements, expansion of line-up
- New product planning and development, etc.

【PEFC (Polymer Electrolyte Fuel Cell)】
- Development of LIFUEL enhancements (improvements in functions and efficiency, etc.)



【Cogeneration systems/ air conditioners】
- Development of high-efficiency gas engines
- Development of technologies that utilize exhaust heat

【Natural gas vehicles】
- Further development/ enhancing existing lineups

Holonic Energy System
- Expansion of microgrid
- Realization of Holonic Energy Society

【SOFC (Solid Oxide Fuel Cell)】
- Development of high-efficiency fuel cell systems and improvement of durability

【Hydrogen】
- Development of high-efficiency hydrogen production system

【Green energy】
- Development of efficient biomass utilization technologies

【New usage】
- Development of diagnostic medicines that use stable isotopes

Understanding customers, disseminating lifestyle culture
Gathering accurate data about changing consumer needs, generating new needs next line through the dissemination of cultural ideas

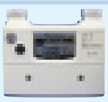
Platform Technology

Business infrastructure

【Production】
- Long-term facility maintenance
- Qualitative improvement of terminal operations and others

【Pipelines】
- Maintenance of security level and optimization of security investment

【Gas Meter】
- Development of services based on new technologies, such as ultrasound gas flow meters



Helping to create future visions through the exploration of new technologies

Technology infrastructure

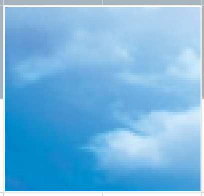
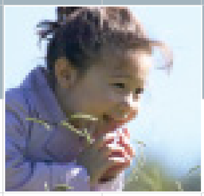
【Platform technology】
- Maintaining and enhancing the Tokyo Gas brand through the use of platform technology, including infrastructure-related technology, combustion engineering technology and gas quality management technology.

【Actuarial assumption and energy information】
- Marketing and management support through data analysis, system analysis and modeling methods

web For more information on our technology development activities, please see the Tokyo Gas website: http://www.tokyo-gas.co.jp/techno/index.html

Fulfilling our Commitment to Corporate Social Responsibility

The Tokyo Gas Group has an important social mission as a corporate group dedicated to the vital task of supplying the energy needed for industrial activities as well as for day-to-day living. We must also remain acutely focused on the need to meet the expectations of our shareholders and investors by continuing to achieve growth. We are working actively to enhance the value of the Tokyo Gas Group for all stakeholders, including customers, shareholders, investors and society, by fulfilling CSR activities, including a strengthening of our corporate governance and promotion of compliance.

Corporate Governance

Our Fundamental Concept of Corporate Governance

The Tokyo Gas Group aims to achieve a continuous increase in corporate value and ensure management soundness and transparency. To this end, we are strengthening our corporate governance in accordance with clear targets.

Energy supply systems are vital to the social infrastructure. The profound awareness of our special role as a supplier of energy has been reflected in a continuing commitment to the safe, reliable supply of city gas, and to fairness in the provision of our services. We are keenly aware of the need to give priority to shareholder interests, in keeping with our role as a joint stock company. This renewed awareness reflects increased inter-company competition following the deregulation of the energy sector, as well as the globalization of the capital market.

Our emphasis on shareholder interests is not incompatible with the continuing fulfillment of our responsibilities as an utility company. In recent years, public interest in corporate social responsibility has become so intense that the economic and social values of a company are now inextricably linked. By responding to the expectations of our customers, employees, business partners, communities and stakeholders, ultimately we also fulfill the needs of our shareholders. Our corporate value is the overall sum of the value that we provide to all stakeholders.

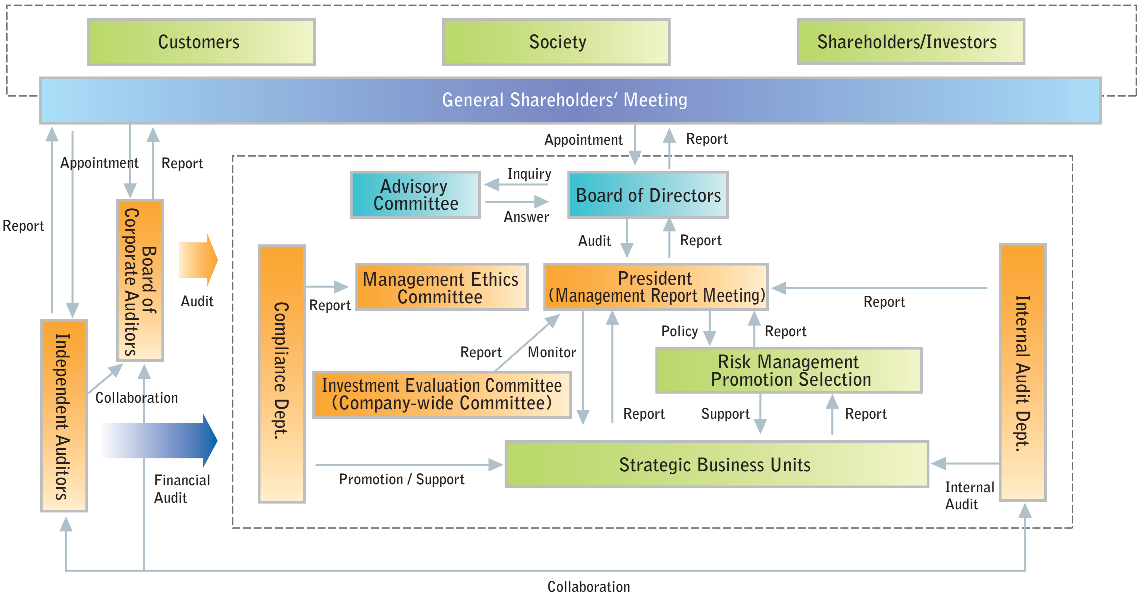
For Tokyo Gas, the purpose of corporate governance is the continual refinement of internal systems designed to maintain continual growth in corporate value by monitoring corporate activities so that any issues can be detected and remedied.

Initiatives for Strengthening Corporate Governance

Progress toward Liberalization

Continuous growth in corporate value	Management strategy	**Announced in October 1999** Medium-term management plan for 2000–2004: "New Utility Company" **Announced in October 2002** Medium-term management plan for 2003–2007: "Frontier 2007" **Announced in January 2006** Medium-term management plan for 2006–2010: "Creation and Cultivation of New Natural Gas Markets"
Continuous growth in corporate value	Organizational Structure	Regional business division system **June 1999-** Strategic business division system – • Strategic management structure capable of responding quickly to market trends **April 2004-** Strategic business unit system • Building of group management system • Maximization of group corporate value
Ensuring sound, transparent management	Management Structure	**July 1998-** Reinforcement of Management Meeting (abolition of Senior Management Committee and Senior Management Liaison Committee) **June 2002-** Management structure reform • Reduction of regular number of directors from 30 to 15 • Appointment of outside directors • Introduction of executive officer system • One-year term of office **June 2005-** Reform of officer remuneration system • Formulation and disclosure of basic policy • Abolition of retirement benefit system, and other measures
Ensuring sound, transparent management	Internal Governance	**June 2002-** Reinforcement of internal audit structure **November 2002-** Reinforcement of compliance system • Establishment of Management Ethics Committee • Establishment of Compliance Department **April 2004-** Reinforcement of risk management system
Ensuring sound, transparent management	Information Disclosure	**June 1998-** Establishment of specialist IR organization **July 1999-** Involvement of top management in IR activities **June 2001-** Start of overseas IR activities **April 2003-** • Earlier publication of business results • Introduction of quarterly disclosure **April 2004-** Consolidated accounting for all companies (All 51 companies in consolidation) **July 2005-** Publication of CSR Report

Corporate Governance Structure



Management Structure

Functions of the Executive Officer System

Growing awareness of the importance of corporate governance has prompted many companies to modify their management systems. Since 2002, Tokyo Gas has implemented a dynamic reform program designed to build an efficient and flexible management structure. In June 2002, we became the first company in the city gas sector to introduce an executive officer system based on a clear division between management and executive functions. Responsibilities are also clearly defined, and by delegating substantial authority to the executive officers we have created a structure that allows speedy executive action on operational issues.

23 executive officers, including the President and division chief executives, have been appointed as executive officers (as of July 1, 2006). To ensure accountability for executive actions, all have been appointed for a term of one year. All officers at the executive officer level and above, with the two corporate auditors, gather to discuss important management issues at weekly management meetings. After in-depth discussion, the President makes immediate decisions. These meetings provide opportunities for exchanging views among divisional chiefs, who have executive authority for their respective operations. Because decisions are made on the spot, these meetings tend to be lively and energetic.

Directors and Corporate Auditors

When Tokyo Gas adopted its executive officer system, it also halved the number of directors from 30 to 15 to speed up decision-making. In addition to curtailing the size of the Board, we also began to appoint outside directors to enhance management transparency and strengthen our ability to supervise operations. As of July 2006, the Board consists of 12 directors, including three outside directors. The presence of outside directors with specialized expertise and diverse backgrounds and ensures that there is always active debate at board meetings.

Management actions are also checked by two corporate auditors and three outside auditors. These five auditors conduct stringent internal audits.

Apart from the Chairman and Vice Chairman, vice chairman and senior corporate advisor, the other six directors appointed from within Tokyo Gas are also involved in operations at the executive level. In addition to the directors, board meetings are attended by the internal and outside auditors.

Throughout the business world, there has been considerable debate over the relative merits of the committee system and the auditor system as suitable structures for reinforcing corporate governance. Tokyo Gas currently operates as a company with auditors, as we believe that this is the optimal method for attaining our corporate governance objectives, which are to ensure sound, transparent governance while achieving sustainable growth in corporate value. While our auditors do not have voting rights, they can speak freely and raise questions about management decisions. They are able to view our activities objectively and from a broader perspective, and their input helps to guide our decision-making in appropriate directions. We are also confident that the presence of outside directors and auditors ensures management transparency while allowing us to make good decisions promptly.

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.

Prior to imprementing the reform of the officer remuneration scheme, we have established an advisory committee to discuss matters relating to the officer remuneration system. In February 2005, this committee is comprised of Outside Directors and Outside Corporate Auditors, Chairman, Vice Chairman and President to makes an important contribution to the soundness and transparency of board activities.

[The Basic Policy on the Remuneration for Directors]

1. The Role of the Officers and the Remuneration

The expected role for the directors is to improve the corporate value both in a short term and in medium to long-term and the remuneration system should serve effectively as incentive to achieve this goal.

2. The Scale of the Officers Remuneration

The scale of the officers remuneration needs to commensurate with the officers role, duty and performance.

3. Introduction of a Performance-linked Remuneration Scheme

Performance-linked remuneration scheme purpose to provide stronger incentive to carry out the management strategy as well as having clearer linkage between the term business results and remuneration.

4. Establishment of the Stock Purchase Guideline

The stock purchase guideline is set with the objectives of adopting a shareholder's viewpoint into management as well as promoting endeavors to improve the shareholder value in long term.

5. Ensuring the Objectivity and Transparency

In order to ensure objectivity and transparency of the remuneration for officers, the members of remuneration scheme advisory panel are elected from outside directors, outside auditors and the company directors.

Compensation for Directors and Corporate Auditors (Fiscal 2005)

	Millions of yen	Thousands of U.S. $
Compensation for 12 directors (1 resigned during the term)	450	3,846
Retirement benefits for directors	81	692
Compensation for 6 corporate auditors (2 resigned during the term)	90	769
Retirement benefits for corporate auditors	38	325
Total	659	5,632

Compensation for independent public accountant (Fiscal 2005)

	Millions of yen	Thousands of U.S. $
Compensation for auditing services	143	1,222
Compensation for other services	6	51
Total	149	1,273

*Basic Policies on Officer Remuneration

Board of Directors and Corporate Auditors


Chairman
Hideharu Uehara


Vice Chairman
Norio Ichino


President
Mitsunori Torihara


Executive Vice President
Shigero Kusano


Executive Vice President
Kouya Kobayashi


Executive Vice President
Tadaaki Maeda


Senior Executive Officer
Tsuyoshi Okamoto


Senior Executive Officer
Masaki Sugiyama


Senior Corporate Advisor
Kunio Anzai


Outside Director
Yuzaburo Mogi


Outside Director
Yuri Konno


Outside Director
Kazumoto Yamamoto

Chairman	Hideharu Uehara	Outside Director	Yuzaburo Mogi	(Chairman & CEO, Kikkoman Corporation)
Vice Chairman	Norio Ichino	Outside Director	Yuri Konno	(President & CEO, Dial Service Co., Ltd.)
President	Mitsunori Torihara	Outside Director	Kazumoto Yamamoto	(Advisor, Asahi Kasei Corporation)
Executive Vice President	Shigero Kusano			
Executive Vice President	Kouya Kobayashi	Auditor	Hiroshi Hirai	
Executive Vice President	Tadaaki Maeda	Auditor	Tsunenori Tokumoto	
Senior Executive Officer	Tsuyoshi Okamoto	Outside Auditor	Masayoshi Hanabusa	(Chairman, Board of Directors, Hitachi Capital Corporation)
Senior Executive Officer	Masaki Sugiyama	Outside Auditor	Toshimitsu Shimizu	(President, Yokohama Industrial Development Corporation)
Senior Corporate Advisor	Kunio Anzai	Outside Auditor	Shoji Mori	(Vice Chairman, Institute for International Economic Studies)

Internal Governance

Establishing Risk Management Systems

Under our internal governance system, management supervision is mainly the responsibility of the Board of Directors, while executive officers are responsible for operational management, policy management and budget management. The performance of directors is also audited by two internal and three outside auditors. Additionally, we have created an Internal Audit Department, which reports directly to the President, to administer internal audits based on the risk approach.

The Internal Audit Department consists of four groups with responsibility for financial audits, operational audits, information system audits and compliance audits. In 2002 the number of staff was doubled from 18 to 36, and in 2006 the number was further increased to 40. Internal audits cover Tokyo Gas Co., Ltd. and all consolidated subsidiaries. Each business unit is objectively audited to ensure that it is operating appropriately, efficiently and in accordance with business policies and plans, and in compliance with laws and regulations. Audit results are reported to the President, the Management Meeting and the auditors, and also to the divisional chief executives responsible for business units, and to the presidents and auditors of group companies.

We are also developing a separate risk management system, and in fiscal 2003 we established an integrated group-level risk management system. This system includes risk management regulations, and there are documented rules concerning the principal management risks that require management intervention. A section for promoting risk management has been established within the Audit Department to coordinate risk management activities. In 2003, the section undertook research targeting divisions and group companies. The aim of this work was to identify shifts in the Group's risk profile, and to monitor and assess steps taken to counteract risk factors. Principal management risks were reported to the Management Meeting and the Board of Directors. This list of significant risks is updated each year on the basis of new surveys conducted at regular intervals.

Promoting Compliance

The value of our brand "security, safety and reliability" which is essential to the competitiveness of the Tokyo Gas Group, depends on business activities continuing to comply with laws and regulations in accordance with social ethics. That is why we are working to strengthen our compliance structure by "fostering compliance awareness," "engaging both policy in the whole Group and practice in each work place" and "establishing a PDCA cycle for compliance."

Organizational measures designed to promote compliance include the establishment of the Management Ethics Committee in 2002. Chaired by the President, this committee to formulate basic compliance policies and assess the state of compliance with laws and regulations. We have also established the Compliance Department, a specialized organization that conducts a variety of activities, including the development of compliance promotion systems and behavior standards, training and education, the reduction of compliance risk, the provision of consultation, and the distribution of information within and beyond the Tokyo Gas Group. Compliance committees have also been established within individual business divisions and strategic units to create a mechanism that voluntarily and continuously promotes compliance activities according to the basic policy.

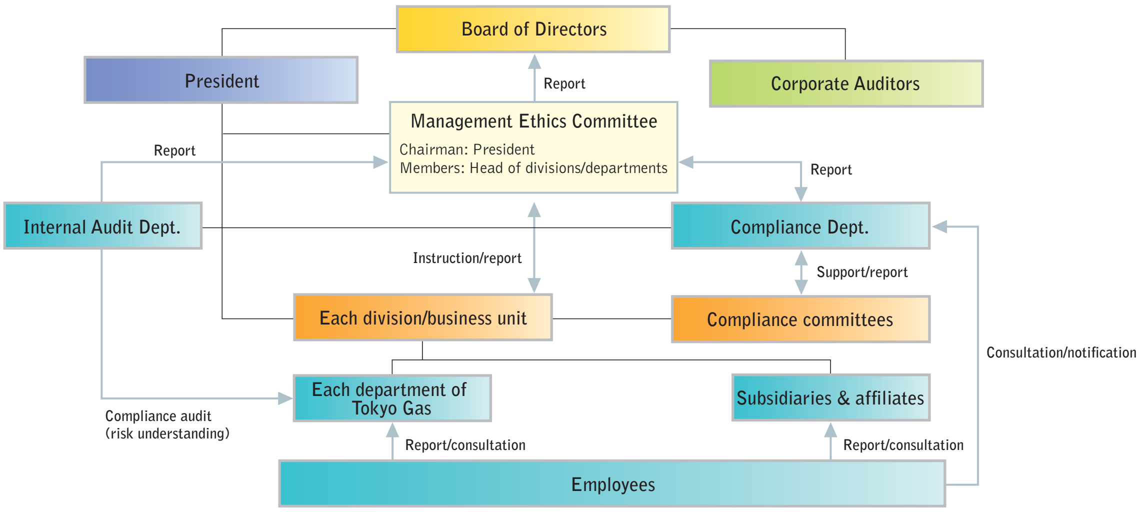
In response to the compliance risks, we try to execute effective self-purification as a company by discovering and solving problems at an early stage through operating internal and external counselling contracts appropriately. In addition, we conduct annual surveys on compliance awareness to reflect the results in the initiatives of the following years. We also reduce the risks steadily by implementing compliance audits conducted by the ad-hoc organization under the Internal Audit Department and through its follow-up activities.

Principal Management Risks

Disaster and accident risks	Accidents leading to the disruption of production and supply, natural disasters, disruptions to raw material procurement
Market risks	Market price fluctuations affecting real estate and financial assets, etc., weather fluctuations, etc.
Business strategy risks	Risks to existing businesses (increased competition, declines in existing demand, changes to laws, regulations and systems), inappropriate action on product recalls, ROI risks
Information risks	Information leaks, failures or malfunctions in backbone systems, loss of telephone services to call centers
Social responsibility risks and other risk	Environmental risks, compliance risks, risks associated with corporate responsibility and customer service

*Please refer to P42–43.

Compliance Structure



Disclosure Policy

Together with the establishment of risk management systems and the improvement of compliance, information disclosure plays an essential role in a company's efforts to ensure management soundness and transparency and to earn the support and trust of stakeholders, including shareholders and investors.

There is inevitably a gap between corporate value viewed by a company's management and the company's evaluation by the market. This gap has tended to widen in recent years because of the presence of a more diverse range of investors, including foreign investors and individual investors, in the Japanese stock market. We believe that the purpose of IR activities is to close this gap between the market value and the real value of a company by actively disclosing information.

The Tokyo Gas Group has long had a policy of setting short- and medium-term management goals and disclosing all specific management strategies and action plans used to achieve those goals. We also actively publish information about our progress and achievements. The Tokyo Gas Group believes that disclosure should not be a one-way process, and we actively foster in-depth, two-way communication with shareholders and investors by holding briefings, seminars and other events.

We have also developed and are continually improving our IR tools, which include annual reports, investor guides, IR websites and the Tokyo Gas newsletter to shareholders.

One indicator of the importance that the Tokyo Gas Group places on IR activities is the active involvement of top management. Our senior executives have attended IR meetings with investors and analysts in Japan since July 1999, and overseas, since June 2001.

Currently, members of the top management team conduct IR road shows in Japan and overseas twice each year. They also attend many meetings and make themselves available for numerous individual interviews.

Shareholder/Investor Meetings in FY2005

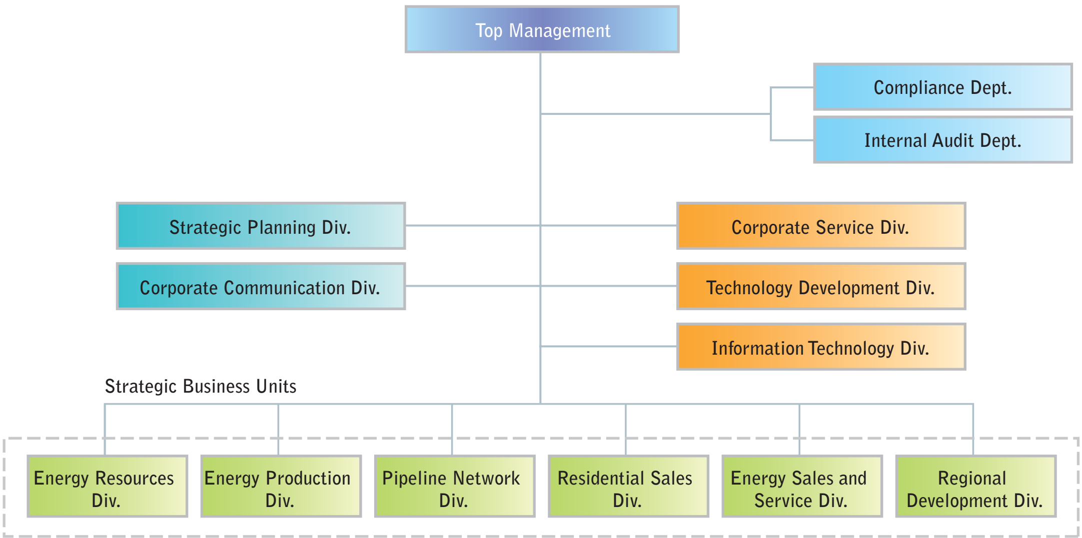
Financial meetings and others		6
Small meetings: Individual investors		275
	(Visiting overseas investors)	(99)
Facility tours for investors	(Individual)	3
	(Institutional)	3
Large meetings: Individual investors		3

Group Management Structure

The Tokyo Gas Group currently consists of Tokyo Gas Co., Ltd. and 54 subsidiaries and 1 affiliated companies. Traditionally, the Tokyo Gas approach to group management allowed individual Group companies to develop their business activities independently, and each company was expected to be self-sufficient and self-driven. However, with the deregulation of the energy sector, Tokyo Gas now faces escalating competition from within and outside of the industry. Management believes that to survive and succeed in this harsh competitive environment, Tokyo Gas needs to focus all of its Group resources on the same objective. In April 2004, it introduced a new group structure known as the "strategic business unit" (SBU) system.

Under this system, Tokyo Gas divisions are with Group companies as business units. Within each unit, Tokyo Gas and its Group companies work closely together in all stages from the formulation of business strategies to the allocation of management resources and the management of operations. The aim is to improve competitiveness by maximizing Group potential. To ensure speedy and flexible decision-making and management, wide-ranging authority and responsibility have been delegated to the divisional chief executives who lead the business units.

Group Management Structure



Executive Officers

President	Mitsunori Torihara
Executive Vice President	Shigero Kusano Chief Executive, Energy Sales and Service Div.; General Manager, Volume Sales Dept. Kouya Kobayashi Chief Executive, Energy Production Div. Tadaaki Maeda Chief Executive, Strategic Planning Div. Masahiro Ishiguro Chief Executive, Corporate Service Div.
Senior Executive Officers	Tsuyoshi Okamoto Chief Executive, Corporate Communication Div.; Compliance Dept.; Internal Audit Dept. Masaki Sugiyama Chief Executive, Pipeline Network Div.; General Manager Toshio Tezuka Chief Executive, Regional Development Div. Shigeru Muraki Chief Executive, Technology Development Div. Seiichi Nakanishi Chief Executive, Residential Sales Div. President of Gastar Co., Ltd. Tadashi Kaburagi Chief Executive, Information Technology Div. Toshiyuki Kanisawa Chief Executive, Residential Sales Div. Tsutomu Oya Chief Executive, Energy Resources Div.
Executive Officers	Norikazu Hoshino Deputy Chief Executive, Corporate Service Div. General Manager, Purchasing Dept. Kunihiro Mori Assistant to Chief Executive, Corporate Communication Div. Dispatched to the Japan Gas Association Yasuhiro Hiruma General Manager, Corporate Communications Dept., Corporate Communications Div. Mikio Itazawa General Manager, Pipeline Dept., Pipeline Network Div. Michiaki Hirose General Manager, Corporate Planning Dept., Strategic Planning Div. Kazuo Yoshino General Manager, Finance & Managerial Accounting Dept., Strategic Planning Div. Hisao Watanabe General Manager, Technology Planning Dept., Technology Development Div. Akio Maekawa Coordinator, Energy Sales and Service Div. Manabu Fukumoto General Manager, General Administration Dept., Corporate Communications Div. Matsuhiko Hanba General Manager, Personnel Dept., Corporate Service Div.

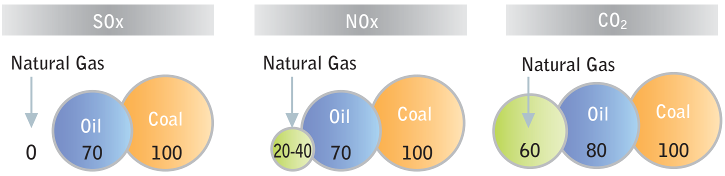
Contribution to the Environment through Our Business Activities

All major companies now regard environmental preservation as an essential aspect of their corporate social responsibility, and businesses in the energy sector are seen as having a particularly important part to play. Tokyo Gas is determined to be a leader in environmental management and has based its efforts to overcome environmental problems on four basic policies. First, we will reduce the environmental load resulting from our customers' use of energy. Second, we will reduce the total environmental load resulting from our own business activities. Third, we will strengthen our environmental partnerships with regional communities and the international community. Fourth, we will promote research and development relating to environmental technologies.

Tokyo Gas is involved primarily in the city gas business. The main gas resource for city gas is natural gas, which is the most environmentally friendly fossil fuel. When burned, natural gas produces no sulfur oxides and just 20–60% of the amounts of nitrogen oxides and carbon dioxide emitted by petroleum and coal. The supply of natural gas is the core activity of the Tokyo Gas Group, and we are extremely well positioned to contribute to protection of the global environment through our involvement in the development and management of gas supply infrastructure, the development of new uses, such as gas cogeneration systems, gas floor heating systems, residential fuel cell cogeneration systems fueled by natural gas, and natural gas vehicles. These technologies are all helping to prevent global warming and atmospheric pollution.

Tokyo Gas has compiled its own environmental protection guidelines designed to ensure that the advantages of its city gas business are applied directly to environmental protection. These guidelines include a specific numerical target, which call for a reduction in carbon dioxide emissions resulting from gas use by Tokyo Gas customers and by 8 million tons until fiscal 2010.

Comparison of Emission Levels (Coal=100)



Source: IEA Natural Gas Prospects (1986), Natural Gas Prospects and Policies (1991)

Global Warming Prevention Measures

1. In its city gas business, the Tokyo Gas Group aims to reduce CO_2 emissions from customers' facilities by 8 million tons by fiscal 2010, by promoting the use of natural gas, and by improving the efficiency of equipment and systems used with city gas.
2. The Tokyo Gas Group aims to reduce unit energy consumption in its business operations by an average of at least 1% per year over the medium-term future.
3. From a global perspective, the Tokyo Gas Group will contribute to the prevention of global warming by identifying greenhouse gas reduction or absorption projects in other countries, and by providing technical support for those projects.

Resource Recycling Promotion Guidelines

1. Industrial waste field
   There are major differences in the ways in which industrial waste is produced in manufacturing plants (production sites) and through other activities, such as construction. These categories will therefore have separate targets.
   Tokyo Gas will achieve zero emission status at all manufacturing plants by fiscal 2010.
   Tokyo Gas will increase its recycling ratio for other waste, including construction waste, to at least 91% by fiscal 2010.
2. Waste paper (paper recycling)
   Tokyo Gas will increase the recycling ratio for waste paper from its offices to at least 85% by fiscal 2010. The amount of copier paper used will be reduced to 5,000 sheets per person per year by fiscal 2010.
3. Excavation spoil
   The amount of excavation spoil from road excavations ordered by Tokyo Gas will be reduced to 15% by fiscal 2010, through volume reductions, reuse and recycling.

Green Purchasing Guidelines

1. The green purchasing ratio for items purchased from electronic catalogs will be increased to at least 70% by fiscal 2010.
2. Tokyo Gas will encourage all group companies included in the consolidated accounts to introduce the electronic catalog purchasing system and implement green purchasing systems by 2010.
3. Tokyo Gas Group will promote green purchasing within the Tokyo Gas Group in accordance with the green purchasing promotion guidelines.

Results for Fiscal 2005 and Targets for Fiscal 2010

		Result for FY2005	Target for FY2010
Global warming	Reduction of CO_2 emissions from customers' facilities	6.22 million tons*	8 million tons
	Unit energy use in gas production facilities (Per unit of gas production)	4.5 % reduction*	1 % reduction
	Unit energy use in district cooling/heating systems (Per heat sales volume unit)	0.7 % reduction	1 % reduction
	Unit energy use in Tokyo Gas business offices (Per city gas sales volume unit)	6.0 % reduction*	1 % reduction
Resource circulation	Industrial waste (manufacturing plants)	Zero emission status at 5 sites	Zero emission status at all sites
	Recycling of industrial waste (except manufacturing plants)	93 %	91 % or more
	Recycling of waste paper	84.8 %	85 % or more
	Sheets of copy paper used per person per year	8,000	5,000
	Excavation spoil ratio	18 %	15 %
Green procurement ratio		58 %	70 %

*Five-year average reduction

web Please see the CSR Report for further details http://www.tokyo-gas.co.jp/csr/

Eco-cooking Instructor-training Seminar

Residential Fuel Cell Cogeneration System LIFUEL

Building Environmental Management Systems

As part of its own environmental conservation efforts, Tokyo Gas obtained ISO 14001 certification for all of its operations and sites in March 2005. This process has resulted in the establishment of corporate environmental management systems (EMS) that conform to the international standard for environmental management systems. Starting in fiscal 2005, Tokyo Gas is now helping its consolidated Group companies to implement EMS and obtain ISO certification. We have also established the "Chairman's Prize of the Environment," which is awarded in recognition of forward-looking environmental protection efforts. Through these initiatives, Tokyo Gas is working to expand and enhance the efforts of the "All Tokyo Gas" companies including non-consolidated affiliate companies that cooperate in activities to prevent and overcome environmental problems.

Tokyo Gas has also worked for many years to strengthen its environment-related partnerships through improved environmental communication. We continue to distribute information about environmentally friendly lifestyles and energy conservation through pamphlets and websites. Other activities designed to raise consumer awareness of the environment include "Eco-cooking" courses and training programs for eco-cooking instructors. We are also expanding the scope of our environmental cooperation with government agencies, other companies, NGOs and other related organizations.

As a leading company in the city gas industry, Tokyo Gas is working through its research and development activities to establish new technologies to expand the use of natural gas. Recent research projects have yielded numerous important advances, including a residential fuel cell cogeneration system, and a high-efficiency SOFC system.

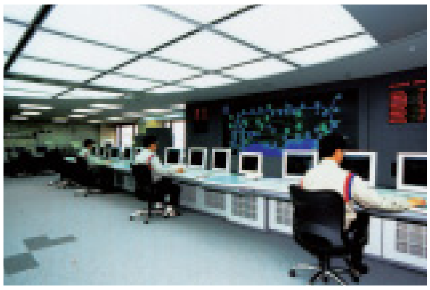
Safety and Disaster Prevention Measures

Energy is essential for the maintenance of economic activity and living standards. As a supplier of energy, Tokyo Gas is keenly aware of its safety responsibilities and has worked throughout its history to fulfill those responsibilities.

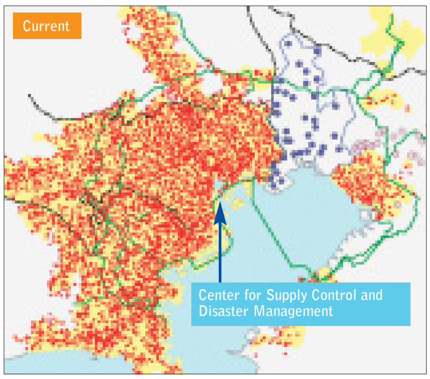
Residential gas appliances are used by a wide range of customers. Tokyo Gas has developed enhanced safety features for these appliances, including systems to turn off the gas if the pilot light is extinguished, and temperature sensors to prevent fires. One of the organizational units established by Tokyo Gas to ensure safety is "Gas light 24," which monitors gas supply systems for leaks and other problems 24 hours a day, 365 days a year. In addition, every gas appliance used by customers is checked for safety at least once every three years.

Japan is an earthquake-prone country. Tokyo Gas has implemented multiple precautionary measures to maintain a high level of safety in the event of an earthquake. If major seismic activity is detected, microchip-controlled gas meters in customers' houses automatically shut off the supply of gas. We have also installed the Super-dense Real-time Monitoring of Earthquakes (SUPREME) system, containing seismic sensors placed at the rate of approximately one per square kilometer which can be defined as the world's most high densely located pipeline safety system. This system is designed to stop the supply of gas through the pipeline network and to shut down transmission facilities and plants if a severe earthquake occurs.

Because city gas is part of the infrastructure needed to support daily life, the restoration of supplies after earthquakes is as important as accident-prevention and emergency response measures. Tokyo Gas has implemented a full range of countermeasures at all three levels. In addition to its emergency shutdown functions, SUPREME is also designed to gather damage data quickly, allowing us to build a detailed picture of the situation within about 20 minutes of an incident. We have also developed a range of countermeasures, including a sophisticated restoration support system to ensure that gas supplies are restored as quickly as possible after an earthquake.



Control Room



SUPREME Seismic Sensors

web http://www.tokyo-gas.co.jp/csr/

Financial Section

Contents

36 Management's Discussion and Analysis

42 Principal Management Risks

44 Frequently Asked Questions

46 11-year Summary

48 Consolidated Balance Sheets

50 Consolidated Statements of Income

51 Consolidated Statements of Shareholders' Equity

52 Consolidated Statements of Cash Flows

53 Notes to Consolidated Financial Statements

Management's Discussion and Analysis

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 m^3, up 230 million m^3, or 6.9%, year on year. Of this volume, approximately 141 million m^3 is attributable to the effects of temperature and approximately 60 million m^3 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 m^3 to 3,085 million m^3, or 3.9%, year on year. Of this growth, 11 million m^3 is attributable to temperature-related factors and 56 million m^3 to the increase in the number of customers.

Industrial Sector

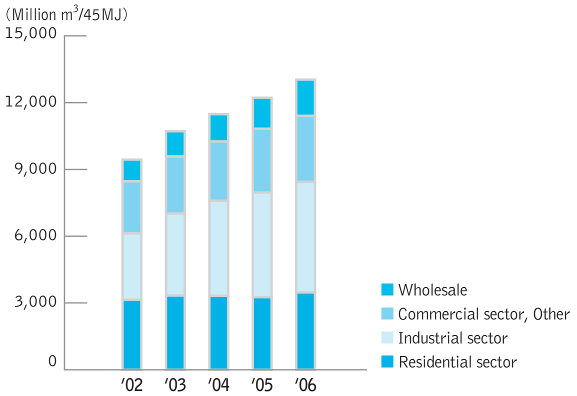
As in the previous year, there was sustained growth in sales volumes. Contributing factors included the start-up of facilities by new customers using gas to generate power. There was also a steady increase of other industrial uses including cogeneration systems and boilers, which resulted in a sales increase of 299 million m^3, or 6.3%, year-on-year to 5,043 million m^3. Gas sales for power generation accounted for approximately 73 million m^3 of this increase, while other industrial uses contributed approximately 197 million m^3.

Wholesaling to Other Gas Companies

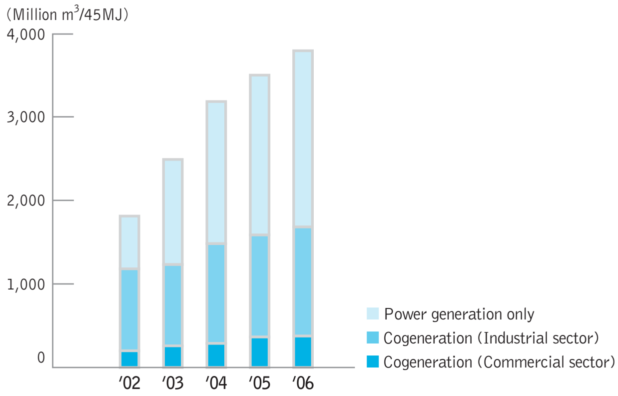
Sales increased by 223 million m^3, or 18.7%, year on year to 1,422 million m^3. Reasons for this growth include lower temperatures, which caused residential demand to expand in the service areas of other gas companies, and the development of new demand among gas suppliers.

There was volume growth in sales in all sectors. Total sales increased by 868 million m^3, or 7.1%, year on year to 13,098 million m^3.

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/m^3 to 45 MJ/m^3. 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

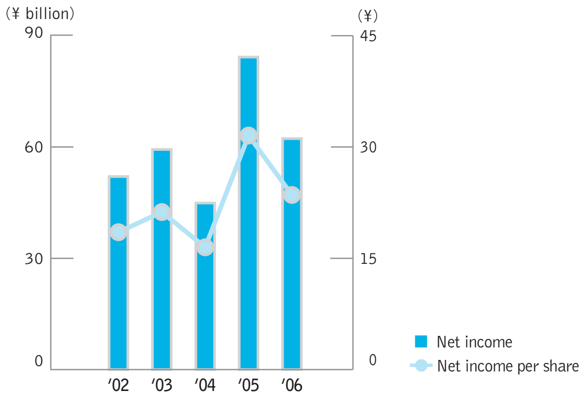
Other Revenues Improved although the Net Income Decreased from the Previous Term.

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

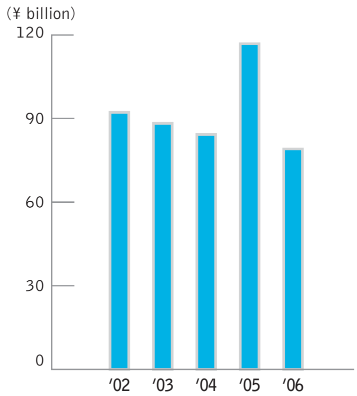
Capital Expenditure Increased for Total Energy Business Expansion

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

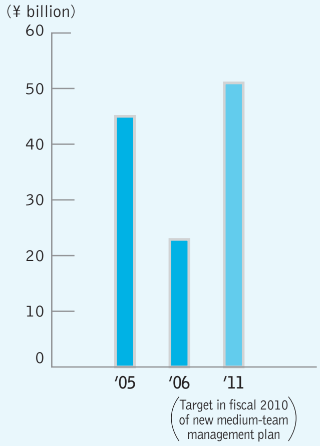
With the aim of generating profits that exceed the cost of capital, Tokyo Gas formulated Tokyo Gas Economic Profit (TEP)*, as one of its key business performance indicators. TEP is a Tokyo Gas-specific variation of Economic Value Added (EVA®).

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 (EVA® Tokyo Gas Version)



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

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.

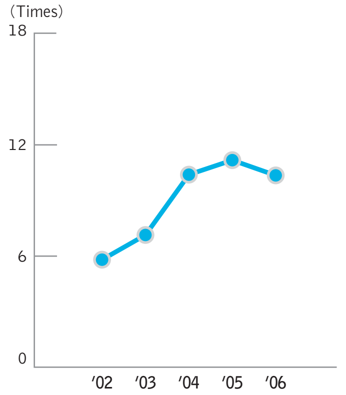
Years ended March 31	2006	2005	2004
Net cash provided by operating activities	181,529	215,038	217,608
Net cash used in investing activities	(116,071)	(107,376)	(126,038)
Net cash used in financing activities	(83,041)	(108,160)	(99,744)

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

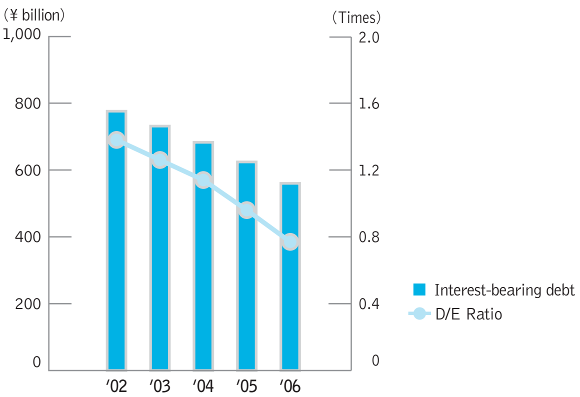


Interest coverage ratio=
(operating income + interest and dividend income)/interest expense

■ 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.

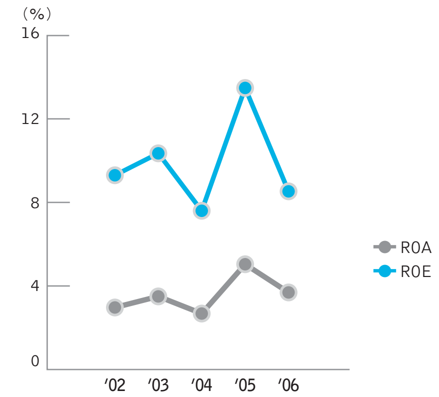
ROA = net income / total assets (average positions at start and end of fiscal year)

■ 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



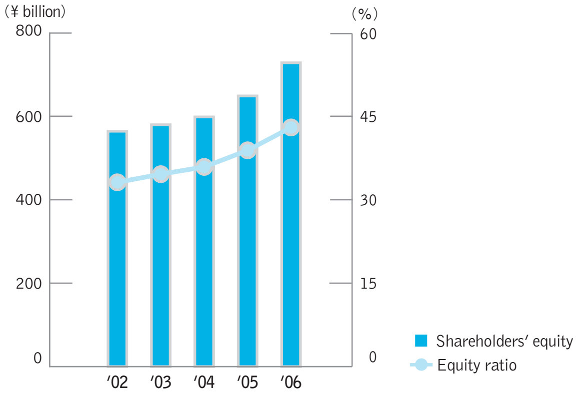
ROE=net income/shareholders' equity (average of positions at start and end of fiscal year)

■ 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

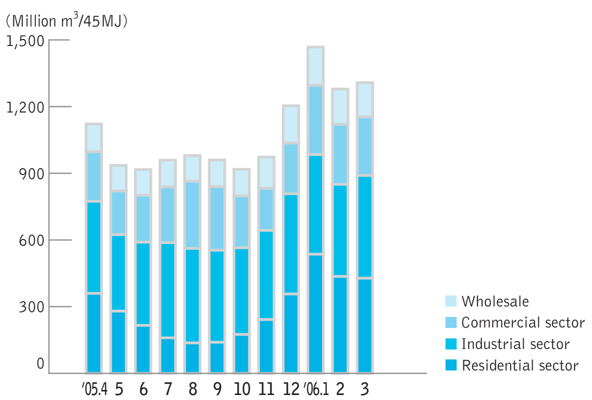
Temperatures affect the volume of city gas sales, which account for around 70% of consolidated sales and 90% of income. Gas is used mainly for water heating and space heating, especially in residential use. Mild winter weather can erode revenues and income by reducing the volume of gas sold.

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.

Frequently Asked Questions

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

For the years ended March 31	2006	2005	2004	2003
Net sales	1,266,502	1,190,783	1,151,825	1,127,634
Gas sales	910,321	834,658	831,115	792,454
Gas appliance sales	130,826	135,109	133,873	142,636
Related construction	59,747	64,795	68,034	70,568
Real estate rental	34,187	34,701	35,444	36,346
Other business	252,596	234,721	172,160	158,327
Operating income	112,346	145,349	152,287	123,294
Net income	62,115	84,047	44,787	59,201
Depreciation*	136,377	140,271	146,895	141,027
Capital expenditures**	119,435	107,529	107,441	111,988
Free cash flow	79,057	116,789	84,241	88,240
Per share (yen)				
Net income	¥23.48	¥31.47	¥16.44	¥21.18
Net income (Diluted)	21.70	28.24	14.98	19.11
Shareholders' equity	270.48	244.73	221.53	208.65
Cash dividends applicable for the year	7.00	7.00	7.00	6.00

At year-end (March 31)

Total assets	1,693,899	1,668,734	1,666,828	1,676,064
Long-term debt due after one year	496,740	547,139	545,845	598,322
Total shareholders' equity	728,232	648,766	598,453	579,706

Ratios

Operating income to net sales	8.9%	12.2%	13.2%	10.9%
Net income to net sales	4.9%	7.1%	3.9%	5.3%
ROE	9.0%	13.5%	7.6%	10.4%
ROA	3.7%	5.0%	2.7%	3.5%
Equity ratio	43.0%	38.9%	35.9%	34.6%

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)

Millions of yen, except per share amounts

2002	2001	2000	1999	1998	1997	1996
1,097,589	1,086,771	992,255	997,767	1,009,155	988,077	958,662
750,439	740,731	672,069	674,997	686,649	663,066	633,253
149,203	146,517	127,916	133,925	127,880	135,057	136,344
71,338	71,908	68,651	68,817	71,060	74,767	73,784
37,551	37,601	37,841	37,616	38,978	40,916	40,568
156,011	159,578	158,819	155,045	154,602	144,032	143,931
110,608	103,659	69,233	72,303	76,485	62,163	67,109
51,912	27,595	26,698	17,764	17,241	15,432	16,762
145,564	150,374	140,306	143,009	—	—	—
105,296	111,397	124,975	151,126	—	—	—
92,178	66,572	42,029	9,647	—	—	—

¥18.47	¥9.82	¥9.50	¥6.32	¥6.14	¥5.49	¥5.97
16.66	9.13	8.84	5.94	5.76	5.37	—
200.75	196.72	172.33	149.98	148.67	147.65	147.23
6.00	6.00	5.00	5.00	5.00	5.00	5.00

1,702,713	1,797,669	1,805,086	1,707,446	1,720,684	1,772,132	1,657,176
680,887	708,329	843,634	820,753	765,304	878,674	743,177
564,078	552,790	484,239	421,442	417,755	414,906	413,725

10.1%	9.5%	7.0%	7.2%	7.6%	6.3%	7.0%
4.7%	2.5%	2.7%	1.8%	1.7%	1.6%	1.7%
9.3%	5.3%	5.9%	4.2%	4.1%	3.7%	4.1%
3.0%	1.5%	1.5%	1.0%	1.0%	0.9%	1.0%
33.1%	30.8%	26.8%	24.7%	24.3%	23.4%	25.0%

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.

LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 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).

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

Consolidated Subsidiaries and Equity-method Affiliates

As of March 31, 2006

Main Consolidated Subsidiaries

Company	Business	Capital (¥ million)	Equity owned by Tokyo Gas (%)	FY2005 Net sales (¥ million) [% of outside sales]	Operating income (¥ million)
Tokyo Gas Urban Development Co., Ltd.	Real estate leasing, management and brokerage	11,440	100	31,946 [31.8]	4,610
Tokyo Gas Toyosu Development Co., Ltd.	Real estate leasing and management	5,000	100	747 [32.4]	232
ENERGY ADVANCE Co., Ltd.	Energy service, district heating and cooling	3,000	100	33,341 [92.4]	3,171
Gastar Co., Ltd.	Production and sale of gas appliances	2,450	66.7	27,407 [41.9]	1,540
Tokyo LNG Tanker Co., Ltd.	LNG and LPG transportation and chartering of carriers	1,200	100	10,235 [22.5]	965
Toyoko Engineering Co., Ltd.	Gas facilities construction and gas appliance sales	1,025	100	19,793 [43.2]	34
Tokyo Gas Energy Co., Ltd.	Sales of LPG	1,000	100	22,569 [81.9]	(298)
Tokyo Gas Chemicals Co., Ltd.	Sales of gas for industry and chemicals	1,000	100	15,639 [65.0]	688
Park Tower Hotel Co., Ltd.	Hotel "Park Hyatt Tokyo" management	1,000	100	9,095 [99.7]	534
KANPAI Co., Ltd.	Gas facilities construction and gas appliance sales	967	100	43,046 [35.9]	31
Chiba Gas Co., Ltd.	Supply of gas in Yachiyo City, Narita City and surrounding cities	480	100	12,489 [99.7]	917
TG Credit Services Co., Ltd.	Financing and leasing related to gas equipment and construction	450	100	9,510 [55.6]	(359)
Tokyo Oxygen and Nitrogen Co., Ltd.	Production and sale of liquefied oxygen and nitrogen	400	54	2,109 [43.2]	182
TG Information Network Co., Ltd.	Information processing services, software development and sales of computer equipment	400	100	12,003 [25.1]	826
Tsukuba Gakuen Gas Co., Ltd.	Supply of gas in Tsukuba City	280	100	6,099 [97.8]	433
TG Enterprise Co., Ltd.	Group financial administration business	200	100	659 [32.3]	212
Tokyo Gas Engineering Co., Ltd.	Comprehensive engineering services with a particular focus on energy-related work	100	100	31,656 [70.0]	586
Tokyo Gas Customer Service Co., Ltd.	Periodic safety checks, meter and billing services	50	100	7,577 [1.4]	428
TG IT Service Co., Ltd.	Operation of Tokyo Gas systems and networks	50	100	8,956 [1.1]	190
KANPAI LIVING SERVICE Co., Ltd.	Sales, installation and repair of gas appliances, expansion and reconstruction work	50	100	6,264 [68.5]	92
GAS MALAYSIA SDN. BHD.	Supply of gas in Malaysia	RM42.8 million	20	—	—

Notes: 1. Gas Malaysia Sdn. Bhd. is an equity-method affiliate.
2. The scope of consolidation was expanded in April 2004 and now includes 54 companies at the end of March 2006.
3. 1RM nearly equals ¥31.24.

Other Subsidiaries

Miho Gas Co., Ltd., Shoei Gas Co., Ltd., Washimiya Gas Co., Ltd., Tochigi Gas Co., Ltd., Toyoko Living Co., Ltd., Tokyo Kiko Co., Ltd., Tokyo Gas Yokosuka Power Co., Ltd., Dining Art Systems Co., Ltd., Living Design Center Co., Ltd., Tokyo Gas Bay Power Co., Ltd., TG Showa Co., Ltd., East Japan Housing Evaluation Center Co., Ltd., Tokyo Carbonic Co., Ltd., Japan Super Freeze Co., Ltd., TG Telemarketing Co., Ltd., Green Tech Tokyo Co., Ltd., Tokyo Gas Auto Service Co., Ltd., Tokyo Gas Remodeling Co., Ltd., Urban Communications, Inc., Tokyo Gas Techno-Service Co., Ltd., Tokyo Gas Building Service Co., Ltd., Toeki Service Center Co., Ltd., Showa Bussan Co., Ltd., Tosetz Co., Ltd., Kanpai Customer Service Co., Ltd., Toyoko Customer Service Co., Ltd., Showa Unyu Co., Ltd., Tokyo Plant Service Co., Ltd., Tokyo Rare Gases Co., Ltd., Tokyo Auto Gas Co., Ltd., Kanpai Tech Co., Ltd., Tachikawa Urban Center Co., Ltd., Tokyo Gas LPG Terminal Co., Ltd., Nagano Toshi Gas Co., Ltd.

Investor Information

As of March 31, 2005

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Date of Establishment October 1, 1885

Paid-in Capital ¥141,844,398,888

Total number of shares issuable 6,500,000,000 shares

Issued Number of Shares 2,810,171,295 shares

Number of Shareholders 176,451

Securities Traded Common stock: Tokyo, Osaka and Nagoya stock exchanges (Trade code: 9531)

Independent Auditors KPMG AZSA & Co.

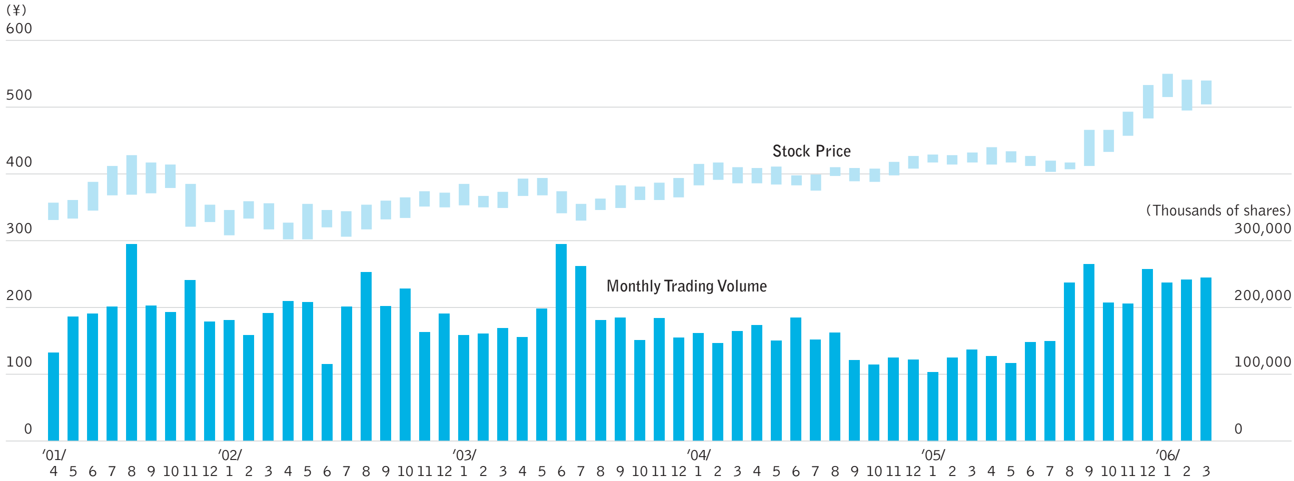
Agent to Manage Shareholders Registry
The Chuo Mitsui Trust & Banking Co., Ltd. 3-33-1 Shiba, Minato-ku, Tokyo 105-8574, Japan

Number of Employees 16,675 (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	5.80
The Dai-ichi Mutual Life Insurance Company	155,962	5.55
Tokyo Gas Co., Ltd.	117,825	4.19
Japan Trustee Services Bank, Ltd. (Trust Account)	100,216	3.57
The Master Trust Bank of Japan, Ltd. (Trust Account)	93,595	3.33
State Street Bank and Trust Company	76,193	2.71
State Street Bank and Trust Company (505103)	70,525	2.51
Fukoku Mutual Life Insurance Company	67,504	2.40
Morgan Stanley and Co., Ltd.	46,463	1.65
The Chase Manhattan Bank N.A. London	45,069	1.60
Employees Shareholding Association	39,338	1.40

Monthly Stock Price Range (Tokyo Stock Exchange)



FURTHER INFORMATION

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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.

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