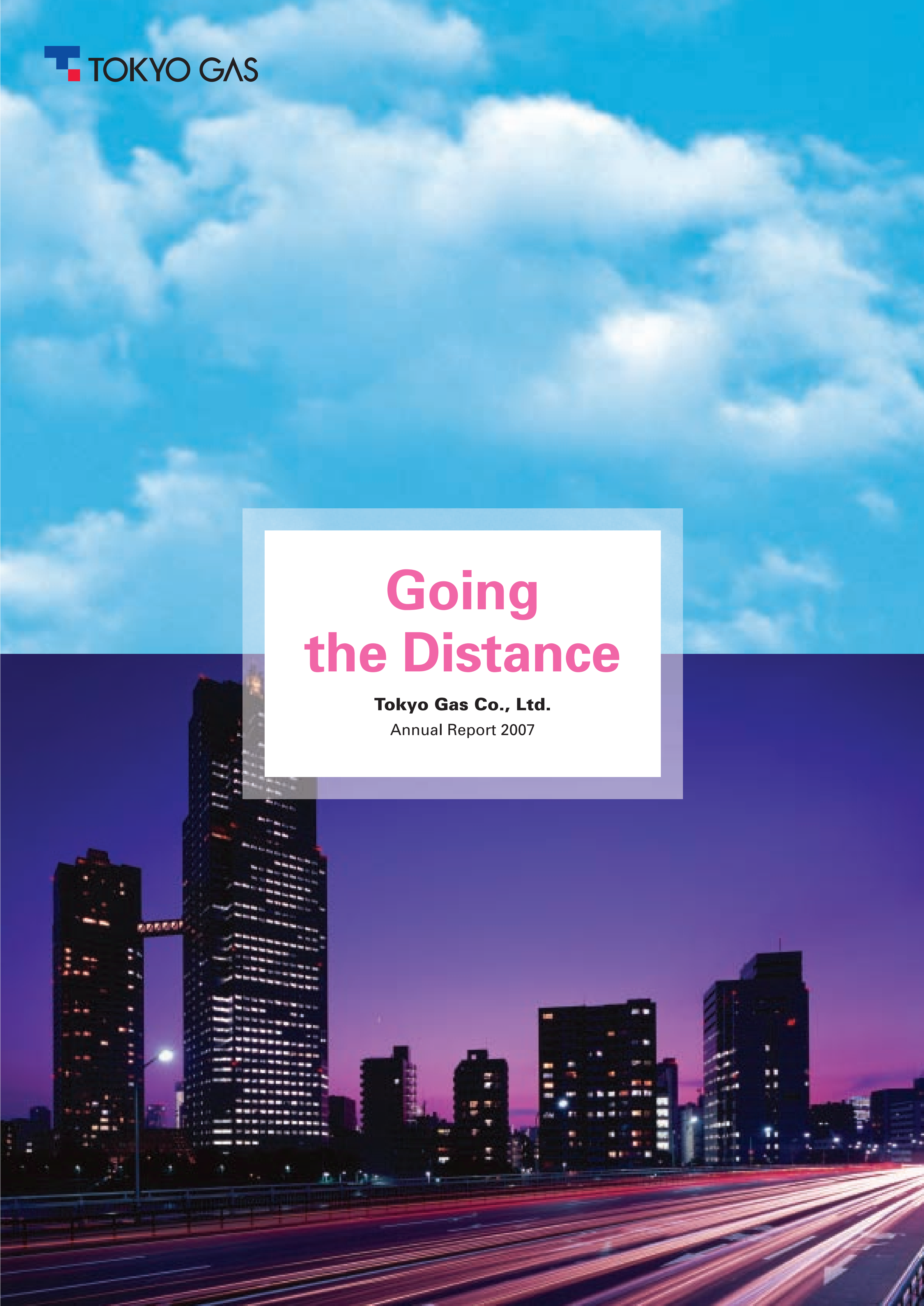
TOKYO GAS



Going the Distance

Tokyo Gas Co., Ltd.

Annual Report 2007

Tokyo Gas is Japan's biggest city gas distributor, with over 9.9 million customers. Its area of operations encompasses the Tokyo metropolitan area and the Kanto region, which surrounds it—a prosperous market of huge potential demand. Since April 2006, the Tokyo Gas Group has followed a medium-term management plan for fiscal 2006–2010. The plan seeks to exploit business opportunities arising from current trends in the energy industry, including advancing deregulation and intensifying inter-company competition. Tokyo Gas Group is determined to achieve sustainable growth and development as a leading player in the integrated energy business centering on natural gas.

120-year history

Since its founding in 1885, Tokyo Gas has consistently contributed to a more comfortable life for its customers and industrial advancement through supply of city gas in Tokyo and the surrounding areas. Our aim is to realize sustainable growth based on customer trust and the engineering expertise accumulated as the largest gas company in Japan.

40% of Japan's GDP

Tokyo Gas serves the Kanto region, responsible for around 40% of Japan's total GDP. With pride and sense of responsibility, we fulfill our mission to assure the stable supply of energy, so essential for the quality of urban life.

10 million customers

The number of customers served by Tokyo Gas throughout its supply area, extending over Tokyo and eight prefectures, is expected to exceed 10 million in 2007. We will continue to enhance customer comfort and peace of mind through the values inherent our company.

more than 50,000 km

Our gas pipeline network covers our service area like a finely woven net, which if stretched out, would extend approximately 50,000 km, a distance greater than the circumference of the Earth. As Japan is an earthquake-prone country, we will ensure urban safety through the most advanced disaster-prevention measures across our network.

Our Mission

going the distance for vigorous customers

Our Goal

going the distance for all stakeholders

As a “corporate group on the energy frontier” centered on natural gas, Tokyo Gas has a management philosophy to contribute to creation of comfortable living and environmentally friendly cities, as well as ensuring continued development while consistently earning the trust of customers, shareholders and society. Every single corporate activity we undertake is based on this firm philosophy. We will create new value together with all stakeholders.

The Earth

We will actively promote local and global environmental preservation and contribute to sustainable development in society by respecting the sanctity of nature and utilizing resources and energy in harmony with the environment.

Society

Aiming to realize a society in which people can live comfortable and affluent lives, we will join with customers and local communities in planning for safety and security while fostering the future generation.

Shareholders

We aim to maintain a high standard of management transparency and maximize our corporate value through dialogue with all market participants, including shareholders and investors.

Customers

With passion and pride, we offer the best quality products and services, which even exceed customer expectations while maintaining good communication with customers.

• • • and more

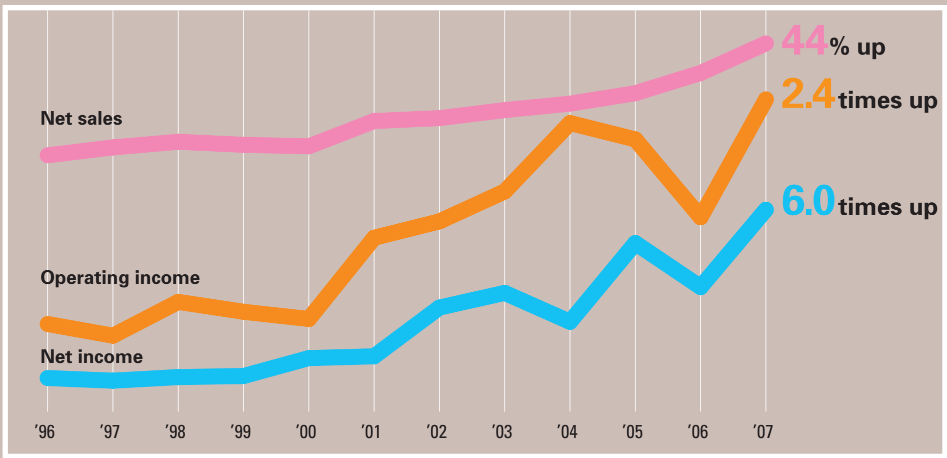
Our Performance

Financial Highlights

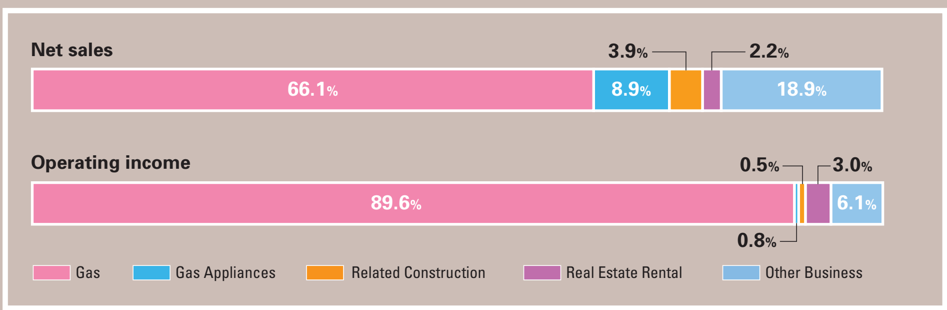
For the Years ended March 31	Millions of yen except per share amounts 2007	2006	2005	Thousands of U.S. dollars except per share amounts 2007
Net sales	1,376,958	1,266,502	1,190,783	11,669,137
Operating income	162,315	112,346	145,349	1,375,551
Net income	100,700	62,115	84,047	853,389
Amounts per share of common stock				
Net income	37.50	23.48	31.47	0.32
Net income (Diluted)	35.69	21.70	28.24	0.30
Net assets	293.11	270.46	244.73	2.48
Cash dividends applicable to the year	8.00	7.00	7.00	0.07
At Year-end (March 31)				
Total assets	1,692,635	1,693,899	1,668,734	14,344,367
Long-term debt due after one year	465,896	496,740	547,139	3,948,272
Net assets	806,046	728,232	648,766	6,830,896
Ratios				
Operating cash flow	233,842	198,492	224,319	1,981,713
Operating income to net sales	11.8%	8.9%	12.2%	11.8%
Net income to net sales	7.3%	4.9%	7.1%	7.3%
ROE	13.2%	9.0%	13.5%	13.2%
ROA	5.9%	3.7%	5.0%	5.9%
Equity Ratio	47.0%	43.0%	38.9%	47.0%
D/E ratio	0.66	0.77	0.96	0.66

Notes:
1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118=U.S.$1, the Tokyo foreign exchange market rate as of March 31, 2007.
2. Operating cash flow = net income + depreciation* *including amortization of long-term prepayments
3. ROE = net income/total 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)/total shareholders' equity (year-end)

Track Record—12-year Summary



Segment Information



Contents

Our Vision

going the distance with total energy solutions

Mitsunori Torihara President

Q: You launched a new medium-term management plan in fiscal 2006. How would you assess initial progress under the plan?

Torihara: Fiscal 2006 was the first year of our medium-term management plan covering the period from fiscal 2006 to fiscal 2010. Various aspects of the business environment changed more than we anticipated when we first announced the plan in January 2006.

First of all, the price trend of crude oil remains in the high range. Though natural gas is becoming more price-competitive relative to other fuels, this factor eroded the ability of gas cogeneration systems to compete with grid-connected electric power systems on price. Another change was an extreme acceleration of the trend toward the use of electricity instead of gas. Rising consumer awareness of the all-electric concept was reflected in increased competition from electricity. There were also some unfortunate situations, including cases of carbon monoxide poisoning caused by water heaters. These had the effect of eroding public confidence in the safety of gas.

We responded to these changes by totally reviewing our policies in the summer of 2006. While making additional investment to reinforce our strategies to counter competition from electricity and achieve strengthened safety measures, we endeavored to reduce costs and continued to respond flexibly to changing conditions.

As a result, I believe that we generally made a good start in terms of our management performance. We set new records for net sales, operating income and net income. The increase in sales resulted mainly from volume growth driven by marketing efforts, combined with higher unit prices under the gas rate adjustment system, which adjusts gas rates according to gas resource costs. Despite dramatically higher gas resource costs and increased expenditure on safety, we were able to keep operating expenses under control through savings in other areas, including reductions in labor costs resulting from further work force downsizing and an actuarial differential on retirement benefits*. Operating income increased by 44.5% to ¥162.3 billion over the previous year.

There was continuing growth in gas sales volumes, especially for industrial use. This reflects the important environmental advantages of natural gas, as well as its price advantage relative to crude oil. Sales to residential and commercial customers stagnated due to mild winter temperatures, but overall there was a 1.7% year-on-year increase to 13.3 billion m^3.

We also achieved encouraging sales of strategic products that we see as important to our efforts to counter competition from companies offering all-electric systems. These include our "Pipitto Konro" gas cooktops, our highly efficient "Eco-JOES" water heaters, and mist saunas. Sales units of these items were substantially higher than the previous year's results.

In the industrial segment, we have started to make steady progress toward our establishment into an integrated energy company, as envisioned in our medium-term management plan. In June 2006, Tokyo Gas Yokosuka Power Co., Ltd. started operation as our second power plant, with power generation capacity of 240 MW, and in April 2008, an 800-MW facility operated by Kawasaki Natural Gas Power Generation will come on line.

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

Q: Your forecasts for fiscal 2007, the fiscal year ending March 31, 2008, appear pessimistic. What are the reasons for this?

Torihara: While we expect net sales for fiscal 2007 to exceed the excellent result for fiscal 2006, we are predicting a sharp decline in income. The three main factors for this forecast are a heavier cost burden resulting from sharply higher gas resource costs, higher personnel expenses resulting from an actuarial differential on retirement benefits, and aggressive investment in demand development to counter competition from all-electric systems.

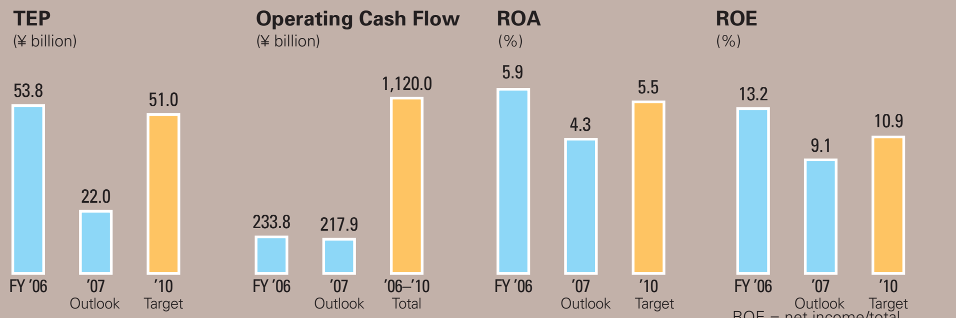
One reason for the rise in gas resource costs is higher LNG prices. This reflects rising world demand for LNG, as well as the instability of crude oil prices, which have started to move higher again after a period of relative calm.

The actuarial differential on retirement benefits has occurred despite cost savings resulting from decreasing our employee numbers and is attributable to external factors. These include a relatively lower yield on pension assets in fiscal 2006, compared with the excellent results achieved in fiscal 2005, and another factor was the effect of a three-yearly actuarial review. In addition, the discount rate has fallen from 2.0% to 1.8%.

Investment in demand development is essential to counter the effects of competition from all-electric systems. We will focus in particular on the expansion of sales of in-house power generation systems, which combine our ECOWILL and LIFUEL systems. We regard these as strategic products. Our target for fiscal 2007 is to install 3,950 units, which is over three times higher than the fiscal 2006 result of 1,304 units sold. In addition to our investment in home power generation products, we are also steadily implementing initiatives that are expected to yield sales growth in the future. These include increased efforts to overcome recent consumer concerns about using gas and appeal the safety and comfort features of gas.

In fiscal 2007, we are also structuring a regionally focused marketing approach as stated in our medium-term management plan for fiscal 2006 to fiscal 2010. Specifically, we plan to establish new regional energy companies to integrate the functions of safety inspections, meter reading and the collection of gas charges, as well as sales and maintenance of gas appliances, that was formerly undertaken by Enesta. These services will be fine-tuned to reflect the diverse lifestyles of our customers. Trial operation of the new scheme has already started in some regions. We are confident that this shift from a function-based marketing structure to a regionally based one will yield sustained benefits through the clear grasping of customer needs while regularly carrying out day-to-day gas-related operations.

Major Management Targets



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

WACC: FY06 Results: 3.8%; FY07 Outlook: 3.8%; FY10 Target: 3.8%

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)

Q: How will changes in the business environment affect the current medium-term plan?

Torihara: In fiscal 2006, many aspects of the business environment changed conspicuously compared with the assumptions on which the medium-term plan was based. However, we took a positive, forward-looking stance in response to these changes and quickly convened internal discussions. Our entire organization is now working to make the necessary adjustments.

One of the issues that has affected us is public concern over carbon monoxide poisoning. We have responded by implementing special inspections of gas appliances. In fiscal 2007 we will deploy an additional 100 service staff and fulfill the scope of our safety inspections. We have also allocated a budget of ¥10 billion for measures to encourage consumers to replace their appliances with safer models. In addition, customer contacts in the course of our business operations provide opportunities to remind customers about the importance of appliance safety. Through the initiatives mentioned here and elsewhere, we do everything possible to restore public confidence in gas as quickly as possible.

LNG prices have climbed in step with rising crude oil prices and are now above the level that we projected when formulating the plan. Our forecast of lower income in fiscal 2007 reflects sharply higher gas resource costs resulting from tight LNG supply and demand balance in the global market, and the high level of crude oil prices. However, we believe that this situation will improve as LNG is delivered from new projects, including Sakhalin II in 2008, and Gorgon and Pluto after 2010. In future, we will continually modify our LNG procurements according to prevailing conditions, including the use of flexible contract terms.

Under our medium-term group management plan for fiscal 2006–2010, we aim to increase our presence in the LNG value chain while building Tokyo Gas into an integrated energy company. Though income in fiscal 2007 will be substantially below the fiscal 2006 level, if we exclude external factors, such as the actuarial differential on retirement benefits and an increase in depreciation due to tax revision, our estimates for fiscal 2007 would be in line with the initial forecasts in our medium-term management plan. Our goals remain unchanged. We will work even harder to maintain our reputation as a trusted and preferred energy supplier, by maintaining the reliability of our supply services, competitive pricing, and strong commitment to continual improvement in safety and service quality.

Q: There has been widespread public interest in M&A activities and other events affecting the energy sector in Europe and North America. Do you foresee similar development in Japan? What are your views on M&A?

Torihara: We are closely monitoring energy sector developments in Europe and North America. Of particular interest is a flurry of M&A activity in the European electric power industry, which appears to have resulted from total deregulation of the industry. Moreover, the energy situation in the EU is such that they have developed electric power and gas distribution infrastructure across the region. Investors ask me if a similar situation is likely to develop in Japan. While we cannot rule this out entirely, conditions here are different, and we need to consider the situation calmly.

While the scope of deregulation is expanding in Japan, nationwide electric power and gas distribution has yet to develop sufficiently. The debate over full deregulation, including the residential sector, is only just beginning. Unlike the telecommunications and aviation industries, there are no restrictions on share ownership by foreigners in electric power and gas. However, if a foreign corporation wishes to acquire 10% or more of the shares in a power or gas company in Japan, it is required under the Foreign Exchange and Foreign Trade Law to notify the Ministry of Economy, Trade and Industry to obtain permission. There are other restrictions under the Gas Utility Industry Law and the Antimonopoly Law. For such reasons, it seems unlikely that our industry will undergo rapid restructuring as a result of M&A and similar activities.

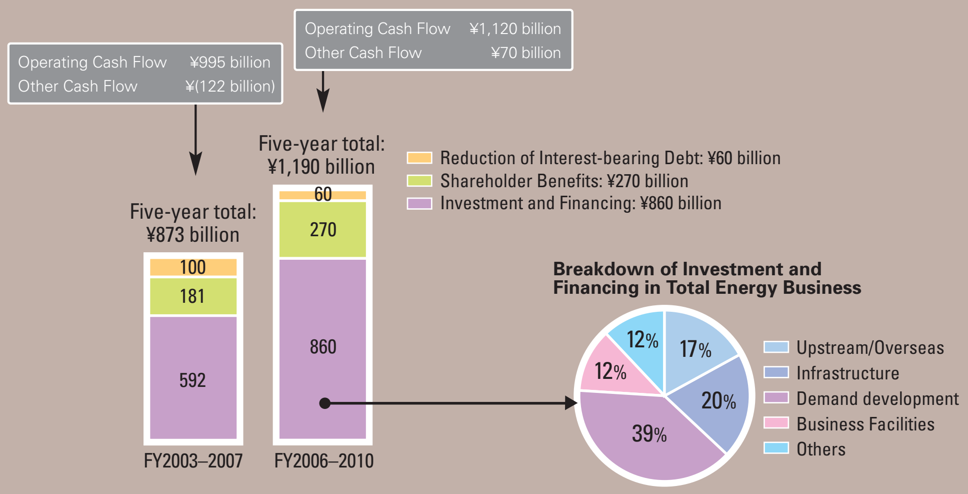
I firmly believe that the priorities for Tokyo Gas are to achieve continual improvement in our corporate value, and to maintain dialogue with the markets as the basis for an appropriate valuation. For this reason, we have not established specific defensive measures against takeover bids. However, we are prepared to take appropriate decisions if there is a risk that large-scale buying of our shares will jeopardize our ability to implement our management philosophy or damage our corporate value. In such an event, we will evaluate the TOB proposal with outside experts, as well as holding a dialogue with the investors. If we conclude that the activity would have a negative effect on our corporate value or the common interests of our shareholders, we will disclose details of the situation to our shareholders and make prompt decisions about the need for specific countermeasures and the content of such measures, so as to be ready to introduce and implement them.

Another question that I am asked is whether Tokyo Gas plans to merge with or absorb other city gas companies. Tokyo Gas is currently a wholesale supplier to 24 city gas companies in its service area. In volume terms, sales to these companies account for over 10% of our total sales, and we anticipate a high growth rate averaging 4.4% over the next five years. We are aggressively developing our wholesale supply business, which allows us to earn income without increasing our assets. We have no plan to engage in hostile M&A activities that might have a negative impact on the business. However, we have taken over the business operations of a government-owned gas business when it was privatized. If there were an optimal M&A deal that would enhance our corporate value and improve customer convenience, we would positively consider it while taking the wishes of the other party into account.

Q: What are your views on shareholder benefits and financial strategies?

Torihara: In our medium-term management plan, we have set targets for operating cash flows and defined our allocation policy. Specifically, we aim to generate operating cash flows of ¥1,120 billion and other cash flows of ¥70 billion, making a total of ¥1,190 billion. Of this, we intend to invest ¥860 billion in the development of our integrated energy business. This medium-term management plan is seen as an important step toward the realization of our long-term strategy for the period beyond 2010, and, consequently, we intend to concentrate our management resources and invest aggressively in our core business.

Basic Policy on Cash Flow Allocation (5 years)



I see our business strategy and financial strategy as two halves of a whole. Together with our integrated energy business, which constitutes the foundation stone of our business strategy, our financial strategy and shareholder benefits are the most important issues for management.

In our medium-term management plan, we have set a 60% target for the total payout ratio*. We have also declared our intention to distribute income to shareholders through dividends and stock repurchases. Based on this total payout ratio concept, we have increased the dividend for fiscal 2006 and beyond by ¥1.0 to ¥8.0 per share, and we have allocated funds to repurchase stocks worth ¥39 billion (60 million shares). As a result of these measures, the total payout ratio for fiscal 2006 is expected to be 60.1%. While maintaining dividend stability, we aim to raise the dividend gradually. We have almost completed our stock repurchases for fiscal 2006, which we implemented to prevent dilution caused by the conversion of convertible bonds. Our priority from now on will be to enhance shareholder value by repurchasing stock primarily with a view to cancellation.

Another management priority is to maintain an appropriate capital structure and capital costs. Our main indicators in this area are ROE and Tokyo Gas Economic Profit (TEP), which is the Tokyo Gas version of Economic Value Added (EVA®). We aim to achieve sustained improvement in all of these indicators.

As president, I am determined to steadily implement the medium-term management plan while also ensuring that Tokyo Gas remains a trusted name and a company of choice for shareholders, investors, customers and the public. This unswerving commitment will continue to guide our activities in a changing business environment as we work to create and develop new markets for natural gas and build a broad-based profit structure for 2010 and beyond. We will go the distance.

*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)

Mitsunori Torihara, President

Our Mid-term Plan

Creation and Cultivation of new natural gas market

1999

Medium-term management plan (FY2000–2004) "New Utility Company"

2002

Medium-term management plan (FY2003–2007) "Energy Frontier Corporate Group"

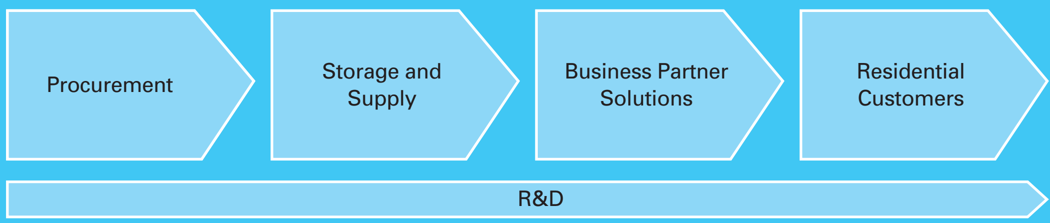
2006

Medium-term management plan (FY2006–2010) "Creation and Cultivation of New Natural Gas Markets"

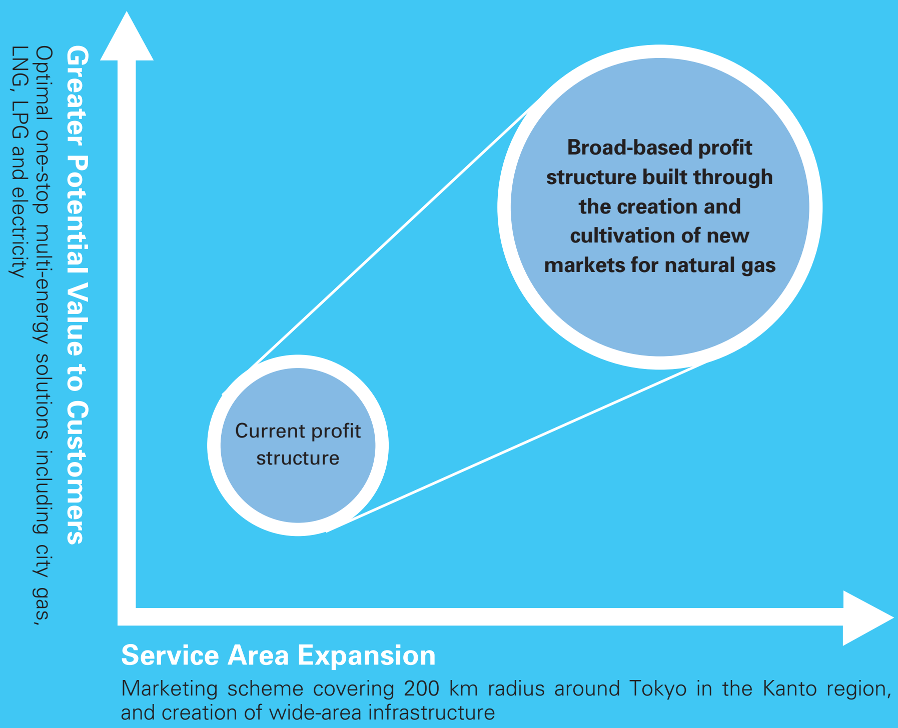
Our Gas Value Chain

There have been significant changes in the environment in which Tokyo Gas operates, including deregulation of the gas and electric power sectors, shifts in demand patterns, and growing public concern about corporate social responsibility. At the same time, customer needs have become increasingly diverse and sophisticated. We have been adapting to this environment through initiatives based on our medium-term plans. Under the plan that started in 2000, we worked to develop Tokyo Gas as a new kind of utility company, while our goal under the plan started in 2003 was evolution as an energy frontier business group. In April 2006, we launched a medium-term management plan covering the period from fiscal 2006 to fiscal 2010. This plan reflects our vision for Tokyo Gas in the decade after 2010. We aim to increase our presence in the LNG value chain, which encompasses all stages from upstream to downstream, and we will focus on the development of energy services based on our abilities as a multi-energy supplier including gas and power. We also intend to tap the enormous latent demand in the Kanto region by expanding our integrated energy business within a 200 km radius from Tokyo.

Value Chain



Business Strategy



Procurement

Capturing Upstream Value

Tokyo Gas is the largest importer of LNG among city gas distributors in Japan, which buys around 40% of world LNG supplies. Currently we source a total of 10 million tons of LNG from 10 projects in six countries, including locations in Southeast Asia, Australia, the United States and the Middle East. We are determined to secure our ability to supply our customers with high-quality natural gas. To achieve this goal, we plan to ensure reliable and competitive access to resources by enhancing our presence in the LNG value chain through participation in upstream development and transportation.

◀ *Energy Progress*, one of the carriers in the Tokyo Gas Fleet, loads LNG from the Darwin project in Australia.

LNG—A Precious Natural Resource

Liquefied natural gas (LNG) is produced by transforming natural gas from its natural gaseous state into a liquid by lowering its temperature to around minus 160ºC. This precious natural resource is brought to Japan across thousands of kilometers of ocean aboard specially designed carriers. Tokyo Gas first imported LNG from Alaska in 1969. In the four decades since then, we have made this environmentally friendly fuel the core of our business operations.

LNG is a environmentally superior to other fossil fuels. Unlike crude oil, which is found only in limited areas, such as the Middle East, LNG can be sourced from many locations. Another important advantage is the ability of natural gas to be used with increasing efficiency because of advances in utilization technologies, such as fuel cells and cogeneration systems. These and other advantages are reflected in consistently high levels of customer satisfaction.

Reliable, Competitive Access to Resources

Tokyo Gas is continually working to maintain reliable and competitive access to LNG sources by expanding its LNG value chain through the effective linkage of its business activities—from upstream operations and transportation to the operation of import facilities and gas supply systems. This includes overseas activities, and we are implementing the following policies to achieve this goal.

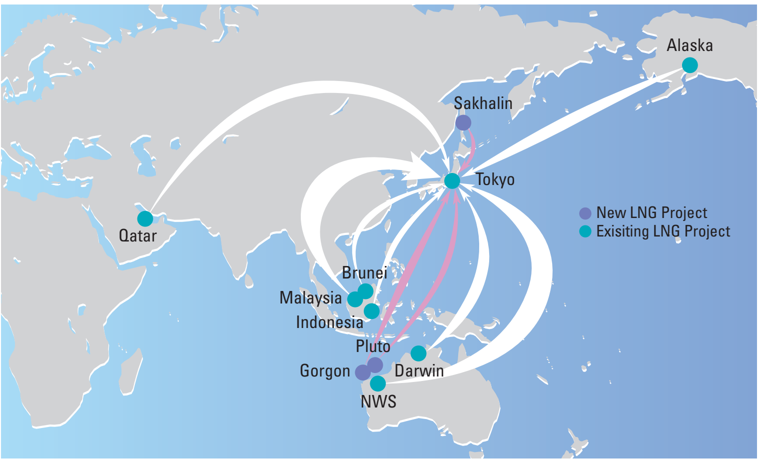
First, we enhance the reliability and competitiveness of our LNG procurement by diversifying our supply sources. In 2008, Russia will become our seventh source country when we begin to procure LNG from the Sakhalin Ⅱ project. From 2010 onwards we will also source LNG from the Gorgon and Pluto Projects in Western Australia.

In recent years we have strengthened our competitiveness by enhancing our ability to adjust to fluctuations in customer demand. We have achieved this by negotiating contracts that provide increased flexibility. For example, with some of our projects we are now able to adjust volumes or change the destinations to which LNG is shipped.

Second, we are already involved in the Darwin Project in Australia, and currently we are negotiating over participation in the Pluto and Gorgon Projects, which are also in Australia. In addition to reducing LNG price fluctuation risk and ensuring business profits, another advantage of this involvement in upstream interests is the potential to develop new business opportunities, including trading operations. Furthermore, we aim to establish an LNG value chain through involvement in LNG receiving terminal and gas supply business.

Third, we currently operate a fleet of five vessels, including *Energy Progress*, which went into service in November 2006. We plan to expand our fleet to seven vessels by fiscal 2010, by which time we will carry approximately 50% of our total LNG cargos in our own vessels. By increasing the volumes carried, we aim to achieve further reductions in our transportation costs. The use of our fleet for short-term and spot procurement as well as procurement under long-term contracts will provide increased flexibility, thereby helping to reduce gas resource costs and improve reliability. We also intend to expand the scope of our business activities by carrying LNG for the third parties or chartering out our vessels.

Tokyo Gas LNG Long-term Imports



Moving Outward

Storage and Supply

The three LNG receiving terminals operated by Tokyo Gas in the Tokyo Bay area are the biggest in Japan. LNG is transported across the world by carriers to these facilities, where it is processed into city gas. The gas is then supplied safely to customers through a pipeline network covering a total distance of 50,000 km—more than the circumference of the Earth. Our supply infrastructure in the Kanto region, including LNG receiving terminals, pipelines and regulators, serves a market that produces around 40% of Japan's GDP. Our success depends on our ability to make effective use of this infrastructure, and we actively invest in the development of our pipeline network as part of our strategy to capture new demand. We plan to expand our network in the Kanto region across a 200 km radius from Tokyo. Tokyo Gas continues to accept the challenge of sustainable growth.

◀ **Now operated jointly with Tokyo Electric Power Company, the Negishi Terminal was opened in November 1969 as Japan's first LNG terminal.**

Exploiting the Full Potential of Supply Infrastructure

Tokyo Gas imports LNG from various parts of the world through its Negishi, Sodegaura and Ohgishima Terminals in the Tokyo Bay area. To maximize shipping efficiency, the gas is cryogenically liquefied at the point of production to reduce its volume about 600 times. On arrival in Japan LNG is transferred to storage tanks, a process that takes approximately half a day. LNG is regasified by passing it through aluminum tubes that are exposed to seawater. LPG is added to adjust the caloric value, and finally odorized, so that customers will be aware of the presence of the gas. It is then sent out through pipelines.

Two of our three terminals, the Negishi and Sodegaura facilities, are jointly operated with Tokyo Electric Power Company. The benefits of this arrangement include reduced capital investment and operating costs, and higher operating rates made possible by load leveling based on differences between peak demand patterns for power and gas. These advantages are reflected in lower gas production costs.

Computerized central control systems allow efficient operation of the terminals by a small team, and day-to-day operations require only 5–10 workers. Safety is of paramount importance. Most of the LNG tanks, which hold up to 200,000 kiloliters, are located underground. This increases their ability to withstand earthquakes, and even if a tank is damaged the risk of above-ground LNG leaks can be minimized.

Expansion across a 200 km Radius around Tokyo—The Kanto Region

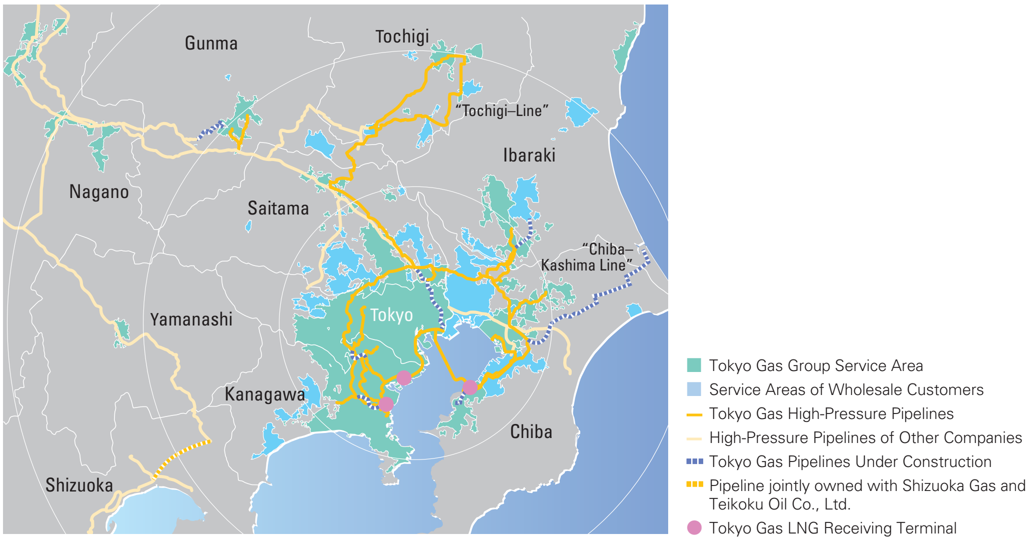
In the medium-term management plan for fiscal 2006–2010, the Tokyo Gas Group announced that it would expand its pipeline network in the Kanto region across a radius of 200 km from Tokyo. This expansion will enhance supply reliability and allow us to develop the enormous potential demand that exists in the region.

Expansion work was already in progress before the announcement of the plan. In November 2005 we completed the 69-km "Tochigi Line" linking Sano and Utsunomiya across the northern part of the Kanto region and commenced natural gas sales to large-volume customers in the area. This pipeline was constructed to meet the needs of customers, especially in local industrial estates, and to provide enhanced reliability of supply. Its contribution to demand development has exceeded our initial target, and to date we have been able to secure approximately 300 million m^3 of new demand.

We have also decided to build the new "Chiba–Kashima Line" to capture energy demand at industrial complexes in Ibaraki Prefecture. When completed in 2010, this 73-km pipeline is expected to attract approximately 500 million m^3 of new demand.

Tokyo Gas uses a variety of methods to supply natural gas to customers in locations that are remote from our pipelines. The Sodegaura and Negishi Terminals also serve as loading depots for tanker trucks, which form a mobile link in our infrastructure for day-to-day gas sales in the Kanto region across a 200-km radius from Tokyo. Coastal carriers are used to supply natural gas to customers in more remote locations. This flexibility and mobility allow us to provide optimized energy solutions that meet the needs of our customers.

Tokyo Gas Group Supply Area



Business Partner Solutions

Greater Energy Choice

Buoyant business performance has driven a surge in the development of new production facilities in the Tokyo metropolitan area. There has also been an accelerating shift to natural gas, both as a means of reducing CO_2 emissions, and also because of a price advantage relative to persistently high crude oil prices. Despite escalating competition in the energy market, Tokyo Gas has built an overwhelming advantage on a foundation of engineering expertise. As a reliable business partner in all segments of the energy market, we will continue to work with our customers to create new value.

The Tokyo Gas Baypower plant (100 MW) is located alongside the Sodegaura LNG Terminal.

Sophisticated Energy Solutions

There is escalating competition among different types of energy, and among suppliers of the same type of energy. However, Tokyo Gas has maintained an overwhelming advantage backed by decades of accumulated experience and knowledge. Our city gas network is the core infrastructure through which we respond to the changing and increasingly sophisticated energy needs of industrial and commercial customers. As a multi-energy supplier and provider of energy services, we offer one-stop access to city gas, LPG, electric power and other forms of energy. We will continue to provide advanced energy solutions that surpass the expectations of our customers.

Our power business is one of the core elements in the multi-energy supply structure, through which Tokyo Gas provides its customers with one-stop solutions to their energy needs. Our aim is to supply the optimal mix of facilities, including cogeneration systems. We are able to supply electric power competitively by combining a range of strategies, including the construction of power plants close to demand areas, the use of existing infrastructure at LNG terminals and other facilities, and the introduction of Advanced Combined Cycle (ACC) technology. There are also important synergy benefits between our electric power and gas operations, including higher utilization rates for LNG terminals. Tokyo Gas and its allied companies currently have 2,340 MW of generating capacity at four sites, either already in operation or at the construction or planning stages.

Integrated Utility Services for Diversified Needs

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

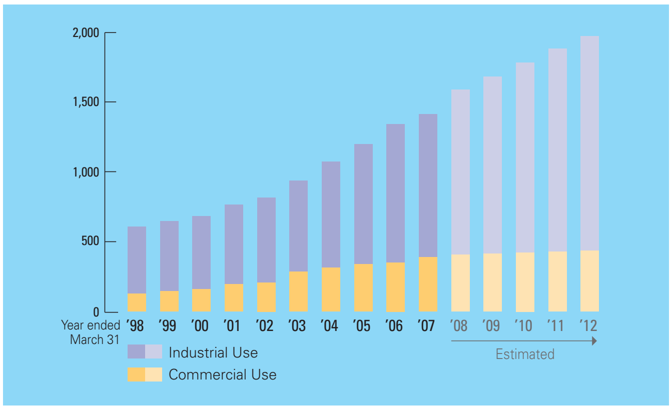
The knowledge and technical expertise accumulated through construction and operation of these facilities are the foundation for a wide range of energy services. ENAC's professional engineers select, design and install systems that precisely match customer needs, providing benefits that include energy conservation and reduced CO_2 emissions and costs. With a cumulative total of 175 orders by the end of March 2007, ENAC is the industry leader.

The services provided by ENAC are not limited to energy. It is evolving into an integrated utility service company offering one-stop solutions for a wide range of customer needs, including utility services, such as the supply of pure water and compressed air, and contracting services in such areas as biomass utilization and facility operation and management.

Building Markets for Integrated Energy Solutions

Businesses are establishing an increasing number of factories and large-scale commercial facilities on the outskirts of Tokyo. Our strategies for the development of potential demand in the Kanto area around Tokyo include the development of wide-area pipeline networks and construction of LNG satellite terminals in areas where gas pipelines have not been installed. We see the Kanto area within a 200-km radius of Tokyo as a single market for natural gas, and we believe that we can achieve further demand growth by strengthening our alliances with local energy suppliers, and by offering one-stop service packages that include LNG sales and other energy services, such as power and heat.

Cogeneration Stock (MW)



Residential Customers

One Stop for Service

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

Maximizing the Value of Customer Contacts

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

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

Our strategy in this market environment is to maintain and expand gas sales in the residential sector by offering enhanced lifestyle features and comfort to as many customers as possible. We will achieve this by strategically introducing attractive gas appliances that anticipate changing lifestyles, such as floor-heating systems and mist saunas. We are also encouraging customers to use these appliances by developing and promoting an attractive range of gas charging options.

We are promoting these strategic appliances aggressively. In addition to the use of mass-advertising media, such as television, newspapers, magazines and the Internet, we are also creating opportunities for consumers to experience the advantages of gas at our showrooms, and through outside events and condominium and housing displays.

In addition to aggressive product development and marketing strategies, we also work to strengthen our marketing organization in each market segment. In April 2007, we created the Residential Sales Promotion Division, which is responsible primarily for end-user services and marketing through regionally focused marketing approaches coordinated by five branch offices. We also established the Housing Development Division, which markets our products and services primarily to sub-users.

We will soon commence full-scale preparations for the implementation of the new regional energy company concept as the next stage in the evolution of our regionally based marketing organization. This change will involve the restructuring and integration of sales and service functions, including appliance sales, repair services and safety inspections, in order to provide one-stop access to products and services with the potential to add value to customer lifestyles.

The aim of these initiatives is to create a framework for sustainable growth in the residential gas market by strengthening the integrated marketing potential of the Tokyo Gas Group, and by providing one-stop access to products and services needed by our customers.

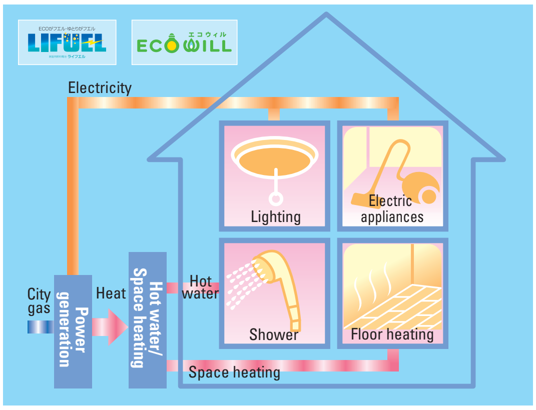
Capturing Residential Electric Power Demand—Home Power Generation

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

We use home power generation to develop a new residential electric power market. These strategic products have the potential to drive future growth in gas sales. Until now, we marketed these systems mainly for new houses, but in early fiscal 2007, we expanded the scope of the market by launching a major effort focusing on installation in existing houses. By fiscal 2010, we aim to sell a cumulative total of approximately 43,000 units as a foundation for large-scale adoption of this technology.

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

Flow of residential cogeneration system



Making Our Own Future

Technology Research and Development

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

◀ The pilot biomass gasification plant is located at the Nakagawa Water Recycling Center in Misato city, Saitama Prefecture.

R&D Focusing on both Strategy and Platform

Our research and development activities are broadly divided into strategic technology development that contributes to the development of an integrated energy business centering on natural gas, and platform technology development that helps to enhance our competitiveness while also ensuring that we can meet society's needs in terms of reliability, safety and environmental considerations.

Our strategic technology development has two major goals. First, we aim to diversify and improve the performance of our products, including mist saunas and floor-heating systems, so that residential customers can enjoy the full benefits of gas. Second, we work to develop new technologies to drive sustainable growth in the future.

One of the goals of our platform technology development is to improve the technologies used to build, and maintain our natural gas infrastructure, especially our pipeline network, so that we can safely deliver natural gas and ensure that it is safely used by our customers. Another focus is the development of technology to improve our competitiveness by reducing costs. Our platform activities also play a crucial role in increasing depth and passing on our platform technologies, including gas quality management and combustion engineering.

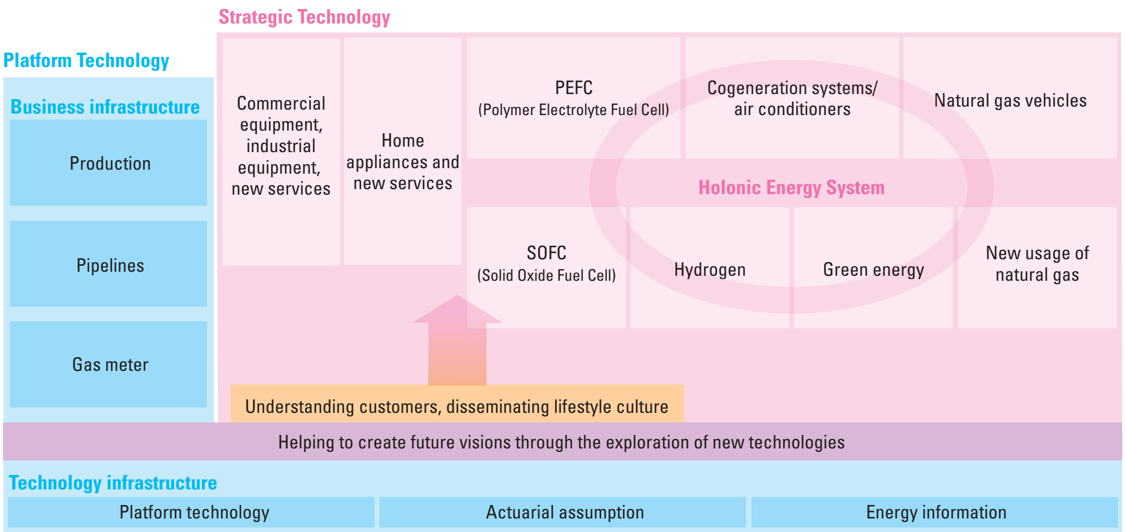
Creating the Energy of the Future

Tokyo Gas has made the development of technologies for the energy society of the future a priority theme for its technology development activities. We are developing a variety of highly efficient equipment with major energy-saving benefits. One of these is the LIFUEL home power generation system, which is now at the performance verification stage. Another is the Solid Oxide Fuel Cell (SOFC), a next-generation fuel cell system capable of generating electricity with high efficiency.

We are also developing technology for the use of biomass as a renewable energy resource capable of making a major contribution to the reduction of CO_2 emissions. A feature of our biomass power generation technology is the use of mixtures of biogas and city gas. This approach allows us to stabilize seasonal and time variations in the output and caloric value of biogas so that cogeneration facilities can be operated continuously. We will market this technology to industrial and public sector customers, such as sewage treatment and waste processing plants.

Our technology development goals also include the development of holonic energy systems. By effectively combining highly efficient devices and renewable energy resources, these systems allow major reductions in energy consumption and CO_2 emissions while also improving supply stability. In June 2006 we built a pilot facility at the Yokohama Research Center and commenced testing. The facility is designed to provide optimized control by combining various distributed power sources and grid power.

Technology Development Strategies



Q:1 What are the characteristics of the city gas business in Japan?

Japan has many mountainous regions, and there are few concentrations of population and industrial activity where city gas suppliers can achieve an advantage. For this reason, the availability of city gas is limited to just 5% of Japan's territory. Though there are around 210 city gas companies in Japan, the three biggest (Tokyo Gas, Osaka Gas and Toho Gas) together account for approximately 80% of nationwide city gas sales in volume terms. In addition to these city gas companies, there are around 1,700 community gas utilities and about 26,000 LPG suppliers. Most of these companies are small- or medium-sized operators.

Over 90% of the city gas sold in Japan is sourced from natural gas. Most of the gas is imported in the form of LNG. It takes 10 to 40 days to transport LNG to Japan in carriers. In Japan, gas suppliers are responsible for ensuring safe use of gas at the customer's site. Hence, gas rates also include the cost of periodic inspections and accident prevention measures. For this reason, prices tend to be higher than in Europe or North America. Unlike Europe and North America, Japan has no nationwide pipeline networks. Each city gas supplier supplies and sells city gas through a pipeline network developed for its own service area.

Q:2 How does Tokyo Gas structure its rates?

Service Agreement

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

Optional Agreement

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

Large-volume Supply

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

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

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

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

Q:3 What are transportation service rates?

Transportation service is a process whereby Tokyo Gas receives gas from another supplier (the transportation supplier) into its pipelines and at the same time supplies an identical volume of gas via its pipelines in another location, while ensuring fair competitive conditions between existing operators and new participants to expand customer choice in a deregulated gas market. All companies that own or operate gas supply pipelines are required to provide transportation services. In principle they are required to prepare, make notification and publish agreements. There are two types: retail and linked. With retail, the transported gas is sent out and delivered to the customer's site, while under the linked agreement, it is sent out and sold to customers through other general gas companies or pipeline operators. Before the revision of the Gas Utility Industry Law in April 2004, implementation of transportation service was limited to retail supply agreements, however, after that date, transportation service was expanded to wholesale supply. To ensure transparency and fairness, balances are published together with peak flow charts and transportation capacities for trunk pipelines.

Q:4 What is your relationship with Tokyo Electric Power Company (TEPCO)?

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

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

At the marketing level, however, we are competitors. TEPCO has moved into the gas market and is now a competing supplier of gas, especially for commercial and industrial use. We have always competed with electric power in the residential market, but in recent years this competition has intensified with the advent of all-electric systems. In fiscal 2006 we successfully implemented a range of strategies, including market promotions for gas appliances, and in-depth demand development focusing on major sub-users. As a result of these initiatives, we are able to hold the percentage of newly built houses with all-electric systems in our service area to 8.0%.

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

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

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

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

By March 2007, it had signed a cumulative total of 175 contracts for 274 MW, and it had received subsidies for 80 schemes totaling 185 MW.

Q:6 How has the Kyoto Protocol affected Tokyo Gas?

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

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

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

Q:7 What processes are used by Tokyo Gas when making investment decisions?

Since fiscal 2003, Tokyo Gas has based decisions on new investments, the continuation of investments and exits from investments on Tokyo Gas Economic Profit (TEP), which is our version of Economic Value Added (EVA®), together with Net Present Value (NPV) and Internal Rate of Return (IRR). These three indicators are used as common standards throughout the Tokyo Gas Group.

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

Management meetings are held each week and are attended by executives at the senior executive officer level and above, as well as the two corporate auditors. Final decisions on important management issues are made after in-depth discussion, including deliberations by the Investment Evaluation Committee in the case of investment decisions.

Q:8 What is your policy on the utilization of real estate owned by Tokyo Gas?

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

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

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

Our Fundamental Concept of Corporate Governance

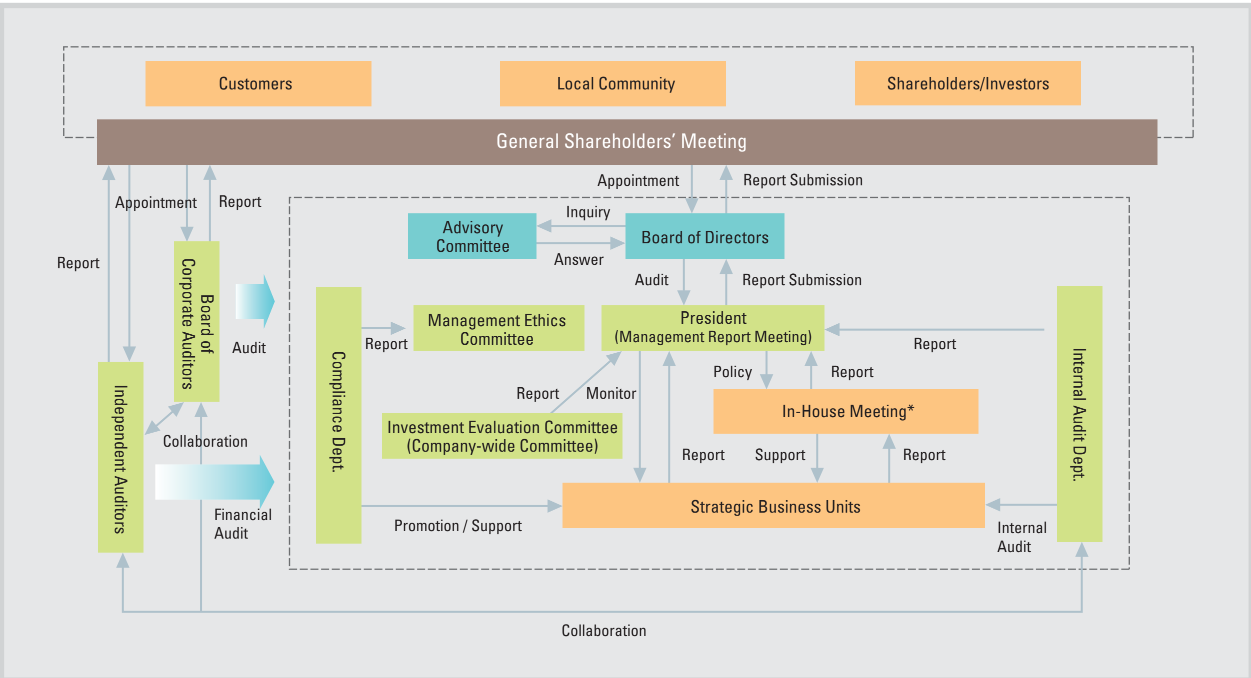
The Tokyo Gas Group aims to achieve a continuous increase in its corporate value to ensure management soundness and transparency. To this end, we are strengthening our corporate governance with clear targets.

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, as well as offering fair 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 a 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, and local communities, 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.

Corporate Governance Structure



* Safety Committee, Customer Satisfaction Promotion Committee, CSR Promotion Meeting, Environmental Meeting and others.

Management Structure

Management Structure

There is frequent debate over the relative merits of the committee-based system and auditor system as suitable structures to reinforce corporate governance. Tokyo Gas currently adopts the auditor system, since we see this as the optimal structure for attaining our corporate governance objectives, which are to maintain sound and transparent management while achieving sustainable growth in corporate value. To maximize the advantages of our status as a company with auditors, we have appointed two corporate auditors and three outside auditors. Their role is to audit the legality and appropriateness of our business operations from a position of complete independence from the Board of Directors. The auditors actively make recommendations at management and directors' meetings. They also work to enhance the effectiveness of monitoring.

Tokyo Gas has adopted an executive officer system. This system separates management and executive functions while also providing clearly defined accountability. By delegating substantial authority to the executive officers, the system supports speedy execution regarding operational matters.

Currently (as of July 1, 2007), there are 22 executive officers. To ensure clear accountability, executive officers are appointed for terms of one year. All officers at corporate officer level and above, as well as two corporate auditors, participate in weekly management meetings. After in-depth discussion, the President makes decisions on important management issues at these meetings.

When the executive officer system was introduced, we reduced widely the number of directors and shortened the term of office for directors to one year. The purpose of these moves was to speed up decision-making and establish clear lines of management accountability. In addition to 12 directors we invited three outside directors, all of whom have extensive expert knowledge and are able to monitor the appropriateness of management activities flexibly and objectively. We believe that we have created a structure that supports prompt, effective decision-making while maintaining proper management transparency.

Reforming the Remuneration System

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

1. Abolition of Retirement Benefits

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

2. Introduction of a Performance-linked Remuneration Scheme

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

3. Share Purchasing Guidelines

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

Prior to implementing 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.

Compensation for Directors and Corporate Auditors (Fiscal 2006)

	Millions of yen	Thousands of U.S. $
Compensation for 12 directors	545	4,619
Compensation for 5 corporate auditors	103	873
Total	648	5,492

Compensation for independent public accountant (Fiscal 2006)

	Millions of yen	Thousands of U.S. $
Compensation for auditing services	174	1,475
Compensation for other services	81	686
Total	255	2,161

Board of Directors and Corporate Auditors

Director, Chairman **Norio Ichino**

Place of Birth	Hiroshima Prefecture
Date of Birth	January 1, 1941
March 1964	Degree in law, Waseda University
April 1964	Joined Tokyo Gas Co., Ltd.
July 1990	Manager, Sales Planning Division
July 1991	Deputy Chief Executive, Northern Business Division
June 1993	Director responsible for Government Relations Department
June 1996	Director, General Manager, Corporate Planning Department, Strategic Planning Division
June 1998	Managing Director, Chief Executive, Business Development Division
June 2000	Senior Managing Director, Chief Executive, Business Development Division
June 2001	Senior Managing Director
June 2002	Representative Director, Executive Vice President, Executive Officer, Chief Executive, Corporate Communication Division
June 2003	Representative Director, President and Chief Executive Officer, Executive Officer
April 2006	Director, Vice Chairman
April 2007	Director, Chairman

Representative Director, President **Mitsunori Torihara**

Place of Birth	Tokyo
Date of Birth	March 12, 1943
March 1967	Degree in economics, University of Tokyo
April 1967	Joined Tokyo Gas Co., Ltd.
July 1992	Manager, Management Planning Group, Corporate Planning Department
August 1993	General Manager, Planning Department, Kanagawa Business Division
June 1994	Vice Chief Executive, Kanagawa Business Division
June 1996	General Manager, Gas Resources Department
June 1998	Director, General Manager, Gas Resources Department
June 2000	Managing Director
June 2002	Director, Senior Executive Officer, Chief Executive, Strategic Planning Division
June 2003	Representative Director, Executive Vice-President, Chief Executive, Strategic Planning Division
April 2004	Representative Director, Executive Vice-President, Chief Executive, Corporate Communication Division, responsible for Compliance Department
April 2006	President and Chief Executive Officer

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

Place of Birth	Tokyo
Date of Birth	February 11, 1946
March 1970	Completed masters degree in engineering, University of Tokyo
April 1970	Joined Tokyo Gas Co., Ltd.
July 1992	Acting Manager, Corporate Planning Department
July 1993	Acting Manager, Technology Planning Group, Manager, Research Planning Group
July 1994	General Manager, Planning Department, Western Business Division
June 1996	Deputy Chief Executive, Western Business Division
June 1997	General Manager, Product Development Department
June 2000	Director, General Manager, Energy Sales and Service Planning Department, Energy Sales Division
June 2002	Senior Executive Officer, Chief Executive, R&D Division
April 2004	Senior Executive Officer, Chief Executive, Energy Resources Division, Internal Audit Department
June 2004	Director, Senior Executive Officer, Chief Executive, Energy Resources Division, Internal Audit Department
April 2006	Representative Director, Executive Vice President, Executive Officer, Chief Executive, Strategic Planning Division
April 2007	Representative Director, Executive Vice President, Executive Officer, Chief Executive, Energy Production Division, responsible for Environmental Affairs Department

Senior Executive Officer **Shigeru Muraki**

Place of Birth	Fukuoka Prefecture
Date of Birth	August 29, 1949
March 1972	Degree in engineering, University of Tokyo
July 1972	Joined Tokyo Gas Co., Ltd.
July 1997	Manager, Gas Resources Research and Development Group, Gas Resources Department
June 2000	Manager, Gas Resources Department
June 2002	Executive Officer, General Manager, Gas Resources Department, Planning Division
April 2004	Senior Executive Officer, Chief Executive, R&D Division
April 2006	Senior Executive Officer, Chief Executive, Technology Development Division
April 2007	Senior Executive Officer, Chief Executive, Energy Solutions Division
June 2007	Director, Senior Executive Officer, Chief Executive, Energy Solutions Division

Senior Executive Officer **Toshiyuki Kanisawa**

Place of Birth	Kanagawa Prefecture
Date of Birth	November 23, 1948
March 1972	Degree in economics, Keio University
April 1972	Joined Tokyo Gas Co., Ltd.
July 1997	General Manager, Residential Sales Department, Kanagawa Business Division
June 1999	Business Planning Department, Business Development Division
June 2001	Related Business Department, Related Business Division
June 2003	Executive Officer, General Manager, Service Planning Department, Customer Service Division
April 2004	Executive Officer, Manager, Corporate Planning Department, Planning Division
April 2006	Senior Executive Officer, Chief Executive, Residential Sales Division
April 2007	Senior Executive Officer, Chief Executive, Residential Sales Promotion Division
June 2007	Director, Senior Executive Officer, Chief Executive, Residential Sales Promotion Division

Outside Director **Kazumoto Yamamoto**

Current position	Advisor, Asahi Kasei Corporation
Place of Birth	Yamaguchi Prefecture
Date of Birth	July 22, 1933
March 1957	Degree in engineering, Kyushu Institute of Technology
April 1957	Joined Asahi Chemical Industry Co., Ltd.
August 1971	General Manager, Chikushino Factory
April 1976	General Manager, Housing Construction Department, Housing Division
June 1982	General Manager, Housing Division
June 1983	Director
June 1987	Managing Director
June 1990	Senior Managing Director
June 1992	General Manager, Housing Division
June 1993	Representative Senior Managing Director
June 1995	Vice-President and Representative Director
June 1997	President Representative Director
January 2001	Company name changed to Asahi Kasei Corporation (January 1)
April 2003	Director, Vice-Chairman
June 2003	Advisor
June 2005	Director, Tokyo Gas Co., Ltd.

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

Place of Birth	Kyoto
Date of Birth	September 23, 1947
March 1990	Degree in economics, Hitotsubashi University
April 1970	Joined Tokyo Gas Co., Ltd.
July 1994	Acting Manager, Gas Resources Department, Manager, Gas Resource Research and Development Group
June 1996	General Manager, Planning Department, Northern Business Division
June 1997	Deputy Chief Executive, Northern Business Division
June 1998	General Manager, Government Relations Department
June 1999	General Manager, Japan Gas Association
June 2002	Executive Officer, General Manager, Strategic Planning Division
April 2004	Senior Executive Officer, Chief Executive, Strategic Planning Division,
June 2004	Director, Senior Executive Officer, Chief Executive, Corporate Planning Department
April 2006	Director, Senior Executive Officer, Chief Executive, Corporate Communication Division, Compliance Department, Internal Audit Department
April 2007	Representative Director, Executive Vice President, Executive Officer responsible for Personnel Department, Secretary Department, General Administration Department, Compliance Department, Internal Audit Department

Director, Senior Executive Officer **Masaki Sugiyama**

Place of Birth	Hokkaido
Date of Birth	September 14, 1947
March 1970	Degree in engineering, Hokkaido University
April 1970	Joined Tokyo Gas Co., Ltd.
July 1995	Manager, Production Group, Production Division
June 1996	Business Planning Department, Business Development Division
June 2000	General Manager, Production Department, Production Division
June 2002	Executive Officer, Manager, Pipeline Department, Pipeline and Safety Management Division
April 2004	Senior Executive Officer, Chief Executive, Pipeline Network Division
June 2006	Director, Senior Executive Officer, Chief Executive, Pipeline Network Division, Pipeline Planning Department
April 2007	Director, Senior Executive Officer, Chief Executive, Technology Development Division

Senior Executive Officer **Toshio Tezuka**

Place of Birth	Tokyo
Date of Birth	December 13, 1946
March 1970	Degree in engineering, Tokyo Institute of Technology,
April 1970	Joined Tokyo Gas Co., Ltd.
July 1995	Business Planning Department, Business Development Division
June 1999	Group Manager, Technology Planning Group, Corporate Planning Department, Strategic Planning Division
June 2001	General Manager, Commercial Customer Development & Service Department, Energy Sales and Service Division, Acting Manager, Volume Sales Department, Energy Sales and Service Division
June 2002	Executive Officer, General Manager, Commercial Customer Development & Service Department, Energy Sales and Service Division
June 2003	Executive Officer, Manager, Commercial Customer Development & Service Department, Energy Sales and Service Division, Acting Manager, Volume Sales Department
April 2004	Senior Executive Officer, Chief Executive, Regional Development Marketing Division
April 2007	Senior Executive Officer, Chief Executive, Housing Development Division
June 2007	Director, Senior Executive Officer, Chief Executive, Housing Development Division

Outside Director **Katsuhiko Honda**

Current position	Director, Advisor, Japan Tobacco Inc.
Place of Birth	Kagoshima Prefecture
Date of Birth	March 12, 1942
March 1965	Completed law degree, University of Tokyo
April 1965	Japan Tobacco and Salt Public Corporation
June 1992	Director, Japan Tobacco Inc.
June 1994	Managing Director, Japan Tobacco Inc.
June 1996	Senior Director, Japan Tobacco Inc.
June 1998	Deputy President, Japan Tobacco Inc.
June 2000	President, Japan Tobacco Inc.
June 2006	Director, Advisor, Japan Tobacco Inc.
June 2007	Director, Tokyo Gas Co., Ltd.

Outside Director **Sanae Inada**

Current occupation	Attorney
Place of Birth	Tokyo
Date of Birth	April 3, 1944
March 1967	Degree in law, Keio University
1967	Passed bar examination
March 1970	Completed training at Judicial Research and Training Institute
April 1970	Registered as attorney (Daiichi Tokyo Bar Association)
June 2007	Director, Tokyo Gas Co., Ltd.

Auditor **Tsunenori Tokumoto**

Auditor **Yasunori Takakuwa**

Outside Auditor **Masayoshi Hanabusa**
(Former Chairman, Hitachi Capital Corporation)

Outside Auditor **Toshimitsu Shimizu**
(President, Yokohama Industrial Development Corporation)

Outside Auditor **Shoji Mori**
(Vice Chairman, Institute for International Socio-Economics Studies)

Internal Governance

Construction of Risk Management Systems

Under our risk management system, the Board of Directors is responsible for corporate management, and the executive officers for the management of operations, policies and budgets. The performance of the directors' duties is supervised by two corporate auditors and three outside auditors. In addition, the Internal Audit Department, which reports directly to the President, conducts 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 2007 the staff was further increased to 41. Internal audits cover Tokyo Gas Co., Ltd. and all consolidated subsidiaries. Audits are carried out objectively aiming to ensure that all activities are being conducted appropriately, efficiently, as well as according to business policies and plans, and complying with laws and regulations. Audit results are reported to the President, the Management Meeting and the auditors, chief executives of relevant divisions, and the presidents and auditors of group companies.

In fiscal 2003, we established the Enterprise Risk Management system, which includes risk management regulations and documented rules concerning major risks that require management intervention. A Risk Management Promotion Section has been created within the Internal Audit Department to coordinate risk management. Each year it monitors and assesses risks and countermeasures within the group and reports its findings to the Management Meeting. The Management Meeting and the Board of Directors confirm and revise the list of major risks annually.

In April 2006, Tokyo Gas prepared for the introduction of new rules concerning the Evaluation and Audit of Internal Control over Financial Reporting by establishing the Internal Control Promotion Committee as a company-wide unit.

Promoting Compliance

Compliance with laws, regulations and high ethical standards are the foundation on which the Tokyo Gas Group is continually building the value of its brand, "security, safety and reliability." This perception is reflected in three basic policies calling for the fostering of compliance awareness, engaging both policies in the whole Group and practice in each workplace, and the establishment of compliance PDCA cycles.

We established the Management Ethics Committee, chaired by the President, this committee formulates basic compliance policies, monitors the implementation of compliance-related measures, and confirms activity programs from the following year and thereafter.

We have also established the Compliance Department, a specialized unit to provide leadership of activities, including the development of compliance promotion systems for units, education about the code of conduct, compliance risk reduction measures, the maintenance of advisory systems, and the distribution of information within and beyond the Tokyo Gas Group companies.

In addition to continuous education about "Our Code of Conduct" activities, we are going forward with a casebook designed for applying the code of conduct to various problems in the workplace to build the permutation of compliance.

Compliance risk countermeasures include internal and external advisory systems. By operating these systems effectively, we ensure that compliance-related problems are discovered and resolved quickly, thereby strengthening our corporate self-regulatory processes.

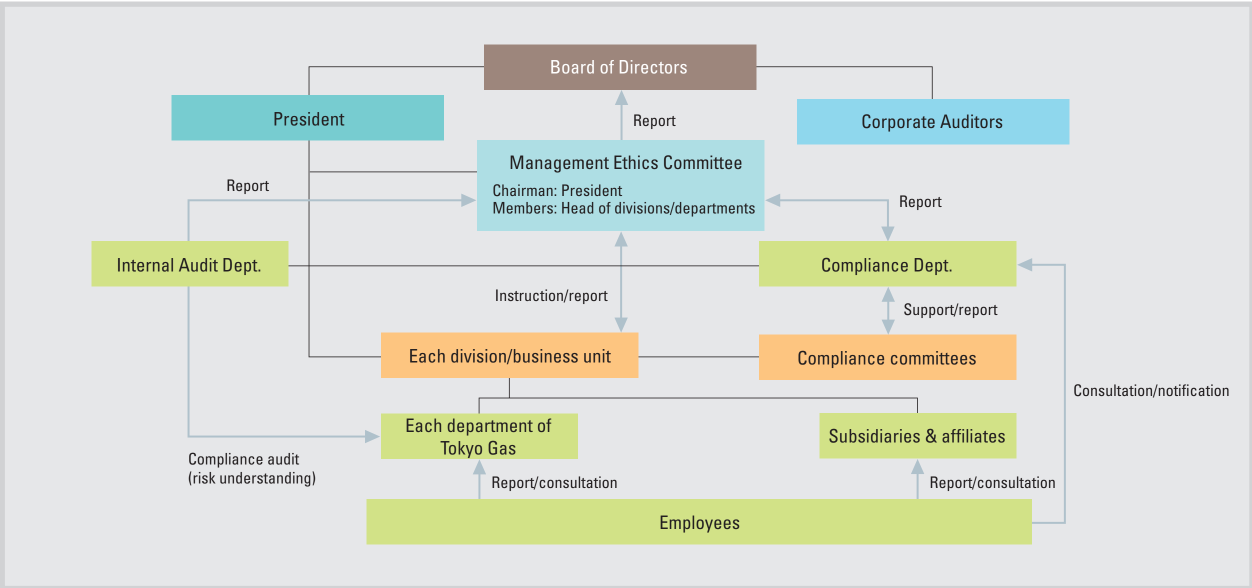
We monitor the effectiveness of compliance promotion activities by conducting compliance awareness surveys. The results of these surveys are reflected in initiatives for the following year.

Major Risks Requiring Management Intervention

Disaster and accident risks	Disruption of production and supply, quality problems with gas appliances and other products*, reputation damage resulting from other companies' gas-related accidents*, natural disasters, disruptions to gas resource procurement
Market risks	Market price fluctuations affecting real estate and financial assets, etc., weather changes, etc.
Business strategy risks	Risks to existing businesses (increased competition, changes in the gas resource procurement environment*, declines in existing demand, changes of laws and regulations and regimes), ROI risks
Information risks	Information leaks, failures or malfunctions in backbone systems, loss of telephone services to call centers
Social responsibility risks and other risks	Environmental risks, compliance risks, customer satisfaction and customer service risks

* New major risks added in the current year

Compliance Structure



Disclosure Policy

Information disclosure ranks alongside the reinforcement of risk management and compliance systems as one of the most important ways to ensure management soundness and transparency and earn the understanding and confidence of all stakeholders, including shareholders and investors. There is an inevitable gap between corporate values as seen by management and as assessed by the market. This perception gap has grown bigger in recent years because of the increasing diversity of investors in the Japanese stock market, including foreign investors and individual investors. We believe active information disclosure and interactive communication with shareholders and investors will close the gap in perceived corporate value.

The Tokyo Gas Group has always provided full disclosure of its short-, medium- and long-term management targets, and the specific management strategies and action plans adopted to achieve the set targets. We have also actively disclosed information about our business performance and progress towards goals. As part of our disclosure activities, we have continually improved and expanded the content of our annual report, investors' guide, IR Website, and shareholder newsletter. Information disclosure should not be a one-way process, however, and we are working to build closer communication with shareholders and investors through an active program of presentations, seminars and other events.

Our awareness of the importance of communication is reflected in the direct involvement of our senior management in IR activities. They have continuously held meetings with analysts in Japan since July 1999 and overseas since June 2001. Twice each year, our top executives present IR roadshows in Japan and overseas. They also use briefings and individual meetings as opportunities for wide-ranging discussions. These efforts reflect our commitment to management to respond to the trust of shareholders and investors.

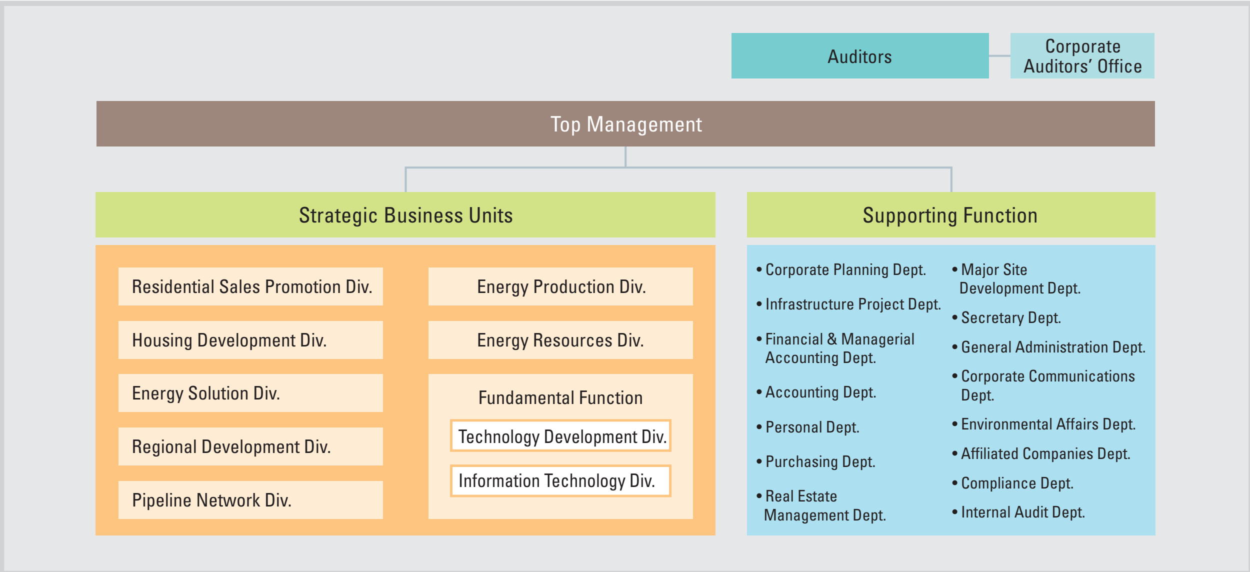
Major IR Activities

Target	Principal Activities	Media		
Sell-side analysts, domestic institutional investors and shareholders	Various explanatory meetings, domestic IR road shows, one-on-one meetings, and facility excursions		Annual Report Investors Guide	Website
Overseas institutional investors and shareholders	Overseas IR roadshows, one-on-one meetings			
Individual investors and shareholders	IR seminars for Japanese individual investors and facility excursions	Tokyo Gas Tsuushin (Japanese report for individual shareholders)		

Group Management Structure

The Tokyo Gas Group currently consists of Tokyo Gas Co., Ltd., together with 52 subsidiaries and one affiliated company. With the deregulation of the energy sector, Tokyo Gas now faces escalating competition from both inside and outside the industry. In April 2004 we introduced a new group structure known as the "Strategic Business Unit" (SBU) system, which is designed to focus the entire resources of the Tokyo Gas Group toward the task of surviving and succeeding in the competitive environment. Under this structure, Tokyo Gas corporate divisions are linked with group companies to form business units in each business area. The divisions and companies work closely together on tasks ranging from the formulation of business strategies to the allocation of management resources and the management of operations, all under the responsibility of unit managers. The aim of this cooperative approach is to maximize our group potential and further strengthen our competitiveness.

Group Management Structure



Executive Officers

President

Mitsunori Torihara

Executive Vice President

Tadaaki Maeda
Chief Executive, Energy Production Dept., Environmental Affairs Dept.

Tsuyoshi Okamoto
Chief Executive, Personnel Dept., Secretary Div., General Administration Div. Compliance Dept., Internal Audit Div.

Senior Executive Officers

Masaki Sugiyama
Chief Executive, Technology Development Div.

Toshio Tezuka
Chief Executive, Housing Development Div.

Shigeru Muraki
Chief Executive, Energy Solution Div., General Manager, Volume Sales Dept.

Toshiyuki Kanisawa
Chief Executive, Residential Sales Promotion Div.

Tadashi Kaburagi
Chief Executive, IT Division

Tsutomu Oya
Chief Executive, Energy Resources Div.

Norikazu Hoshino
Chief Executive, Purchasing Dept., Real Estate Management Dept., Major Site Development Dept., Corporate Communication Dept.

Kunihiro Mori
Dispatched to the Japan Gas Association

Yasuhiro Hiruma
Chief Executive, Regional Development Marketing Div.

Mikio Itazawa
Chief Executive, Pipeline Network Division

Michiaki Hirose
Chief Executive, Corporate Planning Div., Infrastructure Project Dept., Financial & Managerial Accounting Dept., Accounting Dept., Affiliated Companies Dept.

Executive Officers

Kazuo Yoshino
General Manager, Finance & Managerial Accounting Dept.

Hisao Watanabe
General Manager, Technology Planning Dept., Technology Development Div.

Akio Maekawa
Coordinator, Energy Solution Div.

Manabu Fukumoto
General Manager, General Administration Dept.

Matsuhiko Hataba
General Manager, Corporate Planning Dept.

Yuji Akiyama
General Manager, Kanagawa Service Branch, Residential Sales Promotion Div.

Koichi Aonuma
General Manager, Sales Marking Ⅱ Dept., Housing Development Div.

Yutaka Kunigo
General Manager, Gas Resources Dept., Energy Resources Div.

Environmental Contribution from Increased Use of Natural Gas

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

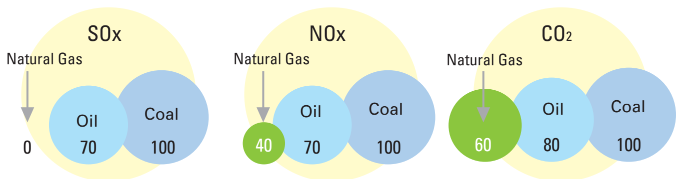
First, we are working to reduce the environmental load resulting from the use of energy by our customers; second, we are working to reduce the total environmental load resulting from our own business activities; third, we are strengthening our environmental partnerships with local and international communities; and fourth, we are promoting research and development relating to environmental technologies.

Our core business activity is to supply city gas. However, the main resource for city gas is natural gas, which has the smallest environmental footprint of any general-purpose fossil fuel. It emits almost no sulfur oxide (SOx) during combustion, while nitrogen oxide (NOx) and CO_2 emissions are around 40% and 80% respectively of the level for coal and oil.

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

Tokyo Gas has developed its own environmental protection guidelines to ensure that the environmental advantages

Comparison of Emission Levels (Coal=100)



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 reduce by 10% the amount of wastepaper from its offices by fiscal 2010, compared with fiscal 2005.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 2006 and Targets for Fiscal 2010

		Target for FY2006	Result for FY2006	Target for FY2010
Global Warming	Reduction of CO_2 emissions from customers' facilities	6.60 million tons	6.61 million tons	8.00 million tons
	Unit energy use in gas production facilities (Per unit of gas production)	1% or more reduction	2.4% reduction*	1% or more reduction
	Unit energy use in district cooling/heating systems (Per heat sales volume unit)	1% or more reduction	0.6% reduction*	1% or more reduction
	Unit energy use in Tokyo Gas business offices (Per city gas sales volume unit)	1% or more reduction	6.3% reduction*	1% or more reduction
Resource Circulation	Industrial waste (manufacturing plants)	4 sites/10 sites	5 sites/11 sites	10 sites/10 sites
	Recycling of industrial waste (other sites)	More than 91%	87%	More than 91%
	Reduction ratio of waste paper	2% reduction	3.9% reduction	10% reduction from fiscal 2005
	Recycling of waste paper	More than 85%	87%	More than 85%
	Sheets of copy paper used per person per year	7,400	7,180	5,000
	Excavation spoil ratio	19%	19.3%	15%
Green Purchasing	Green procurement ratio	60%	60%	More than 70%
	Number of affiliated companies that have already introduced an electronic catalog purchasing system	35 companies	38 companies	48 companies

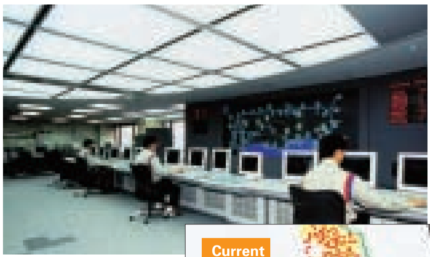
* Annual average reduction ratio (Unit energy use reduction ratio at power plants will be evaluated from fiscal 2007.)

of its city gas business are fully exploited. These guidelines call for the reduction of CO_2 emissions resulting from gas use by Tokyo Gas customers by eight million tons by fiscal 2010.

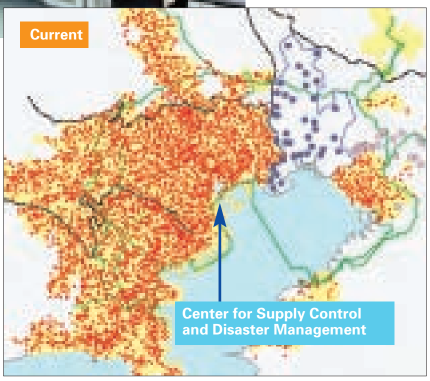
Advanced Disaster Prevention Measures

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

Japan is an earthquake-prone country. Tokyo Gas maintains a high standard of safety by ensuring that key gas production and supply facilities are able to withstand major earthquakes on the scale of the disaster that struck the Hanshin-Awaji area in 1995. When seismic motion with an intensity of five or higher on the Japanese scale is detected, computerized meters shut off the supply of gas to customers' sites. At the same time, our Super-Dense Real-time Monitoring of Earthquakes (SUPREME) system instantly monitors data from a network of approximately 4,000 seismometers located throughout our service area. In order to prevent secondary disasters, our highly effective safety measures include automatic shut-off valves linked to seismometers and systems that allow remote shut-off of gas supply if an earthquake with the potential to cause major damage is detected. In addition to this ability to suspend gas supplies for safety reasons, we have also developed systems that allow supplies to be resumed quickly once the situation has returned to normal. We have strengthened our collaboration with group companies and suppliers and taken every possible measure to minimize inconvenience to customers by ensuring restoration of services as quickly as possible.



Control Room



SUPREME Seismic Sensors
Red points are sensor locations (Approximately 4,000)

Gaslight 24

Safety Inspections

This includes the implementation of restoration support systems, development of equipment and training of personnel.

Our day-to-day safety organization including the "Gaslight 24" team, is ready to respond to gas leaks and other safety-related problems on a 24/7 basis.

Elimination of Carbon Monoxide Poisoning

In fiscal 2006 Tokyo Gas announced the expansion of its measures to prevent CO poisoning. We will spend up to ¥10 billion on a campaign to encourage customers in the Tokyo Gas service area to replace kitchen and bathroom water heaters with imperfect oxygen depletion safety shut-off devices with new units that incorporate this important safety feature. The campaign will continue for approximately three years from January 2007.

Starting in April 2007, we will progressively increase our safety inspection work force by around 100 to support extensive inspection programs. We will also enhance our communication activities in order to foster customer confidence in the safety of gas by responding to safety-related questions and concerns.

Customer safety is the fundamental mission and the most important responsibility of a gas supplier. The entire Tokyo Gas organization has worked to fulfill its responsibility under the leadership exercised by the top management. In addition to our efforts to expand safety inspections and promote the replacement of unsafe appliances, we are also actively developing new technologies that will help to enhance safety.

Financial Section

Contents

Summary

- **Consolidated gas sales volume increased by 1.7% year-on-year. Residential and commercial sales were lower due to temperature-related factors, but this was offset by higher industrial sales.**
- **Net sales increased by 8.7% to ¥1,377.0 billion year-on-year, operating income by 44.5% to ¥162.3 billion and net income by 62.1% to ¥100.7 billion. One reason for these large increases was a rise in crude oil prices in the second half of fiscal 2005 and in the first half of fiscal 2006, which triggered increases in unit prices under the gas rate adjustment system according to gas resource costs. Other contributing factors included a reduction in personnel costs resulting from an actuarial differential on retirement benefits.**

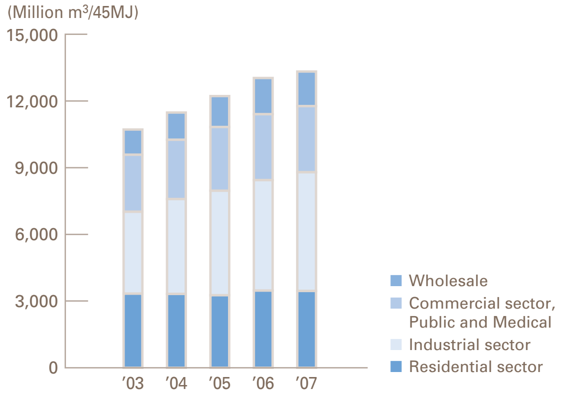
Sales Trends in the Core Gas Business

Gas Sales Volume Growth Led by Industrial Sector

Residential Sector

In the first half of fiscal 2006, temperatures were 0.4°C lower on average than in the previous fiscal year, resulting in increased demand for hot water. In the second half, however, when gas demand is seasonally higher, the average temperature was 1.6°C higher than in the previous year, resulting in reduced demand for hot water and heating.

Gas sales volume by sector



Sales volume declined by 95 million m^3, or 2.7%, to 3,452 million m^3.

Commercial Sector, Public and Medical

Temperatures were lower year-on-year in the first half and higher in the second. Air conditioning demand declined, with the result that gas sales were 113 million m^3, or 3.7%, below the previous year's level at 2,972 million m^3.

Industrial Sector

Gas sales increased by 293 million m^3, or 5.8%, to 5,336 million m^3. This growth reflects the start-up of new facilities by customers using gas solely for power generation, and steady growth in the operations of new and existing customers.

Wholesaling to Other Gas Companies

Sales increased by 132 million m^3, or 9.3%, year-on-year to 1,554 million m^3. This was mainly attributable to steady growth in the operations of new and existing customers in the service areas of the purchasing suppliers.

Total sales increased by 217 million m^3, or 1.7%, over the previous year's level to 13,315 million m^3, with the industrial sector contributing most of the growth. Sales exceeded the forecast for the current year by 137 million m^3, or 1.0%.

Analysis of Income

Operating Income Substantially Higher Due to Higher Unit Prices Under the Gas Rate Adjustment System and Lower Personnel Costs Resulting from an Actuarial Differential on Retirement Benefits

Net sales increased by 9.8% in the year ended March 31, 2007. Contributing factors included growth in gas sales, and higher unit prices under the gas rate adjustment system. Results from other segments included an increase in sales from the energy services business. Total net sales increased by ¥110.5 billion, or 8.7%, over the previous year's figure to a new record of ¥1,377.0 billion.

Operating income rose by ¥50.0 billion, or 44.5%, year-on-year to ¥162.3 billion. This increase was achieved despite a 14.4% rise in gas resource costs resulting from growth in gas sales, higher crude oil prices and other factors, and higher expenditure on safety measures and demand development. Reasons for the increase included cost reductions achieved through ongoing efficiency efforts, and cost savings resulting from an actuarial differential on retirement benefits.

Business results by segment (¥ million)

Sales

Years ended March 31	2007	2006	2005
Gas Sales	999,521	910,321	834,658
Gas Appliance Sales	135,407	130,826	135,109
Related Construction	59,230	59,747	64,795
Real Estate Rental	34,035	34,187	34,701
Other Business	285,407	252,596	234,721

Operating income

Years ended March 31	2007	2006	2005
Gas Sales	203,566	160,020	182,685
Gas Appliance Sales	1,169	4,617	7,054
Related Construction	1,751	2,976	3,575
Real Estate Rental	6,731	5,459	6,503
Other Business	13,848	9,647	13,415

Note: Segment sales include intra-group transactions.

■ Gas Sales

Higher Sales and Income Resulting from High Unit Prices Under the Gas Rate Adjustment System

Though there was a 1.7% volume increase in total gas sales, residential and commercial sector sales were lower due to temperature-related factors. In value terms, however, gas sales increased by ¥89.2 billion, or 9.8%, to ¥999.5 billion, in part because of higher unit prices under the gas rate adjustment system. At the non-consolidated level, sales increased by ¥84.3 billion, or 9.4%. Sales volumes and temperature-related factors had negative impacts of ¥6.0 billion and ¥23.4 billion respectively, while higher unit prices under the gas rate adjustment system used to adjust for gas resource costs made a positive contribution of ¥93.5 billion. This was offset by a ¥3.2 billion negative impact from other factors, leaving a total price-related contribution of ¥90.3 billion. The contribution of gas sales to total sales increased from 65.6% in the previous year to 66.1%.

Operating expenses were affected by a 14.4% increase in gas resource costs resulting from higher gas sales volumes and rising crude oil prices. There was also additional expenditure on safety measures and demand development. Despite efforts to minimize existing expenditure items, total operating expenses increased by ¥45.7 billion, or 6.1%.

Operating income increased by ¥43.5 billion, or 27.2%, to ¥203.6 billion.

■ Gas Appliances Sales

Higher Sales, Higher Costs, Lower Income

Firm sales trends continued, especially for gas floor-heating systems using hot water supplied by the Tokyo Gas Eco System (TES), bathroom heater-dryers with mist sauna functions and built-in cooktops. Sales of gas appliances increased by ¥4.6 billion, or 3.5%, to ¥135.4 billion, while operating expenses were ¥8.0 billion, or 6.4%, higher at ¥134.2 billion. As a result, operating income declined by ¥3.4 billion, or 74.7%, to ¥1.2 billion. The contribution made by gas appliance sales to total net sales declined from 9.4% to 8.9%.

■ Related Construction

Reduced Installation Numbers Reflected in Lower Sales and Income

Sales decreased by ¥0.5 billion, or 0.9%, year-on-year to ¥59.2 billion, reflecting a reduction in the number of new installations. Operating expenses increased by ¥0.7 billion, or 1.2%, to ¥57.5 billion, while operating income decreased ¥1.2 billion, or 41.2%, to ¥1.8 billion. This segment's contribution to total net sales declined from 4.3% to 3.9%.

■ Real Estate Rental

Reduced Depreciation Reflected in Higher Income Despite Lower Revenues

Sales were similar to the previous year's result at ¥34.0 billion. Operating income decreased by ¥1.4 billion, or 5.0%, due to reduced depreciation and other factors, with the result that operating income increased by ¥1.3 billion, or 23.3%, to ¥6.7 billion. This segment's contribution to total net sales was reduced from 2.5% to 2.2%.

■ Other Business

Energy Service Business Expanding

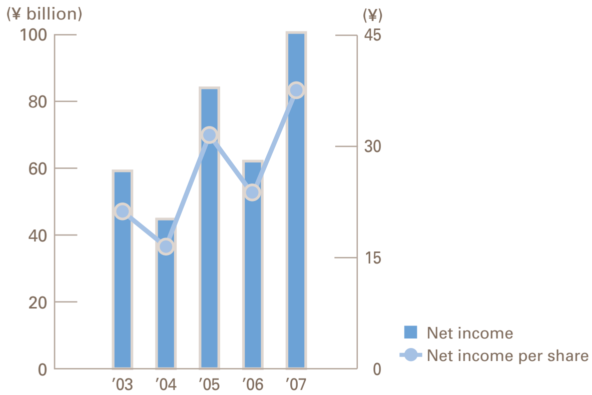
Sales of other business segments increased by ¥32.8 billion, or 13.0%, year-on-year to ¥285.4 billion. Reasons for the higher result include the sustained expansion of the on-site energy service business, and increased operations by the Tokyo Gas LNG tanker fleet. Operating expenses rose by ¥28.6 billion, or 11.8%. This reflects the increased initial depreciation burden associated with the on-site energy service business. Operating income increased by ¥4.2 billion, or 43.5%, to ¥13.8 billion. This segment's contribution to total net sales increased from 18.2% to 18.9%.

■ Other Revenues and Income/Net Income

Total other income increased by ¥8.3 billion to ¥26.9 billion.

There were no gains on commodity derivatives, which contributed ¥2.4 billion to the increase recorded in the previous year. However, there was a ¥1.6 billion gain on weather derivatives, reflecting higher-than-anticipated temperatures. There were also extraordinary income, including ¥5.9

Net income and net income per share



billion from sales of investment securities, and ¥7.9 billion from sales of fixed assets.

Total other expenses amounted to ¥26.6 billion, a year-on-year decline of ¥3.3 billion. There was no loss on weather derivatives, which amounted to ¥5.7 billion and ¥3.0 billion respectively in the previous year. The reduction of interest-bearing debt was reflected in a ¥0.6 billion reduction in interest payments. In the previous year there was also a ¥5.1 billion loss resulting from the abandon of system development. In the current year there was an extraordinary expense of ¥7.2 billion relating to the advanced depreciation of fixed assets.

Other income, net improved by ¥0.2 billion form the previous year's result of other expenses, net amounting to ¥11.5 billion. Net income increased by ¥38.6 billion, or 62.1%, to ¥100.7 billion.

■ Operating Cash Flow

In the current fiscal year Tokyo Gas launched a new medium-term management plan covering the period to FY2010. One of the target indicators used in the previous medium-term plan, "Frontier 2007," was free cash flow, which is calculated by adding depreciation to net income and subtracting capital expenditures. Under the new plan, we have published a resource allocation policy based on the use of our resources to support our evolution from a gas business to an integrated energy business. This is also reflected in the adoption of operating cash flow, which is calculated by adding depreciation to net income, as a key target indicator. (See Page 11.)

Operating cash flow for the fiscal year ended March 31, 2007 amounted to ¥233.8 billion, a year-on-year increase of ¥35.4 billion, or 17.8%. The higher figure reflects an increase of ¥38.6 billion, or 62.1%, in net income, and a reduction of ¥3.2 billion, or 2.4%, in depreciation. Capital expenditure increased by ¥5.1 billion, or 4.3%, over the previous year's level to ¥124.6 billion.

■ Fiscal 2007 Projection

Higher Revenues and Lower Income Predicted for Fiscal Year Ending March 31, 2008

In fiscal 2007 (the year ending March 31, 2008), we expect net sales to increase by ¥42.0 billion, or 3.1%, to ¥1,419.0 billion. However, operating income is expected to decline by ¥49.3 billion, or 30.4%, to ¥113.0 billion and net income by ¥27.7 billion, or 27.5%, to ¥73.0 billion.

The reasons for this forecast of a substantial decline in income compared with the fiscal 2006 results are analyzed below on the basis of non-consolidated operating income.

In fiscal 2006, non-consolidated operating income amounted to ¥136.8 billion. The result for fiscal 2007 is expected to be sharply lower, with a year-on-year decline of ¥45.8 billion, or 33.5%, to ¥91.0 billion. A reduction in the gross margin on gas accounts for ¥5.5 billion of this projected decline, and an increase in fixed costs and other factors for ¥40.3 billion.

In volume terms, gas sales are expected to increase by 4.1% year-on-year. However, a time-lag in the gas rate adjustment system will delay the recovery of some gas resource costs, leading to a ¥20.2 billion year-on-year reduction in the gross margin. Depreciation will increase in fiscal 2007 due to changes to tax revision. We also anticipate substantial increases in fixed costs resulting from external factors, such as the taxation system, trends in government bond interest rates and the capital market. These include an increase in the actuarial differential on retirement benefits, resulting in part from differences in the discount rate and investment yield.

Another reason for our forecast of higher sales and lower income than fiscal 2007 is our plan for additional expenditure on measures to counter competition from all-electric systems. The ¥20.2 billion negative impact of the time lag in the gas rate adjustment system is the result of composite factors, including a difference in the economic frame compared with the previous year.

The consolidated operating income forecast for fiscal 2007 can be analyzed by comparing it with the plan for fiscal 2007 in the medium-term management plan. We predict operating income of ¥113.0 billion. If we adjust this for transient factors, including the ¥13.0 billion negative impact of the time lag in the gas rate adjustment system, the ¥9.7 billion negative impact from the recalculation of pension assets, and a ¥4.7 billion decline resulting from a difference in the discount rate, together with ¥2.5 billion in surplus income resulting from the expected return on pension assets, we are left with a figure of ¥137.9 billion, which is ¥300 million below the ¥138.2 billion figure projected for the medium-term management plan.

These forecasts include a negative impact of ¥13.1 billion resulting from tax revision. Based on conditions in a normal year, there would be a ¥12.8 billion net improvement in income.

Although progress under the medium-term management plan will fall short of the target on an income basis, it will almost match the target in terms of operating cash flow. We believe that we are advancing at the required pace in terms of the generation and investment of cash flow.

Tax Revision in Fiscal 2007

Changes to the taxation system in fiscal 2007 will have the effect of raising the depreciation limit from 95% to 100%. An amount equivalent to 5% of the residual book value of existing assets will be subject to straight line depreciation over five years. When the effect on assets newly acquired in fiscal 2007 is included, the total impact at the consolidated level will be a ¥13.1 billion increase in depreciation.

The effects of this change will continue for the next five years. However, we expect the long-term effect to be positive because of the resulting increase in cash flow, as well as tax-related advantages.

Fiscal 2007 will be an important year for our efforts to build a foundation for sustainable growth in the 2010s. We will focus on the following priorities.

- We will develop a regionally-focused marketing system, restructure our customer service organization, and implement the new regional energy company concept, with the aim of building closer customer relationships and strengthening our ability to compete with all-electric systems.
- We will build a one-stop service capacity by developing upstream, transportation, power and energy service businesses to increase our presence in the LNG value chain.
- We will strengthen our safety measures at all stages, including production, transportation and consumption. In particular, we will work to improve safety services for customers.

These key policies will be targeted for prioritized investment, funded where possible through the scrapping of existing expenditure items.

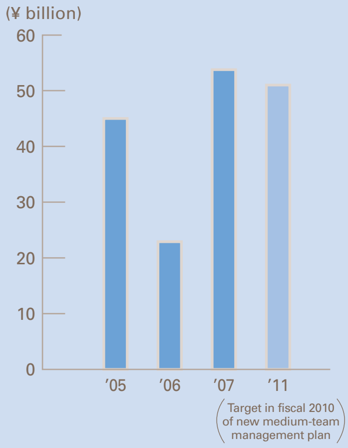
As far as cash flow utilization is concerned, we are investing steadily in areas that will generate income streams in the future, as provided in our medium-term management plan.

Tokyo Gas Original Indicator : TEP

Our goal is to generate profit in excess of capital costs. This is reflected in our adoption of Tokyo Gas Economic Profit (TEP), which is Tokyo Gas version of Economic Value Added (EVA®), as our main management indicator. In fiscal 2006, Net Ordinary Profit After Tax (NOPAT) increased by ¥33.4 billion year-on-year to ¥103.4 billion, in part because of unit price increases under the gas rate adjustment system, and an actuarial differential on retirement benefits. However, the Weighted Average Cost of Capital (WACC) rose from 3.7% to 3.8%, with the result that the cost of capital increased by ¥2.6 billion to ¥49.6 billion.

On this basis, TEP increased by ¥30.9 billion over the previous year's level to ¥53.8 billion. TEP is also being used as a management indicator for group companies, and as a benchmark for business restructuring and integration. We will continue to use TEP as a key management indicator under the new medium-term management plan. Our aim is to generate TEP of ¥50.0 billion in fiscal 2010, which is the final year of the plan.

TEP (EVA® Tokyo Gas Version)



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

Cash Flows and Financial Position

Increased Net Income Reflected in Higher Cash Flows from Operating Activities

■ Cash Flows from Operating Activities

Net cash and cash equivalents from operating activities increased by ¥9.1 billion to ¥190.6 billion over the previous year. Despite a ¥37.3 billion reduction in retirement benefit reserves and a ¥17.4 billion increase in notes and accounts receivable, income before income taxes and minority interest in net income increased by ¥61.7 billion year-on-year to ¥162.5 billion. Depreciation of fixed assets declined by ¥3.3 billion year-on-year to ¥129.0 billion.

■ Cash Flows from Investing Activities

Net cash and cash equivalents used in investment activities amounted to ¥130.9 billion, a increase of ¥14.9 billion compared with the previous year's figure. This total consists mainly of expenditure of ¥124.2 billion on the acquisition of fixed assets, including gas distibution facilities.

■ Cash Flows from Financing Activities

Net cash and cash equivalents used in financing activities decreased by ¥17.2 billion year-on-year to ¥65.8 billion. The main sources of this increase were ¥6.0 billion from commercial paper and ¥14.9 billion from long-term loans. Outflows included expenditure of ¥34.7 billion on share repurchasing and ¥26.8 billion on long-term debt repayment, and ¥18.9 billion for dividend payments.

As a result of the above factors, cash and cash equivalents at the end of the term amounted to ¥40.2 billion, a

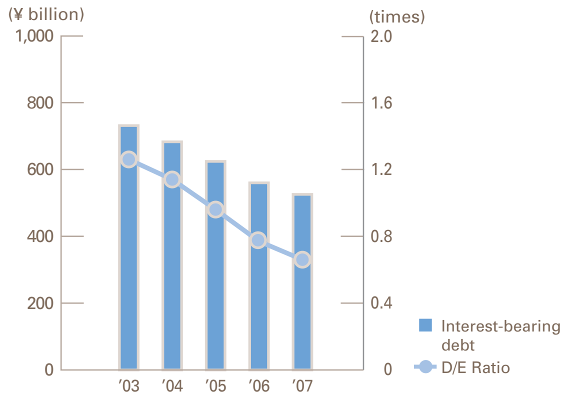
Years ended March 31 (unit : million yen)	2007	2006	2005
Net cash provided by operating activities	190,597	181,529	215,038
Net cash used in investing activities	(130,922)	(116,071)	(107,376)
Net cash used in financing activities	(65,844)	(83,041)	(108,160)

decline of ¥5.4 billion from the previous year's year-end total of ¥45.6 billion.

■ Interest-Bearing Debt Reduced — D/E Ratio at 0.66

Interest-bearing debt was reduced by ¥34.4 billion to ¥525.5 billion, in part because of the maturation of the 6th issue of convertible bonds in March 2007. This is reflected in a D/E ratio of 0.66, which indicates that Tokyo Gas is maintaining financial soundness. From the perspective of debt leverage, we believe that we have passed the stage of aggressive reduction of interest-bearing debt. However, we place considerable importance on a balanced approach that also takes into account the need to maintain and improve our ability to procure finance, and we see a D/E ratio of around 0.6 as a reasonable target in this context.

Interest-bearing debt and D/E ratio



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

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

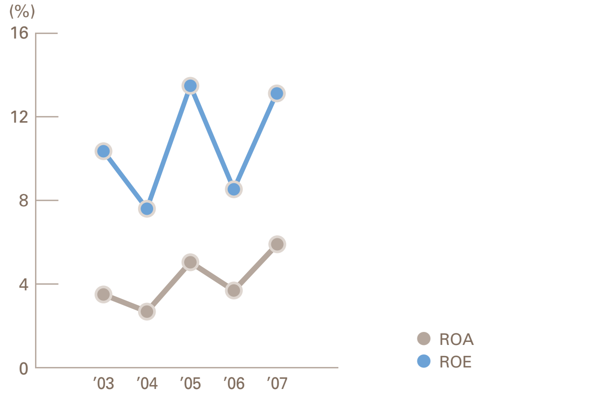
■ Increase in Net Income — ROA at 5.9%

Net income rose by ¥38.6 billion, or 62.1%, over the previous year's level, in part because of higher unit prices under the gas rate adjustment system according to gas resource costs. As a result, ROA improved by 2.2 points to 5.9% at the end of the accounting period.

Total assets declined by ¥1.3 billion year-on-year to ¥1,692.6 billion. As a result of ongoing depreciation, the tangible fixed asset portion of this amounted to ¥1,130.5 billion. Investments and other assets declined by ¥10.9 billion to ¥217.0 billion, in part because of an ¥8.3 billion reduction in deferred tax assets. Despite a ¥6.5 billion reduction in cash and bank deposits, current assets rose by ¥19.0 billion to ¥321.1 billion. This reflects increases of ¥19.3 billion in notes and accounts receivable and ¥5.5 billion in other current assets.

In the medium-term management plan the target for an ROA is set at 5.5% in fiscal 2010. Though there may be rises and falls in individual years, we aim to achieve continual improvement by combining aggressive investment in the laying of foundations for future profitability with careful attention to efficiency.

ROA and ROE



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

■ ROE at 13.2%

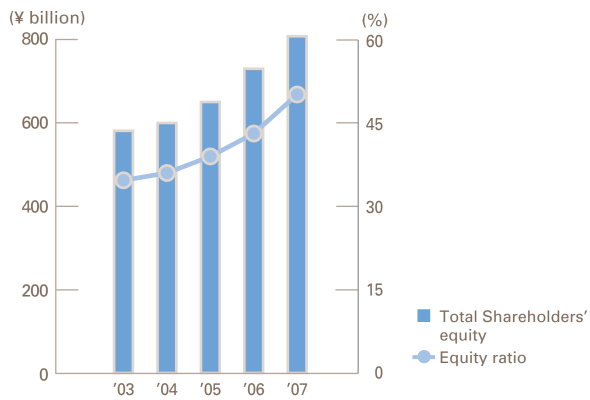
A year-on-year increase of ¥38.6 billion, or 62.1%, in net income lifted ROE by 4.2 points to 13.2%. Despite a reduction in retained earnings resulting from the dividend, net income of ¥100.7 billion helped to raise shareholders' equity by ¥66.9 billion year-on-year to ¥795.1 billion. One of the goals of the medium-term management plan is to build an optimal capital structure. This is reflected in a ROE target of 10.9% by fiscal 2010. While there may be fluctuation in individual years, we aim to maintain continuous improvement in this indicator.

■ Dividend Increases and Stock Repurchases — 60% Target for Total Payout Ratio

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

In line with this concept, we will raise the dividend for fiscal 2006 by 1 yen to ¥8.0 per share. We also plan to

Total Shareholders' equity and equity ratio



repurchase 60 million shares worth ¥39.0 billion yen in fiscal 2007. This is expected to result in a total payout ratio of 60.1% in fiscal 2006.

We have previously repurchased shares to prevent dilution caused by the conversion of convertible bonds. This process was largely completed in fiscal 2006, and future repurchasing programs will be designed to enhance shareholder value primarily through the cancellation of shares.

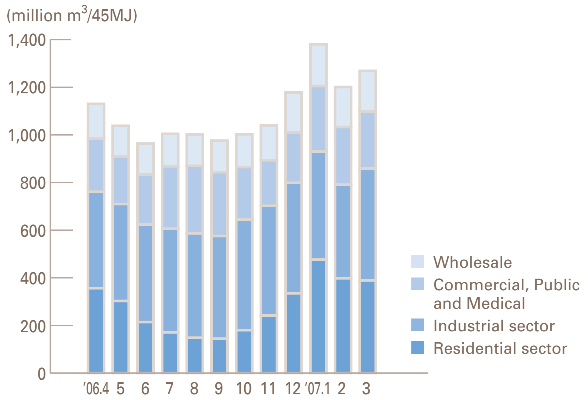
External Risks Affecting Business Activities

■ 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 five times, by about 25% in total, during the same period. Tokyo Gas will continue to implement strategic rate menu as necessary to prevail over competition.

Monthly gas sales volumes for fiscal 2006 (Non-consolidated)



■ 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 2006 were 22.0ºC in the first half of the year, 11.7ºC in the second half, and 16.8ºC over the whole year. Forecasts for fiscal 2007 are based on an average of 16.8ºC over the whole year.

Impact of 1ºC temperature rise on gas sales volume

	Rate of change
Summer (June – September)	0.3%
Winter (December – March)	–3.7%
Intervening months (April, May, October, November)	–3.1%
Annual	–2.4%

■ 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, 2007 is as follows.

Approx. ¥3.7 billion for each ¥1 movement in the yen-dollar exchange rate

Approx. ¥4.4 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 2007, the crude oil price averaged $63.45 per barrel, and the average exchange rate was ¥116.97 to one dollar. Forecasts for fiscal 2006 are based on an average crude oil price of $55 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 page 5 of the accompanying Investors' Guide 2007).

■ 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

Described below are aspects of the information provided in the financial statements concerning the business and financial situation that could have a significant influence on investor decisions. Forward-looking statements are based on judgments as of the end of current consolidated accounting year (March 31, 2007).

1 Disruption of Production and Supply

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

2 Quality Problems Affecting Gas Equipment

Tokyo Gas sells gas appliances and other equipment under the Tokyo Gas brand through consolidated subsidiaries and allied companies. Costs resulting from accidents caused by gas appliances and other equipment could affect future earnings, and there could also be other tangible and intangible losses.

3 Damage to Reputation Resulting from Gas Accidents Caused by Other Companies

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

4 Natural disaster risk

Tokyo Gas engages in facility-dependent businesses because city gas production and supply facilities are the foundation of its business. Accordingly, earthquakes, typhoons or other major natural disasters may cause damage to plants and other production facilities or pipelines and other supply facilities and disrupt the supply of city gas.

5 Resource procurement supply interruption risk

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

6 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.

7 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.

8 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. Tokyo Gas may lose a portion of existing demand should LNG lose competitiveness compared to other forms of energy, or should it become unable to purchase LNG at competitive prices.

B. Changes to the Resource Procurement Environment

Earnings could be affected if it becomes necessary to procure LNG on the spot market, such as if the amount of gas available from existing LNG projects is reduced due to demand growth resulting from temperature fluctuations and other factors or the aforementioned disruptions to resource procurement, or if there are major delays in the start of supply from new LNG projects.

C. 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.

D. 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.

9 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.

10 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.

11 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.

12 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.

13 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.

14 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.

12-year Summary

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31	2007	2006	2005	2004	2003
Net sales	¥ 1,376,958	¥ 1,266,502	¥ 1,190,783	¥ 1,151,825	¥ 1,127,634
Gas sales	999,521	910,321	834,658	831,115	792,454
Gas appliance sales	135,407	130,826	135,109	133,873	142,636
Related construction	59,230	59,747	64,795	68,034	70,568
Real estate rental	34,035	34,187	34,701	35,444	36,346
Other business	285,407	252,596	234,721	172,160	158,327
Operating income	162,315	112,346	145,349	152,287	123,294
Net income	100,700	62,115	84,047	44,787	59,201
Depreciation*	133,142	136,377	140,271	146,895	141,027
Capital expenditures**	124,557	119,435	107,529	107,441	111,988
Free cash flow	109,285	79,057	116,789	84,241	88,240
Amounts per share of common stock (yen)					
Net income	¥ 37.50	¥ 23.48	¥ 31.47	¥ 16.44	¥ 21.18
Diluted net income	35.69	21.70	28.24	14.98	19.11
Net assets	293.11	270.48	244.73	221.53	208.65
Cash dividends applicable to the year	8.00	7.00	7.00	7.00	6.00

At year-end (March 31)					
Total assets	¥ 1,692,635	¥ 1,693,899	¥ 1,668,734	¥ 1,666,828	¥ 1,676,064
Long-term debt due after one year	465,896	496,740	547,139	545,845	598,322
Total net assets	806,046	—	—	—	—
Total shareholders' equity	—	728,232	648,766	598,453	579,706

Ratios					
Operating income to net sales	11.8%	8.9%	12.2%	13.2%	10.9%
Net income to net sales	7.3%	4.9%	7.1%	3.9%	5.3%
ROE	13.2%	9.0%	13.5%	7.6%	10.4%
ROA	5.9%	3.7%	5.0%	2.7%	3.5%
Equity ratio	47.0%	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)
3. Effective from the year ending March 31, 2007, the Company and its consolidated subsidaries adopted the new accounting standard for presentation of net assets ("Accounting Standard for Presentation of Net Assets in the Balance Sheet and its Implementation Guidance" issued by the Business Accounting Deliberation Council on December 9, 2005.)

Millions of yen, except per share amounts

	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, 2007 and 2006

Assets	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Property, plant and equipment (Note 3):			
Production facilities	¥ 713,984	¥ 710,890	$ 6,050,711
Distribution facilities (Note 4)	2,196,766	2,141,478	18,616,665
Service and maintenance facilities (Note 4)	170,539	181,065	1,445,243
Other facilities (Notes 4 and 15)	707,259	687,170	5,993,723
Shutdown facilities	2,798	2,798	23,710
Construction in progress	52,791	50,068	447,380
	3,844,137	3,773,469	32,577,432
Accumulated depreciation	(2,713,656)	(2,633,167)	(22,997,088)
	1,130,481	1,140,302	9,580,344
Intangibles:			
Goodwill	1,396	2,505	11,832
Other intangibles (Note 15)	22,672	21,144	192,135
	24,068	23,649	203,967
Investments and other non-current assets:			
Investment securities (Notes 4 and 5)	144,667	145,048	1,225,988
Long-term loan receivables (Note 4)	3,779	3,554	32,025
Deferred tax assets (Note 11)	28,044	36,386	237,658
Other investments and non-current assets	41,289	43,668	349,911
Allowance for doubtful accounts	(752)	(725)	(6,364)
	217,027	227,931	1,839,218
Current assets:			
Cash and cash equivalents	40,232	45,634	340,947
Marketable securities (Notes 4 and 5)	3	2	28
Notes and accounts receivable			
Trade (Note 6)	166,382	147,060	1,410,018
Other	13,818	13,457	117,103
Allowance for doubtful accounts	(930)	(848)	(7,880)
Inventories (Note 7)	36,132	34,597	306,204
Deferred tax assets (Note 11)	11,989	12,765	101,602
Other current assets	53,433	49,350	452,816
Total current assets	321,059	302,017	2,720,838
Total assets	¥ 1,692,635	¥ 1,693,899	$ 14,344,367

Accompanying notes are an integral part of these financial statements.

Liabilities, Minority Interests and Shareholders' Equity / Net Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Long-term debt due after one year (Notes 4 and 8)	¥ 465,896	¥ 496,740	$ 3,948,272
Deferred tax liabilities (Note 11)	4,716	5,329	39,969
Reserve for retirement benefits (Note 10)	92,948	130,222	787,692
Allowance for repairs of gas holders	3,438	3,229	29,133
Reserve for safety measures	5,427	—	45,993
Other non-current liabilities	29,029	26,425	246,012
	601,454	661,945	5,097,071
Current liabilities:			
Long-term debt (Notes 4 and 8)	42,617	45,501	361,159
Notes and accounts payable:			
Trade (Note 6)	59,728	76,926	506,173
Other	40,454	33,905	342,832
Bank loan payable (Notes 4 and 8)	10,955	17,670	92,837
Income taxes payable	43,854	33,528	371,647
Deferred tax liabilities (Note 11)	107	178	906
Other current liabilities (Note 4)	87,420	85,759	740,846
Total current liabilities	285,135	293,467	2,416,400
Minority interests	—	10,255	—
Commitments and contingent liabilities (Note 16)			
Shareholders' equity: (Note 12)			
Common stock:			
Authorized: 6,500,000,000 shares			
Issued: 2,810,171,295 shares	—	141,844	—
Capital surplus	—	2,066	—
Retained earnings	—	572,600	—
Net unrealized holding gains on securities	—	56,510	—
Foreign currency translation adjustments	—	52	—
	—	773,072	—
Treasury stock, at cost			
117,825,346 shares in 2006	—	(44,840)	—
Total shareholders' equity	—	728,232	—
Total liabilities and shareholders' equity	—	¥ 1,693,899	—
Net assets: (Note 12)			
Common stock:			
Authorized: 6,500,000,000 shares			
Issued: 2,810,171,295 shares	¥ 141,844	—	$ 1,202,071
Capital surplus	2,066	—	17,505
Retained earnings	644,652	—	5,463,154
Treasury stock, at cost			
97,537,522 shares in 2007	(44,565)	—	(377,669)
Net unrealized holding gains on securities	49,707	—	421,242
Deferred gains on hedge transactions	1,095	—	9,282
Foreign currency translation adjustments	302	—	2,560
Minority interest	10,945	—	92,751
Total net assets	806,046	—	6,830,896
Total liabilities and net assets	¥ 1,692,635	—	$ 14,344,367

Consolidated Statements of Income

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Net sales (Note 14)	¥ 1,376,958	¥ 1,266,502	$ 11,669,137
Costs and expenses (Note 14):			
Costs of sales	799,468	724,503	6,775,157
Selling, general and administrative expenses	415,175	429,653	3,518,429
	1,214,643	1,154,156	10,293,586
Operating income (Note 14)	162,315	112,346	1,375,551
Other income (expenses):			
Interest and dividend income	2,051	1,449	17,378
Gains (losses) from weather derivatives	1,621	(5,666)	13,734
Rental income	1,501	944	12,718
Exclusive facilities income	1,489	166	12,618
Gains from sales of fixed assets	7,870	2,240	66,696
Losses on compression of fixed assets	(7,228)	(298)	(61,253)
Gains from sales of investment securities (Note 5)	5,851	4,930	49,588
Interest expense	(10,370)	(11,014)	(87,878)
Losses on cancellation of system development	—	(5,128)	—
Foreign exchange losses	(188)	(552)	(1,594)
Equity in net income of an affiliated company	1,347	693	11,416
Other, net	(3,726)	737	(31,572)
	218	(11,499)	1,851
Income before income taxes and minority interest in net income of consolidated subsidiaries	162,533	100,847	1,377,402
Income taxes:			
Current	49,335	35,704	418,097
Deferred	11,711	2,498	99,249
	61,046	38,202	517,346
Minority interest	(787)	(530)	(6,667)
Net income	¥ 100,700	¥ 62,115	$ 853,389

	yen		U.S. dollars (Note 1)
	2007	2006	2007
Amounts per share of common stock:			
Net income	¥ 37.50	¥ 23.48	$ 0.32
Diluted net income	35.69	21.70	0.30
Cash dividends applicable to the year	8.00	7.00	0.07

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

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

		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, 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)

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Change in Net Asset

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

	Millions of yen									
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Deferred gains on hedge transactions	Foreign currency translation adjustments	Minority interests	total
Shareholders' equity at March 31, 2006 as previously reported	2,810,171	¥141,844	¥2,066	¥572,600	¥(44,840)	¥56,510	—	¥ 52	—	¥728,232
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006									10,255	10,255
Balance at April 1, 2006	2,810,171	¥141,844	¥2,066	¥572,600	¥(44,840)	¥56,510	—	¥ 52	¥10,255	¥738,487
Net income				100,700						100,700
Increase due to addition of consolidated subsidiaries				(1,404)						(1,404)
Treasury stock				(8,403)	275					(8,128)
Net unrealized holding gains on securities						(6,803)				(6,803)
Deferred gains on hedge transactions							1,095			1,095
Foreign currency translation adjustments								250		250
Minority interests									690	690
Cash dividends paid (¥7.0 per share)				(18,774)						(18,774)
Bonuses paid to directors				(67)						(67)
Net changes during the year	—	—	—	72,052	275	(6,803)	1,095	250	690	67,559
Balance at March 31, 2007	2,810,171	¥141,844	¥2,066	¥644,652	¥(44,565)	¥49,707	¥1,095	¥302	¥10,945	¥806,046

	Thousands of U.S. dollars (Note 1)									
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Deferred gains (losses) on hedge transactions	Foreign currency translation adjustments	Minority interests	total
Shareholders' equity at March 31, 2006 as previously reported	2,810,171	$1,202,071	$17,505	$4,852,539	$(380,001)	$478,902	—	$ 440	—	$6,171,456
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance sheet at April 1, 2006									86,911	86,911
Balance at April 1, 2006	2,810,171	$1,202,071	$17,505	$4,852,539	$(380,001)	$478,902	—	$ 440	$86,911	$6,258,367
Net income				853,389						853,389
Increase due to addition of consolidated subsidiaries				(11,898)						(11,898)
Treasury stock				(71,213)	2,332					(68,881)
Net unrealized holding gains on securities						(57,660)				(57,660)
Deferred gains on hedge transactions							9,282			9,282
Foreign currency translation adjustments								2,120		2,120
Minority interests									5,840	5,840
Cash dividends paid (US$0.07 per share)				(159,093)						(159,093)
Bonuses paid to directors				(570)						(570)
Net changes during the year	—	—	—	610,615	2,332	(57,660)	9,282	2,120	5,840	572,529
Balance at March 31, 2007	2,810,171	$1,202,071	$17,505	$5,463,154	$(377,669)	$421,242	$9,282	$2,560	$92,751	$6,830,896

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interest in net income of consolidated subsidiaries	¥ 162,533	¥ 100,847	$ 1,377,402
Adjustments to reconcile income before income taxes and minority interest to net cash provided by operating activities:			
Depreciation (Note 14)	128,998	132,300	1,093,205
Amortization of long-term prepayments	4,144	4,077	35,119
Losses on disposal of property, plant and equipment	3,157	3,251	26,752
Gains from sales of fixed assets	(7,904)	(2,221)	(66,979)
Losses on reduction of acquisition costs of property, plant and equipment for tax purposes	7,228	298	61,253
Gains from sales of securities	(5,851)	(4,930)	(49,588)
Decrease in employees' severance and retirement benefits	(37,274)	(11,189)	(315,885)
Increase in reserve for safety measures	5,427	—	45,993
Interest and dividend income	(2,051)	(1,449)	(17,378)
Interest expense	10,370	11,014	87,878
Return on investment accounted by equity method	1,347	693	11,416
Changes in operating assets and liabilities:			
Increase in major notes and accounts receivable	(17,369)	(7,102)	(147,197)
Increase in inventories	(1,535)	(9,170)	(13,009)
Increase (decrease) in major notes and accounts payable	(14,076)	23,122	(119,286)
Increase (decrease) in consumption taxes payable	4,451	(2,081)	37,719
Losses on cancellation of system development	—	4,518	—
Other – net	(3,438)	(5,942)	(29,138)
	238,157	236,036	2,018,277
Cash received for interest and dividends	2,011	1,446	17,038
Cash paid for interest	(10,244)	(11,410)	(86,810)
Cash paid for income taxes	(39,327)	(44,543)	(333,276)
Net cash provided by operating activities	190,597	181,529	1,615,229
Cash flows from investing activities:			
Purchase of time deposits	(5,517)	(7,367)	(46,756)
Proceeds from redemption of time deposits	6,616	6,466	56,068
Purchases of investment securities	(12,625)	(7,564)	(106,995)
Proceeds from sales of investment securities	9,912	5,220	84,000
Losses on revaluation of investment securities	595	—	5,044
Purchases of property, plant and equipment	(124,174)	(110,993)	(1,052,318)
Purchases of intangible fixed assets	(8,611)	(4,950)	(72,978)
Long-term prepayments	(2,472)	(2,503)	(20,945)
Proceeds from sales of tangible and intangible fixed assets	5,986	6,599	50,729
Proceeds from sales of investments in a consolidated subsidiary accompanied by change in the scope of consolidation	—	678	—
Expenditure of long-term loan receivable	(840)	(1,573)	(7,121)
Other – net	208	(84)	1,763
Net cash used in investing activities	(130,922)	(116,071)	(1,109,509)
Cash flows from financing activities:			
Net decrease of short-term bank loan payable	(6,523)	(8,685)	(55,276)
Proceeds from commercial paper	6,000	—	50,847
Proceeds from long-term debt	14,935	16,998	126,566
Repayments of long-term debt	(26,986)	(52,434)	(228,697)
Cash dividends paid	(18,874)	(18,591)	(159,944)
Payments for acquiring treasury stock	(34,658)	(20,355)	(293,712)
Other – net	262	26	2,218
Net cash used in financing activities	(65,844)	(83,041)	(557,998)
Effect of exchange rate changes on cash and cash equivalents	10	4	80
Net decrease in cash and cash equivalents	(6,159)	(17,579)	(52,198)
Cash and cash equivalents at beginning of year	45,634	50,665	386,725
Increase in cash and cash equivalents due to addition of consolidated subsidiaries	799	12,548	6,776
Decrease in cash and cash equivalents due to exclusion of subsidiaries from scope of consolidation	(42)	—	(356)
Cash and cash equivalents at end of year	¥ 40,232	¥ 45,634	$ 340,947

Accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the 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 consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note2(19) Significant accounting policies, is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note2(20) Significant accounting policies, the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118 to US $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2 Significant accounting policies

(1) Consolidation — The consolidated financial statements include the accounts of the Company and all of its significant subsidiaries. For the years ended March 31, 2007 and 2006, 52 and 54 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.

For the year ended March 31, 2007, three subsidiaries were newly included in the scope of consolidation due to those subsidiaries' increased significance. On the other hand, one subsidiary was excluded from the scope of consolidation as it was dissolved during the fiscal year. Besides, the number of consolidated subsidiaries decreased by four due to business combinations among consolidated subsidiaries.

(2) Equity method — Significant investments in unconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence with regard to operating and financial policies of the investees, are accounted for by the equity method. For the years ended March 31, 2007 and 2006, one affiliated company was accounted for by equity method.

(3) Accounting period of consolidated subsidiaries — Though the Company's fiscal year ends on March 31, the following companies end their year on December 31:
TOKYO GAS AUSTRALIA LTD.
Tokyo Gas Darwin LNG Pty Ltd.
All significant adjustments considered necessary during the period from December 31 to the consolidated fiscal year end have been made on consolidation.

(4) Property, plant and equipment — Property, plant and equipment is generally stated at cost. Depreciation is determined mainly by the declining-balance method based on estimated useful life, except that certain buildings are depreciated using the straight-line method.

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

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

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

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

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

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

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

(c) Other securities with fair value, which are defined as securities other than held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and securities held for trading purposes, are stated at fair value at the year-end, if their fair values are readily available. The difference between acquisition costs and book values of these securities are reported, net of applicable taxes, as a separate component of net assets. Other securities with no fair value are stated at moving-average cost.

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

(10) Derivative financial instruments — The Company and its consolidated subsidiaries use currency swap contracts, interest rate swap contracts, foreign exchange forward contracts, commodity swap contracts and weather derivatives only for the purpose of mitigating the risk of fluctuations in foreign exchange rates, interest rates, market prices of raw materials and finished products and affects of changes in temperature.

The Company and its consolidated subsidiaries do not use derivative financial instruments for speculative trading purposes. The derivative financial instruments are executed with creditworthy financial institutions, and the Company's and its consolidated subsidiaries' management believes there is little risk of default by counterparties. The derivative financial instruments are used based on internal policies and procedures on risk control. Derivatives are stated at fair market value at the year-end.

The Company and its consolidated subsidiaries use hedging accounting, provided that the conditions of the accounting were applicable to the rules. Regarding forward exchange contracts and foreign currency swap contracts 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.

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

(12) Allowance for doubtful accounts — For normal receivables, an allowance for doubtful accounts is provided using the historical experienced default ratio.

For specific receivables such as bankruptcy/rehabilitation claims, an allowance for doubtful accounts is provided for the estimated amounts considered to be uncollectible after reviewing individual collectability.

(13) Reserve for 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. The Company and certain consolidated subsidiaries provide defined benefit plan and defined contribution pension plan. Under which reserve for 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 reserve for retirement benefits based on the amounts actuarially calculated using certain assumptions.

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

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

(14) 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.

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

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

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

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

In the accompanying consolidated statements of income, enterprise tax, included in "Selling, general and administrative expenses" amounted to ¥13,933 million (US$118,078 thousand) and $12,626 million for the years ended March 31, 2007 and 2006, respectively.

(19) Presentation of net assets — From the fiscal year ended March 31, 2007, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (the Financial Accounting Standard Implementation Guidance No.8 issued by Accounting Standards Board of Japan on December 9, 2005) are adopted. These new accounting standards require that the balance sheet be divided into sections of assets, liabilities and that net assets be divided into sections of shareholders' equity, valuation and translation adjustments, stock acquisition rights and minority interest. Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. The net assets section includes unrealized gains/losses on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains/losses on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Minority interests is included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests in the liabilities section and between the non-current liabilities and the shareholders' equity sections. There was no impact on operating results as a result of this new adoption.

If the New Accounting Standards had not been adopted at March 31, 2007, the shareholders' equity amounting to ¥794,006 million would have been presented.

(20) Accounting Standard for Statement of Changes in Net Assets — Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

(21) Business combinations and business divestitures — From the fiscal year ended March 31, 2007, "Accounting for business combinations" (Business Accounting Council on October 31, 2003), "Accounting Standard for Business Divestitures" (Statement No.7 issued by the Accounting Standards Board of Japan on December 27, 2005), and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (the Financial Accounting Standard Implementation Guidance No. 10 issued by the Accounting Standards Board of Japan on December 27, 2005) are adopted.

(22) Bonuses to directors — From the fiscal year ended March 31, 2007, "Accounting Standard for Directors' Bonus" (Statement No.4 issued by the Accounting Standards Board of Japan on November 29, 2005) is adopted. This new accounting standard requires companies to charge bonuses to directors to income on an accrual basis, while such bonuses were previously accounted for as appropriation of retained earnings in the fiscal year of shareholders' resolution. As a result of this new adoption, operating income and income before income taxes and minority interest in net income of consolidated subsidiaries decreased by ¥67 million (US$568 thousand), respectively, compared with what would have been under the previous accounting method.

"Bonuses paid to directors" shown in the accompanying consolidated statements of changes in net assets as a reduction item of retained earnings in the fiscal year ended March 31, 2007 is appropriation of retained earnings resolved at the general shareholders' meeting held in June, 2006.

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

At the current conversion prices, 2,830,171 thousand shares of common stock were issuable at March 31, 2007 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.

(24) Reclassifications — Certain prior year amounts have been reclassified to conform to 2007 presentation. These changes had no impact on previously reported results of operations.

3 Property, plant and equipment

Property, plant and equipment is generally recorded at cost. However, in cases where the Company and its consolidated subsidiaries receive government grants toward the cost of acquisition, such amounts are offset against the acquisition cost of the related asset ("reduction entry accounting"). Such offsets recorded at March 31, 2007 and 2006 were ¥262,818 million (US$2,227,273 thousand) and ¥263,665 million, respectively.

4 Pledged assets

Pledged assets at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Distribution facilities	¥ 6,493	¥ 5,472	$ 55,022
Service and maintenance facilities	83	84	705
Other facilities	18,034	7,762	152,833
Investment securities	36	38	305
Long-term loan receivable	39	39	330
Marketable securities	2	1	17
	¥24,687	¥13,396	$209,212

Liabilities secured by the above assets at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Long-term debt (including current portion)	¥13,537	¥4,941	$114,721
Bank loan payable	584	30	4,949
Other current liabilities	61	60	521
	¥14,182	¥5,031	$120,191

5 Securities

Acquisition costs, book values and fair values of securities with available fair values at March 31, 2007 and 2006 were as follows:

(a) Held-to-maturity debt securities

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Securities with fair value exceeding book value:			
Book value	¥27	¥11	$228
Fair value	27	11	232
Difference	¥ 0	¥ 0	$ 4

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Securities with fair value not exceeding book value:			
Book value	¥220	¥236	$1,868
Fair value	220	235	1,865
Difference	¥ 0	¥ (1)	$ (3)

(b) Other securities with fair value

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Securities with fair values exceeding acquisition cost:			
Equity securities			
acquisition cost	¥19,196	¥ 14,442	$162,681
Fair value	98,132	104,118	831,633
Difference	¥78,936	¥ 89,676	$668,952

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Securities with fair values not exceeding acquisition cost:			
Equity securities			
acquisition cost	¥2,324	¥1,060	$19,696
Fair value	2,230	974	18,897
Difference	¥ (94)	¥ (86)	$ (799)

Other securities sold amounted to ¥9,449 million (US$80,078 thousand) and ¥5,194 million for the years ended March 31, 2007 and 2006, respectively. Gains on sale of other securities amounted to ¥5,851 million (US$49,588 thousand) and ¥4,954 million and losses on sale of other securities amounted ¥24 million for the years ended March 31, 2006.

Other securities with no fair value, which were stated at moving-average cost, amounted to ¥16,964 million (US$143,766 thousand) and ¥12,062 million at March 31, 2007 and 2006, respectively. Investments in unconsolidated subsidiaries and affiliated companies amounted to ¥27,089 million (US$229,567 thousand) and ¥27,639 million for the years ended March 31, 2007 and 2006, respectively.

6 Effect of the Bank Holiday

As financial institutions in Japan were closed on March 31, 2007, ¥700 million (US$5,932 thousand) of trade notes receivable and ¥1,049 million (US$8,890 thousand) of trade notes payable maturing on March 31, 2007 were settled on the following business day and accounted for accordingly.

7 Inventories

Inventories at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Finished products	¥ 4,341	¥ 3,670	$ 36,783
Raw materials	22,357	22,148	189,469
Supplies	9,227	8,656	78,195
Work in process	207	123	1,757
	¥36,132	¥34,597	$306,204

8 Bank loan payables and long-term debt

The average annual interest rates of short-term bank loan payables at March 31, 2007 and 2006 were 0.7% and 0.3%, respectively.
Long-term debt at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Domestic unsecured bonds			
Due in 2016 at a rate of 4.0%	¥ 27,700	¥ 27,700	$ 234,746
Due in 2018 at a rate of 2.625%	40,000	40,000	338,983
Due in 2009 at a rate of 1.68%	30,000	30,000	254,237
Due in 2009 at a rate of 1.73%	30,000	30,000	254,237
Due in 2010 at a rate of 2.01%	20,000	20,000	169,492
Due in 2011 at a rate of 1.39%	30,000	30,000	254,237
Due in 2012 at a rate of 1.35%	20,000	20,000	169,492
Due in 2023 at a rate of 1.01%	20,000	20,000	169,492
Due in 2013 at a rate of 1.41%	30,000	30,000	254,237
Due in 2014 at a rate of 1.59%	20,000	20,000	169,492
Due in 2024 at a rate of 2.29%	10,000	10,000	84,746
Due in 2025 at a rate of 2.14%	10,000	10,000	84,746
Due in 2015 at a rate of 4.1%	13,800	13,800	116,949
Due in 2009 at a rate of 1.18%	4,000	4,000	33,898
Domestic unsecured convertible bonds			
5th issue due in 2009 at a rate of 1.2%	32,618	39,700	276,424
6th issue due in 2007 at a rate of 1.1%	—	19,321	—
Loans from banks, insurance companies and government agencies due through 2020 at rates of 0.31% to 5.60%:			
Secured	13,537	4,941	114,720
Unsecured	156,858	172,779	1,329,303
	508,513	542,241	4,309,431
Less-Amounts due within one year	42,617	45,501	361,159
	¥465,896	¥496,740	$3,948,272

The indentures covering fifth domestic convertible bonds provide, among other conditions, for (1) conversion into shares of common stock at the conversion prices per share of ¥339.00 (US$2.87) (subject to adjustment in certain circumstances), (2) conversion periods through March 30, 2009.

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

The annual maturities of long-term debt at March 31, 2007 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. dollars
2008	¥ 42,617	$ 361,159
2009	67,568	572,607
2010	87,957	745,395
2011	44,938	380,827
2012	47,565	403,096
2013 and thereafter	217,868	1,846,348
	¥508,513	$4,309,432

Note: The Company has the specific commitment line contract with the main correspondent financial institution, at 30 billion yen in total.

9 Derivative transactions

Contract amounts, fair values and recognized gains on the commodity derivatives except those accounted for using hedge accounting and weather derivatives at March 31, 2007 and 2006 were as follows:

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

	Thousands of U.S. dollars			
	At March 31, 2007			
	Contract amounts			
	Total	Beyond one year	Fair value	Recognized gains(losses)
Commodity derivatives	$13,032	$ —	$(516)	$(516)
Weather derivatives	30,508	8,475	—	—
	—	—	—	$(516)

	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

Fair value of commodity derivatives contracts was calculated based on the information presented by financial institution. Contract amounts of the commodity derivatives is not indicative of the magnitude of market risk or credit risk concerning derivatives transactions.

Contract amounts of weather derivatives were stated at the maximum receivable or payable amount under the contracts. Fair value of weather derivatives were not stated because the calculation of the fair value was impossible.

10 Reserve for retirement benefits

Reserve for retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥ 364,288	¥ 348,820	$ 3,087,187
Unrecognized prior service costs	1,778	2,165	15,064
Unrecognized actuarial differences	(16,791)	8,698	(142,295)
Less fair value of pension assets	(256,339)	(229,601)	(2,172,363)
Prepaid pension costs	12	140	99
Employees' severance and retirement benefits	¥ 92,948	¥ 130,222	$ 787,692

Reserve for retirement benefit expenses for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Service costs – benefits earned during the year	¥ 9,657	¥ 9,586	$ 81,842
Interest cost on projected benefit obligation	6,876	7,180	58,273
Expected return on plan assets	(4,623)	(3,808)	(39,176)
Amortization of actuarial differences	(13,095)	10,569	(110,972)
Amortization of prior service costs	(332)	(92)	(2,815)
Other	6,669	3,009	56,520
Severance and retirement benefit expenses	¥ 5,152	¥26,444	$ 43,672

The discount rate and the rate of expected return on plan assets used by the Company and its consolidated subsidiaries are approximately 1.8% and 2.0%, respectively, at March 31, 2007, and approximately 2.0% and 2.0%, respectively, at March 31, 2006.

11 Income taxes

The Company is subject to multiple taxes based on taxable income, which, in the aggregate, indicate a statutory rate in the Company of approximately 36.2% for the years ended March 31, 2007 and 2006.

Reconciliation of the difference between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2007 and 2006 are not presented as they are negligible.

Significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Liabilities for severance and retirement benefits	¥33,954	¥47,082	$287,748
Other – net	39,752	41,395	336,875
Less valuation allowance	(5,228)	(2,850)	(44,301)
Subtotal	68,478	85,627	580,322
Deferred tax liabilities:			
Net unrealized holding gains on securities	29,093	33,016	246,547
Other – net	4,175	8,967	35,390
Subtotal	33,268	41,983	281,937
Deferred tax assets – net	¥35,210	¥43,644	$298,385

12 Net assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

(a) Distribution to the shareholders

Under the Corporate Law, dividends can be paid at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Semiannual interim dividends may also be paid once a year upon resolution by the Directors' meeting if the articles of incorporation of the company so stipulate, if companies meet certain criteria.

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

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

At the general meeting of shareholders held on June 28, 2007, the Company's shareholders approved payment of year-end cash dividends of ¥4.5 (US$0.04) per share aggregating ¥12,207 million (US$103,448 thousand) to the shareholders of record as of March 31, 2007.

Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

(b) Increase/decrease and transfer of common stock, reserve and surplus

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock.

However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

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

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

(c) Treasury stock

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

13 Additional Information for Cash Flows

Significant non-cash transactions at March 31, 2007 and 2006 were as follows:

	Millions of Yen	Thousands of U.S. dollars
Decrease in treasury stock due to the conversion of convertible bonds	¥34,697	$294,040
Loss on disposal of treasury stock due to the conversion of convertible bonds	(8,490)	(71,947)
Decrease in convertible bonds	¥26,207	$222,093

14 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, 2007 and 2006 was as follows:

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

	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	6,596	(1,572)	116,932

	Thousands of U.S. dollars						
	Gas sales	Gas appliance sales	Related construction	Real estate rental	Other business	Elimination or corporate	Consolidation
For 2007							
Sales:							
Outside customers	$8,274,225	$1,124,930	$470,568	$ 101,128	$1,698,286	$ —	$11,669,137
Intra group	196,292	22,589	31,378	187,304	720,418	(1,157,981)	—
Total	8,470,517	1,147,519	501,946	288,432	2,418,704	(1,157,981)	11,669,137
Costs and expenses	6,745,380	1,137,610	487,107	231,387	2,301,352	(609,250)	10,293,586
Operating income	$1,725,137	$ 9,909	$ 14,839	$ 57,045	$ 117,352	$ (548,731)	$ 1,375,551
Identifiable assets	$8,558,307	$ 391,412	$174,736	$1,575,505	$2,102,873	$ 1,541,534	$14,344,367
Depreciation	830,249	4,610	1,397	88,134	186,027	(17,212)	1,093,205
Losses on impairment of fixed assets	—	—	—	—	—	—	—
Capital expenditures	707,197	4,880	544	28,235	317,759	(23,998)	1,034,617

Costs and expenses under Elimination or corporate that cannot be allocated to business segments are related mainly to general administrative expenses of the Company, amounted to ¥65,392 million (US$554,170 thousand) and ¥71,570 million at March 31, 2007 and 2006, respectively.

Assets under Elimination or corporate mainly comprise cash and cash equivalents, current and non-current securities and deferred tax assets of the Company and its consolidated subsidiaries, and they amounted to ¥223,419 million (US$1,893,380 thousand) and ¥239,031 million at March 31, 2007 and 2006, 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.

15 Information for certain leases

Finance leases

Information as lessee

Lease payments in the years ended March 31, 2007 and 2006, and future minimum lease payments inclusive of interest at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Lease payments	¥ 552	¥ 569	$ 4,679
Future lease payments inclusive of interest:			
Current	¥ 501	¥ 479	$ 4,248
Non-current	2,130	1,485	18,048
	¥2,631	¥1,964	$22,296

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, 2007 and 2006 were as follows:

	Millions of Yen		
For 2007	Acquisition cost	Accumulated depreciation	Net
Other facilities	¥4,174	¥1,688	¥2,486
Other intangibles	314	169	145
	¥4,488	¥1,857	¥2,631
For 2006			
Other facilities	¥3,942	¥2,053	¥1,889
Other intangibles	183	109	74
	¥4,125	¥2,162	¥1,963

	Thousands of U.S. dollars		
For 2007	Acquisition cost	Accumulated depreciation	Net
Other facilities	$35,375	$14,310	$21,065
Other intangibles	2,660	1,429	1,231
	$38,035	$15,739	$22,296

Information as lessor

Lease income in the years ended March 31, 2007 and 2006, and future lease payments to be received at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Lease income	¥ 4,609	¥ 4,261	$ 39,056
Future lease payments to be received:			
Current	¥ 5,134	¥ 4,222	$ 43,510
Non-current	15,502	13,241	131,371
	¥20,636	¥17,463	$174,881

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, 2007 and 2006 were as follows:

	Millions of Yen		
For 2007	Acquisition cost	Accumulated depreciation	Net
Other facilities	¥24,029	¥14,709	¥9,320
Other intangibles	1,030	674	356
	¥25,059	¥15,383	¥9,676
For 2006			
Other facilities	¥23,218	¥15,828	¥7,390
Other intangibles	2,147	1,333	814
	¥25,365	¥17,161	¥8,204

	Thousands of U.S. dollars		
For 2007	Acquisition cost	Accumulated depreciation	Net
Other facilities	$203,636	$124,653	$78,983
Other intangibles	8,725	5,713	3,012
	$212,361	$130,366	$81,995

Operating leases

Information as lessor

Future lease payments to be received at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2007	2006	2007
Future lease payments:			
Current	¥ 444	¥ 491	$3,762
Non-current	632	792	5,353
	¥1,076	¥1,283	$9,115

16 Commitment and contingent liabilities

At March 31, 2007, the Company and its consolidated subsidiaries were contingently liable for (1) debt guarantees in the amount of ¥6,858 million (US$58,116 thousand) for financial institution loans to companies other than consolidated subsidiaries, (2) ¥41 million (US$348 thousand) with respect to joint and several liabilities upon default of the other debtors and (3) ¥38,700 million (US$327,966 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, 2007, 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.

17 Subsequent events

(1) Resolution of acquisitions of treasury stock

The Directors' meeting held on April 26, 2007 approved the acquisition of treasury stock based upon the approval of the general meeting of shareholders (on June 29, 2006).

Number of shares: Limited to 60,000,000 shares
Cost of shares acquisitions:
Limited to ¥39,000 million (US$330,508 thousand)
Period of acquisitions:
From April 27, 2007 to March 31, 2008

(2) Implementation of acquisitions of treasury stock

The Directors' meeting held on April 26, 2007 approved the acquisition of treasury stock based upon the approval of the general meeting of shareholders.

Number of shares purchased : 31,000,000 shares
Cost of shares acquisitions : ¥18,688 million (US$158,364 thousand)
Period of acquisition : April 27 to May 23, 2007 (commitment basis)

(3) Issue of bond

The company published the 28th unsecured bond based on the resolution of board of directors held on March 27, 2007 as follows.

Total amount of issue : ¥20,000 million
Interest rate : 2.29% per annum
Amount-paid frame : ¥99.98 per face value of ¥100
Term : 20 years
Maturity date : June 15 , 2027 (Bullet maturity)
Interest payment day : June 15 and December 15 (Every year)
Subscriber's yield : 2.291%
Offering period : June 1, 2007
Payment date : June 15, 2007

Independent Auditors' Report

To the Board of Directors of Tokyo Gas Co., Ltd.

We have audited the accompanying consolidated balance sheets of Tokyo Gas Co., Ltd. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2007 and 2006, the related consolidated statements of income for the years then ended, the consolidated statement of changes in net assets for the year ended March 31, 2007, the consolidated statement of shareholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for the years ended March 31, 2007 and 2006, 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) As discussed in Note 2(19) to the consolidated financial statements, effective April 1, 2006, Tokyo Gas Co., Ltd. and consolidated domestic subsidiaries adopted new accounting standards for the presentation of net assets in the balance sheet.

(2) As discussed in Note 17(1) to the consolidated financial statements, subsequent to March 31, 2007, Tokyo Gas Co., Ltd. decided to acquire treasury stock.

(3) As discussed in Note 17(2) to the consolidated financial statements, subsequent to March 31, 2007, Tokyo Gas Co., Ltd. effectuated acquisition of treasury stock.

(4) As discussed in Note 17(3) to the consolidated financial statements, subsequent to March 31, 2007, Tokyo Gas Co., Ltd. published the 28th unsecured bond.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 28, 2007

Consolidated Subsidiaries and Equity-method Affiliates

As of March 31, 2007

Main Consolidated Subsidiaries

Company	Business	Capital (¥ million)	Equity owned by Tokyo Gas (%)	FY2006 Net sales (¥ million)	[% of outside sales]	Operating income (¥ million)
Tokyo Gas Urban Development Co., Ltd.	Real estate leasing, management and brokerage, etc.	11,440	100	31,941	[34.0]	5,900
Tokyo Gas Toyosu Development Co., Ltd.	Real estate leasing and management	5,000	100	564	[72.7]	140
Nagano Toshi Gas Co., Ltd.	Gas Supply in Nagano	3,800	89.2	9,100	[99.9]	(245)
ENERGY ADVANCE Co., Ltd.	Energy service, district heating and cooling, cogeneration orders and maintenance businesses	3,000	100	46,247	[92.3]	3,322
Gastar Co., Ltd.	Production, sales and maintenance of gas appliances	2,450	66.7	29,446	[42.8]	1,380
Tokyo LNG Tanker Co., Ltd.	LNG and LPG transportation and chartering of carriers	1,200	100	11,837	[18.6]	2,142
Tokyo Gas Energy Co., Ltd.	Sales of liquefied petroleum gas (LPG)	1,000	100	25,462	[82.1]	77
Capty Co., Ltd.	Installation of gas supply lines, water supply and lines and air conditioning systems, new construction, construction of gas mains and branch lines	1,000	100	61,994	[38.9]	714
Tokyo Gas Chemicals Co., Ltd.	Sales of gas for industry and chemicals and development of LNG cryogenetic utilization technology	1,000	100	17,139	[68.7]	319
Park Tower Hotel Co., Ltd.	Management of Hotel "Park Hyatt Tokyo" and restaurants	1,000	100	10,234	[97.5]	185
Chiba Gas Co., Ltd.	Supply of gas to Yachiyo City, Narita City and surrounding cities	480	100	14,724	[99.3]	816
TG Credit Services Co., Ltd.	Leasing of information equipment, gas appliances and office equipment, and credit administration connected with installations	450	100	9,088	[61.1]	341
Tokyo Oxygen and Nitrogen Co., Ltd.	Production and sales of liquefied oxygen, nitrogen and gas for medical use	400	54	2,022	[42.4]	180
TG Information Network Co., Ltd.	Information processing services, software development and sales of computer equipment, etc.	400	100	11,422	[26.3]	506
Tsukuba Gakuen Gas Co., Ltd.	Supply of gas in Tsukuba City	280	100	6,781	[97.4]	496
TG Enterprise Co., Ltd.	Financial administration for Tokyo Gas and related companies	200	100	740	[39.1]	342
Tokyo Gas Engineering Co., Ltd.	Comprehensive engineering services with a particular focus on energy-related work	100	100	31,900	[68.5]	972
Tokyo Gas Customer Service Co., Ltd.	Periodic safety checks, meter and billing services	50	100	7,606	[1.4]	340
TG IT Service Co., Ltd.	Operation of Tokyo Gas systems, network operations, end-user support	50	100	7,770	[1.3]	356
Capty-Livelic Co., Ltd.	Gas facilities construction and gas appliance sales	50	100	8,045	[70.4]	92
GAS MALAYSIA SDN. BHD.	Supply of gas in Malaysia	RM 42.8 million	20	—		—

Notes: 1. Gas Malaysia Sdn. Bhd. is an equity-method affiliate.
2. Consolidated subsidaries comprise 52 companies as of the end of March 2007.
3. 1 RM nearly equals ¥33.75

Other Subsidiaries

Miho Gas Co., Ltd., Shoei Gas Co., Ltd., Washimiya Gas Co., Ltd., Tochigi Gas Co., Ltd., Tokyo Kiko Co., Ltd., Tokyo Gas Yokosuka Power Co., Ltd., Living Design Center Co., Ltd., Tokyo Gas Baypower 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., 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., Showa Bussan Co., Ltd., Tosetz Co., Ltd., Capty Customer Service Co., Ltd., Enelife Carieer Co., Ltd., Showa Unyu Co., Ltd., Tokyo Gas Plant Tech Co., Ltd., Tokyo Rare Gases Co., Ltd., Tokyo Auto Gas Co., Ltd., Capty Tech Co., Ltd., Tachikawa Urban Center Co., Ltd., Tokyo Gas LPG Terminal Co., Ltd., TOKYO GAS AUSTRALIA PTY LTD., Tokyo Gas Darwin LNG Pty Ltd., Kawasaki Gas Pipeline Co., Ltd.

Investor Information
As of March 31, 2007

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

Date of Establishment
October 1, 1885

Paid-in Capital
¥141,844,398,888

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

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

Number of Shareholders
165,484

Stock listings
Tokyo stock exchange,
Osaka securities exchange and
Nagoya stock exchange (Trade code: 9531)

Independent Auditors
KPMG AZSA & Co.

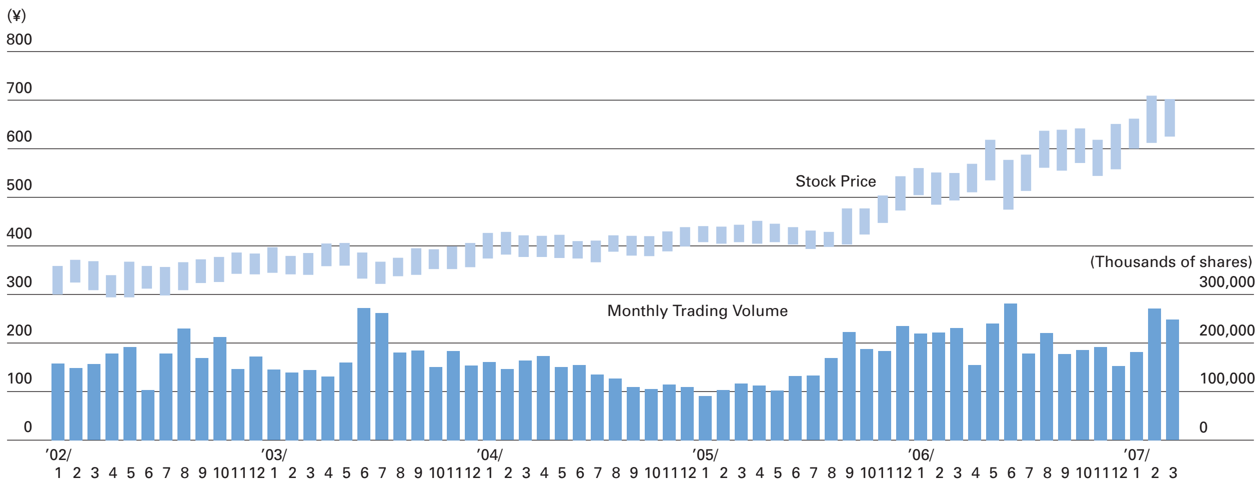
Agent to Manage Shareholders Registry
The Chuo Mitsui Trust & Banking Co., Ltd. 3-33-1 Shiba, Minato-ku, Tokyo 105-8574, Japan

Number of Employees
16,451 (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
The Master Trust Bank of Japan, Ltd. (Trust Account)	130,342	4.64
Japan Trustee Services Bank, Ltd. (Trust Account)	103,272	3.67
The Chase Manhattan Bank N.A. London	70,685	2.52
Fukoku Mutual Life Insurance Company	68,504	2.44
State Street Bank and Trust Company	42,747	1.52
State Street Bank and Trust Company (505103)	42,665	1.52
Employees Shareholding Association	36,717	1.31
Mizuho Corporate Bank, Ltd.	33,000	1.17

Monthly Stock Price Range (Tokyo Stock Exchange)



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

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

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

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eco-life

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