from Strength to Strength

TOKYO GAS CO., LTD. ANNUAL REPORT 2004 For the year ended March 31, 2004

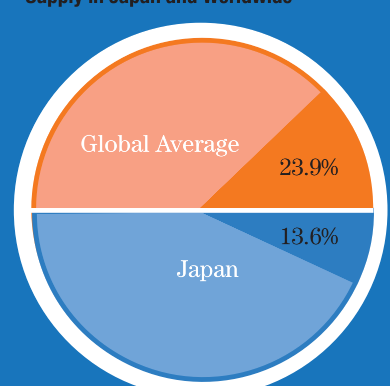
TOKYO GAS

Unrivaled Advantages

Positive factors for growth

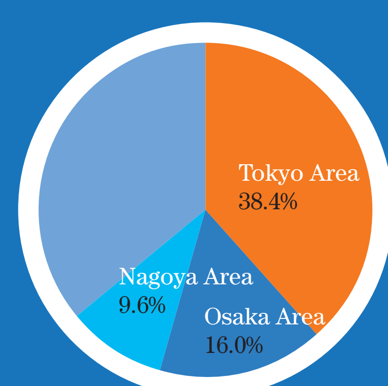
- Government policy driving growth in natural gas demand
- Potential for economic growth in the Kanto region
- Natural gas demand expected to grow for environmental reasons

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



Source: BP Statistical Review of World Energy 2004

Breakdown of GDP of Japan by Major Areas



Source: Cabinet Office, Government of Japan (Year ended March 31, 2002)

Note: The Tokyo area includes Tokyo, plus the Kanagawa, Saitama, Chiba, Ibaraki, Tochigi, Gunma, Yamanashi and Nagano prefectures. The Osaka area includes Osaka, as well as the Hyogo, Kyoto, Shiga, Nara and Wakayama prefectures. The Nagoya area includes the Aichi, Gifu and Mie prefectures.

Natural gas is the most environment-friendly fossil fuel, which augurs well for continued demand growth; it is also supported by government policy. Tokyo Gas has made this high-growth product the core of its business activities. It has developed city gas production and supply infrastructure in the Kanto region, Japan's largest consumer of energy, and applies its technology and experience in the fields of gas utilization and engineering to achieve sustained expansion of its customer base.

Leading to Increasing Strength and Sustained Growth

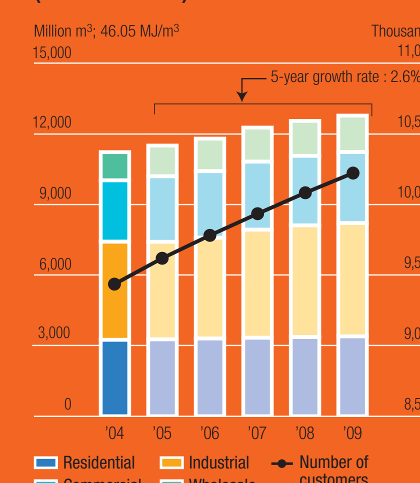
With the massive capital expenditure required to build up infrastructure behind it, Tokyo Gas is using its substantial cash flow to strengthen the core gas business, including new approaches to win and retain customers. Simultaneously, it is pursuing new areas of growth by leveraging opportunities emerging from the deregulation of the energy sector. Through this two-part approach, Tokyo Gas is determined to grow as an "energy frontier" group offering diverse energy solutions.

See overleaf for a discussion of strategies to strengthen offensive and defensive positions.

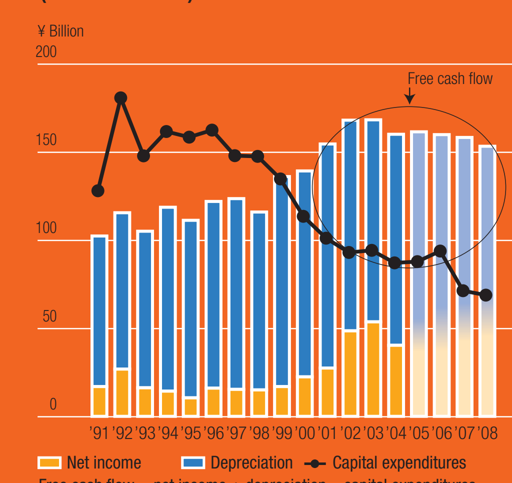
Our Strengths

- A trusted network with 9.4 million customers
- State-of-the-art solutions for every energy need
- Abundant cash flow for strategic business development

Gas Sales Volume & Customer Growth (Nonconsolidated)



Cash Flow and Capital Expenditures (Nonconsolidated)



All graph data for years ended March 31

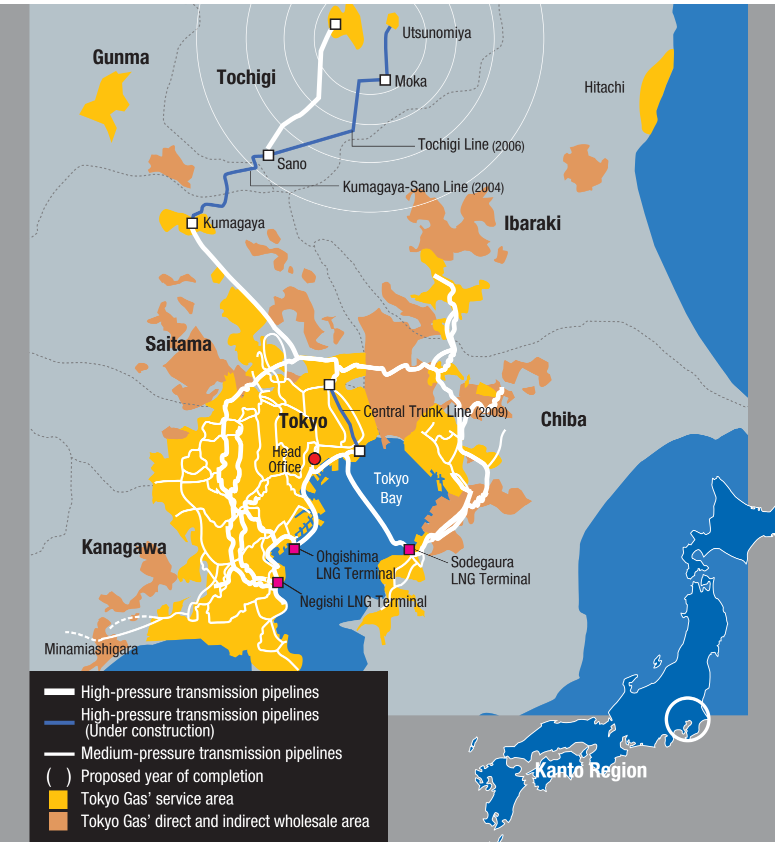
New Ways to Grow, Actively and Proactively

Network Expansion and New Energy Services are Increasing Demand

To transform its business advantages into growth in the core gas business, Tokyo Gas recognizes it is necessary to **extend its pipeline network to expand its supply services**. With deregulation leading to escalating competition as more companies move into the energy sector from other industries, the Company believes that infrastructure development in regions of expanding demand will create business opportunities. Effective pipeline expansion, guided by careful monitoring of demand trends and profitability, is a critical element of business strategy.

Under this strategy, Tokyo Gas has **extended its pipeline network to the northern Kanto region**, which offers particularly **strong potential for demand growth**. The Kumagaya-Sano Line will be completed in October 2004, and the Tochigi Line in March 2006. To attract new users in areas around these new pipelines, it is also **actively marketing cogeneration systems**, which are increasingly seen as solutions to environmental and cost concerns.

There is growing interest in the concept of **energy service** providers. By establishing and retaining ownership of the cogeneration systems and other energy facilities they employ, energy service providers can give customers a one-stop solution to their energy needs. Customers can easily adopt these services because they are **not required to make large capital investments**. Other customer advantages include **reduced energy costs and environmental friendliness**. In 2002, Tokyo Gas established a new subsidiary, ENERGY ADVANCE Co., Ltd. The engineering capabilities of the Tokyo Gas Group and its ability to procure LNG reliably and economically allow the new company to maximize **the added-value potential of gas cogeneration**. ENERGY ADVANCE is employing a highly efficient marketing strategy, targeting customers with substantial heat needs and strong environmental awareness. Its primary focus is the Kanto region, where there is a large latent demand.



Strengthening Ties with Customers through Product and Service Innovation

Although anticipating strong competition from electric power companies in the household market, Tokyo Gas is determined to attract new customers and maintain its relationships with existing customers. A key strategic asset in this market is the Tokyo Gas brand, which the public associates with safety, reliability and trust. Tokyo Gas is using this asset to its advantage against the competition by **offering a wide range of products and services that meet customer needs and provide appealing lifestyle options**.

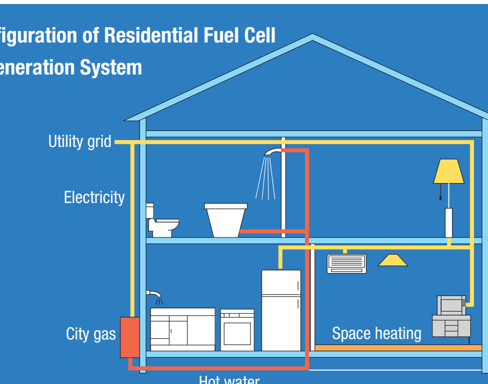
New Cooktop
Since its launch in 2001, sales have steadily expanded. The number of units sold in fiscal 2003 reached 44,500, a 64% year-on-year increase.

In 2001, Tokyo Gas launched a new type of gas cooktop. **The ease of cleaning and attractive design of this appliance have made it a major success**, and it is expected to account for over 40% of gas cooktops sold by Tokyo Gas in 2004. The Company is marketing the new cooktop on the basis of its excellent features to counter competition from induction heating (IH) cooking appliances.

Another popular product of Tokyo Gas is **high-efficiency water heaters**. As a result of aggressive advertising campaigns, consumers have recognized the energy efficiency, environmental qualities and other appealing features of this range of water heaters, and **sales have far exceeded initial projections**. Since the second half of the 1990s, the Company has also actively marketed floor heating, establishing it as the de facto standard. **Today floor heating is installed as standard in about 80%* of new condominiums**.

Many other products and services are helping to enhance the added value provided by Tokyo Gas from the perspective of consumers. Examples include a range of billing options for gas floor heating and a remote operation service for gas equipment to control bath or floor heating from outside the home using mobile telephones or computers. A **home security service** is provided in collaboration with Sohgo Security Services Co., Ltd., a leading security firm. Tokyo Gas also offers **insurance for household effects**, which was jointly developed with Sompo Japan Insurance Inc.

Configuration of Residential Fuel Cell Cogeneration System



There is growing interest in **residential fuel cells as economical and environment-friendly energy systems**. Tokyo Gas sees the emergence of this market as a major business opportunity and has been developing technology to improve durability and reduce costs with a view to a **market launch in the fourth quarter of fiscal 2004**. In April 2004, it established a project group within its sales organization to specifically focus on these systems and develop a marketing structure.

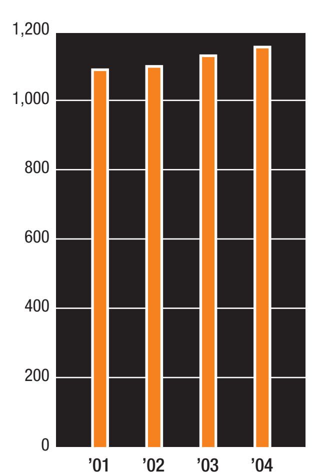
* About 80% of all condominiums developed by the private sector in the Tokyo Gas service area have floor-heating systems.

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries

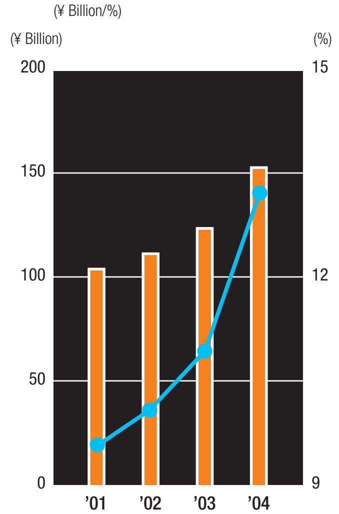
For the Years ended March 31	2004	2003	2002	2004
	Millions of yen except per share amounts			Thousands of U.S. dollars except per share amounts
Net sales	¥1,151,825	¥1,127,634	¥1,097,589	$10,866,270
Operating income	152,287	123,294	110,608	1,436,670
Net income	44,787	59,201	51,912	422,519
Free cash flow	84,241	88,240	92,178	794,726
Amounts per share of common stock (Yen and U.S. dollars):				
Net income (Basic)	16.44	21.18	18.47	0.16
Net income (Diluted)	14.98	19.11	16.66	0.14
Shareholders' equity	221.53	208.65	200.75	2.09
Cash dividends applicable to the year	7.00	6.00	6.00	0.07
At Year-end (March 31)				
Total assets	¥1,666,828	¥1,676,064	¥1,702,713	$15,724,793
Long-term debt due after one year	545,844	598,322	680,887	5,149,477
Total shareholders' equity	598,453	579,706	564,078	5,645,786
Ratios				
Operating income to net sales	13.2%	10.9%	10.1%	
Net income to net sales	3.9%	5.3%	4.7%	
ROE	7.6%	10.4%	9.3%	
ROA	2.7%	3.5%	3.0%	
Equity ratio	35.9%	34.6%	33.1%	

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥106=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.
2. Free cash flow = net income + depreciation* – capital expenditures**
*including amortization of long-term prepayments
**purchases of tangible fixed assets + purchases of intangible fixed assets + long-term prepayments (accounting basis)
3. ROE = net income/shareholders' equity (average of positions at start and end of fiscal year)
4. ROA = net income/total assets (average of positions at start and end of fiscal year)

Net Sales (¥ Billion)



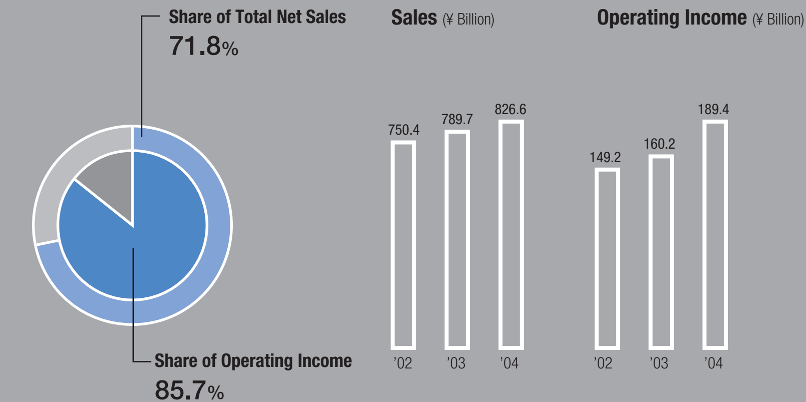
Operating Income/Ratio to Net Sales (¥ Billion/%)



ROE/ROA (%)

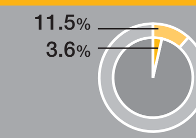
All graph data for years ended March 31

GAS SALES

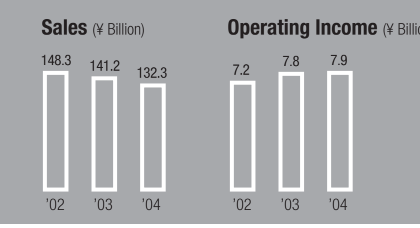


- Gas sales volume grew 7.1% to 11,218 million m^3.
- Though residential demand declined, there was growth in sales to the commercial and industrial sectors, as well as wholesaling to other gas companies.
- Sales to the industrial sector surged 15.7% year on year, reflecting a sharp increase in the use of gas for power generation.
- Demand expansion mainly for use in power generation boosted sales 4.7% to ¥826.6 billion. Operating income was 18.2% higher at ¥189.4 billion.

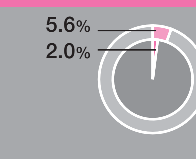
GAS APPLIANCE SALES



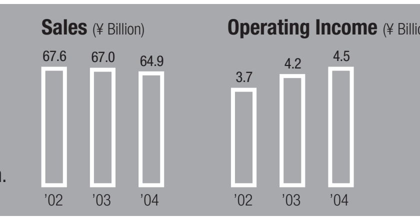
- Sales of products developed to compete with electrical appliances increased, but segment sales declined 6.4% to ¥132.3 billion, due to overall declines of sales volumes and lower selling prices, brought by intense competition.
- Operating income rose 0.8% to ¥7.9 billion.



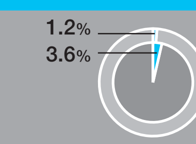
RELATED CONSTRUCTION



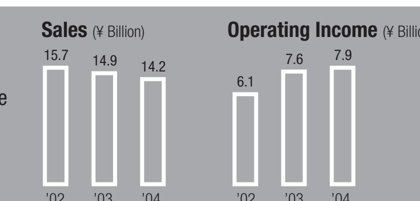
- Sales were 3.1% lower at ¥64.9 billion. The decline resulted mainly from a fall in the number of contracts.
- Operating income increased 6.7% to ¥4.5 billion.



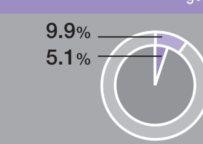
REAL ESTATE RENTAL BUSINESS



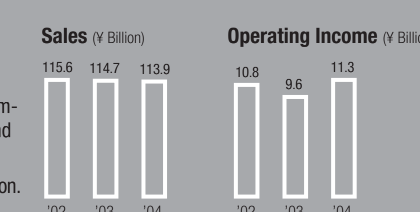
- Sales were 5.3% lower at ¥14.1 billion because of downward pressure on rents due to conditions in the real estate market.
- Operating income reached ¥7.9 billion, an increase of 3.4%.



OTHERS (District heating/cooling, energy service, general engineering, LPG sales, etc.)



- Energy service business expanded steadily.
- Sales showed a 0.7% year-on-year decline to ¥113.9 billion. Reasons included a fall in the number of large-scale general engineering orders and withdrawal from the coke business.
- Operating income was 17.1% higher at ¥11.3 billion.



Note: Segment sales are sales to outside customers, while operating income is the sum of sales to outside customers and intra-group transactions minus the operating expenses of outside and inside transactions.

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HIDEHARU UEHARA
Vice Chairman

KUNIO ANZAI
Chairman

NORIO ICHINO
President

Marking a Successful Start of "Frontier 2007" and on Track to Achieve Our Targets

Fiscal 2003, the year ended March 31, 2004, was the first year of Frontier 2007, the Tokyo Gas Group's medium-term management plan for the five-year period to fiscal 2007. The plan clarifies future directions and strategies for the Tokyo Gas Group by thoroughly taking into account the maximum potential impact on our operations of progress in regulatory reform and expansion of the scope of liberalization. In this important initial year of the plan, we posted record consolidated net sales, with a 2.1% increase to ¥1.15 trillion, driven by strong gas sales. Net income declined because of an extraordinary loss resulting from lump-sum write off of the actuarial difference in retirement benefits. However, operating income was 23.5% higher at ¥152.3 billion. We believe that we have achieved a very successful launch of our medium-term plan.

If transient factors recorded as extraordinary losses were excluded, free cash flow would be substantially above the initial target for the fiscal year, and our projections indicate that we are on track to exceed the targets set for the final year of Frontier 2007. In recognition of this, we have increased the annual dividend per share from ¥6 to ¥7.

In fiscal 2004, we are determined to meet the expectations of all stakeholders, including shareholders and investors, by achieving further enhancement in our corporate value under our new Group structure.

KUNIO ANZAI
Chairman
Kunio Anzai

HIDEHARU UEHARA
Vice Chairman
Hideharu Uehara

NORIO ICHINO
President
Norio Ichino

Progress in Our Drive to Transform Ourselves for Future Growth

AN INTERVIEW WITH THE PRESIDENT

NORIO ICHINO
{ President }

Tokyo Gas is striving to consolidate its existing customer base while aggressively taking up new challenges. By strengthening this combination of defensive and growth-oriented strategies, we aim to bring forward the achievement of the Frontier 2007 goals.

NORIO ICHINO
[President]

Q Fiscal 2003 was the first year of the Frontier 2007 medium-term management plan and your first year as President. How would you review the year from this perspective?

A Throughout the past year, I was constantly aware of the importance of my mission to ensure a good start, both for Frontier 2007 and for my own leadership. I am pleased to report that we set **a new record for consolidated net sales**, thanks to positive growth in sales of gas to commercial and industrial sectors. We also scored gains in our efforts to reduce costs, leading to clear benefit to our operating income. Net income was lower, since we decided to write off actuarial differences for retirement benefit obligations, and to bring forward the application of impairment accounting to fixed assets. Without these transient factors, **our free cash flow would have been substantially above our initial target.**

Because I saw the past year as a time for the Tokyo Gas Group to build foundations for new growth, I continually emphasized **how important it is to aggressively promote female and young employees, and to maintain close relationships with customers**. The reaction was very positive. With these favorable results, I believe that we have made an excellent start overall.

Q What are your priorities for the year ending March 2005 in line with the Frontier 2007 targets?

A My aim for the coming year is to use our achievements during the first year of the plan to promote the early attainment of our targets under the plan.

Competition has arrived in earnest in the energy sector. For example, electric power companies are not only implementing marketing campaigns based on the concept of all-electric lifestyles, but are also moving into the gas market itself. To combat competition we must strengthen our business fundamentals through **fine-tuned distribution of management resources: investing actively in essential areas, while streamlining as much as possible**. We also need to foster a shared understanding of the fortes of the Tokyo Gas Group, and we must work together to refine and enhance those strengths.

Our greatest strength is the trusted relationship with more than 9.4 million customers built over a history spanning 118 years, which **enables our front-line operations to work directly with customers, offering suggestions on new ways to use energy and customer-oriented services**. Policies formulated by our strategic departments are put into effect in the field. The effects of those policies are carefully monitored, and any errors or unsatisfactory results are reported back to the strategic departments so that the measures can be further refined. I believe that this process is the key to enhanced competitiveness for the Tokyo Gas Group.

That is why we need to put employees with the ability to perceive and understand customers' needs into front-line areas, such as sales, service and maintenance. We must build a structure that allows these needs to be incorporated into our strategies. If we can do this, I am confident that we can adapt successfully to any environmental change. My mission is to bring forward the achievement of the Frontier 2007 targets by using these strengths to enhance our offensive capability to move into new markets, and our defensive ability to deepen the bonds with our customers.

Q Tokyo Gas increased the annual dividend. Does this signal a policy change?

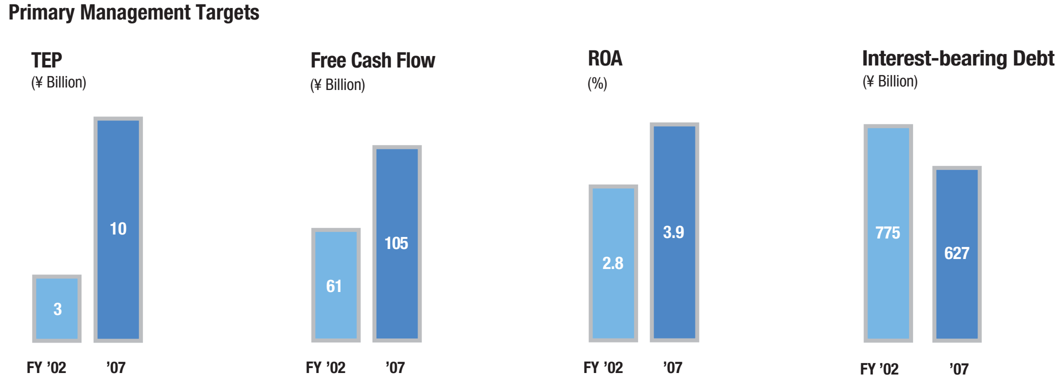
A The policy set down in Frontier 2007 calls for the payment of a dividend of ¥6 per share in each of the five years covered by the plan. However, we found at the end of the first year that, if we were to exclude transient factors, such as the lump-sum write-off of actuarial differences for retirement benefit obligations, our free cash flow would be substantially higher than the target level. We therefore decided to pass on this gain to shareholders by using the portion of free cash flow in excess of the planned level to increase the dividend.

The minimum requirement for our dividend policy is to maintain dividend stability, and we will continue our efforts to improve our earnings so that we may avoid ever having to reduce the dividend. We do not intend

Four Areas of Prime Focus in "Frontier 2007"

Business Model Innovation	Business Expansion into Energy-related Areas	Construction of the Group Management System	Strengthening the Corporate Structure

Primary Management Targets



TEP (Tokyo Gas Economic Profit)
= Net operating profit after tax prior to interest payments – cost of capital
Cost of capital = cost of debt + cost of equity
Assumptions: Average cost of debt: 2.23% (after tax); Cost of equity: 6.5%

Free cash flow = net income + depreciation – capital expenditures

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

Figures for fiscal 2002 are projections made when the medium-term management plan was finalized in October 2002, not the actual results.

Frontier 2007 plans to apply ¥180 billion over the five-year period of the plan for gas rate reductions. We will ensure that these funds are used beneficially to develop an effective rate strategy that expands demand and increases revenues.

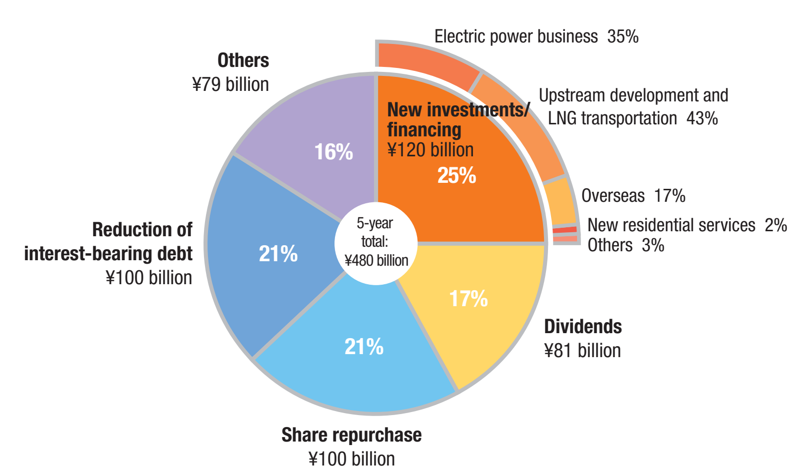
at present to make major changes to the free cash flow allocations stipulated in Frontier 2007. However, if we can generate free cash flow significantly above the planned level, we will review the options to raise the dividend or buy back our stock. These options must be considered in line with other priorities, such as new business investment and the reduction of interest-bearing debt.

Q Tokyo Gas has announced a gas rate reduction during fiscal 2004. What are the reasons, and what will be the effect?

A The rate reduction is meant to improve our ability to succeed against increasingly fierce competition with other forms of energy or other gas suppliers. Another objective is to pass on the benefits of our corporate efforts to our customers.

In Frontier 2007, we earmarked funds totaling ¥180 billion for use in rate reductions over the five-year period. Having completed the first year of the plan, we expect that we will be able to achieve all of the goals in the plan within the allotted time. This means we are free to spend the entire ¥180 billion effectively as planned—and the only questions now are timing and the way the funds are to be used.

Deployment of Free Cash Flow



Figures based on 2002 projections

Tokyo Electric Power has announced that it will reduce its electricity rates in October 2004. To enhance the competitiveness of our gas pricing, we announced that we would cut our rates in the year ending March 2005. We are determined to implement **a rate strategy that will drive demand expansion, which will generate cash for future strategic developments**.

Q The scope of liberalization has expanded following regulatory reforms in April 2004. Has the competitive environment changed, as a result?

A The scope of liberalization now includes retail sales of gas to customers consuming 500,000 m³ or more annually. In practical terms, however, there are not many companies with sufficient capacity to sell large volumes of natural gas. Although the latest round of liberalization is unlikely to cause dramatic changes in the short-term future, the level of competition will inevitably escalate. While we are aware that our competitors are targeting large-volume customers with aggressive marketing activities, we

also believe that considerable engineering expertise is required to supply and sell gas, especially to industrial users. Moreover, long-standing relationships of trust with our customers cannot be broken easily. Of course, we cannot afford to be complacent, and we are **building a strong defensive position by further improving our technology and marketing capabilities**. We are also **strengthening our aggressive marketing position** by using the introduction of the strategic business unit system to **offer total energy services**, including gas, electric power and heat, in collaboration with Energy Advance and other Group companies.

Q Natural gas faces increasing competition from electricity and other energy products in the household market, as seen in marketing campaigns for an all-electric lifestyle. How will you respond?

A All-electric homes still make up only a small percentage of newly built homes in our service area. However, the electric power companies have set a clear target, and we expect the competition to intensify. We are preparing for this by **strengthening our product appeal in areas in which competition is intense**. Of particular importance are the products that we are developing to compete with electrical appliances. These include a new type of gas cooktop that is extremely easy to use and has enhanced design features, and highly efficient water heaters. Sales of these products were significantly higher than our initial targets in fiscal 2003. Another initiative is active marketing of floor-heating systems to establish a de facto standard. Now, they are installed in around 80%* of new condominiums.

We will continue to enhance our ability to attract and keep customers by offering superior products, and by proposing lifestyle ideas based on the comfort and convenience of gas.

* About 80% of all condominiums newly developed by the private sector in the Tokyo Gas service area have floor-heating systems.

Q In April 2004, Tokyo Gas introduced the strategic business unit system. How does it differ from the old Group strategy?

A In the past, our Group strategy was based on a policy of independence, which meant that individual Group companies pursued their own business approaches. However, given the intensifying competition in our various fields of business, we need to **bring together the strengths of the entire Group by integrating the resources of the parent company and Group members**, including the utilization of knowledge and commodities, and the formulation and implementation of business strategies. To achieve this, we have used our existing strategic division structure as the framework for a more evolved organizational structure in

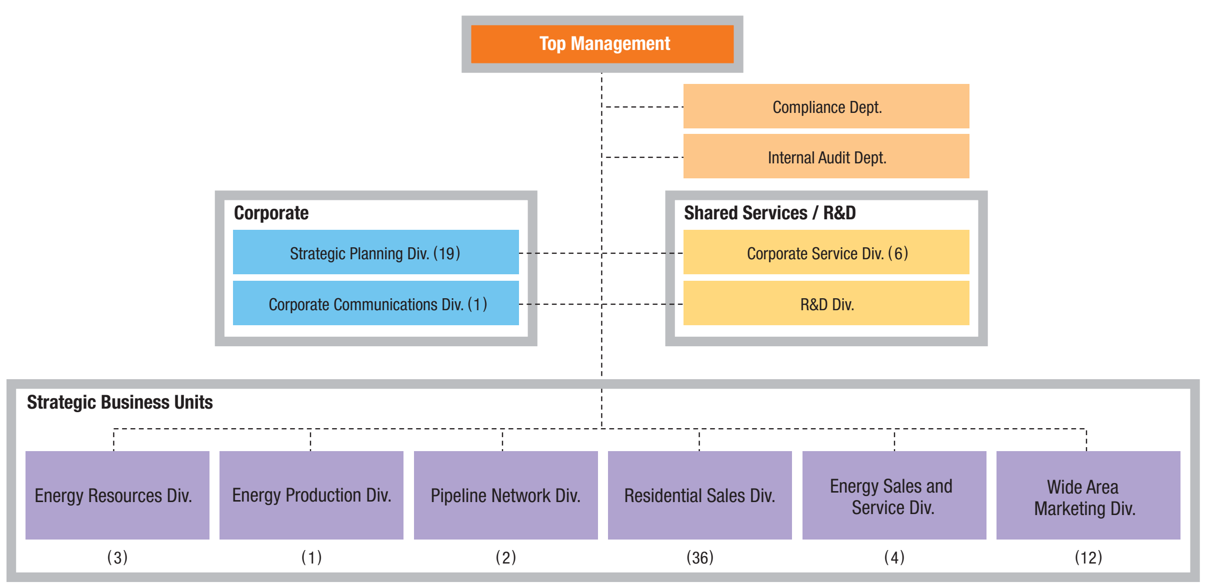
We are leveraging the strategic business unit system to maximize Group earnings, as well as to implement agile management with quick decision-making.

which Group companies with potential synergic benefits are integrated into strategic business units.

We believe that this unified approach will allow Tokyo Gas and its Group companies to maximize Group earnings in free and competitive markets. We also aim for **agile management with quicker decision-making** by devolving authority and accountability to the leaders of each strategic business unit.

The Tokyo Gas Group provides convenience and comfort to the lifestyle of its customers with environment-friendly natural gas. In this sense, we are extremely fortunate, because we can contribute to society by working hard at our business activities. This is the starting point for our activities, and we will continue to focus on this role as we work to enhance our profitability and achieve growth by investing aggressively in areas with the potential for expansion.

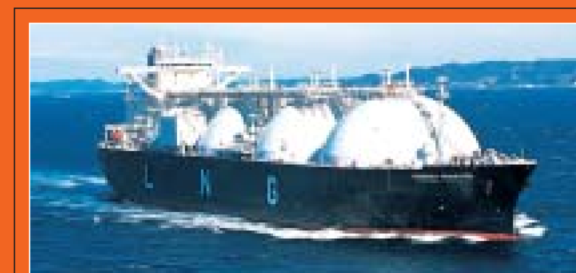
Tokyo Gas Group Management Structure (As of April 1, 2004)



Figures in parentheses are numbers of Group companies in each business unit.

Moving Forward toward Achievement of Frontier 2007

- Overcoming Competition Triggered by Deregulation
- Entering Related Fields to Extend Customer Services
- Enhancing Procurement of Gas Resources
- Driving Future Growth through R&D

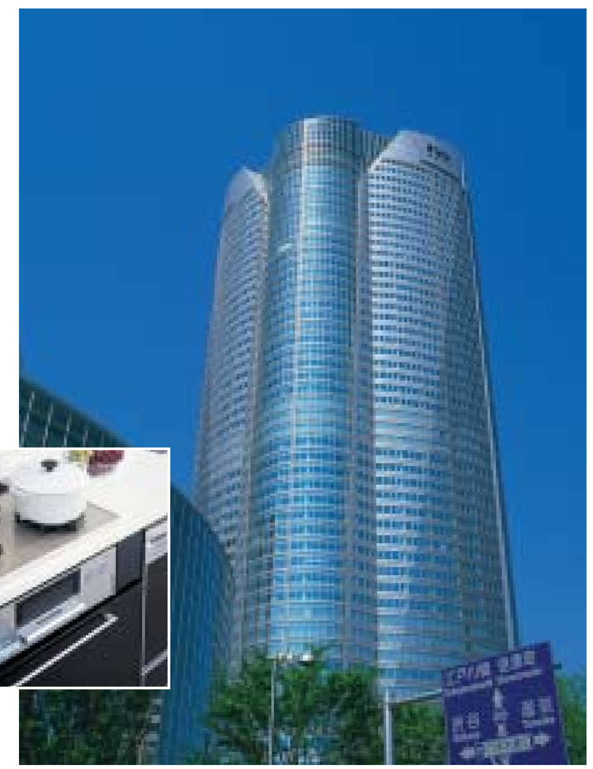


OVERCOMING COMPETITION TRIGGERED BY DEREGULATION

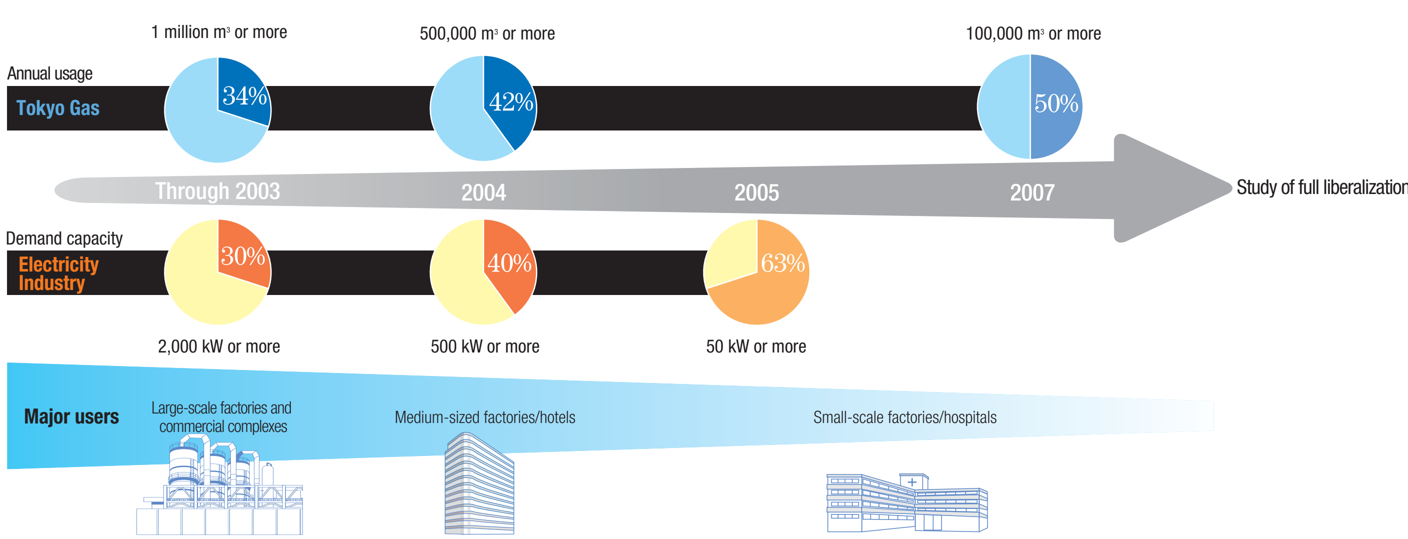
Tokyo Gas is accurately identifying the risks and opportunities resulting from liberalization and strengthening both its offensive and defensive positions.

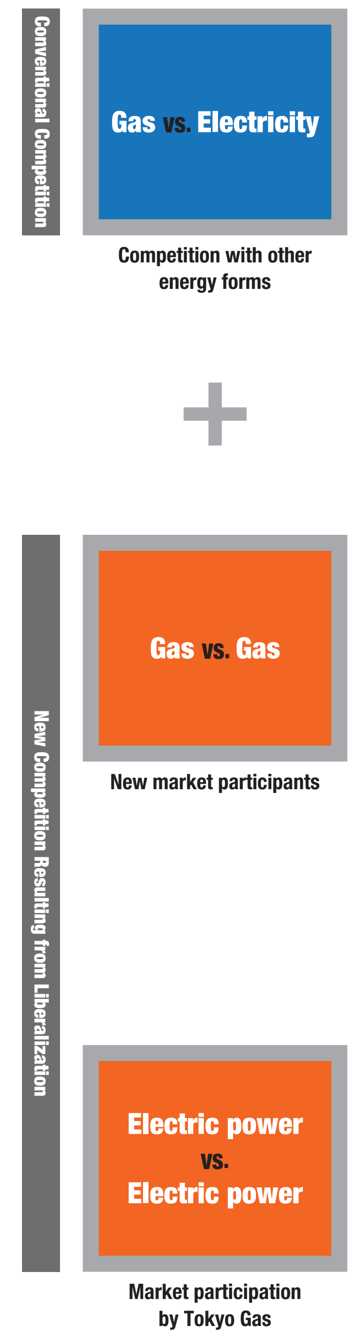
Strategies

- **Gas rate strategies based on effective utilization of the ¥180 billion allocated for rate reductions under Frontier 2007**
- **Development of energy service businesses based on environmental advantages of natural gas and energy efficiency and cost savings made possible by cogeneration**
- **Expansion into electric power business with competitive electric power prices made possible by the strengths of the Tokyo Gas Group**



Liberalization Schedule





Utilizing a trusted network with more than 9.4 million customers

Tokyo Gas has always faced competition from other energy industries, including electricity. Competition in the area of air conditioning and cogeneration systems for office buildings and other facilities has been particularly intense since Tokyo Electric Power reduced its rates in 2002. Fierce competition is expected to continue, as Tokyo Electric Power has already announced further cuts to take effect from October 2004. This competition has also intensified in the residential market, with electric power companies promoting an all-electric lifestyle.

The strategy adopted by Tokyo Gas for this challenging environment is based on effective utilization of the ¥180 million allocated under Frontier 2007 to offer attractive billing options that match the needs of customers.

The competitive advantage of Tokyo Gas is close ties with more than 9.4 million customers based on its brand reputation. Tokyo Gas is determined to protect and enhance this advantage by continuing to provide customers with ideas for business efficiency and more comfortable lifestyles based on the use of natural gas with high added-value products and services.

Offering energy solutions based on advanced technology

In April 2004, the scope of liberalization was expanded to include retail sales of gas to customers using 500,000 m^3 or more annually. This means that approximately 40% of the total volume of gas sold is liberalized. Thus, competitors, including electric power companies and oil companies, are intensifying their gas marketing activities. Tokyo Gas is responding to this gas-gas competition by refining and enhancing the unique strengths that will continue to make the Company attractive enough to be selected by customers.

The greatest strength of Tokyo Gas is its ability to apply advanced technology and engineering expertise to the development of solutions that precisely match customers' needs. Tokyo Gas aims to maximize this advantage and remain attractive to customers through its energy services, which provide high added-value energy utilization solutions through the use of natural gas cogeneration technology.

Tokyo Gas recognizes the risk of eroding sales as a result of competition and already reacted in Frontier 2007 by assuming that competition will reduce revenues by approximately ¥30 billion, or by a sales volume of 500 million m^3, as of 2007.

Seizing business opportunities created by liberalization

In April 2004, regulatory reform of the retail electricity market expanded the scope of liberalization to include customers with demand capacity of 500 kW, reaching about 40% of electricity sales in volume terms. Tokyo Gas is determined to exploit this opportunity to the full by becoming active in the electric power business. The most critical requirement for success in this market is the ability to supply electricity at highly competitive rates. Tokyo Gas aims to expand its electric power business by forming alliances and using its competitive advantages. These include the use of existing infrastructure and expertise of its own or partner companies, locating plants close to demand areas, and utilizing the most advanced generation facilities to combine high efficiency and low cost.

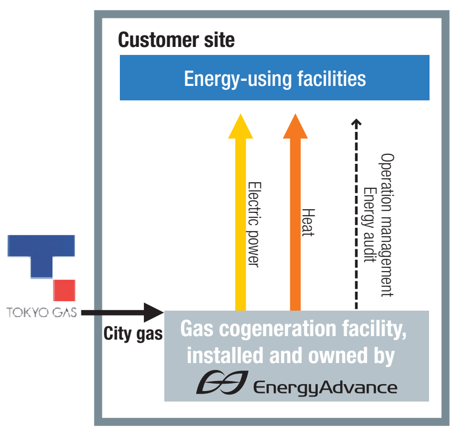
A key challenge for newcomers is to find buyers for the electricity that they generate. However, Tokyo Gas is developing a range of options, including sales to the power retailer Ennet, which was jointly established by Tokyo Gas, the NTT Group and Osaka Gas, wholesaling to Tokyo Electric Power through an independent power producer (IPP), and direct sales to customers. It will also consider trading through the Japan Electric Power Exchange.

ENTERING RELATED FIELDS TO EXTEND CUSTOMER SERVICES

Deregulation has triggered the expansion of energy-related business opportunities. Tokyo Gas is steadily creating new business in this environment.

Energy Services

Dynamically Expanding its Presence in the Growing Energy Service Market



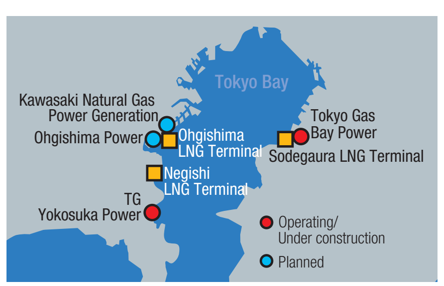
Energy service providers construct and retain ownership of the gas cogeneration systems and other energy facilities they employ on customer sites for the provision of one-stop energy solutions. Potential customers are increasingly attracted to the benefits of energy services, which include energy cost savings, increased environmental responsibility and virtually no initial outlay. The profitability of this business is also improving, as the systems themselves are made more efficient—a trend that promises a bright future for this emerging new business.

In 2002, Tokyo Gas established a new subsidiary, ENERGY ADVANCE Co., Ltd. This company is deploying a highly efficient marketing strategy by focusing on customers with substantial heating needs and a strong awareness of environmental issues. It is using the advanced engineering capabilities of the Tokyo Gas Group and its ability to procure LNG reliably and economically to maximize the added-value potential of gas cogeneration. Its main target market is the Kanto region, where there is significant untapped demand.

ENERGY ADVANCE is the leading company in the cogeneration field. By the end of fiscal 2003, the company had signed 35 contracts, totaling approximately 60 MW. It has also been selected for 18 subsidized schemes implemented by the New Energy and Industrial Technology Development Organization and other organizations. These schemes involve a total capacity of approximately 50 MW.

Electric Power Business

Marking Full-scale Entry into Electric Power Generation



The Tokyo Gas Group's full-scale involvement in the power business began in October 2003 with the commencement of generation at a 100 MW plant operated by Tokyo Gas Bay Power Co., Ltd. In August 2003, Tokyo Gas acquired an IPP from Tomen Corporation and renamed it Tokyo Gas Yokosuka Power Co., Ltd. This power plant will start operation from 2006 with a generation capacity of 240 MW. Tokyo Gas is also exploring the establishment of an 800 MW plant in collaboration with Nippon Oil Corporation, and a 1.2 GW plant in collaboration with the Shell Group. Eventually, Tokyo Gas plans to increase its total generation capacity to 3 GW in line with the electric supply and demand and the evolution of deregulation in the electric power industry.

Home Security Business Launched

For decades Tokyo Gas has provided energy solutions to meet a wide range of energy needs. The resulting trust that has grown between Tokyo Gas and its customers is now the basis for the development and commercial introduction of new services. One of these new products is a home-security service provided in partnership with Sohgo Security Services Co., Ltd., combining Tokyo Gas safety technology with Sohgo's security technology. The service provides around-the-clock protection 365 days a year with features that include intruder detection, emergency notification, checking and remedial action when gas taps are left on or doors left unlocked, and emergency action in response to fires and gas leaks. The new service was introduced on a trial basis in April 2004 and will become fully available in autumn or later.

ENHANCING PROCUREMENT OF GAS RESOURCES

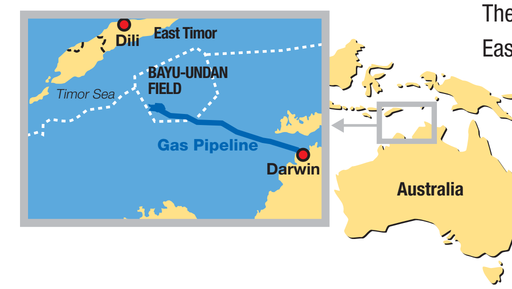
Tokyo Gas strives to improve its cost competitiveness through the establishment of a natural gas supply chain linking upstream development to downstream markets.

Strategy

- **Tokyo Gas is using bargaining power arising from prospects of further growth in gas sales volumes to negotiate more competitive contract terms regarding pricing and flexibility.**
- **The Company also aims to maximize the benefits of its LNG value chain by moving into upstream areas, such as gas field development and transportation. Among its goals is a 5% or more reduction in gas resource costs per cubic meter from fiscal 2002 levels under Frontier 2007.** (based on 2002 currency exchange rates and crude oil prices)

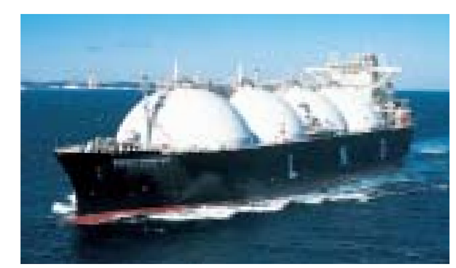
What's New

Adding Upstream Development Capability with Darwin LNG Project



The Darwin LNG Project is in progress in the Joint Petroleum Development Area, shared by Australia and East Timor. In June 2003, the two governments gave their approval for the project, in which Tokyo Gas and Tokyo Electric Power Co. (TEPCO) have decided to participate. As a result of this approval, Tokyo Gas is now involved in upstream development activities. In addition to their role in LNG production through this project, Tokyo Gas and TEPCO will purchase a total production of 3 million tons of LNG annually over a 17-year period starting in 2006. This participation gives Tokyo Gas entry to the entire LNG value chain, allowing it to reduce gas resource costs and ensuring reliable procurement of gas resources.

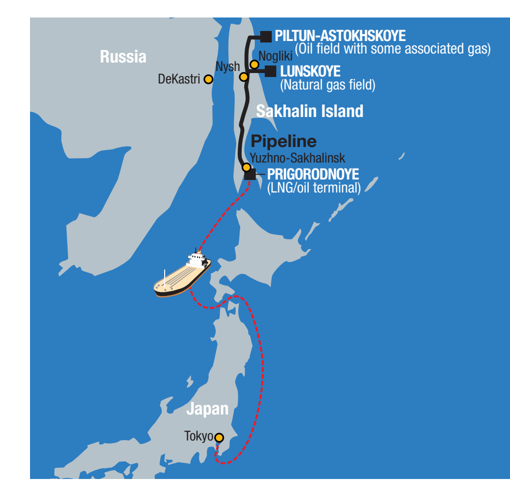
Reducing Freight Costs through Use of Wholly Owned LNG Carrier Fleet



In September 2003, the Energy Frontier commenced operations as the Tokyo Gas Group's first wholly owned LNG carrier. During fiscal 2003, ten voyages were carried out to supply Tokyo Gas with LNG, including spot trade, and to provide transportation for other parties. A second vessel is under construction and due to be launched in March 2005. Tokyo Gas aims to reduce its freight costs by using its own vessels to expand its FOB transactions. The vessels will also be used for spot purchasing and the provision of transportation services for other parties. In addition to reductions in gas resource procurement costs, the use of company vessels will also allow Tokyo Gas to secure greater flexibility in contract terms.

Securing Geographical Advantage with LNG Procurement from Sakhalin II

In May 2003, Tokyo Gas reached basic agreement concerning the sales and purchase of up to 1.1 million tons of LNG annually from the Sakhalin II project over a 24-year period starting in 2007. In addition to benefits relating to pricing and contract-term flexibility, this project offers a geographical advantage, since the close proximity of Sakhalin to Japan will reduce transportation costs. In addition, Tokyo Gas reduces procurement risk by diversifying its gas resources.



DRIVING FUTURE GROWTH THROUGH RESEARCH AND DEVELOPMENT

To help drive its growth, the Tokyo Gas Group is pursuing original research and development leading to the creation of innovative products and services as well as to the maintenance and enhancement of basic technologies. These efforts will serve as building blocks for new business models.

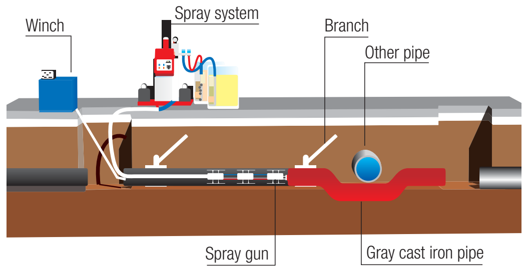
What's New

Launch of Environment-friendly Residential Fuel Cells Planned for Fiscal 2004

Tokyo Gas is collaborating with system manufacturers on the development of a residential fuel cell cogeneration system. The introduction of this next-generation product is expected to lead directly to increased use of gas. The system that Tokyo Gas is developing is based on solid polymer electrolyte fuel cell (PEFC) technology and will be fueled by hydrogen extracted from city gas. It will have an output capacity of 1 kW. The specifications were basically finalized in 2003 after trials in typical households. The product is now in the final stages of development, and the priorities are to improve durability and reduce costs ahead of the target launch date in the fourth quarter of fiscal 2004.

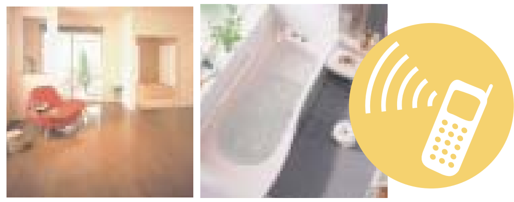
A New and More Efficient Method of Pipeline Maintenance

The period over which existing gas pipelines can be used safely has important implications for capital investment planning and tariffs. Tokyo Gas has developed and started using "Double-lining Technology" that allows maintenance to be carried out without excavation. Existing pipes are strengthened through the application of two resin coatings applied with a spray gun inserted into the pipes. There are major cost savings, since this method saves time, compared with the conventional method.



"TES Remote PLUS"—Information Technology the Key to Enhanced Convenience and Safety

The new "TES Remote PLUS" service developed by Tokyo Gas allows customers to control their TES gas water heater/heating systems remotely using mobile telephony. The new system, which has been available since April 2004 for newly built condominiums, also supports remote operation of other residential equipment with home automation capabilities, including door locks and electric air conditioners. TES system is becoming increasingly popular, and TES floor heating is now installed many newly built condominiums in the Tokyo metropolitan area. Tokyo Gas developed the new service to provide enhanced comfort, convenience, safety and peace of mind. The operation is also linked to Tokyo Gas' monitoring station, which can provide warnings or shut off the gas supply remotely if necessary, such as when a customer leaves home and forgets to turn off a gas appliance. The service also includes enhanced maintenance support by detecting and reporting faults in appliances.



Pursuing Our Responsibilities to All Stakeholders

- Commitment to Good Corporate Citizenship
- Corporate Governance and Compliance
- Management Organization

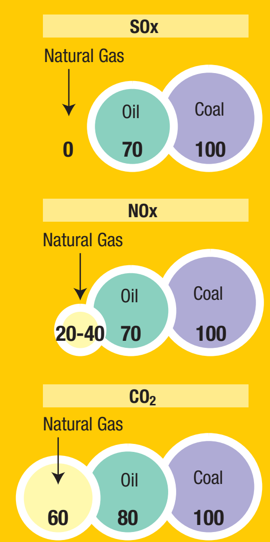
COMMITMENT TO GOOD CORPORATE CITIZENSHIP

The Tokyo Gas Group is making an active contribution to more pleasant lifestyles and to the development of environment-friendly urban communities. The Group aims to achieve continuing growth and success in partnership with society, as a corporate group that earns and maintains the trust of all stakeholders through all of its business activities.

Tokyo Gas and the Environment

Clean Natural Gas as the Core of its Business

Compared with other fossil fuels, natural gas is a very clean form of energy with a low environmental impact. As a corporate group that has made this clean energy the core of its activities, the Tokyo Gas Group is determined to be a leader in the field of environmental management and is strongly committed to environmental protection through various aspects of its business. It is working to minimize environmental impact by using resources effectively and efficiently, by strengthening its environmental partnership with local communities, and by developing and rolling out innovative technologies that contribute to achieving higher standards of environmental protection.



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

COMMUNITY

- Encouraging wider use of natural gas cogeneration and research and development of highly efficient gas appliances to help prevent global warming
- Promoting the use of natural gas vehicles (NGVs) as a practical means of helping to prevent air pollution.
  [A total of 8,368 NGVs are in regular use in Tokyo Gas' service area as of March 2004]

A neighborhood bus
Thirteen buses powered by natural gas were introduced in Fuchu City,Tokyo in fiscal 2003.

- Promoting an eco-lifestyle

Eco-cooking®
The Eco-cooking program is designed to raise environmental awareness by offering food ideas from the perspective of an eco-lifestyle. The aim is to promote the concept of environment-friendly cooking process, including shopping and cleaning. The approach taken is to run Eco-cooking sessions, publish brochures and set up dedicated websites. Tokyo Gas plans to expand these activities with the cooperation of government agencies, schools and others.
[About 40,000 participants have attended as of March 2004.]

- Issuing environmental reports
- Educational outreach centers
  - Energy & Earth Emporium
  - Gas Science Center
  - Gas Museum

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"Gas Maru," Tokyo Gas' character for communication activities

TOKYO GAS GROUP

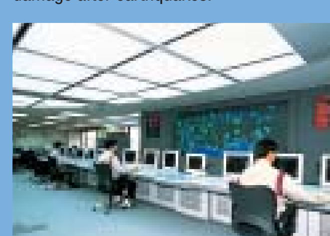
- Pursuing initiatives aimed at acquiring ISO 14001 certification groupwide
- Educational programs to raise awareness of the environment through sessions and lectures
- Support for introduction of environmental management systems at Group companies
- Green purchasing

Tokyo Gas and Society

Maintaining Public Confidence in the Tokyo Gas Group

Gas is an essential commodity for day-to-day living, and the most important responsibility for Tokyo Gas as a supplier of that commodity is to ensure reliability and safety. To fulfill that responsibility, Tokyo Gas is constantly working to secure reliable access to gas resources, and to maintain a full array of safety systems covering the process, delivery and use of natural gas. In addition to these efforts to maintain user confidence at all times, Tokyo Gas also has active programs of social contribution that build and maintain relationships of trust with communities and customers.

Earthquake Precautions
Tokyo Gas has developed the world's most advanced real-time disaster prevention system. Known as SUPREME, the system works in conjunction with automatic shut-off and remote shut-off systems to provide 24-hour security. This technology can significantly mitigate the risk of secondary damage after earthquakes.

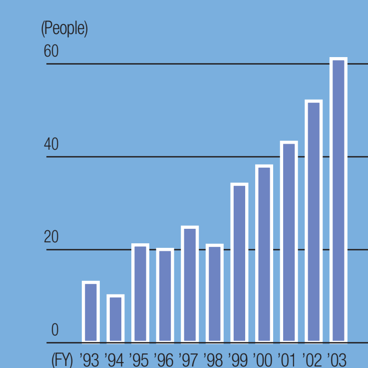


- Collaborating with local communities and organizations in exhibitions and events
- Supporting education on energy and the environment

School Visits
Tokyo Gas presents educational programs about energy and the environment to elementary and junior high schools.
[About 90,000 students have attended as of March 2004.]

- Human rights education programs
- Corporate compliance training programs
- Programs for supporting child rearing (Parental leave, flexible work shifts, etc.)
- Programs for supporting the care of dependents (Long-term leave, etc.)
- Programs for supporting volunteer activities (holidays/leave for volunteer work, etc.)

Number of employees taking parental leave



Social responsibility investment (SRI) is growing in importance. Under SRI, investors and financial institutions make investment decisions based on not only a company's business results but also its social and environmental performance. Tokyo Gas is included in several SRI indexes/funds such as the Dow Jones Sustainability Index.

SRI indexes that include Tokyo Gas
- Dow Jones Sustainability Index (DJSI)
- FTSE4Good
- Ethibel Sustainability Index
- MS-SRI

CORPORATE GOVERNANCE AND COMPLIANCE

The value of the Tokyo Gas brand is the result of decades of effort to build a reputation for reliability, safety and trust. The Tokyo Gas Group is working to protect and enhance that reputation by reaching higher and strengthening corporate governance and compliance.

Corporate governance has been enhanced through the introduction, in June 2002, of a new board structure. The number of directors was substantially reduced and the term of service shortened. Outside directors were appointed to the board to provide closer supervision of management. Tokyo Gas also became the first company in the Japanese gas industry to introduce a corporate executive officer system to speed up decision-making and improve operational efficiency.

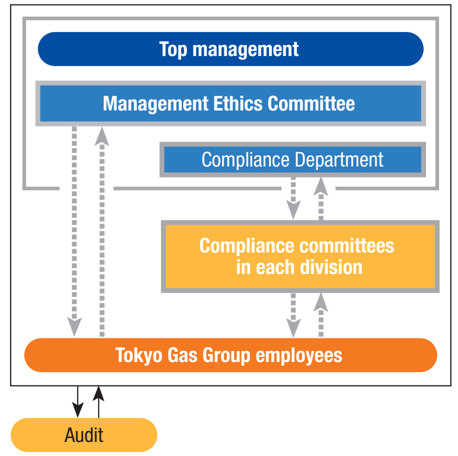
These structural changes will now form the basis for continuing efforts to revitalize the board of directors and ensure fair disclosure of information, while increasing management transparency.

With regard to risk management, Tokyo Gas established a total management system for handling risks and formulated basic guidelines for groupwide implementation.

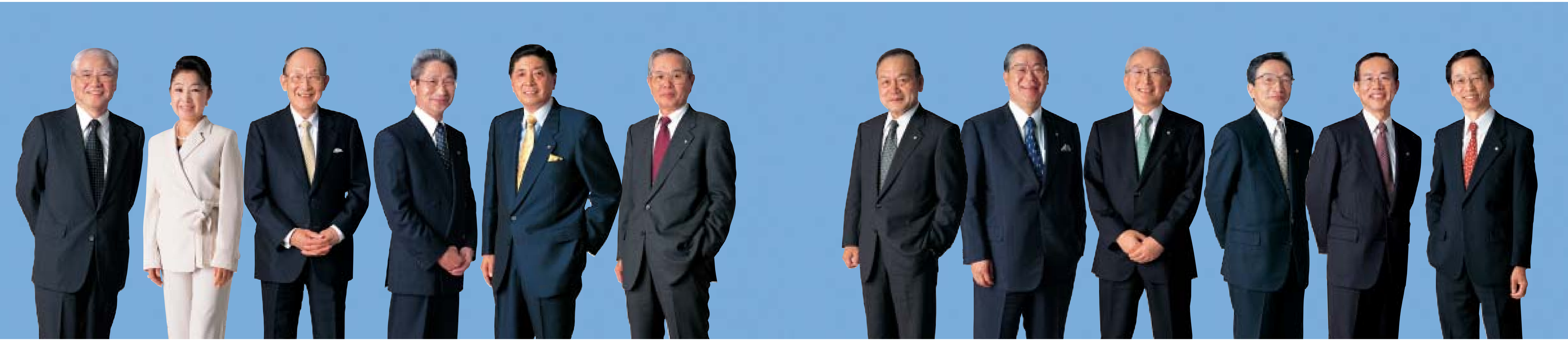
In keeping with its important role in society as a public utility, the Tokyo Gas Group already makes all possible efforts to ensure compliance with legal and social requirements. Tokyo Gas revised its code of conduct to ensure compliance at the individual employee level of the Group, by utilizing the new compliance promotion system established in the previous fiscal year. The new code of conduct will be promoted throughout the Group as part of efforts to raise awareness of compliance.

Tokyo Gas is developing and introducing its own monitoring mechanisms to scrutinize the observance of compliance requirements on a continuing basis. Basic policies are to be determined by the Management Ethics Committee, and their implementation will be monitored by the Audit and Operational Enhancement Department. Problems identified through this process will then be addressed in forthcoming policies. Tokyo Gas has long enjoyed the confidence of customers and aims to maintain that reputation by applying this cyclical system throughout the Tokyo Gas Group.

Tokyo Gas Group Compliance Management System

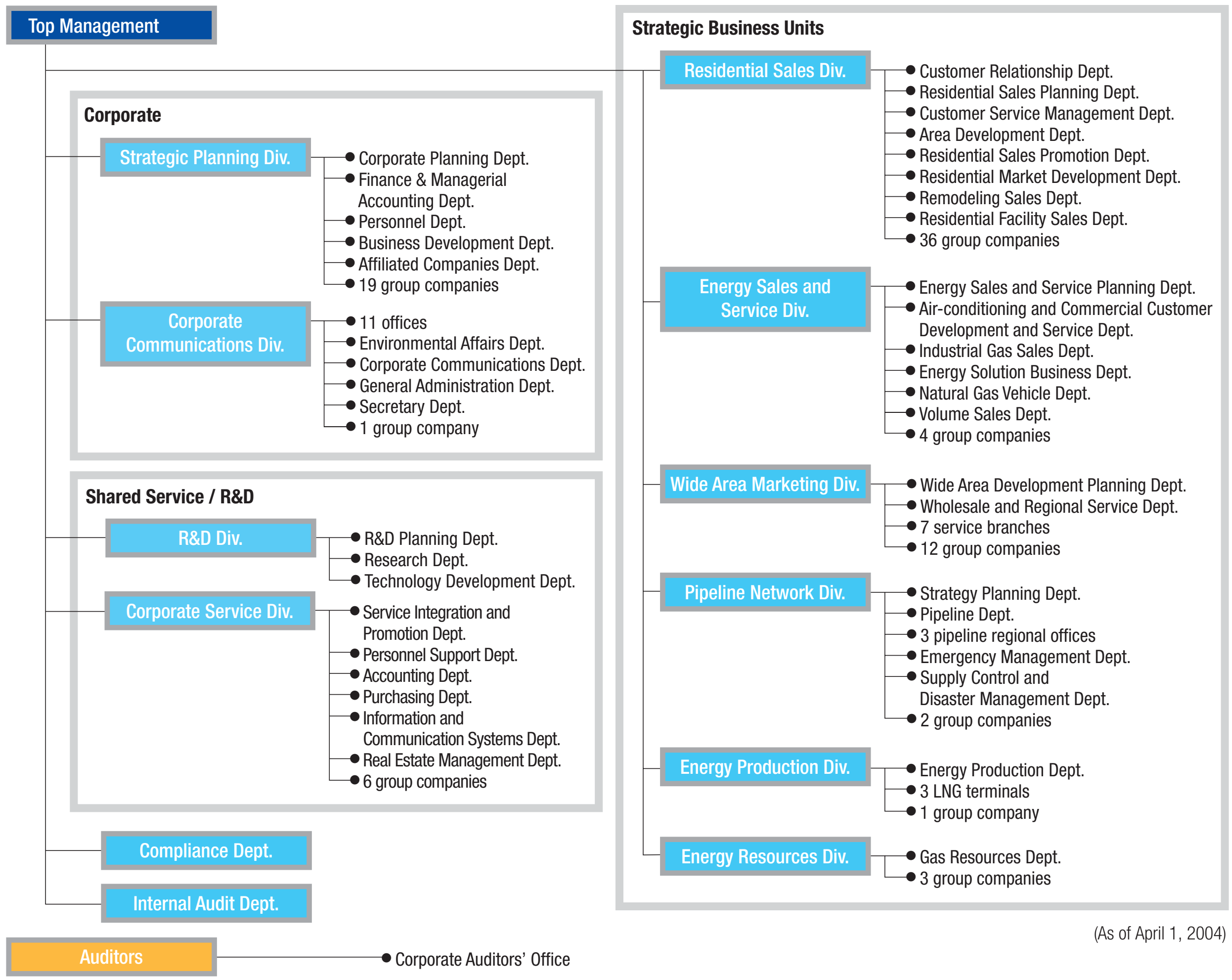


Board of Directors



YUKIO SATO	Outside Director	
YURI KONNO	Outside Director	
YUZABURO MOGI	Outside Director	
HIDEHARU UEHARA	Vice Chairman	
KUNIO ANZAI	Chairman	
NORIO ICHINO	President	
MITSUNORI TORIHARA	Executive Vice President	*Chief Executive, Corporate Communication Div.; Compliance Dept.*
SHIGERO KUSANO	Executive Vice President	*Chief Executive, Energy Sales and Service Div.; General Manager, Volume Sales Dept.*
KOUYA KOBAYASHI	Executive Vice President	*Chief Executive, Energy Production Div.*
TADAAKI MAEDA	Senior Executive Officer	*Chief Executive, Energy Resources Div.; Internal Audit Dept.*
TAKASHI KUNITOMI	Senior Executive Officer	*Chief Executive, Residential Sales Div.*
TSUYOSHI OKAMOTO	Senior Executive Officer	*Chief Executive, Strategic Planning Div.*

MANAGEMENT STRUCTURE



(As of April 1, 2004)

Executive Officers and Corporate Auditors (As of June 29, 2004)

Executive Officers

President
Norio Ichino

Executive Vice Presidents
Mitsunori Torihara
Chief Executive, Corporate Communication Div.; Compliance Dept.
Shigero Kusano
Chief Executive, Energy Sales and Service Div.; General Manager, Volume Sales Dept.
Kouya Kobayashi
Chief Executive, Energy Production Div.
Masahiro Ishiguro
Chief Executive, Corporate Service Div.

Senior Executive Officers
Tadaaki Maeda
Chief Executive, Energy Resources Div.; Internal Audit Dept.
Takashi Kunitomi
Chief Executive, Residential Sales Div.
Tsuyoshi Okamoto
Chief Executive, Strategic Planning Div.
Akira Habu
Managing Director, The Japan Gas Association
Toshio Tezuka
Chief Executive, Wide Area Marketing Div.
Masaki Sugiyama
Chief Executive, Pipeline Network Div.
Shigeru Muraki
Chief Executive, R&D Div.

Executive Officers
Tokio Imazawa
Coordinator, Energy Sales and Service Div.
Seiichi Nakanishi
General Manager, Residential Sales Promotion Dept.
Taiichi Okuzawa
General Manager, Kanagawa Branch
Norikazu Hoshino
General Manager, Customer Relationship Dept.
Tadashi Kaburagi
General Manager, Industrial Gas Sales Dept.
Toshiyuki Kanisawa
General Manager, Corporate Planning Dept.
Kunihiro Mori
General Manager, Energy Production Dept.
Yasuhiro Hiruma
General Manager, Corporate Communications Dept.
Tsutomu Oya
General Manager, Air-conditioning and Commercial Customer Development and Service Dept.
Mikio Itazawa
General Manager, Pipeline Dept.
Michiaki Hirose
General Manager, The Japan Gas Association

Corporate Auditors

Standing Corporate Auditors
Soichiro Akimoto
Hiroshi Hirai

Corporate Auditors
Kazuo Nemoto
Masayoshi Hanabusa

FINANCIAL SECTION

[Contents]

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATION AND FINANCIAL POSITION

SUMMARY

- Consolidated sales reached an all-time high, reflecting sustained growth in gas sales.
- This sales growth has been paralleled by a steady reduction in operating expenses, resulting in a 23.5% increase in operating income.
- Net income was lower because of decisions to take a lump-sum write-off of actuarial differences in retirement benefits, and to bring forward the application of impairment accounting to fixed assets. These measures will help to reduce the future cost burden.
- Without these extraordinary items, free cash flow* would have been substantially above the initial target. For this reason, the annual dividend has been increased by one yen per share.

* Tokyo Gas uses free cash flow as a key management indicator: 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)

Trends in Core Profit Source of Gas Sales Volume

Note: All graph data for year ended March 31

Steady Increase in the Volume of Sales, Conspicuous Growth in Industrial Gas Sales

Residential Sector

Temperatures at the start of the fiscal year and during the summer were lower than in the previous year. This was reflected in increased demand for hot water in the first half of the year. Temperatures in the winter were higher than in the year before, with the result that demand for hot water and heating remained static. Overall, sales declined 10 million m^3, or 0.3%, at 3,292 million m^3. There was growth of 55 million m^3 brought on by an increase in the number of customers, and a decline of 52 million m^3 resulting from temperature-related factors. Declines due to other factors, such as reduced sales per household, amounted to 13 million m^3.

Commercial Sector

Demand for air conditioning stagnated because of low summer temperatures and mild winter temperatures. However, total sales in this sector increased 4.0%, or 103 million m^3, to 2,695 million m^3. Contributing factors included steady flow of newly commissioned facilities in new properties, including urban redevelopment schemes.

Industrial Sector

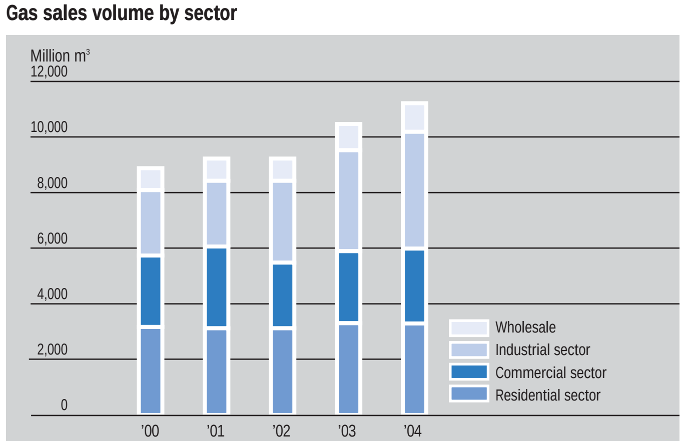
In addition to an increase in demand for use in existing facilities, especially cogeneration systems, there was also a rise in demand for gas used specifically for power generation. These factors brought substantial sales growth of 569 million m^3, or 15.7%, over the previous year's level to 4,201 million m^3. There was a particularly steep increase in demand from electric power companies and independent power producers (IPPs) for gas used solely for power generation. Sales in this area rose 35.3%, or 434 million m^3. This growth resulted in part from increased utilization of natural gas in thermal generation facilities when nuclear power plant operations were suspended. For other uses in the industrial sector (mainly for cogeneration systems), there was a 133 million m^3, or 5.6%, increase, amounting to 2,503 million m^3.

Wholesaling to Other Gas Companies

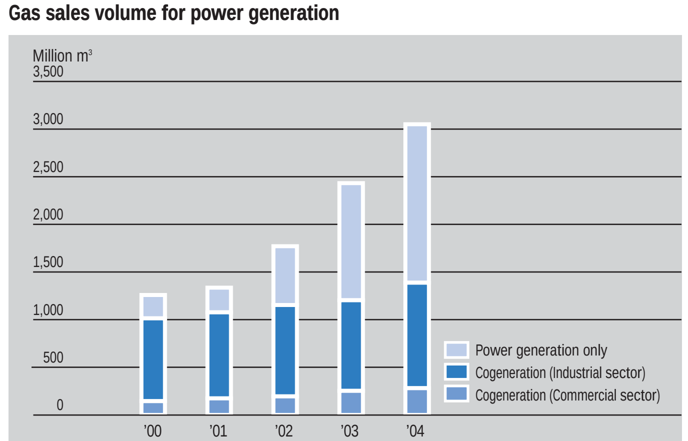
Sales expanded 9.1%, or 86 million m^3, to 1,030 million m^3 with increases in the volume taken by the gas companies to which gas is supplied.

Total sales amounted to 11,218 million m^3, an increase of 747 million m^3, or 7.1%, over the previous year's level.

Gas sales volume by sector



Gas sales volume for power generation



Analysis of Income

Robust Growth in Gas Sales Reflected in Sustained Expansion of Both Net Sales and Operating Income

Despite reduced sales in some segments, such as gas appliance sales and related construction, total sales rose ¥24.1 billion, or 2.1%, to a new record of ¥1,151.8 billion. The rise was attributable to healthy 4.9% growth in gas sales.

Although feedstock costs increased in step with growth in the volume of gas sales, operating expenses were minimized through further measures to improve operating efficiency. This was reflected in operating income, which rose ¥29.0 billion, or 23.5%, to ¥152.3 billion. Operating income increased in all segments.

Business results by segment (¥ Million)

Sales to outside customers

Years ended March 31	2002	2003	2004
Gas Sales	750,439	789,688	826,567
Gas Appliance Sales	148,271	141,225	132,254
Related Construction	67,633	67,045	64,944
Real Estate Rental Business	15,685	14,944	14,151
Other	115,561	114,732	113,909

Operating income

Years ended March 31	2002	2003	2004
Gas Sales	149,210	160,224	189,366
Gas Appliance Sales	7,243	7,842	7,904
Related Construction	3,650	4,175	4,456
Real Estate Rental Business	6,091	7,623	7,883
Other	10,799	9,626	11,270

Note: Segment sales are sales to outside customers, while operating income is the sum of sales to outside customers and intra-group transactions minus the operating expenses of outside and inside transactions.

Gas Sales

Higher Volumes Bring Sustained Growth in Both Sales and Income

There was a 7.1% increase in gas sales volumes, led by strong demand from power generation, in which unit prices are lower. The unit price also rose under the "sliding rate" system, which adjusts for fluctuations in gas resource costs. These factors helped to boost sales in this segment by ¥36.9 billion, or 4.7%, to ¥826.6 billion. Nonconsolidated sales increased 4.9%, or ¥38.4 billion. Rising sales volumes contributed ¥21.8 billion and price adjustments under the "sliding rate" system added ¥18.0 billion, while other factors had an adverse effect amounting to ¥1.3 billion. This segment's contribution to total sales rose from 70.0% to 71.8%.

Operating expenses were affected by a rise in gas resource costs in step with volume growth in gas sales. However, measures to reduce selling, general and administrative expenses allowed Tokyo Gas to hold its operating expenses to ¥641.7 billion, an increase of just 1.5% over the previous year's level.

The result was operating income of ¥189.4 billion representing an 18.2% year-on-year increase.

Gas Appliance Sales

Strong Sales of Products Designed to Compete with Electrical Appliances

Tokyo Gas recorded buoyant sales of products developed to compete with electrical appliances. However, sales of this segment declined due to static total sales volumes and reduced selling prices, amid strong competition. Despite the resulting decline in segment sales, lower procurement prices and successful efforts to reduce fixed costs and other operating expenses brought higher operating income.

Segment sales fell 6.4%, or ¥9.0 billion, to ¥132.3 billion, while operating expenses were reduced 6.5%, or ¥8.8 billion, to ¥126.0 billion. Operating income was ¥0.06 billion, or 0.8%, higher at ¥7.9 billion. This segment's contribution to total sales declined marginally from 12.5% to 11.5%.

Related Construction

Cost Savings Allow Income Growth Despite Slow Sales

There were declines in the number of new installations and safety upgrades. Despite the slowdown, operating income was higher thanks to reductions in fixed costs and other expenses.

At ¥64.9 billion, sales were ¥2.1 billion, or 3.1%, lower than in the previous year. Operating expenses were reduced 4.2%, or ¥2.8 billion, to ¥63.6 billion, with the result that operating income rose 6.7%, or ¥0.3 billion, to ¥4.5 billion. This segment's contribution to total sales was slightly lower at 5.6%, compared with 5.9% in the previous year.

Real Estate Rental Business

Cost Cutting Offsets Reduced Rent Revenue

Segment sales declined, in part because of rent reductions to reflect the state of the real estate market, falling 5.3%, or ¥0.8 billion, to ¥14.1 billion. Despite this, operating income improved because of lower depreciation and the reduction of selling, general and administrative expenses.

Operating expenses were reduced 4.0%, or ¥0.2 billion, to ¥27.6 billion, and operating income rose 3.4%, or ¥0.3 billion, to ¥7.9 billion. This segment's contribution to total sales declined from 1.3% in the previous year to 1.2%.

Other

Steady Expansion of Energy Service Business

Business areas in this segment include district heating and cooling systems, energy services and LPG sales. Despite positive factors, including sustained growth in energy service operations, segment sales declined 0.7%, or ¥0.8 billion, to ¥113.9 billion. Reasons for the lower result include a drop in orders for large-scale general engineering projects, and withdrawal from the coke business. This segment accounted for 9.9% of net sales, down from 10.2% in the previous year.

Segment operating expenses were ¥12.2 billion, or 8.2%, higher than in the previous year at ¥160.9 billion. Segment operating income increased 17.1%, or ¥1.6 billion, to ¥11.3 billion.

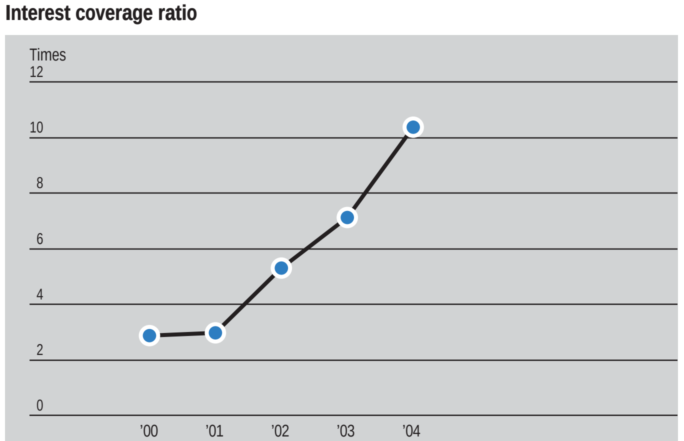
Temporary Decline in Net Income from Lump-sum Write-off of Actuarial Differences in Retirement Benefits

Other income totaled ¥17.5 billion, a year-on-year increase of ¥1.4 billion. This is mainly attributable to a ¥5.7 billion gain from the liquidation of excess allowances for retirement benefits resulting from reform of the corporate pension plan, and the receipt of ¥2.2 billion in proceeds from the sale of fixed assets.

Total other expenses increased ¥53.1 billion to ¥96.7 billion. The increase is attributable to the write off in this fiscal year of the entire amount of actuarial differences in retirement benefits, totaling ¥59.0 billion, taken on the occasion of the reform of the corporate pension plan. Another factor that increased expenses was the decision to bring forward the application of impairment accounting to fixed assets in order to strengthen the financial structure. There were impairment losses of ¥3.3 billion on certain assets, including a once planned site for branch offices.

On the other hand, there were no environmental conditioning costs, which were recorded as an extraordinary expenditure item amounting to ¥5.7 billion in the previous year. Interest expenses were reduced ¥2.6 billion through aggressive repayment of interest-bearing debt.

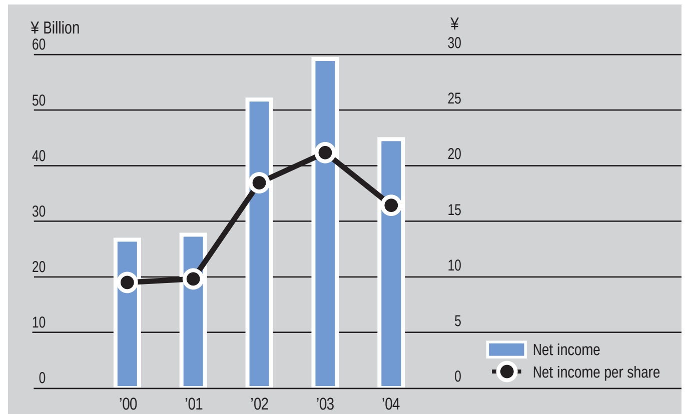
Interest coverage ratio



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

As a consequence, other expenses, net amounted to ¥79.2 billion, compared with ¥27.4 billion in the previous year. Net income declined ¥14.4 billion, or 24.3%, below the previous year's level to ¥44.8 billion.

Net income and net income per share



REFORMS OF THE PENSION PLAN

Following the enforcement of the Defined Benefit Corporate Pension Law, Tokyo Gas undertook major reforms of its pension plan by switching from a tax-qualified pension plan to a contract-type corporate pension plan and by introducing a cash balance plan in fiscal 2003. This resulted in a reduction in the benefit rate, and ¥5.7 billion in profit as a gain from reducing the retirement benefit reserve was recorded in the accounts as a result.

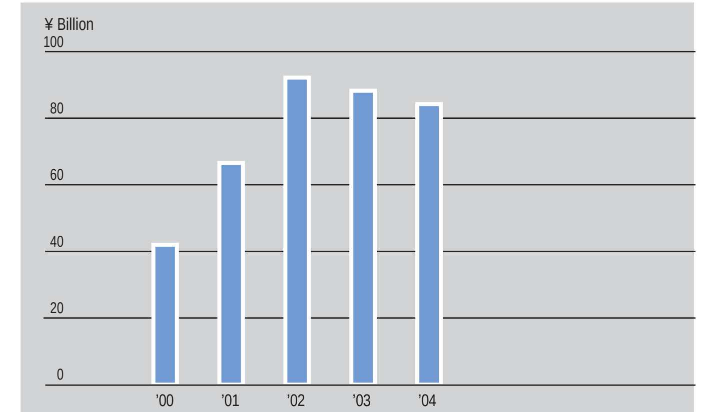
Further to the reform of the pension plan, the Company decided to change the number of years over which the unrecognized actuarial differences are written off from ten years to one year. The full amount of unrecognized actuarial differences from past years was recorded as a loss totaling ¥59.0 billion in this fiscal year. This change allows the status of the retirement benefit obligations to be reflected in the Company's financial statements in a timely manner. It also reduces the future burden and strengthens the Company's financial structure.

Free Cash Flow of ¥84.2 Billion

Tokyo Gas has made free cash flow a key management indicator, which is calculated by adding depreciation* to net income and subtracting capital expenditures**. One of the goals set down in Frontier 2007 is the achievement of free cash flow averaging ¥97 billion per annum and totaling ¥480 billion over a five-year period. The result for this term fell short of this target at ¥84.2 billion, a year-on-year decline of ¥4 billion, or 4.5%. Depreciation increased 4.2% to ¥146.8 billion, while capital expenditures were reduced 4.1% to ¥107.4 billion. Though both of these factors had the effect of increasing free cash flow, net income declined 24.3% to ¥44.8 billion because of measures to improve the Company's financial structure, as described above. The decline in free cash flow resulted from this lower net income figure.

*including amortization of long-term prepayments
**purchases of tangible fixed assets + purchases of intangible fixed assets + long-term prepayments (accounting basis)

Free cash flow



Decision to Increase Annual Dividend

Frontier 2007 established a basic policy of distributing ¥81 billion to shareholders as dividends, nearly 17% of the total free cash flow of about ¥480 billion generated over the five-year period from fiscal 2003 to fiscal 2007. Transient factors caused a year-on-year decline in free cash flow in this term, and if this factor is discounted, free cash flow would be substantially higher than the target. On the completion of the first year of Frontier 2007, business projections now strongly indicate that the targets for the final year of the plan will be exceeded. For this reason, it was decided to allocate part of the free cash flow in excess of the targets to dividends, in order to pass on the rewards to shareholders. The annual dividend per share has been increased from ¥6 to ¥7 per share.

Increased Sales, Lower Operating Income, and Higher Net Income Projected for the New Fiscal Year

Gas sales volumes in the year ending March 31, 2005 are expected to increase 2.6% to 11.5 billion m^3. Sales to the residential sector are expected to increase 0.9%, from aggressive marketing of floor-heating systems and products developed to compete with electrical appliances. Sales to the commercial sector are to grow 6.9%, driven by stepped-up demand for gas air conditioning. Sales to the industrial sector are estimated to decline 0.4% due to the leveling of special demand for use in power generation, which increased dramatically in fiscal 2003. However, wholesale gas sales are projected to rise 8.3%, reflecting an increase in the volume taken by gas companies to which gas was supplied.

Although gas sales will increase in volume terms, unit prices are expected to fall under the "sliding rate" system, which adjusts for fluctuations in gas resource costs. Tokyo Gas is therefore projecting a decline of 0.6% in revenues from its gas sales business. An increase in the scope of consolidation from 18 companies to about 50 in the new fiscal year is expected to lift total net sales to ¥1,197 billion, a year-on-year increase of 3.9%. Expenses will also increase, however, and operating income is projected to decline 4.8% to ¥145 billion. In the absence of the extraordinary losses that affected earnings in fiscal 2003, net income is expected to rise 92.0% to ¥86 billion.

Cash Flows and Financial Position

Operating Cash Flows Increased, but Year-end Net Cash Declined because of Bond Redemptions and the Acquisition of Treasury Stock

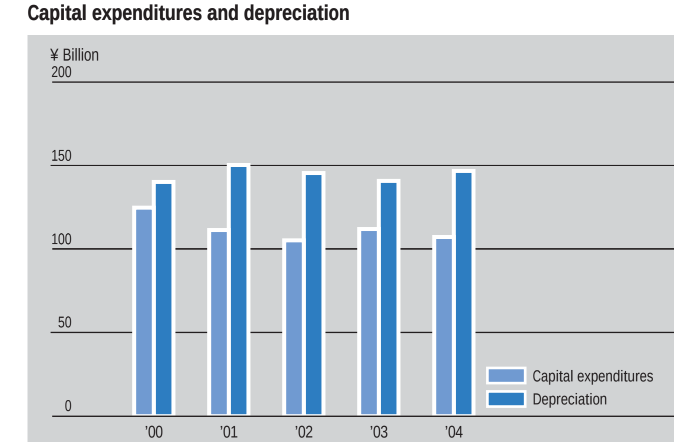
■ Cash Flows from Operating Activities

Income before income taxes and minority interests declined because of the write-off of reserve obligations for retirement benefits and the early application of impairment accounting. However, there was a large inflow of ¥143.1 billion for depreciation of fixed assets, including special depreciation of the newly completed LNG tank facilities at the Ohgishima LNG Terminal, as well as the aforementioned write-off of retirement benefit reserve obligations. Subsequently, net cash provided by operating activities increased ¥4.1 billion year on year to ¥217.6 billion.

■ Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥126.0 billion, an outflow increase of ¥15.9 billion from the previous year's level of ¥110.1 billion. Capital expenditures, which are the sum of acquisitions of tangible fixed assets and intangible fixed assets, increased ¥6.0 billion to ¥113.2 billion. Major investments included gas pipelines.

Capital expenditures and depreciation



Capital expenditures represent the amount of payments for fixed assets in the relevant fiscal year.

Cash Flows from Financing Activities

Net cash used in financing activities rose ¥21.2 billion, from ¥78.5 billion in the previous year to ¥99.7 billion. Though bond issues raised ¥50.0 billion, there was an overall reduction in cash and cash equivalents because of outflows of ¥78.8 billion for bond redemptions and ¥28.0 billion for the repurchase of common stock.

(¥ Million)

Years ended March	2002	2003	2004
Net cash provided by operating activities	191,676	213,533	217,608
Net cash used in investing activities	(111,821)	(110,144)	(126,038)
Net cash used in financing activities	(117,176)	(78,517)	(99,744)

The changes noted above had the effect of reducing cash and cash equivalents at the year-end by ¥8.2 billion to ¥44.0 billion.

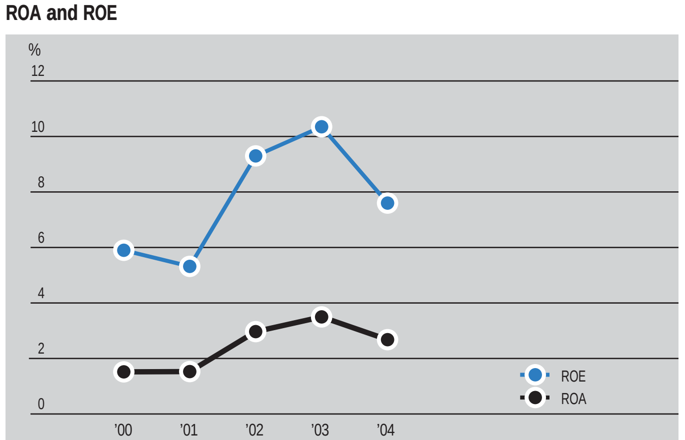
Despite Business Expansion, Fixed Assets to be Reduced through Capital Expenditure Focusing on Asset Efficiency

Total assets at the end of the year under review amounted to ¥1,666.8 billion, a reduction of ¥9.2 billion from the previous year's level. Property, plant and equipment was reduced ¥47.0 billion to a year-end total of ¥1,170.4 billion through ongoing depreciation. Investments and other non-current assets grew ¥45.0 billion to ¥218.4 billion. This resulted from an increase in unrealized gains on investment securities because of rising share prices. Current assets declined ¥5.4 billion to ¥259.1 billion, in part because of a reduction in cash and cash equivalents and receivables.

One of the management policies defined in Frontier 2007 calls for an increase in return on assets (ROA*). This will be achieved through stringent screening of investment in tangible fixed assets. In fiscal 2003, ROA declined from 3.5% in the previous year to 2.7% due to a decrease in net income as a result of transient factors. However, an improvement to 5.1% is projected for fiscal 2004.

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

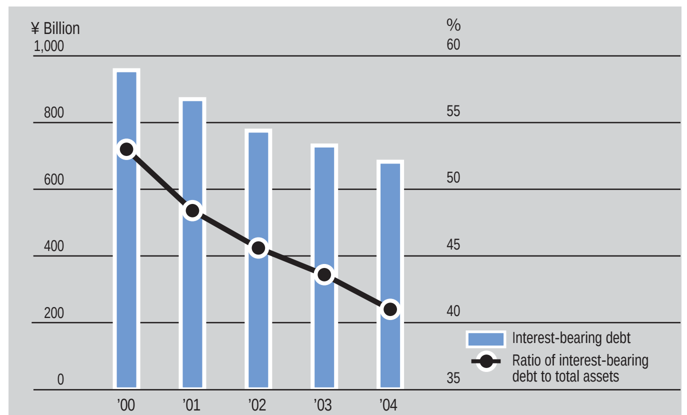
ROA and ROE



Steady Reduction of Interest-bearing Debt

Efforts to strengthen the Company's financial structure brought a significant reduction in interest-bearing debt. The total at the end of the year was ¥682.7 billion, a year-on-year decline of ¥48.6 billion. This resulted mainly from the redemption of straight bonds through debt assumption contracts, retirement by purchase of straight bonds, and the redemption of convertible bonds. The ratio of interest-bearing debt to total assets improved from 43.6% to 41.0%.

Interest-bearing debt and ratio of interest-bearing debt to total assets



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

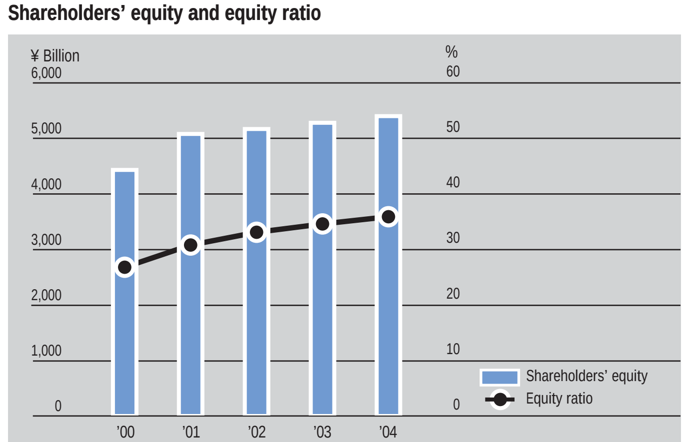
Repurchase of Common Stock

Shareholders' equity at the year-end totaled ¥598.5 billion, an increase of ¥18.7 billion over the year. While there was a decrease of ¥27.9 billion, due mainly to repurchase of our own stock, retained earnings was ¥28.3 billion higher, and there was a rise of ¥18.7 billion in net unrealized holding gains on securities. The repurchase of 2.9 million shares of common stock for ¥9.9 billion in the previous year was followed in fiscal 2003 by the acquisition of 76.6 million shares for ¥27.8 billion. To prevent dilution caused by the conversion of convertible bonds into shares, Frontier 2007 calls for the allocation of about 20% of free cash flow (¥100 billion) to the continuing repurchase of stock. Tokyo Gas will continue to implement this policy.

The shareholders' equity ratio improved from 34.6% to 35.9%. However, the return on equity (ROE*) declined from 10.4% to 7.6% because of the lower net income result. An improvement to 13.8% is predicted for fiscal 2004.

* ROE=Net income/shareholders' equity (average of position at start and end of fiscal year)

Shareholders' equity and equity ratio



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, which is the greatest competitor of Tokyo Gas.

Tokyo Gas recognizes this risk and has allocated capital resources totaling ¥180.0 billion over the five-year period of Frontier 2007 to cover price reductions.

Temperature Fluctuation Risk

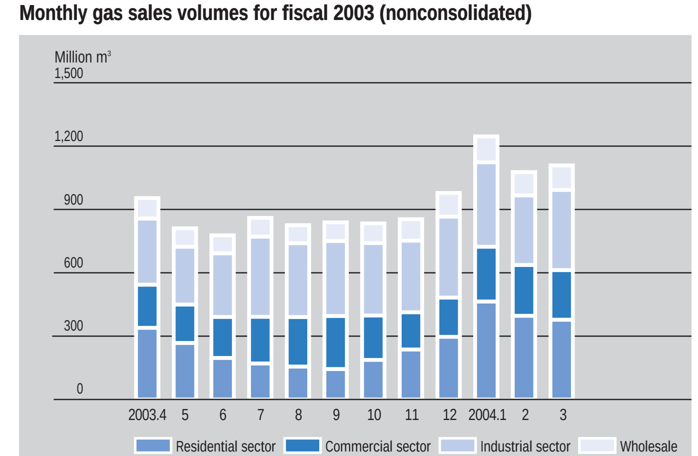
Temperatures affect the volume of city gas sales, which account for around 70% of consolidated sales and 80% of income. Gas is used mainly for water heating and space heating especialy in residential use. Mild winter weather can erode revenues and income by reducing the volume of gas sold.

The average temperatures in fiscal 2003 were 21.7ºC in the first half of the year, 11.0ºC in the second half, and 16.3ºC over the whole year. Forecasts for fiscal 2004 are based on averages of 22.7ºC in the first half, 10.9ºC in the second half, and 16.8ºC over the whole year.

Impact of 1˚C temperature rise on gas sales volume

	Rate of change
Summer (June–September)	0.2%
Winter (December–March)	-2.4%
Intervening months (April, May, October, November)	-1.9%
Annual	-1.5%

Monthly gas sales volumes for fiscal 2003 (nonconsolidated)



Gas Resource Cost 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 a year is as follows.

Approximately ¥2.1 billion for each ¥1 movement in the yen-dollar exchange rate

Approximately ¥4.3 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 “sliding rate” system*. Under this system, although earnings may be subject to temporary increases and decreases, crude oil prices and currency exchange rates have no net effect on results over the medium- to long-term perspective.

In fiscal 2003, the crude oil price averaged $29.42 per barrel, and the average exchange rate was ¥113.19 to one dollar. Forecasts for fiscal 2004 are based on an average crude oil price of $30 per barrel and an exchange rate of ¥110 to one dollar.

* Depending on the contract, changes may be reflected without a six-month time lag. Adjustment has an upper limit (please refer to the accompanying Investors' Guide 2004, P. 4).

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.

Share 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.

FREQUENTLY ASKED QUESTIONS

Q1 How does Tokyo Gas set its rates?

Tokyo Gas' rates are divided into the following three categories:

Service agreement Tokyo Gas uses "regulated" rates approved by the Minister of Economy, Trade and Industry (METI) to bill customers for gas supplied through pipelines to meet general demand. Under a May 1999 amendment to Japan's Gas Utility Industry Law, it became possible to reduce these rates simply by notifying METI, provided the change does not adversely affect any customers.

Optional agreements 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 METI and the selection of this option is up to the customer.

Large-volume supply A March 1995 amendment to the Gas Utility Industry Law deregulated tariffs and area of supply for customers with contract volumes of two billion m^3 or more. Rates and other supply terms can be determined by agreement between gas suppliers and customers. Since April 2004, large-volume customers have been defined as customers with yearly contract volumes of 500,000 m^3 or more.

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

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

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

Q2 Although you regard Tokyo Electric Power as your biggest competitor, you purchase LNG jointly. What are the implications of this relationship?

There are two facets to the relationship between Tokyo Gas and Tokyo Electric Power Company (TEPCO): cooperation and competition. We cooperate on the procurement of LNG, and we jointly operate LNG terminals.

As far as LNG procurement is concerned, Tokyo Gas and TEPCO both procure over 70% of their total LNG requirements through joint projects. Because joint purchasing translates into larger contract volumes, our bargaining power with sellers is strengthened, allowing us to purchase LNG at a lower cost.

Tokyo Gas has three LNG terminals in Tokyo Bay. Of these, the Negishi LNG Terminal and Sodegaura LNG Terminal are jointly operated with TEPCO. The benefits of joint operation include reduced capital investment and operating costs. Moreover, since the two companies have different peak demand seasons, we can level loads and improve capacity utilization, leading to lower gas manufacturing costs.

From a marketing perspective, the two companies are fiercely competitive. We compete for gas sales, especially in the area of industrial supplies, following TEPCO's recent entry into the gas market. Meanwhile, the long-standing competition between gas and electric power is intensifying in the commercial and residential sectors. We predict this competition will grow stronger in coming years. To prevail, we must offer customers optimal value. Tokyo Gas believes it is crucial to provide solutions, including energy services, that truly meet the needs of users, not simply to supply gas or power in isolation.

Q3 Does Tokyo Gas have an M&A strategy targeting local gas companies?

Tokyo Gas currently wholesales gas to 17 city gas companies surrounding its service area. These sales account for about 10% of total sales volumes, and we anticipate a high growth rate of 5.3% annually over the next five years. The wholesale supply business allows Tokyo Gas to earn income without an increase in assets, so our basic policy calls for the active development of this market. There is also a possibility that hostile takeovers would have an adverse effect on our wholesale business, so we have no plans for aggressive M&A.

We have made acquisitions in the past, however. We assumed operation of the municipal gas business of Konosu City in Saitama Prefecture, which was privatized in April 2002. If an optimal M&A opportunity with the potential to increase our corporate value and benefit our customers arises, we will consider acting on the opportunity in line with the wishes of the other party.

Q4 Have there been any important developments recently in terms of deregulation? What is the status of the third-party access scheme?

To promote fair competition in the gas market, all owners and operators of gas supply pipelines are required to provide third-party access (TPA), and draw up and publish TPA agreements. This change allows access to pipelines owned by firms that were not subject to regulation under the Gas Utility Industry Law, such as electric power companies and suppliers of natural gas produced in Japan. Until recently, TPA was possible only for gas retailing. Now it is also available for wholesaling. To ensure the fairness of TPA charges and enhance the transparency of revenues and expenditures concerning the use of pipelines, general gas utilities and pipeline operators are required to disclose accounts based on accounting procedures introduced for TPA.

An April 2004 amendment to the Gas Utility Industry Law broadened the scope of liberalization to include customers with annual contract volumes of 500,000m^3 or more, as well as expanding TPA arrangements as described above. Tokyo Gas now has two types of TPA agreements: one for retailing to large-volume customers and the other for wholesaling.

The average unit price in TPA agreements for retailing is set at ¥7.20/m^3 (Tokyo area) and the average unit price for wholesale customers is ¥6.60/ m^3.

11-YEAR SUMMARY

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries

Million of yen, except per share amounts

For the years ended March 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Net sales	**¥1,151,825**	¥1,127,634	¥1,097,589	¥1,086,771	¥992,255	¥997,767	¥1,009,155	¥988,077	¥958,662	¥915,862	¥909,673
Gas sales	**826,567**	789,688	750,439	740,731	672,070	674,997	686,649	663,066	633,253	601,990	622,632
Gas appliance sales	**132,254**	141,225	148,271	145,435	126,747	132,749	126,840	134,174	135,669	137,209	115,158
Related construction	**64,944**	67,045	67,633	67,611	63,949	63,630	66,695	69,966	68,825	70,034	73,158
Real estate rental business	**14,151**	14,944	15,685	15,602	14,959	15,617	16,495	18,423	18,468	—	—
Other	**113,909**	114,732	115,561	117,392	114,530	110,774	112,476	102,448	102,447	106,629	98,725
Operating income	**152,287**	123,294	110,608	103,659	69,233	72,303	76,485	62,163	67,109	60,105	59,263
Net income	**44,787**	59,201	51,912	27,595	26,698	17,764	17,241	15,432	16,762	11,072	16,173
Depreciation	**143,129**	137,300	141,646	146,420	136,214	132,568	114,893	123,569	120,569	—	—
Capital expenditures	**105,388**	110,188	104,291	109,899	121,806	142,030	159,433	162,282	180,080	—	—
Free cash flow	**84,241**	88,240	92,178	66,572	42,029	9,647	—	—	—	—	—
Per share (yen)											
Net income (Basic)	**¥16.44**	¥21.18	¥18.47	¥9.82	¥9.50	¥6.32	¥6.14	¥5.49	¥5.97	¥3.94	¥5.76
Net income (Diluted)	**14.98**	19.11	16.66	9.13	8.84	5.94	5.76	5.37	—	—	—
Shareholders' equity	**221.53**	208.65	200.75	196.72	172.33	149.98	148.67	147.65	147.23	146.32	145.81
Cash dividends applicable for the year	**7.00**	6.00	6.00	6.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

At year-end (March 31)											
Total assets	**¥1,666,828**	¥1,676,064	¥1,702,713	¥1,797,669	¥1,805,086	¥1,707,446	¥1,720,684	¥1,772,132	¥1,657,176	¥1,608,244	¥1,513,038
Long-term debt due after one year	**545,845**	598,322	680,887	708,329	843,634	820,753	765,304	878,674	743,177	724,523	721,980
Total shareholders' equity	**598,453**	579,706	564,078	552,790	484,239	421,442	417,755	414,906	413,725	411,164	409,713

Ratios											
Operating income to net sales	**13.2%**	10.9%	10.1%	9.5%	7.0%	7.2%	7.6%	6.3%	7.0%	6.6%	6.5%
Net income to net sales	**3.9%**	5.3%	4.7%	2.5%	2.7%	1.8%	1.7%	1.6%	1.7%	1.2%	1.8%
ROE	**7.6%**	10.4%	9.3%	5.3%	5.9%	4.2%	4.1%	3.7%	4.1%	2.7%	4.0%
ROA	**2.7%**	3.5%	3.0%	1.5%	1.5%	1.0%	1.0%	0.9%	1.0%	0.7%	1.1%
Equity ratio	**35.9%**	34.6%	33.1%	30.8%	26.8%	24.7%	24.3%	23.4%	25.0%	25.6%	27.1%

Notes: 1. Capital expenditures represent the amount of payments for fixed assets in the relevant fiscal year.
2. Free cash flow = net income + depreciation* - capital expenditures**
*including amortization of long-term prepayments **purchases of tangible fixed assets + purchases of intangible fixed assets + long-term prepayments (accounting basis)

CONSOLIDATED BALANCE SHEETS

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

ASSETS	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Property, plant and equipment (Notes 3 and 6):			
Production facilities	¥ 713,910	¥ 688,339	$ 6,734,997
Distribution facilities	2,018,459	1,952,210	19,042,069
Service and maintenance facilities	182,075	194,047	1,717,684
Other	611,749	591,542	5,771,221
Construction in progress	38,496	75,443	363,170
	3,564,689	3,501,581	33,629,141
Accumulated depreciation	(2,394,260)	(2,284,116)	(22,587,360)
	1,170,429	1,217,465	11,041,781
Intangibles	18,856	20,610	177,890
Investments and other non-current assets:			
Investments in unconsolidated subsidiaries and affiliated companies	29,715	20,271	280,332
Investment securities (Notes 4 and 6)	78,771	51,274	743,121
Long-term loans	13,230	10,238	124,814
Deferred tax assets (Note 9)	51,252	44,307	483,507
Other investments and non-current assets	47,131	49,592	444,634
Allowance for doubtful accounts	(1,659)	(2,244)	(15,650)
	218,440	173,438	2,060,758
Current assets:			
Cash and cash equivalents	43,961	52,130	414,724
Marketable securities (Note 4)	1	1	12
Notes and accounts receivables:			
Trade	125,244	132,235	1,181,549
Allowance for doubtful accounts	(1,215)	(1,448)	(11,465)
Inventories (Note 5)	22,827	21,125	215,345
Deferred tax assets (Note 9)	11,588	11,481	109,319
Other current assets	56,697	49,027	534,880
Total current assets	259,103	264,551	2,444,364
	¥ 1,666,828	¥ 1,676,064	$ 15,724,793

See accompanying notes.

LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Long-term debt due after one year (Note 6)	¥ 545,845	¥ 598,322	$ 5,149,477
Employees' severance and retirement benefits (Note 8)	157,808	120,896	1,488,753
Allowance for repairs of gas holders	3,445	3,457	32,496
Deferred tax liability	2,396	792	22,600
Other non-current liabilities	24,853	28,105	234,465
Current liabilities:			
Bank loans (Note 6)	30,029	41,900	283,295
Long-term debt due within one year (Note 6)	106,870	91,079	1,008,212
Notes and accounts payable:			
Trade	35,747	37,677	337,236
Other	36,902	43,486	348,130
Income taxes payable (Note 9)	32,808	35,058	309,508
Accrued expenses	44,958	45,122	424,131
Deferred tax liability	—	13	—
Other current liabilities	42,456	46,412	400,530
Total current liabilities	329,770	340,747	3,111,042
Commitments and contingent liabilities (Note 13)			
Minority interest	4,258	4,039	40,174
Shareholders' equity (Note 10):			
Common stock:			
Authorized: 6,500,000,000 shares			
Issued: 2,810,171,295 shares in 2004			
2,810,171,295 shares in 2003	141,844	141,844	1,338,155
Capital surplus	2,065	2,065	19,485
Retained earnings	457,924	429,653	4,320,038
Net unrealized holding gains on securities	35,655	17,003	336,365
Foreign currency translation adjustments	(227)	4	(2,144)
	637,261	590,569	6,011,899
Treasury stock, at cost			
109,025,944 shares in 2004			
32,173,308 shares in 2003	(38,808)	(10,863)	(366,113)
Total shareholders' equity	598,453	579,706	5,645,786
	¥1,666,828	¥1,676,064	$15,724,793

CONSOLIDATED STATEMENTS OF INCOME

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net sales (Note 11)	**¥1,151,825**	¥1,127,634	**$10,866,270**
Costs and expenses (Note 11):			
Cost of sales	**578,530**	571,930	**5,457,830**
Selling, general and administrative	**421,008**	432,410	**3,971,770**
	999,538	1,004,340	**9,429,600**
Operating income (Note 11)	**152,287**	123,294	**1,436,670**
Other income (expenses):			
Interest and dividend income	**1,399**	1,089	**13,194**
Interest expense	**(14,823)**	(17,472)	**(139,839)**
Adjustments of charges for construction of distribution facilities	**(4,145)**	(4,649)	**(39,102)**
Losses on unsecured notes redemption	**(6,575)**	(6,328)	**(62,024)**
Gains from sale of securities	**589**	3,196	**5,555**
Reversal of environmental conditioning costs	**1,650**	—	**15,568**
Losses on impairment of fixed assets(Note 11)	**(3,322)**	—	**(31,337)**
Gains resulting from changes to pension system	**5,665**	—	**53,443**
Write-off of unrecognized actuarial differences of pension plans	**(58,956)**	—	**(556,189)**
Foreign exchange gains (losses)	**(15)**	737	**(140)**
Equity in net income of an affiliated company	**236**	220	**2,226**
Other, net	**(859)**	(4,204)	**(8,106)**
	(79,156)	(27,411)	**(746,751)**
Income before income taxes and minority interest in net income of consolidated subsidiaries	**73,131**	95,883	**689,919**
Income taxes (Note 9):			
Current	**44,266**	43,622	**417,606**
Deferred	**(16,367)**	(7,245)	**(154,401)**
	45,232	59,506	**426,714**
Minority interest in net income of consolidated subsidiaries	**(445)**	(305)	**(4,195)**
Net income	**¥ 44,787**	¥ 59,201	**$ 422,519**

	Yen		U.S. dollars (Note 1)
	2004	2003	2004
Amounts per share of common stock (Note 2):			
Net income	**¥16.44**	¥21.18	**$0.16**
Diluted net income	**14.98**	19.11	**0.14**
Cash dividends applicable to the year	**7.00**	6.00	**0.07**

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	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, 2002	2,810,165	¥141,843	¥2,064	¥387,315	¥ 32,836	¥ 115	¥ (95)
Net income				59,201			
Net unrealized holding gains on securities					(15,833)		
Foreign currency translation adjustments						(111)	
Treasury stock							(10,768)
Cash dividends paid (¥6.00 per share)				(16,768)			
Bonuses to directors				(95)			
Shares issued upon conversion of convertible bonds	6	1	1				
Balance at March 31, 2003	2,810,171	¥141,844	¥2,065	¥429,653	¥ 17,003	¥ 4	¥(10,863)
Net income				44,787			
Net unrealized holding gains on securities					18,652		
Foreign currency translation adjustments						(231)	
Treasury stock				(1)			(27,945)
Cash dividends paid (¥6.00 per share)				(16,438)			
Bonuses to directors				(77)			
Balance at March 31, 2004	**2,810,171**	**¥141,844**	**¥2,065**	**¥457,924**	**¥ 35,655**	**¥(227)**	**¥(38,808)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	$1,338,155	$19,485	$4,053,326	$160,401	$ 41	$(102,480)
Net income			422,519			
Net unrealized holding gains on securities				175,964		
Foreign currency translation adjustments					(2,185)	
Treasury stock			(8)			(263,633)
Cash dividends paid ($0.06 per share)			(155,074)			
Bonuses to directors			(725)			
Balance at March 31, 2004	**$1,338,155**	**$19,485**	**$4,320,038**	**$336,365**	**$(2,144)**	**$(366,113)**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interest in net income of consolidated subsidiaries	¥ 73,131	¥ 95,883	$ 689,919
Adjustments to reconcile income before income taxes and minority interest in net income of consolidated subsidiaries to net cash provided by operating activities:			
Depreciation (Note 11)	143,129	137,300	1,350,270
Losses on impairment of fixed assets	3,322	—	31,337
Amortization of long-term prepayments	3,766	3,728	35,533
Loss on disposal of property, plant and equipment	3,790	2,482	35,759
Loss (gain) on sale of property, plant and equipment	673	(5,380)	6,345
Loss on reduction of acquisition costs of property, plant and equipment for tax purposes	1,608	4,416	15,169
Gains from sale of securities	(589)	(3,196)	(5,555)
Loss on unsecured notes redemption	6,575	6,328	62,024
Increase (decrease) in employees' severance and retirement benefits	36,912	(4,658)	348,227
Interest and dividend income	(1,399)	(1,089)	(13,194)
Interest expense	14,823	17,472	139,839
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable	5,157	(6,777)	48,649
Decrease (increase) in inventories	(1,701)	7,634	(16,047)
Increase (decrease) in notes and accounts payable	274	(1,785)	2,585
Decrease in consumption taxes payable	(1,552)	(219)	(14,638)
Bonuses paid to directors	(77)	(95)	(725)
Other—net	(10,045)	14,897	(94,768)
	277,797	266,941	2,620,729
Cash received for interest and dividends	1,381	1,166	13,024
Cash paid for interest	(15,053)	(18,069)	(142,010)
Cash paid for income taxes	(46,517)	(36,505)	(438,837)
Net cash provided by operating activities	217,608	213,533	2,052,906
Cash flows from investing activities:			
Purchases of investment securities	(15,371)	(7,297)	(145,011)
Proceeds from sales of securities	7,683	5,861	72,483
Purchases of property, plant and equipment	(101,012)	(98,149)	(952,941)
Purchases of intangible fixed assets	(12,211)	(9,015)	(115,199)
Long-term prepayments	(2,103)	(1,800)	(19,840)
Proceeds from sale of tangible and intangible fixed assets	1,235	6,888	11,649
Expenditure of long-term loans receivable	(3,886)	(4,256)	(36,664)
Other—net	(373)	(2,376)	(3,519)
Net cash used in investing activities	(126,038)	(110,144)	(1,189,042)
Cash flows from financing activities:			
Net repayments of short-term bank loans	(11,871)	(809)	(111,988)
Net repayments of commercial paper	—	(12,000)	—
Proceeds from long-term debt	87,790	37,341	828,207
Repayments of long-term debt	(131,042)	(75,450)	(1,236,244)
Cash dividends paid	(16,482)	(16,831)	(155,494)
Payments for acquiring treasury stock	(28,038)	(10,768)	(264,508)
Other—net	(101)	—	(954)
Net cash used in financing activities	(99,744)	(78,517)	(940,981)
Effect of exchange rate changes on cash and cash equivalents	5	(3)	49
Net increase (decrease) in cash and cash equivalents	(8,169)	24,869	(77,068)
Cash and cash equivalents at beginning of year	52,130	27,261	491,792
Cash and cash equivalents at end of year	¥ 43,961	¥ 52,130	$ 414,724

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

1. Basis of presenting consolidated financial statements

Tokyo Gas Co., Ltd. (the "Company") and its consolidated domestic 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, which are different in certain respects as to application and disclosure requirements of International Financial reporting Standards. The Company, as a regulated company, also follows the Gas Business Law related accounting regulations for preparing such financial statements.

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

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥106 to US$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation The consolidated financial statements include the accounts of the Company and all of its significant subsidiaries. For the years ended March 31, 2004 and 2003, 18 subsidiaries were consolidated. All significant inter-company transactions and account balances are eliminated in consolidation.

Equity method Significant investments in unconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence with regard to operating and financial policies of the investees, are accounted for by the equity method. For the years ended March 31, 2004 and 2003, one affiliated company was accounted for by equity method.

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

As the accounting standard for impairment of fixed assets ("Opinion on Setting Accounting Standard for Impairment of Fixed Assets," issued by the Business Accounting Council on August 9, 2002) and its implementation guidance (Financial Standards Implementation Guidance No. 6, "Implementation Guidance for Accounting Standard for Impairment of Fixed Assets," issued by the Accounting Standards Board of Japan on October 31, 2003) can be adopted in the year ended March 31, 2004, the Company adopted the standard and its implementation guidance commencing in the year ended March 31, 2004. As a result, income before income taxes and minority interest in net income of consolidated subsidiaries decreased by ¥3,322 million (US$31,337 thousand).

The amounts of accumulated impairment losses are directly deducted from the acquisition costs of related fixed assets.

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

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

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

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

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

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

If the fair market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline.

Derivative financial instruments The Company and its consolidated subsidiaries use interest rate swaps, foreign exchange forward contracts, commodity swaps and weather derivatives only for the purpose of mitigating the risk of fluctuations in interest rates, foreign exchange rates, market prices of raw materials 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 management believes there is little risk of default by counterparties. Derivatives are stated at fair market value at the year-end.

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

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

Employees' severance and retirement benefits The Company and its consolidated subsidiaries provide post-employment benefit plans, an unfunded lump-sum payment plan and a funded pension plan, under which employees' severance and retirement benefits are based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

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

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

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

With enactment of the Defined Benefit Corporate Pension Plan Law in Japan, the Company carried out a revision in its pension plans during the year ended March 31, 2004, including a shift from the tax-qualified pension plan to the contract-type funded pension plan as well as introduction of a cash balance pension plan. As a result, the overall benefit ratio was lowered and, therefore, ¥5,665 million (US$53,443 thousand) gain resulting from changes to pension system has been recorded as other income. In addition, upon this plan revision, the Company changed its accounting for unrecognized actuarial differences from amortizing them over ten years to writing them off in one year, resulting in write-off of ¥58,956 million (US$556,189 thousand) in actuarial differences incurred in previous years. The purpose of this change is not only to timely reflect the funded status of the benefit obligation in the consolidated financial statements, but also to secure financial strength of the Company.

As a result of the changes described above, income before income taxes and minority interest in net income of consolidated subsidiaries decreased by ¥52,640 thousand (US$496,603 thousand), compared with what would have been recorded under the previous plans and accounting method.

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

Accounting for certain lease transactions Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

Income taxes Income taxes comprise corporation tax, inhabitants' taxes and enterprise tax. 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.

Enterprise tax Enterprise tax normally constitutes income taxes. However, in the case of companies engaged in gas businesses, enterprise tax is levied, not on taxable income, but on net sales. In the accompanying consolidated statements of income, enterprise tax levied on net sales is accounted for in "Selling, general and administrative" expenses in the amount of ¥11,145 million (US$105,139 thousand) and ¥10,633 million for the years ended March 31, 2004 and 2003, respectively. Enterprise taxes calculated based on taxable income of certain consolidated subsidiaries are included in income taxes.

Foreign currency translation Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Amounts per share of common stock Effective April 1, 2002, the Company and its consolidated subsidiaries adopted the new accounting standard for earnings per share (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share") and related guidance (Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share," issued by the Accounting Standards Board of Japan on September 25, 2002).

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.

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.

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 construction, such amounts are offset against the acquisition cost of the related asset. Such offsets recorded at March 31, 2004 and 2003 were ¥238,670 million (US$2,251,885 thousand) and ¥236,141 million, respectively.

4. Securities

Acquisition costs, book values and fair values of securities with available fair market values at March 31, 2004 and 2003 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Securities with fair value exceeding book value:			
Book value	¥35	¥34	$330
Fair value	36	37	344
Difference	¥ 1	¥ 3	$ 14

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Securities with fair value not exceeding book value:			
Book value	¥10	¥ —	$92
Fair value	10	—	91
Difference	¥—	¥ —	$ 1

(b) Available-for-sale securities

	Millions of yen		
For 2004	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition cost:			
Equity securities	¥ 9,908	¥66,363	¥56,455
Bonds	6	6	—
Subtotal	9,914	66,369	56,455
Securities with book values not exceeding acquisition cost:			
Equity securities	615	583	(32)
Total	¥10,529	¥66,952	¥56,423

	Millions of yen		
For 2003	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition cost:			
Equity securities	¥10,692	¥37,910	¥27,218
Bonds	5	6	1
Subtotal	10,697	37,916	27,219
Securities with book values not exceeding acquisition cost:			
Equity securities	1,523	1,151	(372)
Total	¥12,220	¥39,067	¥26,847

	Thousands of U.S. dollars		
For 2004	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition cost:			
Equity securities	$93,471	$626,065	$532,594
Bonds	55	56	1
Subtotal	93,526	626,121	532,595
Securities with book values not exceeding acquisition cost:			
Equity securities	5,803	5,497	(306)
Total	$99,329	$631,618	$532,289

Available-for-sale securities sold amounted to ¥2,613 million (US$24,655 thousand) and ¥5,374 million for the years ended March 31, 2004 and 2003, respectively. Gains on available-for-sale securities amounted to ¥597 million (US$5,635 thousand) and ¥3,045 million and losses on available-for-sale securities amounted to ¥7 million (US$66 thousand) and ¥50 million for the years ended March 31, 2004 and 2003, respectively.

Available-for-sale securities with no available fair values, which were stated at moving-average cost, amounted to ¥11,732 million (US$110,683 thousand) and ¥11,840 million at March 31, 2004 and 2003, respectively.

5. Inventories

Inventories at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished products	¥ 1,949	¥ 2,391	$ 18,388
Raw materials	11,372	9,762	107,279
Supplies	8,177	7,745	77,141
Work in process	1,329	1,227	12,537
	¥22,827	¥21,125	$215,345

6. Bank loans and long-term debt

At March 31, 2004 and 2003, bank loans consisted of short-term notes, bearing interest at average annual rates of 0.29% and 0.33%, respectively. Long-term debt at March 31, 2004 and 2003 were as follows:

		Millions of yen		Thousands of U.S. dollars
		2004	2003	2004
Domestic unsecured notes	Due 2014 at a rate of 5.1%	¥ —	¥ 10,000	$ —
	Due 2015 at a rate of 4.1%	13,800	23,300	130,188
	Due 2016 at a rate of 4.0%	27,700	29,000	261,321
	Due 2018 at a rate of 2.625%	40,000	40,000	377,358
	Due 2009 at a rate of 1.68%	30,000	30,000	283,020
	Due 2009 at a rate of 1.73%	30,000	30,000	283,020
	Due 2010 at a rate of 2.01%	20,000	20,000	188,679
	Due 2011 at a rate of 1.39%	30,000	30,000	283,020
	Due 2012 at a rate of 1.35%	20,000	20,000	188,679
	Due 2004 at a rate of 1.03%	3,000	3,000	28,302
	Due 2009 at a rate of 1.18%	4,000	4,000	37,736
	Due 2023 at a rate of 1.01%	20,000	—	188,679
	Due 2013 at a rate of 1.41%	30,000	—	283,020
Domestic unsecured convertible bonds	1st issue due 2003 at a rate of 1.5%	—	51,439	—
	3rd issue due 2005 at a rate of 1.5%	82,877	82,877	781,858
	5th issue due 2009 at a rate of 1.2%	49,963	49,969	471,349
	6th issue due 2007 at a rate of 1.1%	49,965	49,968	471,368
DM bearer bonds due 2005 at a rate of 7.0%		18,333	18,333	172,956
Loans from banks, insurance companies and government agencies due through 2028 at rates of 0.18% to 6.40%				
Secured		9,074	6,373	85,600
Unsecured		174,003	191,142	1,641,538
		652,715	689,401	6,157,689
Less—Amounts due within one year		106,870	91,079	1,008,212
		¥545,845	¥598,322	$5,149,477

The indentures covering the third, fifth and sixth domestic convertible bonds provide, among other conditions, for (1) conversion into shares of common stock at the conversion prices per share of ¥1,105.70 (US$10.43), ¥339.00 (US$3.20) and ¥339.00 (US$3.20), respectively (subject to adjustment in certain circumstances), (2) conversion periods through March 30, 2005, March 30, 2009 and March 29, 2007, respectively, and (3) redemption at the option of the Company, commencing in April 1998 for the 3rd issue, at prices ranging from 106% to 100% of the principal amount.

At March 31, 2004, investment securities and property, plant and equipment at book value amounting to ¥13,787 million (US$130,064 thousand) were pledged as collateral for secured loans and notes issued by consolidated subsidiaries.

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

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

The annual maturities of long-term debt at March 31, 2004 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥106,870	$1,008,212
2006	46,723	440,782
2007	67,295	634,857
2008	31,039	292,820
2009	81,233	766,348
2010 and thereafter	319,555	3,014,670
	¥652,715	$6,157,689

7. Derivative transactions

Contract amounts, market values and recognized gains on the interest rate swap contracts, except those accounted for using hedge accounting, at March 31, 2004 and 2003 were as follows:

	Millions of yen			
	At March 31, 2004			
	Contract amounts	Beyond one year	Market value	Recognized gains (losses)
Currency option contracts:				
Purchased cap option	¥ —	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	At March 31, 2004			
	Contract amounts	Beyond one year	Market value	Recognized gains (losses)
Currency option contracts:				
Purchased cap option	$ —	$ —	$ —	$ —

	Millions of yen			
	At March 31, 2003			
	Contract amounts	Beyond one year	Market value	Recognized gains (losses)
Currency option contracts:				
Purchased cap option	¥3,000	¥0	¥0	¥0

8. Employees' severance and retirement benefits

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation	¥328,518	¥ 331,622	$ 3,099,225
Unrecognized prior service costs	1,148	178	10,830
Unrecognized actuarial differences	(8,579)	(64,194)	(80,937)
Less fair value of pension assets	(163,350)	(146,710)	(1,541,039)
Prepaid pension costs	71	—	674
Employees' severance and retirement benefits	¥157,808	¥ 120,896	$ 1,488,753

Included in the consolidated statements of income for the years ended March 31, 2004 and 2003 were severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service costs—benefits earned during the year	¥ 9,659	¥10,132	$ 91,121
Interest cost on projected benefit obligation	8,182	9,093	77,190
Expected return on plan assets	(3,057)	(4,662)	(28,836)
Amortization of prior service costs	(3,761)	(13)	(35,484)
Amortization of actuarial differences	59,446	2,825	560,814
Other	101	—	953
Severance and retirement benefit expenses	¥70,570	¥17,375	$665,758

The discount rate and the rate of expected return on plan assets used by the Company and its consolidated subsidiaries are approximately 2.3% and 2.0%, respectively, at March 31, 2004, and approximately 2.5% and 3.0%, respectively, at March 31, 2003.

9. Income taxes

The Company is subject to a number of taxes based on taxable income, which, in the aggregate, indicate a statutory rate in Japan of approximately 36.2% for the years ended March 31, 2004 and 2003.

The significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the year ended March 31, 2004 is as follows. The differences between the statutory tax rate and the effective tax rate for financial statement purposes for the year ended March 31, 2003 was not significant

	2004
Statutory tax rate	36.21%
Tax credit for R&D expenses	(1.43)
Unrecognized net operating loss of consolidated subsidiary	1.04
Items for which tax planning strategies have not been determined	0.93
Other—net	1.40
Effective tax rate	38.15%

Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing assessment by estimation on the basis of the size of business. Due to the change of income tax rates, at March 31, 2003, certain consolidated subsidiaries changed the tax rates used for calculation of deferred taxes assets and liabilities. The effect of the change of effective tax rates was not significant.

Significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Liabilities for retirement benefits	¥52,847	¥36,530	$498,557
Other—net	33,731	34,376	318,221
Less valuation allowance	(2,030)	(595)	(19,155)
Subtotal	84,548	70,311	797,623
Deferred tax liabilities:			
Net unrealized holding gains on securities	20,734	9,830	195,603
Reserve for tax purposes cost reduction of certain pipelines	1,462	1,883	13,793
Other—net	1,908	3,617	18,001
Subtotal	24,104	15,330	227,397
Deferred tax assets—net	¥60,444	¥54,981	$570,226

10. Shareholders' equity

At the current conversion prices, 369,744 thousand shares of common stock were issuable at March 31, 2004 upon full conversion of the outstanding convertible bonds (see Note 6).

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

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

Effective April 1, 2002, the Company and its consolidated subsidiaries adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves," issued by the Accounting Standards Board of Japan on February 21, 2002). The effect on net income of adopting the new standard is not significant.

11. 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, 2004 and 2003 was as follows:

	Millions of yen						
	Gas sales	Gas appliance sales	Related construction	Real estate rental business	Other	Elimination or corporate	Consolidation
For 2004							
Sales:							
Outside customers	¥ 826,567	¥132,254	¥64,944	¥ 14,151	¥113,909	¥ —	¥1,151,825
Inside group	4,548	1,619	3,090	21,293	58,251	(88,801)	—
Total	831,115	133,873	68,034	35,444	172,160	(88,801)	1,151,825
Costs and expenses	641,749	125,969	63,578	27,561	160,890	(20,209)	999,538
Operating income	¥ 189,366	¥ 7,904	¥ 4,456	¥ 7,883	¥ 11,270	¥ (68,592)	¥ 152,287
Identifiable assets	¥1,027,776	¥ 45,445	¥23,137	¥208,213	¥184,816	¥177,441	¥1,666,828
Depreciation	117,150	506	136	13,370	13,516	(1,549)	143,129
Losses on impairment of fixed assets	1,652	—	—	1,667	3	—	3,322
Capital expenditures	85,873	550	303	2,833	18,066	(2,287)	105,338
For 2003							
Sales:							
Outside customers	¥ 789,688	¥141,225	¥67,045	¥ 14,944	¥114,732	¥ —	¥1,127,634
Inside group	2,766	1,411	3,523	21,402	43,595	(72,697)	—
Total	792,454	142,636	70,568	36,346	158,327	(72,697)	1,127,634
Costs and expenses	632,230	134,794	66,393	28,723	148,701	(6,501)	1,004,340
Operating income	¥ 160,224	¥ 7,842	¥ 4,175	¥ 7,623	¥ 9,626	¥ (66,196)	¥ 123,294
Identifiable assets	¥1,067,439	¥ 52,532	¥23,058	¥215,197	¥185,981	¥131,857	¥1,676,064
Depreciation	111,343	502	141	14,590	12,216	(1,492)	137,300
Capital expenditures	88,573	538	276	1,408	21,287	(1,894)	110,188

	Thousands of U.S. dollars						
	Gas sales	Gas appliance sales	Related construction	Real estate rental business	Other	Elimination or corporate	Consolidation
For 2004							
Sales:							
Outside customers	$7,797,799	$1,247,680	$612,679	$ 133,498	$1,074,614	$ —	$10,866,270
Inside group	42,905	15,277	29,149	200,877	549,537	(837,745)	—
Total	7,840,704	1,262,957	641,828	334,375	1,624,151	(837,745)	10,866,270
Costs and expenses	6,054,234	1,188,390	599,794	260,011	1,517,826	(190,655)	9,429,600
Operating income	$1,786,470	$ 74,567	$ 42,034	$ 74,364	$ 106,325	$ (647,090)	$ 1,436,670
Identifiable assets	$9,695,999	$ 428,727	$218,270	$1,964,274	$1,743,551	$1,673,972	$15,724,793
Depreciation	1,105,187	4,770	1,284	126,129	127,514	(14,614)	1,350,270
Losses on impairment of fixed assets	15,582	—	—	15,722	33	—	31,337
Capital expenditures	810,118	5,186	2,855	26,725	170,438	(21,571)	993,751

Costs and expenses under Elimination or corporate that cannot be allocated to business segments are related mainly to general administrative expenses of the Company.

Assets under Elimination or corporate mainly comprise cash and cash equivalents, current and noncurrent securities and deferred tax assets of the Company.

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.

12. Information for certain leases

Information as lessee

Lease payments in the years ended March 31, 2004 and 2003, and future minimum lease payments at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease payments	¥ 958	¥ 972	$ 9,039
Future minimum lease payments inclusive of interest:			
Current	¥ 840	¥ 808	$ 7,927
Noncurrent	1,683	1,685	15,878
	¥2,523	¥2,493	$23,805

The Company and its consolidated subsidiaries use certain production facilities, distribution facilities, service and maintenance facilities and other assets 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, 2004 and 2003 were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2004			
Production facilities	¥ 115	¥ 49	¥ 66
Distribution facilities	890	385	505
Service and maintenance facilities	370	109	261
Other	3,643	1,952	1,691
	¥5,018	¥2,495	¥2,523
For 2003			
Production facilities	¥ 98	¥ 25	¥ 73
Distribution facilities	841	397	444
Service and maintenance facilities	189	83	106
Other	3,655	1,785	1,870
	¥4,783	¥2,290	¥2,493

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2004			
Production facilities	$ 1,089	$ 466	$ 623
Distribution facilities	8,395	3,635	4,760
Service and maintenance facilities	3,488	1,024	2,464
Other	34,369	18,413	15,956
	$47,341	$23,538	$23,803

Information as lessor

Lease income for the years ended March 31, 2004 and 2003, and future minimum lease payments to be received at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease income	¥ 4,473	¥ 4,477	$ 42,198
Future minimum lease payments to be received:			
Current	¥ 4,553	¥ 4,343	$ 42,952
Noncurrent	12,989	13,008	122,540
	¥17,542	¥17,351	$165,492

Some of the consolidated subsidiaries lease other assets under direct financing leases as lessors. Leased assets under direct financing leases were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2004			
Other assets	¥25,214	¥15,470	¥9,744
For 2003			
Other assets	¥24,007	¥16,359	¥7,648

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2004			
Other assets	$237,867	$145,944	$91,923

13. Commitments and contingent liabilities

The Company and its consolidated subsidiaries were contingently liable (1) for debt guarantees in the amount of ¥7,719 million (US$72,817 thousand) at March 31, 2004 for bank loans to affiliated companies, other than consolidated subsidiaries (2) to banks in the amount of ¥401 million (US$3,782 thousand) at March 31, 2004 with respect to joint and several liabilities upon default of other debtors and (3) as guarantors for domestic unsecured notes in the amount of ¥38,700 million (US$365,094 thousand) issued by the Company, which were assigned to certain banks under the debt assumption agreements made in the years ended March 31, 2004, 2003 and 2002.

At March 31, 2004, 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.

14. Subsequent events

(1) Acquisitions of treasury stock

On May 17, 2004, the Board of Directors approved the acquisition of treasury stock based upon the approval of the general meeting of shareholders.

Number of shares: Limited to 50,000,000 shares

Cost of shares acquisitions: Limited to ¥20,000 million (US$188,679 thousand)

(2) Issuance of domestic unsecured notes

On May 27, 2004, the Company issued domestic unsecured notes with conditions described below:

(a) Amount issued: ¥20,000 million (US$188,679 thousand)
Due: May 27, 2014
Coupon rate: 1.59%

(b) Amount issued: ¥10,000 million (US$94,340 thousand)
Due: May 27, 2024
Coupon rate: 2.29%

(3) Appropriation of retained earnings

At the general meeting of shareholders held on June 29, 2004, the Company's shareholders approved (i) payment of year-end cash dividends of ¥4.0 (US$0.04) per share aggregating ¥10,805 million (US$101,930 thousand) to the shareholders of record as of March 31, 2004, and (ii) payment of bonuses to directors totaling ¥65 million (US$613 thousand).

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of TOKYO GAS CO., LTD. (a Japanese corporation) and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOKYO GAS CO., LTD. and subsidiaries as of March 31, 2004 and 2003, 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 change in accounting policy for actuarial differences of pension plans at TOKYO GAS CO., LTD. and the adoption of new accounting standards relating to impairment of fixed assets at TOKYO GAS CO., LTD. and subsidiaries, as described in Note 2, to the consolidated financial statements. We also draw attention to Note 14 (1) and (2). Subsequent to March 31, 2004, TOKYO GAS CO., LTD. decided to acquire treasury stock and issue domestic unsecured notes.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2004

CONSOLIDATED SUBSIDIARIES AND EQUITY-METHOD AFFILIATE

As of March 31, 2004

Company	Business	Capital (¥ million)	Equity owned by Tokyo Gas (%)	FY2003 Net sale (¥ million) [% of outside sales]	Operating income (¥ million)
Tokyo Gas Energy Co., Ltd.	Sales of LPG	1,000	100	18,541 [92.2]	235
Tokyo Gas Chemicals Co., Ltd.	Sales of gas for industry and chemicals	1,000	100	19,352 [90.0]	581
Tokyo Oxygen and Nitrogen Co., Ltd.	Production and sale of liquefied oxygen and nitrogen	400	54	2,210 [44.8]	165
Tokyo Gas Urban Development Co., Ltd.	Real estate leasing, management and brokerage	8,779	100	34,698 [38.2]	7,433
Park Tower Hotel Co., Ltd.	Hotel "Park Hyatt Tokyo" management	1,000	100	8,529 [99.8]	245
KANPAI Co., Ltd.	Gas facilities construction	1,300	100	46,249 [52.4]	721
KANPAI LIVING SERVICE Co., Ltd.	Sales, installation and repair of gas appliances, expansion and reconstruction work	50	100	4,648 [67.9]	25
Gastar Co., Ltd.	Production and sale of gas appliances	2,450	66.7	28,718 [55.7]	2,194
TG Credit Services Co., Ltd.	Financing and leasing related to gas equipment and construction	450	100	10,423 [51.0]	690
Chiba Gas Co., Ltd.	Supply of gas in Yachiyo City, Narita City and surrounding cities	480	99.9	11,361 [99.2]	793
Tsukuba Gakuen Gas Co., Ltd.	Supply of gas in Tsukuba City	280	100	5,640 [94.5]	462
Tokyo Gas Customer Service Co., Ltd.	Periodic safety checks, meter and billing services	50	100	13,819 [0.0]	1,643
Tokyo Gas Engineering Co., Ltd.	Comprehensive engineering services with a particular focus on energy-related work	100	100	29,491 [66.7]	656
TG Information Network Co., Ltd.	Information processing services, software development and sales of computer equipment	400	100	11,663 [28.9]	433
TG IT Service Co., Ltd.	Operation of Tokyo Gas systems and networks	50	100	10,211 [0.1]	(4)
Tokyo LNG Tanker Co., Ltd.	LNG and LPG transportation and chartering of carriers	1,200	100	3,830 [0.0]	399
ENERGY ADVANCE Co., Ltd.	Energy service, district heating and cooling	3,000	100	26,037 [93.5]	4,191
TG Enterprise Co., Ltd.	Group financial administration business	200	100	942 [63.4]	160
GAS MALAYSIA SDN. BHD.	Supply of gas in Malaysia	RM42.8 million	20	—	—

Notes: 1. Gas Malaysia Sdn. Bhd. is an equity-method affiliate.
2. The scope of consolidation was expanded to include about 50 companies in April 2004.
3. 1RM nearly equals ¥27.92.

INVESTOR INFORMATION

As of March 31, 2004

Tokyo Gas Co., Ltd.

Head office
1-5-20 Kaigan, Minato-ku, Tokyo 105-8527, Japan
URL: http://www.tokyo-gas.co.jp

Overseas Offices

New York Office
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New York, NY 10174, U.S.A.
Tel: +1-646-865-0577 Fax: +1-646-865-0592

Paris Office
102, Avenue des Champs-Elysées, 75008 Paris, France
Tel: +33-1-45-62-00-59 Fax: +33-1-42-25-96-85

Asia Pasific Regional Office
Level 30, Menara Shahzan lnsas
No. 30 Jalan Sultan lsmail, 50250 Kuala Lumpur, Malaysia
Tel: +60-3-2144-2928 Fax: +60-3-2144-2930

Date of Establishment October 1, 1885

Paid-in Capital ¥141,844,398,888

Authorized Number of Shares 6,500,000,000 shares

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

Number of Shareholders 140,185

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

Independent Auditors KPMG AZSA & Co.

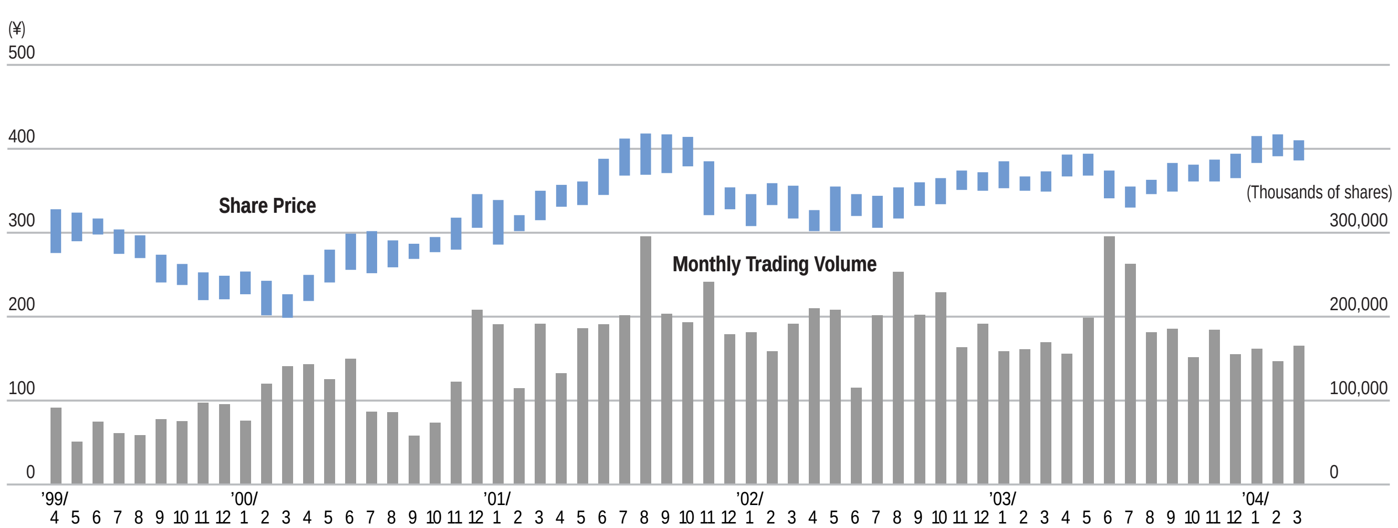
Transfer Agent The Chuo Mitsui Trust & Banking Co., Ltd.
2-8-4 Izumi, Suginami-ku, Tokyo 168-0068, Japan

Number of Employees 8,753 (excluding part-time workers)

Principal Shareholders

Name	Number of shares held (Thousands)	Percentage of total shares outstanding
Nippon Life Insurance Company	160,123	5.70
The Dai-ichi Mutual Life Insurance Company	155,964	5.55
Japan Trustee Services Bank, Ltd. (Trust Account)	155,266	5.53
The Master Trust Bank of Japan, Ltd. (Trust Account)	151,530	5.39
Tokyo Gas Co., Ltd.	109,025	3.88
Fukoku Mutual Life Insurance Company	78,504	2.79
State Street Bank and Trust Company	57,811	2.06
The Chase Manhattan Bank, N.A. London	45,918	1.63
Mizuho Corporate Bank, Ltd.	43,000	1.53
Employees Shareholding Association	40,688	1.45

Monthly Share Price Range (Tokyo Stock Exchange)



Unit conversion

bbl	Barrel	1bbl=159*l*
cf	Cubic foot	1cf=0.0283 m^3
MJ	Megajoule	1MJ=10^6J=238.889 kcal
Btu	British thermal unit	1Btu=1.054 kJ=0.252 kcal MMBtu=1million Btu =1,054 MJ=252,000 kcal≈25 m^3 of natural gas

LNG (liquefied natural gas)	**Volume conversion**	1 ton≈1,350 m^3 of natural gas 1million≈1.35 billion m^3 of natural gas
	Calorie conversion	1 ton≈1.4k*l* of crude oil=8.8 bbl of crude oil

LNG tank with a capacity of 200,000 k*l*≈92,000 tons of LNG≈124 million m^3 of natural gas
LNG carrier with a capacity of 145,000 m^3≈64,000 tons of LNG≈87 million m^3 of natural gas

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.