Winning the Value Challenge

Tokyo Gas Co., Ltd. Annual Report 2005

TOKYO GAS

Contents

Every day, Tokyo Gas rewards the trust placed in it by existing customers by exceeding their expectations through the exceptional value of its "total energy solutions." At the same time, we are reaching out to prospective customers through the appealing benefits of our value proposition. Through these efforts we are opening up a new and more rewarding "energy frontier."

Face-to-Face with Customer **Value**

Dynamic

Growth strategy for a new era: leveraging built-in strengths to enhance our potential

During the 120 years since its foundation, Tokyo Gas has supplied customers in the Tokyo metropolitan area and the greater Kanto region with city gas, an energy source that has become an essential part of people's lives and business activities.

Tokyo Gas has built a solid business base in this service area, the thriving economic center of Japan that generates more than 40% of the nation's gross domestic product within an area 100 kilometers in diameter. Our business structure is solidly grounded in natural gas. This low environmental-load energy source is finding increased use owing to low emissions of NOx and CO_2 and zero emissions of SOx, gases that cause atmospheric pollution and global warming. Tokyo Gas offers experience and technologies in the use of natural gas that it has honed over many years. At a time of progressive deregulation that is stimulating competition with suppliers of electricity and oil, as well as with new entrants in the natural gas business, Tokyo Gas has taken stock of the strengths it has cultivated over the years and begun to implement an aggressive growth strategy.

Even as it solidifies its position as a leader and trendsetter of Japan's gas industry, Tokyo Gas is undergoing a major structural transformation to remake itself into a corporate group that can serve as a "one-stop" supplier of heat, electric power, air conditioning and other forms of energy customers require.

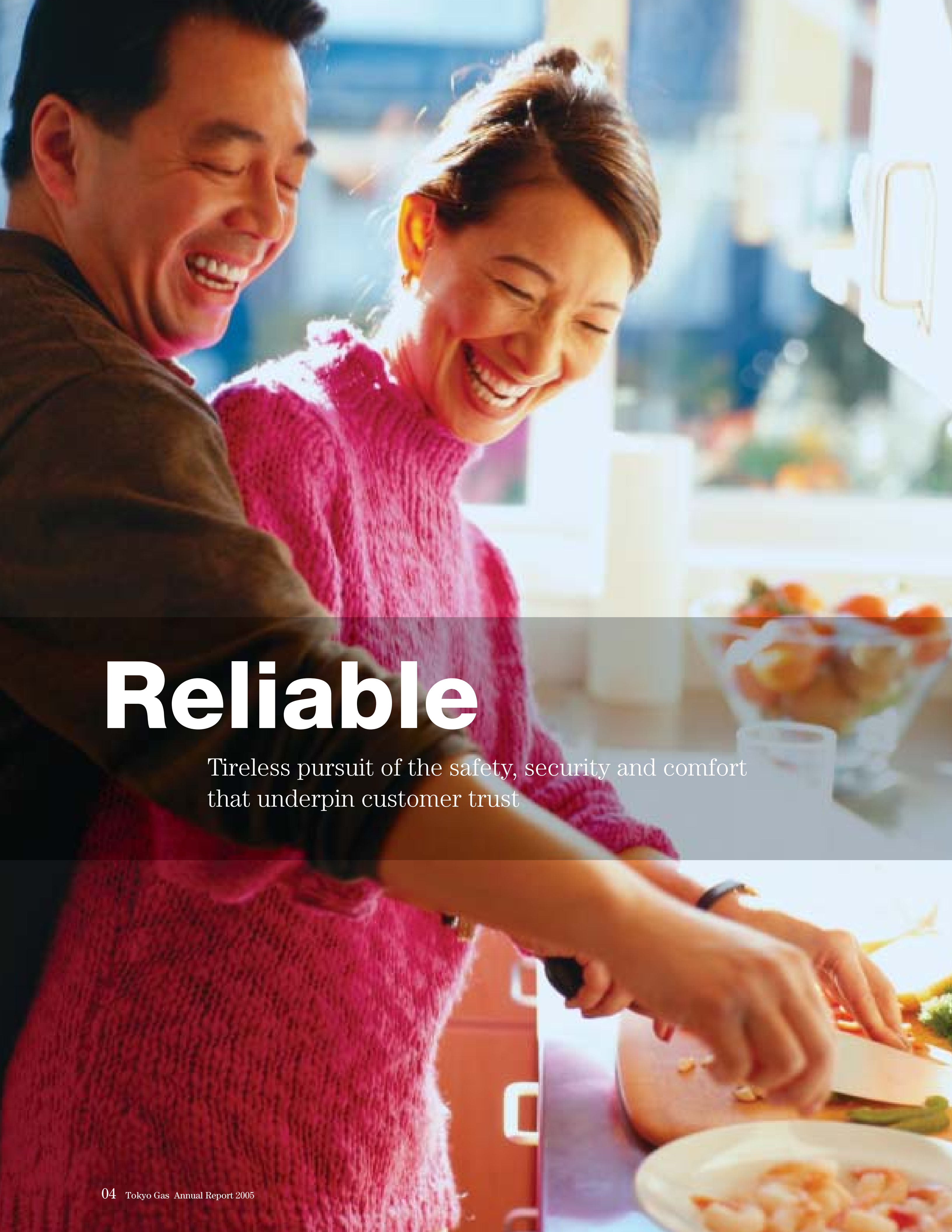
Increasing Added Value and Promoting the Use of Natural Gas

Tokyo Gas is implementing policies aimed at further expansion of its gas business. These include enlargement of the supply area in the Kanto region, where latent demand is great, the supply of comprehensive energy services centered on natural gas and wholesale distribution to gas companies outside its service area.

Over the years, Tokyo Gas has laid an extensive network of gas pipelines, exceeding 50,000 kilometers in total length, primarily in the greater Tokyo area. However, the advance of manufacturing plants and major commercial facility construction has reached the periphery of the Tokyo metropolitan area, and we are carefully gauging energy demand and providing energy solutions tailored to the needs of customers in outlying areas. With full consideration given to investment returns, Tokyo Gas is taking effective measures to extend pipelines, construct satellite stations and link facilities expansion to increased sales of city gas.

Tokyo Gas is also actively proposing comprehensive energy services involving gas cogeneration systems, which offer excellent energy efficiency and low environmental load. Tokyo Gas is increasing added value and promoting wider use of natural gas by serving as a comprehensive source for the supply of heat, electric power and air conditioning that customers require, as well as the technical services to ensure their stable supply.

At the same time, Tokyo Gas leverages its engineering capabilities in the wholesale distribution of gas to other gas suppliers, implementing a strategy that promotes mutual growth by actively participating in the sales activities of wholesale gas customers.



Reliable

Tireless pursuit of the safety, security and comfort that underpin customer trust

By nature of their position as proprietors of infrastructure essential to customers' lives and business activities, city gas companies are entrusted with the public mission of providing a stable and secure supply of gas.

With regard to securing the gas resources essential for stable supply, Tokyo Gas was the first company in Japan to import LNG and has perfected a means for the stable, low-cost procurement of this resource. We engage in the import of LNG from nine projects in six countries and has moved into upstream development and LNG transport using company-owned vessels, in further pursuit of this objective.

Tokyo Gas has implemented initiatives to put safety first in the process of producing city gas from LNG and delivering it to customers. We design production and supply facilities to withstand earthquakes of magnitude 7.2, the equivalent of the Great Hanshin Earthquake. Moreover, Tokyo Gas operates SUPREME, the world's most extensive super-dense real-time seismic motion monitoring and disaster mitigation system, which remotely monitors some 3,800 locations and shuts off gas supply in times of natural disaster. We work to ensure safety in residential use through such means as promoting the introduction of microchip-controlled gas meters with automatic shut-off functions and the enhancement of Gaslight 24, a system for round-the-clock emergency mobilization to respond to gas leaks and other problems.

Proposing More Comfortable, Satisfying Lifestyles through New Ways of Using Gas

Tokyo Gas enjoys a bond of trust based on safety and security with 9.6 million households who have long appreciated the flavor of food cooked over an open flame and the convenience of water heated with gas. We are working to develop new appliances and propose new lifestyles to enable people to more fully experience the comfortable, satisfying living made possible by city gas.

Tokyo Gas has brought the comfort of city gas to every room in the home with the TES system for using hot water to enhance overall home comfort. TES system customers enjoy the benefits of expanded applications for gas such as the floor heating systems now included as standard equipment in about 80%* of condominiums newly constructed in the Tokyo metropolitan area, bathroom heaters, clothes dryers and a new hot-water mist sauna. Launched in fiscal 2004, the TES Remote PLUS service has made possible a higher level of convenience through the use of mobile phones and personal computers for the remote operation of gas appliances.

The TES system is already in use in more than a million residences. To express its appreciation to customers, in 2005 Tokyo Gas will conduct a large-scale campaign in celebration of its selling of one million systems. Another aim of the campaign is to ascertain customer needs and wants and to apply the information obtained to future business activities that will meet expectations and reward customer trust.

*About 80% of all newly-built private condominiums in The Tokyo Gas' service area have floor-heating systems.

To Our Shareholders

Hideharu Uehara, Vice Chairman — Kunio Anzai, Chairman — Norio Ichino, President

In fiscal 2004, a number of factors combined to suppress earnings, including the impact of rate reductions implemented in January 2005 and higher gas resource costs caused by a sharp rise in crude oil prices. However, expansion of gas sales and group-wide cost reductions mitigated the impact of these factors. As a result of these developments, operating income decreased 4.6% from the previous term to ¥145.3 billion. Net income increased 87.7% to ¥84.0 billion in the absence of the one-time loss, which was booked in the previous period to alleviate the future cost burden from the retirement benefit obligations.

In October 2002, the Tokyo Gas Group formulated Frontier 2007, a medium-term management plan for Group growth and development in energy-related areas, our core business. During the course of the plan we have steadily implemented various measures to achieve business model innovation, business expansion into energy-related fields and enhancement of the Group's corporate value. Through the success of these measures, we expect management targets to be mostly achieved in fiscal 2005—two years ahead of the schedule laid out in Frontier 2007.

At the same time, the business environment is changing on a daily basis. For instance, competition among energy sources is more intense than when Frontier 2007 was established. We are now preparing the next medium-term management plan scheduled to be announced in January 2006. This plan will define policy issues that need to be addressed in order to realize sustainable growth for the Tokyo Gas Group in this business environment.

As we move forward into the next plan, the Tokyo Gas Group remains committed to increasing corporate value and meeting the expectations of all stakeholders, including our shareholders and investors.

Kunio Anzai, Chairman — Kunio Anzai

Hideharu Uehara, Vice Chairman — Hideharu Uehara

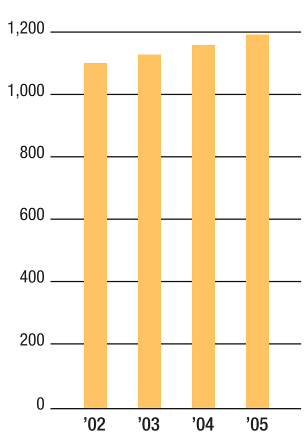
Norio Ichino, President — Norio Ichino

Financial Highlights

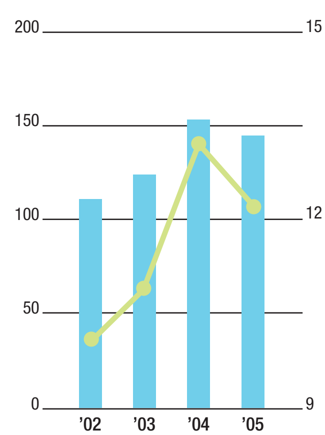
For the Years ended March 31	2005	2004	2003	2005
	Millions of yen except per share amounts			Thousands of U.S. dollars except per share amounts
Net sales	¥1,190,783	¥1,151,825	¥1,127,634	$11,128,814
Operating income	145,349	152,287	123,294	1,358,405
Net income	84,047	44,787	59,201	785,489
Free cash flow	116,789	84,241	88,240	1,091,477
Amounts per share of common stock (Yen and U.S. dollars):				
Net income (Basic)	31.47	16.44	21.18	0.29
Net income (Diluted)	28.24	14.98	19.11	0.26
Shareholders' equity	244.73	221.53	208.65	2.29
Cash dividends applicable to the year	7.00	7.00	6.00	0.07
At Year-end (March 31)				
Total assets	¥1,668,734	¥1,666,828	¥1,676,064	$15,595,646
Long-term debt due after one year	547,139	545,845	598,322	5,113,446
Total shareholders' equity	648,766	598,453	579,706	6,063,236
Ratios				
Operating income to net sales	12.2%	13.2%	10.9%	12.2%
Net income to net sales	7.1%	3.9%	5.3%	7.1%
ROE	13.5%	7.6%	10.4%	13.5%
ROA	5.0%	2.7%	3.5%	5.0%
Equity ratio	38.9%	35.9%	34.6%	38.9%

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2005.
2. Free cash flow = net income + depreciation* – capital expenditures**
*including amortization of long-term prepaid expenses
**purchases of tangible fixed assets + purchases of intangible fixed assets + long-term prepaid expenses (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

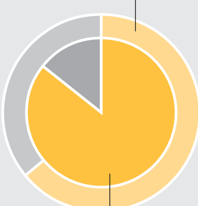
Gas Sales

Tokyo Gas produces city gas at three facilities, using LNG as the main resource, supplying it to 9.6 million customers primarily in the Kanto region through a 50,000-km pipeline network.

We have Japan's largest gas supply capability, and we are proactively extending pipelines to expand the customer base, focusing on the northern Kanto region, which offers strong potential for demand growth. In October 2004, a new pipeline to Tochigi Prefecture (Kumagaya-Sano Line) was completed, and the Tochigi Line is scheduled to begin operation in November 2005.

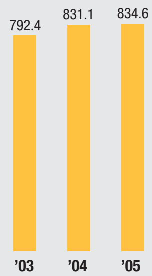
[Sales excluding intra-group transactions constitute 99.0% of this segment's sales.]

Share of Total Net Sales
63.9%

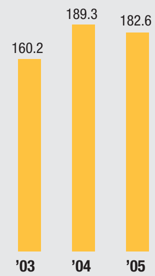


Share of Operating Income
85.7%

Sales (¥ billion)



Operating Income (¥ billion)



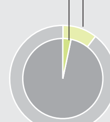
- Gas sales volume grew 6.5%, to 11,952 million m^3.
- Increased gas sales in the commercial and industrial sectors and wholesale to other gas companies offset lower demand from residential customers caused by an extremely hot summer.
- In spite of a drop in unit price caused by a rate reduction and other factors, segment sales rose 0.4%, to ¥834.6 billion.
- Operating income declined 3.5%, to ¥182.6 billion, owing to increased resource costs caused by a sharp price rise in crude oil.

Gas Appliance Sales

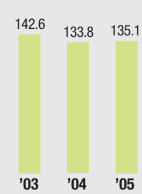
This segment is involved in the sales of gas appliances bought from manufacturers, including gas cooktops, water heaters and TES systems (using hot water heated by gas to provide space heating and other home comforts), through 320 outlets of Enesta and Enefit, service networks of Tokyo Gas.

[Sales excluding intra-group transactions constitute 98.0% of this segment's sales.]

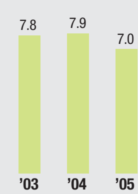
10.4%
3.3%



Sales (¥ billion)



Operating Income (¥ billion)

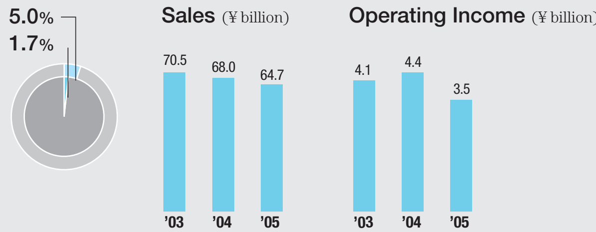


- Sales increased 0.9%, to ¥135.1 billion due to increased unit prices resulting from the introduction of high-value-added appliances and accounting for the expanded scope of consolidation.
- Investment in demand development to counter the "all electric" promotion pushed up costs, resulting in a 10.8% decrease in operating income to ¥7.0 billion.

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

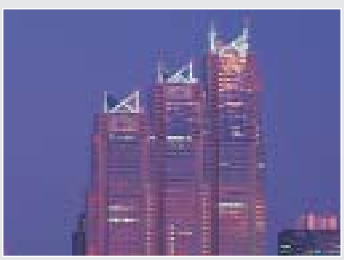
Related Construction

Tokyo Gas installs service pipes and gas cocks on the properties of new customers, as well as adding gas cocks and other equipment at buildings of existing customer sites.
[Sales excluding intra-group transactions constitute 93.9% of this segment's sales.]

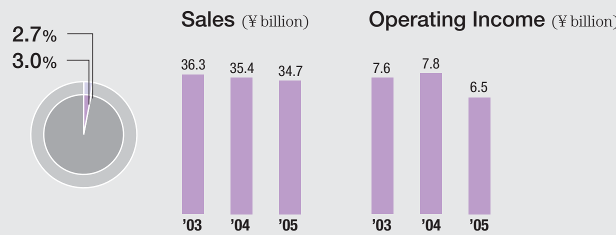


• As the number of installations decreased, sales dropped 4.8%, to ¥64.7 billion, accompanied by an operating income decline of 19.8%, to ¥3.5 billion.

Real Estate Rental



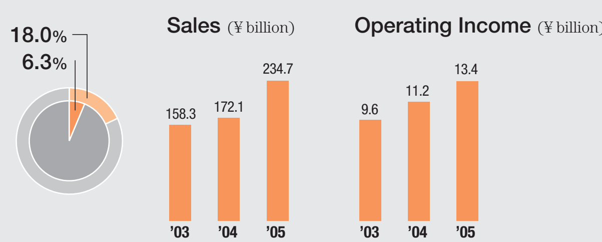
A subsidiary, Tokyo Gas Urban Development Co., Ltd., is primarily responsible for activities in this segment. The company leases and manages office buildings, including the Shinjuku Park Tower.
[Sales excluding intra-group transactions constitute 40.4% of this segment's sales.]



• Rent reductions caused sales to decline 2.1%, to ¥34.7 billion. Operating income decreased 17.5%, to ¥6.5 billion

Other Business

Business activities in this segment include district heating/cooling, energy services, LPG sales, industrial gas sales, credit leases, system integration and general engineering.
[Sales excluding intra-group transactions constitute 66.9% of this segment's sales.]



• Sales showed a large increase of 36.3%, to ¥234.7 billion, largely attributable to the expansion of consolidation.
• Operating income rose 19.0%, to ¥13.4 billion.

An Interview with the President

Norio Ichino, President

Q Fiscal 2004 was the second year of the medium-term management plan, Frontier 2007. What progress has been made with the plan?

As set forth in Frontier 2007, we are engaged in four areas of prime focus: business model innovation, business expansion into energy-related areas, construction of a group management system and strengthening of the corporate structure.

Our aim is to transform ourselves into a company on the energy frontier whose core business is natural gas by aggressively expanding our city gas business as well as our electric power, heat and energy service operations. It is also essential to raise operating efficiency to address the risk of demand loss and revenue loss that may be brought on by liberalization.

In fiscal 2004, the second year of the plan, although record-breaking summer heat dampened growth in gas sales volume in the residential sector, in the commercial sector air conditioning demand increased 7.5% year on year due to high summer temperatures and low winter temperatures. In the industrial sector, demand increased 10.2% year on year due to the development of new demand and increased operation at existing customer facilities. In other operations, aggressive marketing activities resulted in unit sales of our high-efficiency gas water heaters of more than double the planned level. The overall operating environment in fiscal 2004 was adverse because of the high summer temperatures and higher resource costs, due to a sharp increase in crude oil prices. In addition, we reduced rates in January 2005, in

We carried out company-wide cost cutting that enabled Tokyo Gas to overcome adverse factors in the business environment: record-breaking summer heat and higher gas resource costs caused by a sharp increase in crude oil prices. Furthermore, in January 2005, we introduced a strategic 5.8% average rate reduction.

accordance with Frontier 2007, to maintain our competitiveness. We implemented company-wide cost reductions that offset the impact of the rate reduction and negative business environment. These initiatives generated solid cash flows that funded an annual dividend of seven yen per share, an additional share repurchase, and steady reduction of interest-bearing debt.

On the basis of this solid footing, in fiscal 2005 we expect to achieve nearly all of the four primary management targets of Frontier 2007 (see graphs on page 13). We have also steadily expanded our move into energy-related fields, notably upstream and transport operations and energy services.

At the same time, we have begun preparations for establishing a new management plan necessary to achieve further growth in the increasingly harsh competitive environment in which we operate. We plan to announce in January 2006 the next medium-term management plan for the period from fiscal 2006 to fiscal 2010.

Q What was the purpose and impact of the gas rate reduction implemented in January 2005?

There are two purposes for the rate reduction: to return to customers benefits obtained through increased efficiency and to increase competitiveness amid advancing liberalization. The important consideration behind this rate reduction was the focused allocation of resources in business areas where intensified competition is expected. To that end, we gathered ideas for a rate strategy from salespeople working on the front lines.

In the commercial and industrial sectors, where price elasticity is high, we sought to both lower rates and institute a rate structure suited to the needs of customers. This involved simplifying the rate structure for medium-volume customers and changing the structure for comparatively high-volume customers to closely tailor it to individual corporate needs. We have also ensured ample competitiveness in the area of cogeneration, where competition with electric power companies is fierce.

In the residential sector, we have boosted marketing competitiveness by adding rate options that make using home gas clothes dryers and floor heaters, which have become a de facto standard feature in new condominiums, more economical.

Although the impact of the rate reduction on sales was about ¥8.0 billion in fiscal 2004 and will be ¥30.0 billion in fiscal 2005 from regulated customers alone, we plan, as far as possible, to counterbalance this effect through cost reductions and further expansion of gas sales.

Q What is the expected impact of the increased scope of liberalization of electric power implemented in April 2005, and what are the possible measures to be taken as a result?

With increased liberalization, competition in the electric power market might intensify owing to the elimination of transfer supply fees charged for the supply of electricity across different supply areas. We are aware that competition in the gas business might someday mirror the increased struggle in the electric power market. However, at this time, our technological capabilities and relationship of trust with customers that we have fostered over the years are great strengths, and we have felt no major impact. We do expect competition to eventually intensify in the gas market and are devising measures to strengthen our solutions capabilities and selling power.

At the same time, increased liberalization in the electric power market has provided more opportunities for us to enter the electric power business. A subsidiary, Tokyo Gas Bay Power, already operates with a generating capacity of 100 MW, and we have achieved competitive electricity prices by constructing the plant within the premises of our LNG terminal. We plan to carefully observe the electric power market and respond flexibly.

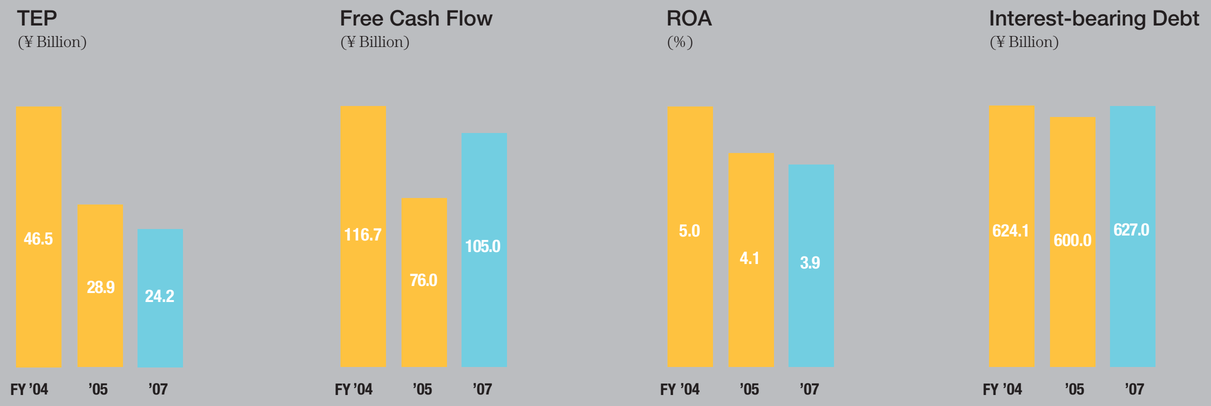
To achieve further growth in an increasingly competitive business environment, Tokyo Gas is formulating the next medium-term management plan, to be announced in January 2006.

Q What will be the areas of prime focus in the next medium-term management plan?

We believe that sustainable growth is the starting point for increasing corporate value, and there will be no change in the baseline of increasing the corporate value of Tokyo Gas over time with natural gas as the core business. I am confident that we can prevail no matter how the competitive environment changes provided that we continue to hone the products, services, maintenance and solutions capabilities in our main business.

Tokyo Gas supplies gas to 9.6 million customers and enjoys a bond of trust with customers that makes it possible for us to directly ascertain customer needs at the point of use. These on-site capabilities are a great strength of Tokyo Gas. During the past few years we have implemented a policy of transferring customer contact opportunities to affiliated companies and business partners in the interest of increasing operating efficiency and specialization. To boost competitiveness it is essential that Tokyo Gas, affiliated companies and business partners mount a united "All Tokyo Gas" effort to enhance our on-site capability to grasp customer needs and appropriately reflect that information in business strategy and management.

Meeting Management Targets Ahead of Schedule



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

Free cash flow = net income + depreciation – capital expenditures

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

Frontier 2007 Target

Figures for fiscal 2005 are projections as of April 28, 2005.

Management is resolved to further sharpen our competitive edge by strengthening our comprehensive energy business strategy, in which we offer one-stop energy solutions to customers. In this age of high environmental awareness, having clean natural gas at the core of our business gives us an advantage over other types of energy providers. We intend to extend this lead through ongoing pursuit of advanced energy conservation solutions.

Q What is the policy on profit sharing with shareholders?

As liberalization progresses, so does the degree of freedom management has to distribute profits. Nonetheless, we are a public utility, whose charges to customers are still largely regulated. We believe that the balance between the return to shareholders and our responsibilities to serve the customers' interests should be considered.

Management believes it is important to continuously pay stable dividends, and the one-yen increase in the dividend implemented in the previous term was in line with that thinking. The board and I would like to continue to decide on dividend increases and other matters in connection with profit distribution on the basis of continuity.

Dividends are not the only way management returns profit to shareholders. Share repurchases are another measure. The payout ratio in fiscal 2004 was 22.1%, but if share repurchases are taken into account, the proportion of profits actually returned to shareholders was 45.9%.

To date, we have used ¥57.8 billion of the ¥100.0 billion allocation called for in Frontier 2007 and bought back 156 million shares. These repurchases were made mainly to prevent stock dilu-

tion (when outstanding convertible bonds become eligible for conversion into shares at the end of fiscal 2006 and 2008). Management plans in the future to include share repurchases among our options to increase the value per share through the retirement of treasury stock.

Strategic allocation of free cash flow and definition of capital policy, including profit sharing with shareholders, will be clarified in the next medium-term management plan.

Q What corporate governance initiatives have been implemented?

Although Tokyo Gas hasn't adopted the committee system, the Board of Auditors performs the monitoring function and I am confident that our management is sufficiently transparent.

By reducing the number of directors from the previous 28 (maximum of 30) to 12 (maximum of 15), we have increased the sense of urgency and motivated discussion at board meetings. We now have three outside directors, all enthusiastic people who actively contribute their opinions. By introducing the corporate executive officer system and delegating substantial authority to the divisions, we have increased the speed of decision making as well as operational efficiency. For fiscal 2005, we have decided to conduct a review of the officers' remuneration system to focus on the abolition of retirement benefits and the introduction of a performance-linked compensation scheme. I have been particularly eager to proceed with this reform as I think the introduction of this system will further clarify management responsibility for business performance and ensure objectivity and transparency in officer remuneration.

The corporate governance problems that have arisen at so many companies ultimately stem from a lack of internal communication. Tokyo Gas is emphasizing open and above-board communication throughout the Group, and this initiative is certain to contribute to strengthened governance.

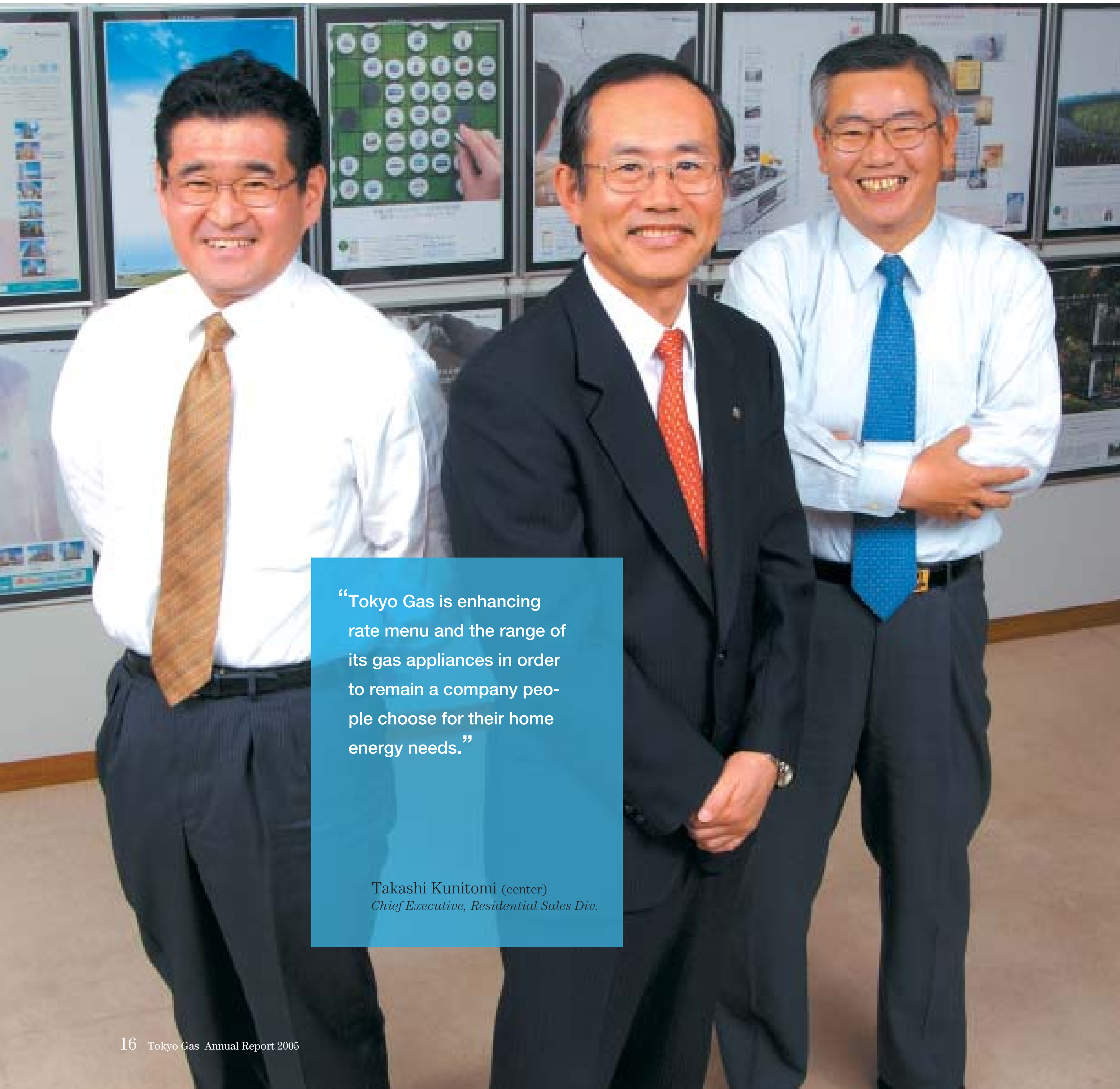
To ensure optimal business activities through close collaboration among Group companies, in fiscal 2004 Tokyo Gas introduced the strategic business unit system, dividing operations into functional categories such as gas resource procurement, gas production, transmission, residential sales and industrial and commercial sales. In the current era of full-scale competition in energy, each business unit takes advantage of the power of the Group and their own independent maneuverability to create value that exceeds customer expectations.

Enhancing **Value** Every Day

For Residential Customers

Offering Comfortable, Satisfying Lifestyles Made Possible by Gas

Tokyo Gas enhances many aspects of people's lives. We work to promote the use of gas in the home by offering the kinds of comfortable, satisfying lifestyles only gas can provide.



"Tokyo Gas is enhancing rate menu and the range of its gas appliances in order to remain a company people choose for their home energy needs."

Takashi Kunitomi (center)
Chief Executive, Residential Sales Div.

Countering the "All Electric" Offensive

As typified by electric power company sales campaigns extolling "all-electric homes," competition between companies in the energy industry has increased in the past few years, even in the residential sector. To cope with the changing business environment, we have reinforced our sales activities to target both end-users and companies such as housing developers. We have also stepped up the development of appealing products and worked to renew people's appreciation of the convenience and comfort that can only be achieved with gas. As a result of these efforts, we have managed to minimize the impact of the "all electric" campaign in our service area.

Introducing New Rate Menu while Promoting Gas Appliance Development and Advertising

There is no question, however, that the residential energy market is becoming more and more competitive. Therefore, the Residential Sales Division has actively implemented measures that include new rate menu, developing attractive products and holding events to improve market communication.

With regard to rates, in January 2005 Tokyo Gas put into effect an average rate reduction of 5.18% for customers under regulated tariffs to promote the use of gas. From May 2005, we also simplified the pricing of the Danran plan, which applies to customers with floor heating systems, installed as standard equipment in many condominiums. This change aims to attract customers with discounts that increase with the amount of gas used.

In the area of product development, Tokyo Gas has enhanced the performance of the highly energy-efficient latent-heat recovery water heaters and its renowned gas cooktops, which are popular for their design, safety and ease of use. We have introduced one innovative product after another, including an innovative mist sauna, which has proved highly popular among women, and the remote operation service for gas appliances. In February 2005, Tokyo Gas released LIFUEL, the world's first commercialized residential fuel cell cogeneration system.

To link the new rate menu and strengthened appliance development capabilities to the promotion of gas usage, we will actively hold joint events with housing manufacturers and engage in advertising and publicity activities on television and in other media.

Further Strengthening the Bond of Trust with Customers

In 2006, the population of Japan will begin to decrease. To maintain its position of strength in the residential sector, we must make certain to understand and meet customers' needs and propose ideas for fulfilling lifestyles. Building on the solid business base constructed over the years, we will engage in close communication with customers to learn what they truly desire and create added value to deliver it. Tokyo Gas will further solidify the bond of trust it enjoys with customers by developing highly efficient, environmentally friendly gas appliances and providing new creative services, such as home security monitoring and fire insurance for household effects, in order to become appreciated as an all-around advisor on residential matters. On the basis of these initiatives, Tokyo Gas will strive to continue to be a company people choose for their home energy needs.

Attractive offerings

Total number of TES systems sold
(Unit = 10 thousand)

New services

Pursuing Customer Benefits Through High Value-added Services

Relying on the most environmentally friendly fossil fuel, natural gas, as the main gas source, our energy services provide customers with a one-stop source of essential energy by fully exercising advanced technology and the ability to offer integrated solutions. Tokyo Gas supports its customers' energy requirements with these high value-added services.

"Tokyo Gas is upgrading its technological and solutions capabilities to meet the varied energy needs of customers."

Shigero Kusano (far right)
Chief Executive, Energy Sales and Service Div.

Advanced Technological Capabilities Unrivaled in the Industrial Sector

In 2004, the scope of liberalization of the gas business was expanded to include retail sales to customers that consume 500,000 m^3 or more per year. The effect on the energy industry has been all-out competition pitting gas companies against one another as well as against oil companies and electric power companies. In another development, the Kyoto Protocol went into effect in February 2005, resulting in greatly heightened environmental awareness among the public.

In this business environment, Tokyo Gas has taken full advantage of the high energy efficiency and environmental benefits of natural gas cogeneration systems and steadily promoted conversion from oil to gas. Our sophisticated gas utilization technologies, perfected through long years of experience, have demonstrated competitiveness against new entrants into the gas business. In the coming years we aim to expand our trade area and develop demand within a 200 km-wide area centered on Tokyo. One way will be to capitalize on our unshakeable strengths in cogeneration and combustion technologies for heating furnaces, drying furnaces and other applications to build relationships of trust with customers and expand sales.

Strengthening Sales Capability to Commercial and Public Facilities

Although commercial power rates were long considered to be high in comparison with gas rates, the gap has decreased owing to rate reductions by electric power companies. For this reason, for sales activities directed at commercial and public facilities it has become increasingly important to strengthen the ability to offer integrated solutions.

In response to this development, in April 2005 the Energy Sales and Service Division implemented a major reorganization. Abandoning a geographical based organization, it adopted a new structure organized by major customer categories: for instance, hotels, hospitals, schools and restaurants. This structure enables the sales force to develop and refine industry specializations, strengthen relationships with customers and propose higher-level solutions.

In addition, office-building renovation is a field in which demand is expected to grow. To capture demand for air conditioning in this market, we will approach sales through solution proposals based on accurate assessment of customer needs.

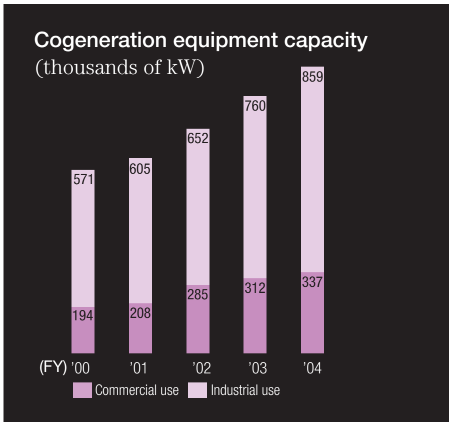
Energy Services—A Business in the Spotlight

Collaboration with ENERGY ADVANCE Co., Ltd., a Group company that provides energy services, is an important element of sales activities in the industrial, commercial and public sectors.

In the Group’s energy services business scheme, ENERGY ADVANCE constructs and retains ownership of gas cogeneration systems and other energy facilities as company assets and provides with a one-stop source of air conditioning, electricity, hot water supply, lighting and other energy customers require. The offer of this “asset-free” and “personnel-free” energy supply is drawing increased attention from customers, and through March 31, 2005, ENERGY ADVANCE had signed 67 contracts for cogeneration systems delivering a total of 140 MW. The company is utilizing the rock-solid engineering capabilities of the Tokyo Gas Group to expand its energy services beyond cogeneration systems into gas-absorption air-conditioning systems, gas boilers and other facilities.

In the coming years, we aim to further leverage this type of flexible response to customer needs for increased gas sales.

Competitive technology



Flexible response

Gas Resource Procurement

Constructing a Value Chain to Lower LNG Procurement Costs

Tokyo Gas participates in gas field development projects and engages in the transport business using company-owned LNG carriers. By participating in upstream operations and constructing a natural-gas value chain, we seek to ensure competitive advantage in gas resource procurement.

"Tokyo Gas is pursuing greater sophistication in its gas resource procurement and transport operations in order to provide customers with a stable supply of city gas at competitive prices."

Tadaaki Maeda (right)
Chief Executive, Energy Resources Div.

Tireless Efforts to Ensure Competitive Gas Resources Procurement

Because Tokyo Gas relies on imports for nearly all the natural gas source used for its core gas operations, stable, low-cost resource procurement is extremely important to our business. For this reason, Tokyo Gas has continuously worked to ensure stability and low cost in gas-resource procurement since becoming the first company in Japan to import LNG in 1969.

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

Yet another factor that promotes stable procurement is that long-term sales contracts are commonplace owing to the fact that the natural gas business requires enormous investment in launching a greenfield project. While the contracts are based on a long-term commitment, we have built into them flexible adjustment of offtake volume to cope with demand fluctuation. On the other hand, on the occasion of signing a new long-term contract or renewing an existing long-term contract, there are opportunities to negotiate price reductions. Tokyo Gas takes advantage of these opportunities to reduce procurement costs.

Although LNG market prices are linked to oil prices, the price formula produces smaller fluctuations, and we hold down prices by negotiating contracts that allow control of the oil price increase curve.

Tokyo Gas Acquires Its Second LNG Vessel

In recent years, Tokyo Gas has actively participated in transportation, upstream resource development and liquefaction business with the aim of further reducing resource procurement costs. In March 2005, Tokyo Gas put into service the Energy Advance, its second company-owned LNG carrier. The operation of a second vessel marked progress in the establishment of a structure to reduce ocean freight charges, taking advantage of FOB contracts. The industry trend is toward more flexible LNG contracts, including looser destination clauses. This trend creates opportunities that we will pursue to maximize the benefits of vessel ownership through expanding transportation business by providing transportation and charter service for the other buyers.

A third vessel will be chartered from December 2006, and a fourth one will enter service in March 2008.

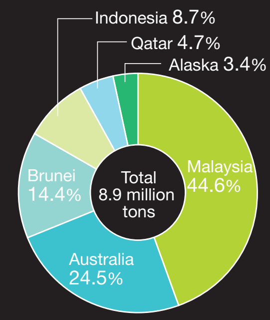
Constructing a Natural Gas Value Chain by Participating in Upstream Development

In 2003, Tokyo Gas formally decided to participate in the Bayu-Undan gas field development project (off Australia and East Timor), in which Tokyo Electric Power Co. and Tokyo Gas jointly own a 10% interest (in a ratio of two to one). Tokyo Gas has decided to purchase one million tons of LNG per year over a 17-year period beginning in 2006 from this source, for the purpose of stabilizing gas resource procurement and reducing costs.

In the Sakhalin II Project, Tokyo Gas has entered into an agreement to purchase up to 1.1 million tons of LNG per year over a 24-year period beginning in 2007. In addition to obtaining terms that make us more competitive from the standpoint of price and flexibility, we expect substantial transport cost reductions owing to the geographical proximity of the field to Japan and the use of company-owned carriers.

Cost advantage

LNG imports by country in FY 2004



Enhanced security

Pursuing Advances in Gas-Related Technologies to Become More Competitive

Japan is the world's most advanced country in the use of natural gas. As the leader in Japan's gas industry, Tokyo Gas continues to develop new technologies that open the way to the future of natural gas.

"Tokyo Gas is further refining its world-class gas infrastructure technologies and developing gas utilization technologies centered on cogeneration."

Shigeru Muraki (far right)
Chief Executive, R&D Div.

Besting Competitors with Our R&D Edge

As the Tokyo Gas Group seeks to develop and grow a comprehensive energy business with natural gas at its core, it is critical to provide timely and sophisticated technology as an advantage over competitors. The R&D Division engages in research and development with a sense of great urgency.

Specifically, we focus on “strategic technology,” which aims at increasing our competitive edge through total energy services, and on “platform technology,” which addresses the risks associated with gas supply, such as accidents and disruptions, with the goal of reducing costs.

In the area of strategic technology, cogeneration technologies involving gas engines and fuel cells are a key priority and, thanks to our R&D, we now market fuel cell cogeneration systems. Today, it is important to propose both systems as well as appliances tailored to customer requirements for industrial and commercial use, which the R&D Division promotes and researches in the area of systems development. The division maintains a special focus on “holonic energy systems” and has begun a demonstration test program, while also promoting research by sponsoring a course at the University of Tokyo. Holonic energy systems involve the balanced deployment and supply of energy from distributed power, such as cogeneration, solar-power and wind-power generation systems in a given area. The national government has indicated interest in the holonic energy concept as a means of saving energy and reducing CO_2 emissions.

Revitalizing R&D through the Sponsor System and Reform of the Compensation System

Concentrating its 350 researchers in the R&D Division rather than attaching them to operating divisions enables Tokyo Gas to flexibly shift personnel to projects as needed. Since 1997 we have applied the Sponsor System, by which the R&D Division undertakes research and development on the basis of commissions from corporate divisions and strategic business units. Because R&D costs are borne by the commissioning party, solid results are required and a sense of urgency is maintained that leads to actual accomplishments.

In 2004, Tokyo Gas reformed the compensation system applied to research and development, effectively abolishing the upper limit on compensation. By adopting a rational procedure for evaluating annual income generated by the discoveries and inventions, and paying out about 5% as compensation with the intention to revitalize the research and development activities.

Active Acquisition and Utilization of Patents and Trademark Registrations

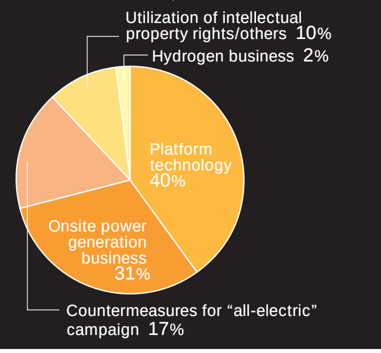
In addition to concrete research and development activities, the R&D Division is focusing on the management and utilization of intellectual property rights. Tokyo Gas owns about 1,700 patents, not all of which have been fully utilized. We are currently reviewing our intellectual property, and the Intellectual Property Office will take the lead in systematically acquiring and strategically utilizing rights, while minimizing the risk of rights infringement.

Tokyo Gas has nearly 900 trademark registrations, which it regards as both a source of royalty revenues and a precious asset for increasing the value of the Tokyo Gas brand. Trademark registrations are another resource we plan to take full advantage of.

For further information, please visit the website at http://www.tokyo-gas.co.jp/techno/index_e.html

Technology innovation

Distribution of R&D expenses
(Total: ¥8,335 million)



Robust infrastructure

The mission of Tokyo Gas is to make our customers' lives more comfortable and rewarding by providing a safe and constant supply of environmentally friendly natural gas. Our business is firmly rooted in the communities we serve. The Tokyo Gas Group wholeheartedly engages in environmental preservation, social support and strict compliance with the law, remaining a company that customers, shareholders and local communities choose on the basis of respect.

Our Basis for Solidifying **Value**

SRI indexes that include Tokyo Gas

- Dow Jones Sustainability Index (DJSI)
- FTSE4Good
- Ethibel Sustainability Index
- MS-SRI

Environmental Initiatives

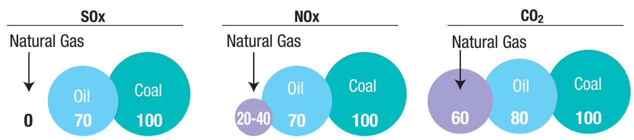
One way Tokyo Gas contributes to environmental preservation is by encouraging people to use clean, eco-friendly natural gas.

Promoting the Use of Natural Gas Helps Protect the Natural Environment

Natural gas, the main source of city gas, is a clean energy source that has the lowest environmental load of any fossil fuel in widespread use. Natural gas combustion emits no atmosphere-polluting sulfur oxides (SOx). Compared to oil or coal, emissions of nitrogen oxides (NOx), another atmospheric pollutant, and carbon dioxide (CO_2), a cause of global warming, are from 40% to 80% lower.

The core business of the Tokyo Gas Group is to extend the use of natural gas to as many people as possible, and we are now in an advantageous position that enables us to contribute to the preservation of the global environment by simply expanding our own business activities. To concretely express our commitment to environmental conservation, we have established "global warming prevention guidelines," which set forth targets for reducing CO_2 emissions by city gas customers. Our goal is to reduce CO_2 emissions in fiscal 2005 to a level that is five million tons below the 1990 levels, and seven million tons lower in fiscal 2010, by substituting gas for other energy sources and by achieving greater gas appliance and systems efficiency.

Comparison of Emission Levels (Coal=100)



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

Environmental Protection Costs and Economic Benefits (Fiscal 2004)

Data scope: Tokyo Gas Co., Ltd., Energy Advance Co., Ltd., Tokyo Gas Customer Service Co., Ltd.

(¥ Million)

Environmental Protection Cost Items			Investment		Cost	
		Major Content (Examples)	FY2003	FY2004	FY2003	FY2004
Company Business	Pollution Prevention	Amount of capital investment, maintenance expenses, depreciation costs, personnel expenses, etc., for prevention of air pollution, water pollution, noise pollution, etc.	8	35	182	155
	Global Environmental Protection	Amount of capital investment, maintenance expenses, depreciation costs, personnel expenses, etc., for energy conservation, effective use of energy, protection of the ozone layer, etc.	551	144	1,019	884
	Resource Recycling	Amount of capital investment, maintenance expenses, depreciation costs, personnel expenses, etc., for reduction/recycling of residual soil, waste control, etc.	306	204	1,827	1,293
	Environmental Management	Costs of green purchasing, environmental education, EMS construction, environmental organizations, etc.	10	15	476	474
	Other	Costs related to greening of plants and remediation of soil in accordance with plant siting laws and ordinances.	160	1,911	1,704	1,064
Customer Locations	Environmental R&D	Costs for R&D of burden-mitigating technology, high-efficiency appliances and systems, etc.	325	585	1,991	1,661
	Recycling of Discarded Gas Appliances	Costs for recovery and recycling of gas appliance, packaging, etc.	—	—	6	7
	Community Contribution Activities		61	75	667	808
	Total		1,420	2,969	7,872	6,346

*Depreciation costs included in figures for cost of ¥808 million in FY2004 and ¥658 million in FY2003.
*In regards to the R&D figures, since we have extracted the portion related to environmental protection, the data may differ from that disclosed in the financial section.
*Data are extracted from the environmental accounts of the Corporate Social Responsibility Report.

(¥ Million)

Economic Benefits	FY2003	FY2004
Cost Reduction due to Operation of Energy-saving Facilities	811	833
Cost Reduction due to Reduction of Residual Soil Generation	6,587	6,036
Sale of Valuables	347	272
Other	268	0
Total	8,013	7,141

FY 2004 Total Capital Investment Environmental Capital Investment	¥75,236 million 16%
FY2004 Total Sales Environmental Costs	¥1,013,993 million 0.8%

A Whole New Approach to Food Preparation that Reduces Waste by Conserving Food and Energy and Helps Keep Water Clean

Over the years, Tokyo Gas has proposed to customers a rich and varied diet consisting of delicious dishes prepared using gas. In 1995, we began to advocate and promote the adoption of Eco-cooking®, an environmentally conscious approach to meal preparation that delivers maximum benefit from the close relationship between gas and cooking.

Daily meals are an integral part of people's lives and a topic everyone can relate to, and the Eco-cooking concept is all about considering environmental issues in an experiential and enjoyable way. By promoting Eco-cooking, Tokyo Gas encourages people to develop environmentally friendly dietary habits: that is, to become aware of the environmental consequences of the choices they make during shopping, cooking and cleanup. In addition to holding Eco-cooking classes at our cooking classrooms and showrooms, we dispatch instructors to elementary and junior high schools and run sessions at various environmental events.

Eco-cooking Classes

	FY2000	FY2001	FY2002	FY2003	FY2004
Sessions	200	251	407	488	616
Participants	3,500	4,750	10,150	15,400	19,100

For details concerning corporate social responsibility at Tokyo Gas, please refer to the Corporate Social Responsibility Report at http://www.tokyo-gas.co.jp/csr/index_e.html/

Social Activities and Safety Measures

Firmly rooted in local communities, the Tokyo Gas Group actively contributes to society, as well as working on safety measures and disaster prevention.

Social Contribution on the Theme of "Life Communication"

Since our establishment, Tokyo Gas has always carried out the gas business in close touch with local communities. Leveraging the unique experience and human resources accumulated through this relationship, we engage in various social initiatives, including offering ideas for enriched lifestyles and education for children, who will develop into tomorrow's leaders. To ensure that these activities reflect the desires of society and the needs of customers, we place deep importance on communication with society.

One of the many actions is the Acorn Project, an environmental education program in collaboration with an NPO. Begun in 1993, the project has attracted many participants, who learn hands-on about nature's growth cycle by gathering acorns, nurturing their growth into seedlings and transplanting them in the countryside, while participating in other nature activities. In July 2005, we begun to use the "Tokyo Gas Forest" in Nagano Prefecture, as the main site for the project.

Acorn Project

Contributing to Peace of Mind and the Enrichment of People's Lives Through Business Activities

Our business contributes to society through the conviction that Tokyo Gas can help create a more livable society by carrying out its core business. This includes environmental conservation through the popularization of eco-friendly natural gas, safety and disaster prevention measures to ensure that people can use gas with peace of mind, the development of equipment that promotes healthy, comfortable living and research into living environments.

In addition to visiting customers at least once every three years to conduct safety inspections of gas appliances, our safety initiatives include enhancing the Gaslight 24 system with a round-the-clock emergency dispatch to respond to gas leaks and other problems. Tokyo Gas disaster prevention efforts include honing our capabilities for prevention, emergency response and restoration. When the Niigata Chuetsu Earthquake struck in October 2004, at the request of The Japan Gas Association, we mounted an "all Tokyo Gas" disaster response, dispatching 750 employees from Tokyo Gas, affiliates and business partners to help restore lifelines.

Note: Earthquake measures are a focus of the Japan Gas Association, including emergency repair action in the case of earthquakes. The association established a policy under which emergency repair costs are to be paid by the damaged entity, excluding the personnel expenses of the assisting companies.

Use of Support Programs for Pleasant Work Environment (Fiscal 2004)

Human resources are a source of value at the Tokyo Gas Group. We promote personal freedom and fulfillment by granting employees leave for childrearing and care for aging parents.

Programs	Number of Employees Participating
Leave for parental care	0
Leave for childcare	57
Leave for volunteer work/holidays	43

Support for School Education
Teaching about the Environment and Energy

To increase knowledge of the environment and energy among the leaders of tomorrow, Tokyo Gas engages in educational support activities targeting elementary and junior high school students.

Activities include the distribution of textbooks for use in fun learning about environmental and energy issues. In the children's section of the Tokyo Gas website we provide answers to children's simple and natural questions about the environment, energy, city gas, living and other matters. We also post links to related websites.

In addition, we conduct a school-visit program in which Tokyo Gas employees teach classes on topics related to energy, the environment and public welfare using a fun and instructive experiential learning approach.

School Visits

	FY2002	FY2003	FY2004
Classes	915	1,986	3,194
Participants	27,450	59,580	95,820

Compliance

Tokyo Gas continues to foster awareness of the importance of compliance among Group employees to maintain our position as a corporate group that is trusted and chosen by our stakeholders.

Enhancing the Compliance Structure

Tokyo Gas recognizes that compliance with laws and regulations and engaging in corporate activities grounded in a sense of ethics are critical conditions for sustaining safety, reliability and trust—brand values that are the source of our competitive advantage. Accordingly, we are working to establish a comprehensive compliance culture by fostering a spirit of compliance, engaging in compliance as both a group-wide policy and a practice in each workplace and establishing a compliance PDCA cycle.

Specifically, in fiscal 2002 Tokyo Gas put in place a robust compliance structure. We established the Management Ethics Committee, chaired by the president, to determine basic policies and monitor the level of compliance to laws and regulations in regular meetings. Compliance committees installed at each of the ten divisions execute the basic policies, taking actual circumstances into account. We also established the Compliance Department, a specialty organization that promotes group-wide compliance actions, including instituting a compliance promotion system and code of conduct, conducting training and awareness activities, reducing compliance risk, furnishing counseling contacts and disseminating information internally and externally.

Revising Our Code of Conduct and Continuously Raising Awareness

To ensure compliance by each and every employee, it is essential to provide something to serve as a guide to proper behavior. For this reason, in 2004 we reviewed and revised Our Code of Conduct to include guidelines for compliance-oriented decision making and action, and distributed it to all Group employees. The review involved seeking the opinions of various parties in the Group over a period of about six months and culminated in the formulation of a Code of Conduct based on a framework of "Seven Pledges."

To ensure that Our Code of Conduct continues to serve as a vital guide to conduct, we actively hold briefing sessions for all employees (the participation rate was 91.4% as of the end of fiscal 2004) and continuously engage in awareness activities using the Tokyo Gas Intranet and video programs.

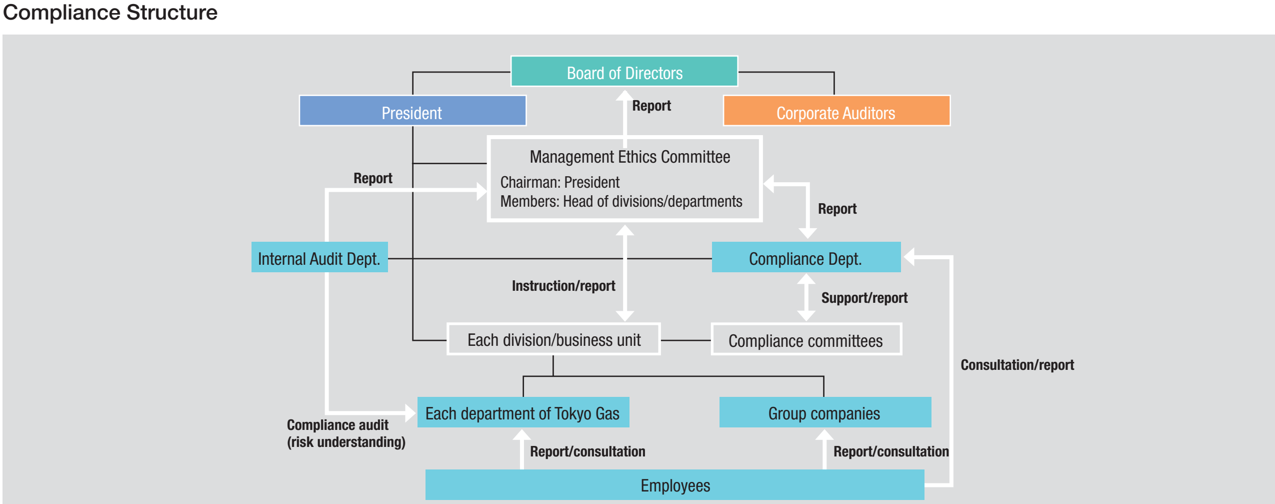
Reducing Compliance Risk

The Compliance Department serves as the secretariat for the handling of compliance issues in the Tokyo Gas Group discovered in compliance audits or by other means. The department deliberates on compliance matters and implements concrete improvement activities by means of working groups comprising representatives from involved departments. For instance, in fiscal 2004 the department established a working group on the Temporary Staffing Services Law to reduce compliance risk by identifying issues, preparing a compliance manual and holding a workshop for about 400 participants who manage temporary workers at Tokyo Gas and its affiliates. The Compliance Department reports to the Management Ethics Committee on risk matters affecting the Tokyo Gas Group.

Compliance Counseling in Fiscal 2004

Topic	Number of sessions
Laws and regulations	14
Internal company rules	15
Human relationships in the workplace	15
Employment/employment management	4
Others	5

Compliance Structure



Corporate Governance

To ensure open and transparent management, Tokyo Gas implements corporate governance that goes beyond merely establishing a governance structure.

Board of Directors: Enhancing Transparency and Ensuring Surveillance as well as Enabling Quick and Rational Decision-making

With the aim of further increasing corporate value, in recent years Tokyo Gas has implemented numerous measures to make the Board of Directors more effective, clarify management responsibility and speed up decision-making. In 2002, Tokyo Gas greatly reduced the maximum number of board directors from thirty to fifteen. The Board currently consists of 12 directors, including three outside directors, and functions as a highly open and transparent management board where opinions are actively exchanged. Outside directors were also introduced in 2002. Tokyo Gas believes that to maximize board functions, it is essential to offer all board members and corporate auditors accurate and sufficient information about subjects under discussion. The outside directors and auditors receive timely information about management measures and market.

In February 2005, an advisory committee, comprised of outside directors and auditors as well as internal directors, was established to discuss the executive compensation system and related matters.

Increasing Maneuverability through Introduction of an Executive Officer System

Another important development in 2002 was the introduction of an executive officer system, a first for the city gas industry in Japan. Tokyo Gas has delegated substantial authority to the executive officers (division chief executives), empowering them to exercise independence and responsibility in decision-making and rapidly execute business.

Previously, we had followed the division system as its organizational structure. To further develop the system and strengthen group-level management, in April 2004 Tokyo Gas introduced the strategic business unit (SBU) system by which affiliated companies involved with business divisions are integrated into SBUs. On the basis of the management policies decided by the Board of Directors, the executive officers (division chief executives) engage in consolidated unit management with the aim of maximizing Group value.

To clearly define business performance responsibilities, Tokyo Gas has established a one-year term of office for board directors and executive officers.

Strengthening Monitoring by Corporate Auditors and the Internal Audit Department

Tokyo Gas has put in place a system by which four corporate auditors, including two external auditors, attend meetings of the Board of Directors to monitor the performance of the directors. The standing auditors regularly attend management meetings and work to strengthen the audit function across the gamut of business operations.

As well as confirming the effectiveness of internal controls, the Internal Audit Department fairly and objectively reviews and assesses whether the activities of business units and departments are carried out appropriately and efficiently in line with management policies and plans and in compliance with the law.

In fiscal 2003, Tokyo Gas established an integrated risk management system. We clearly stipulate and disclose to stakeholders the risks with which management should be involved (see pp. 38–39).

Compensation for Directors and Corporate Auditors (Fiscal 2004)

	Millions of yen	Thousands of U.S.$
Compensation for 15 directors (4 resigned during the term)	¥324	$3,028
Retirement benefits for directors	270	2,523
Compensation for 5 corporate auditors (1 resigned during the term)	75	700
Retirement benefits for corporate auditors	8	74
Total	¥677	$6,325

Compensation for independent public accountant (Fiscal 2005)

(By Tokyo Gas and its subsidiaries)	Millions of yen	Thousands of U.S.$
Compensation for auditing services	¥131	$1,224
Compensation for other services	18	168
Total	¥149	$1,392

Reforming the Officer Remuneration System to Increase Objectivity and Transparency

Effective in fiscal 2005, Tokyo Gas restructured its officer remuneration system, abolishing retirement benefits and introducing a performance-linked remuneration scheme.

Tokyo Gas believes that the role required of corporate officers is to enhance corporate value over the short, medium and long terms and that executive compensation should effectively function as an incentive to that end. Accordingly, we have abolished the retirement benefit system for directors and corporate auditors and consolidated benefits into monthly compensation. At the same time, in the monthly compensation plan for directors who also serve as executive officers, Tokyo Gas has introduced performance-linked remuneration that reflects the business performance of Tokyo Gas and the individual directors' division in the previous fiscal year. Based on a new guideline, directors, excluding outside directors, are to buy Tokyo Gas shares every month through the Employees Shareholding Association and hold them until their term of office expires.

Board of Directors and Auditors (As of June 29, 2005)

(From left) KUNIO ANZAI
Chairman

HIDEHARU UEHARA
Vice Chairman

NORIO ICHINO
President

MITSUNORI TORIHARA
Executive Vice President

SHIGERO KUSANO
Executive Vice President

KOUYA KOBAYASHI
Executive Vice President

TADAAKI MAEDA
Senior Executive Officer

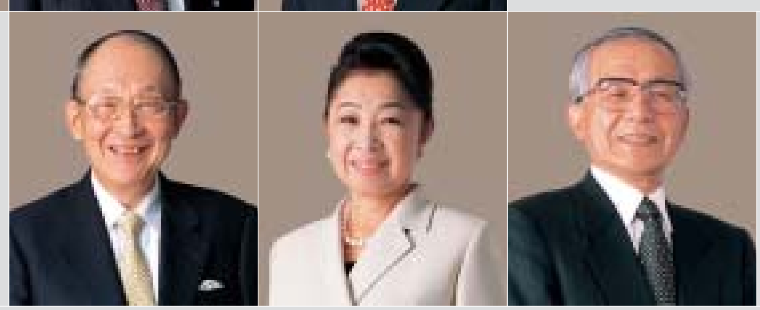
TAKASHI KUNITOMI
Senior Executive Officer

TSUYOSHI OKAMOTO
Senior Executive Officer

YUZABURO MOGI
Outside Director

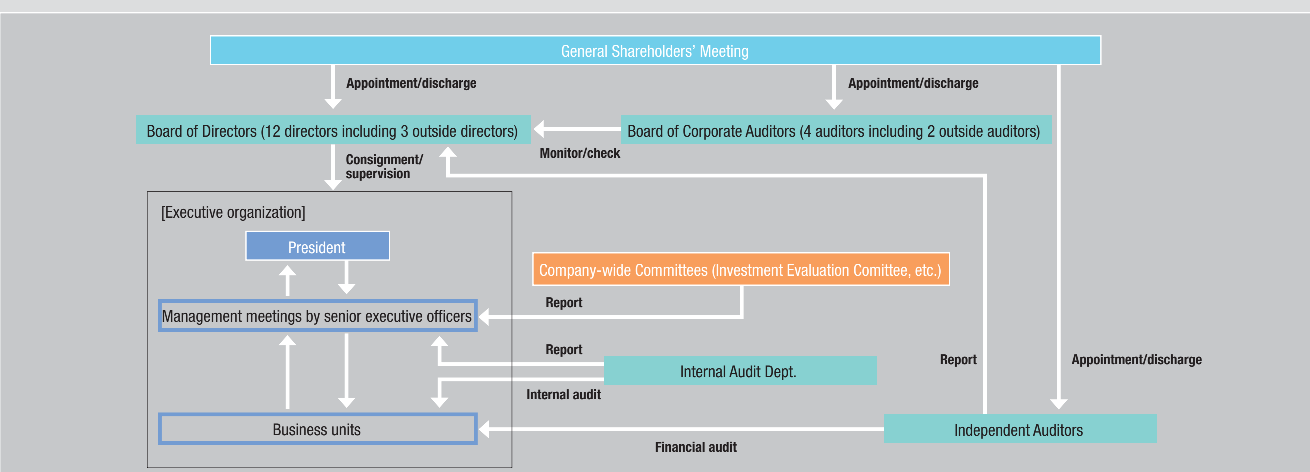
YURI KONNO
Outside Director

KAZUMOTO YAMAMOTO
Outside Director



Corporate Auditors HIROSHI HIRAI
TSUNENORI TOKUMOTO
MASAYOSHI HANABUSA (Outside Auditor)
TOSHIMITSU SHIMIZU (Outside Auditor)

Corporate Governance Structure



Management Structure

Top Management

Corporate

- Strategic Planning Div.
  - Corporate Planning Dept.
  - Finance & Managerial Accounting Dept.
  - Personnel Dept.
  - Business Development Dept.
  - Affiliated Companies Dept.
  - Environmental Affairs Dept.
  - 17 group companies
- Corporate Communications Div.
  - 11 offices
  - Corporate Communications Dept.
  - General Administration Dept.
  - Secretary Dept.
  - 1 group company

Shared Service / R&D

- R&D Div.
  - R&D Planning Dept.
  - Research Dept.
  - Technology Development Dept.
- Corporate Service Div.
  - Service Integration and Promotion Dept.
  - Personnel Support Dept.
  - Accounting Dept.
  - Purchasing Dept.
  - Information and Communication Systems Dept.
  - Real Estate Management Dept.
  - 7 group companies

- Compliance Dept.
- Internal Audit Dept.

Strategic Business Units

- Residential Sales Div.
  - Customer Relationship Dept.
  - Residential Sales Planning Dept.
  - Area Development Dept.
  - Residential Sales Promotion Dept.
  - Residential Market Development Dept.
  - Remodeling Sales Dept.
  - Residential Facility Sales Dept.
  - Energy Conservation and Renewable Project Dept.
  - 3 Regional Residential Sales Dept.
  - 37 group companies
- Energy Sales and Service Div.
  - Energy Sales and Service Planning Dept.
  - Air-conditioning and Commercial Customer Development and Service Dept.
  - Industrial Gas Sales Dept.
  - Energy Solution Business Dept.
  - Natural Gas Vehicle Dept.
  - Volume Sales Dept.
  - 5 group companies
- Wide Area Marketing Div.
  - Wide Area Development Planning Dept.
  - Wholesale and Regional Service Dept.
  - 7 service branches
  - 13 group companies
- Pipeline Network Div.
  - Strategy Planning Dept.
  - Pipeline Dept.
  - 3 pipeline regional offices
  - Emergency Management Dept.
  - Supply Control and Disaster Management Dept.
  - 2 group companies
- Energy Production Div.
  - Energy Production Dept.
  - 3 LNG terminals
  - 1 group company
- Energy Resources Div.
  - Gas Resources Dept.
  - 3 group companies

(As of April 1, 2005)

Auditors
- Corporate Auditors' Office

Executive Officers (As of April 1, 2005)

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.

Toshio Tezuka
Chief Executive, Wide Area Marketing Div.

Masaki Sugiyama
Chief Executive, Pipeline Network Div.

Shigeru Muraki
Chief Executive, R&D Div.

Seiichi Nakanishi
Corporate Communication Div.
Dispatched to the Japan Gas Association

Executive Officers

Tokio Imazawa
Coordinator, Energy Sales and Service Div.

Norikazu Hoshino
Deputy Chief Executive, Residential Sales Planning Dept.
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
Corporate Communication Div.
Dispatched to the Japan Gas Association

Kazuo Yoshino
General Manager, Finance & Managerial Accounting Dept.

Hisao Watanabe
General Manager, Research Dept.

Financial Section

Contents

Management's Discussion and Analysis of Operations and Financial Position

Summary

- **Consolidated sales increased steadily, reflecting stepped-up sales efforts and the expanded scope of consolidation.**
- **Operating income decreased owing to the impact of higher gas resource costs caused by a steep rise in crude oil prices and the gas rate reduction implemented in January 2005.**
- **Net income increased sharply in the absence of the one-time loss booked the previous period to alleviate the future cost burden from retirement benefit obligations.**

SALES TRENDS IN THE CORE GAS BUSINESS

Sales Volume Increased Steadily Except in the Residential Sector

Residential Sector

Although the number of customers increased steadily, gas sales volume per household decreased. Overall sales volume declined 50 million m^3, or 1.5%, to 3,242 million m^3 year on year. Although low temperatures brought higher demand for hot water and heating in winter, this was not sufficient to offset a decrease in demand for hot water during a summer of record-breaking heat. The net decline in temperature-related demand was 84 million m^3. A positive factor in residential sales was a year-on-year rise in demand of 51 million m^3 due to growth of the customer base.

Commercial Sector

Demand for air conditioning increased due to high summer temperatures, and low winter temperatures brought increased demand for heating. Sales also rose due to customer-base expansion and increased operation at customers' existing facilities. In all, gas sales in this sector rose 207 million m^3, or 7.7%, to 2,902 million m^3 year on year. Temperature-related factors accounted for 100 million m^3 of this increase, and growth in the number of customers accounted for 56 million m^3.

Industrial Sector

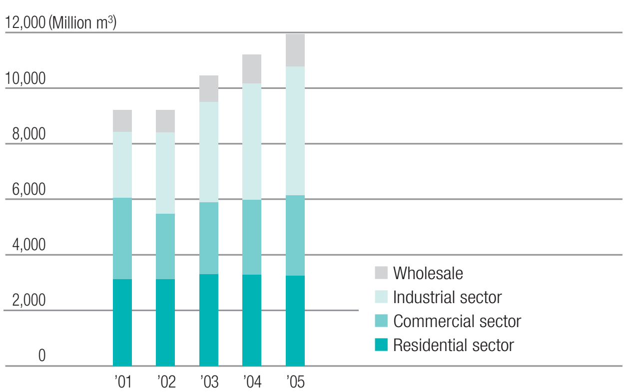
In fiscal 2004, demand for gas used specifically for power generation continued to surge. Non-generation use at existing facilities also grew, as did demand due to customer acquisitions. As a result, gas sales in this sector increased favorably by 436 million m^3, or 10.4%, over the previous year's level to 4,637 million m^3. Sales of gas to electric power companies and independent power producers (IPPs) accounted for 206 million m^3 of the increase.

Wholesaling to Other Gas Companies

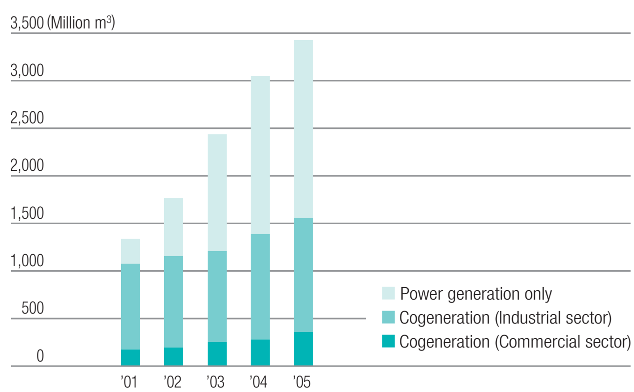
Sales expanded 141 million m^3, or 13.8%, to 1,171 million m^3 with increases both in the volume taken by the gas companies to which gas is supplied as well as the number of gas companies.

Total sales amounted to 11,952 million m^3, an increase of 734 million m^3, or 6.5%, over the previous year's level.

Gas sales volume by sector



Gas sales volume for power generation



All graph data for years ended March 31

Despite a Sales Increase, Operating Income Declined on Rising Gas Resource Costs and Customer Rate Reductions

Although sales in some segments, including related construction and real estate rental business, decreased, higher gas sales and expansion of the scope of consolidation brought an increase in overall sales of ¥38.9 billion, or 3.4%, to a new record of ¥1,190.7 billion. The impact of the change in the scope of consolidation was ¥43.1 billion.

Operating income fell ¥6.9 billion, or 4.6%, to ¥145.3 billion, affected by significant negative factors, including higher gas resource costs, pegged to the sharp rise in crude oil prices, and rate reductions implemented in January 2005. The Company succeeded in offsetting much of the decline through efforts to increase operating efficiency and reduce costs.

Business results by segment (¥ million)

Sales

Years ended March 31	2003	2004	2005
Gas Sales	792,454	831,115	834,658
Gas Appliance Sales	142,636	133,873	135,108
Related Construction	70,568	68,034	64,795
Real Estate Rental	36,346	35,444	34,701
Other Business	158,327	172,160	234,721

Operating income

Years ended March 31	2003	2004	2005
Gas Sales	160,224	189,366	182,685
Gas Appliance Sales	7,842	7,904	7,054
Related Construction	4,175	4,456	3,575
Real Estate Rental	7,623	7,883	6,503
Other Business	9,626	11,270	13,415

Note: Segment sales include intra-group transactions.

Expansion of the Scope of Consolidation

The construction of the group management system is one of the prime areas of focus set forth in Frontier 2007, the current medium-term management plan. On April 1, 2004 Tokyo Gas introduced the strategic business unit system as a foundation to integrate the business operations of the Company and its affiliates. On this occasion, the Company also expanded its scope of consolidation for fiscal 2004, increasing the number of consolidated subsidiaries from 18 in the previous period to 52. The impact of the expansion of the scope of consolidation is as follows.

	Net Sales	Operating Income	Net Income
Impact (¥ billion)	43.1	2.5	(0.4)

■ Gas Sales

Higher Gas Resource Costs and Rate Reductions Bring Lower Income on Higher Sales

There was a 6.5% increase in gas sales volume, led by strong demand from commercial and industrial customers. The higher volume compensated for lower unit prices due to factors such as the rate reduction. As a result, sales in this segment increased ¥3.5 billion, or 0.4%, to ¥834.6 billion. Nonconsolidated sales increased ¥1.8 billion, or 0.2%. Rising sales volume contributed ¥20.4 billion, and lower unit prices had an adverse effect amounting to ¥18.6 billion, including ¥3.5 billion due to price adjustments under the “sliding rate” system, ¥8.2 billion due to the impact of the rate revision, and ¥6.9 billion due to other factors. The segment’s contribution to total sales decreased from 66.9% to 63.9%.

Operating expenses rose slightly by 1.6%, to ¥651.9 billion as cost reduction efforts and lower depreciation partially offset an increase in gas resource costs tied to a sharp rise in crude oil prices. Operating income fell ¥6.7 billion, or 3.5%, to ¥182.6 billion.

Rate Revision

In January 2005 the Company implemented a reduction in gas rates and expanded its rate options. Specifically, in Tokyo and neighboring areas, the Company lowered its rates an average of 5.18% from previous levels for customers under regulated tariffs (using less than 500,000 m^3 annually), while at the same time expanding rate options to promote the use of gas. The Company also reviewed its third-party access agreements, reducing charges for third-party use for the purpose of direct sales by 6.04% and charges for third-party sale to other gas suppliers by 6.01%. The impact of the rate reduction on sales will be a decrease of about ¥30.0 billion annually from sales to regulated customers.

Tokyo Gas had two objectives in lowering gas rates: to return to customers profits earned through corporate efforts and to increase competitiveness. In Frontier 2007, the Company allocated ¥180 billion in capital resources over a five-year period for rate reductions and, as implementation of the plan was progressing well, had already announced that it would implement a rate revision during fiscal 2004.

■ Gas Appliance Sales

Sales Up Due to New High-performance Products and Investment in Demand Development, but Income Down

Tokyo Gas increased unit sales value by introducing high value-added appliances, including built-in home gas cooktops with greatly enhanced features and bathroom heater-dryers with a mist sauna function. This and the contribution from newly consolidated companies helped compensate for a decrease in sales volumes. These developments brought a slight year-on-year increase in segment sales. However, an increase in selling expenses to counter the "all electric" promotion of electric power companies led to lower operating income.

Segment sales increased ¥1.2 billion, or 0.9%, to ¥135.1 billion, while operating expenses also increased ¥2.1 billion, or 1.7%, to ¥128.0 billion. Operating income decreased ¥0.9 billion, or 10.8%, to ¥7.0 billion. The segment's contribution to total sales declined marginally from 10.8% to 10.4%.

■ Related Construction

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

There were declines in the number of new installations and safety upgrades, and segment sales fell ¥3.3 billion, or 4.8%, year on year, to ¥64.7 billion. Operating expenses decreased ¥2.3 billion, or 3.7%, to ¥61.2 billion, and operating income decreased ¥0.9 billion, or 19.8%, to ¥3.5 billion. The segment's contribution to total sales was lower at 5.0%, compared with 5.5% in the previous year.

■ Real Estate Rental

Lower Rents Bring Lower Sales and Income

Segment sales declined, in part because of rent reductions to reflect the state of the real estate market, falling ¥0.7 billion, or 2.1%, to ¥34.7 billion. Operating expenses increased ¥0.6 billion, or 2.3%, and operating income decreased ¥1.3 billion, or 17.5%, to ¥6.5 billion. The segment's contribution to total sales dropped from 2.9% to 2.7%.

■ Other Business

Expanding the Scope of Consolidation Raises Sales and Income

Nearly 80% of the impact from expansion of the scope of consolidation, which boosted total sales, occurred in this segment. Segment sales increased ¥62.6 billion, or 36.3%, to ¥234.7 billion. The breakdown of sales by category was ¥32.8 billion from district heating and cooling systems, ¥31.8 billion from the industrial gas business, and ¥18.3 billion from LPG sales. The segment's contribution to total sales rose to 18.0% from 13.9% in the previous year.

Operating expenses increased ¥60.5 billion, or 37.6%, to ¥221.3 billion, and operating income increased ¥2.2 billion, or 19.0%, to ¥13.4 billion.

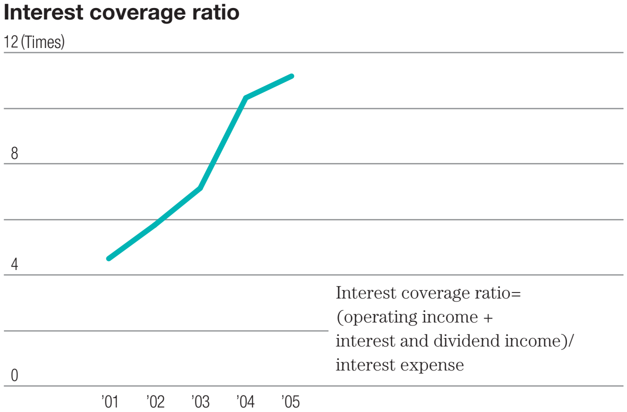
Net Income Increases Sharply in the Absence of Extraordinary Losses Recorded in the Previous Year

Other income totaled ¥17.8 billion, a year-on-year increase of ¥0.3 billion. No gain was recorded during the year under review from the liquidation of excess allowances for retirement benefits resulting from reform of the pension plan, a major component of other income the previous year. However, a ¥2.7 billion gain on weather derivatives and a ¥5.2 billion gain from the sale of securities were recorded.

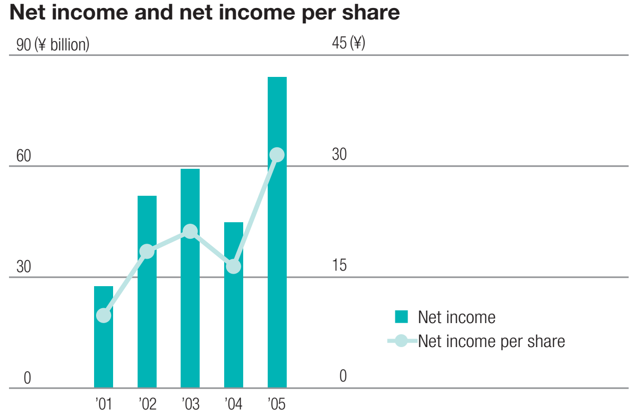
Total other expenses decreased ¥66.8 billion to ¥29.8 billion. The principal reason for this was the absence of extraordinary factors including a ¥58.9 billion lump-sum write-off of actuarial differences in retirement benefits taken in the previous year in connection with the reform of the corporate pension plan. Interest expenses were reduced ¥1.6 billion through aggressive repayment of interest-bearing debt, and losses on the redemption of convertible bonds decreased ¥3.6 billion. On the other hand, premiums on retirement benefits of ¥3.4 billion were booked at consolidated subsidiaries.

As a consequence, other expenses, net amounted to ¥12.0 billion, compared with ¥79.1 billion in the previous year. Net income surged ¥39.3 billion, or 87.7%, to ¥84.0 billion.

Interest coverage ratio



Net income and net income per share

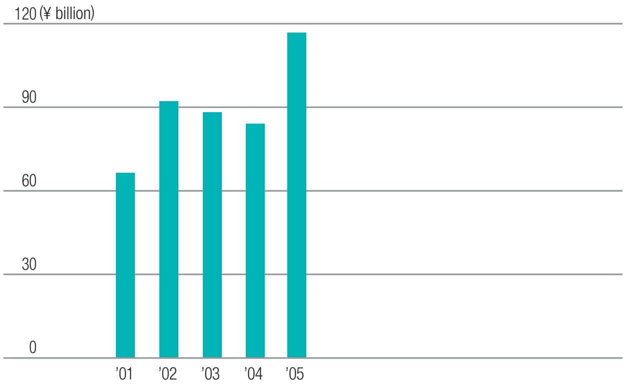


Free Cash Flow of ¥116.7 Billion Greatly Exceeds the Average Annual Target

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 ¥96 billion per annum and totaling ¥480 billion over a five-year period. During the year under review, free cash flow increased ¥32.5 billion, or 38.6%, from the previous year to ¥116.7 billion, greatly exceeding the annual target. Depreciation decreased 4.5% to ¥140.2 billion, while capital expenditures increased 0.1% to ¥107.5 billion.

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

Free cash flow



Increased Sales and Decreased Profits Projected for Fiscal 2005

Gas sales volume in the year ending March 31, 2006 is expected to increase 1.0% to 12.0 billion m^3. Sales to the residential sector and commercial sector are expected to increase 2.4% and 1.7% respectively, a projection based on the assumptions of the leveling of temperatures and the acquisition of new demand. Sales to the industrial sector are estimated to decrease 0.7% owing to projected leveling of demand for use in electric power generation, which has grown dramatically for two consecutive years. However, wholesale gas sales are projected to rise 2.6%, reflecting an increase in the volume taken by gas companies to which gas was supplied.

In addition to an increase in gas sales volume, another positive factor is the anticipated improvement in revenue due to a unit price adjustment under the "sliding rate" system. However, lower unit prices are anticipated due to the rate reductions. Accordingly, the Company forecasts a slight increase in sales from the core gas business. Although management projects slightly lower sales from the gas appliance, related construction, and real estate rental businesses, it expects continued strong expansion from the other business segment, which showed dramatic growth during fiscal 2004. In line with these projections, the Company forecasts a 1.1% increase in total sales to ¥1,204.0 billion. Operating income is projected to fall 21.6% to ¥114.0 billion, due to factors including the impact of the rate reduction and an increase in depreciation on acquired facilities due to an increase in orders for energy services (other businesses segment), and net income is expected to decrease 19.1% to ¥68.0 billion.

CASH FLOWS AND FINANCIAL POSITION

Expansion of the Scope of Consolidation Increases Net Cash

■ Cash Flows from Operating Activities

Income before income taxes and minority interests in net income increased dramatically due to the absence of one-time losses recorded in the previous period, and there was an inflow of ¥136.4 billion from the ongoing depreciation of property, plant, and equipment. On the other hand, a reduction in employees' severance and retirement benefits and an increase in notes and accounts receivable resulted in cash outflows. Subsequently, net cash provided by operating activities decreased ¥2.6 billion year on year to ¥215.0 billion.

■ Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥18.7 billion to ¥107.3 billion from the previous year's level of ¥126.0 billion. The principal investment item was ¥94.0 billion for acquisitions of gas supply facilities and other property, plant, and equipment.

■ Cash Flows from Financing Activities

Net cash used in financing activities increased ¥8.4 billion, from ¥99.7 billion in the previous year to ¥108.1 billion. Though bond issues raised ¥40.0 billion, there was an overall reduction in cash and cash equivalents because of outflows of ¥98.7 billion for bond redemptions, ¥20.4 billion for the repurchase of common stock and ¥20.1 billion in cash dividend payments.

(¥ million)

Years ended March 31	2003	2004	2005
Net cash provided by operating activities	213,533	217,608	215,038
Net cash used in investing activities	(110,144)	(126,038)	(107,376)
Net cash used in financing activities	(78,517)	(99,744)	(108,160)

The year-end balance of cash and cash equivalents increased ¥6.7 billion from the previous year to ¥50.6 billion, in part due to a ¥7.2 billion increase attributable to expansion of the scope of consolidation.

Tokyo Gas' Original Indicator: TEP

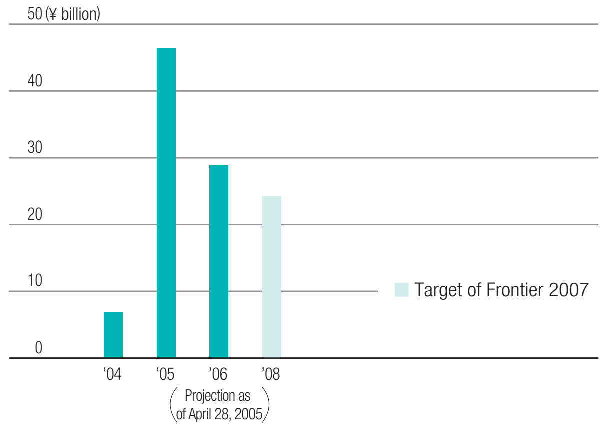
With the aim of generating profits that exceed the cost of capital, Tokyo Gas formulated Tokyo Gas Economic Profit (TEP)*, a key business performance indicator. TEP is a Tokyo Gas-specific variation of Economic Value Added (EVA).

In fiscal 2004, NOPAT** increased by ¥37.4 billion to ¥92.6 billion owing to the absence of factors that suppressed earnings the previous period, including an extraordinary loss (¥58.9 billion) from a lump-sum write-off of pension liabilities and an extraordinary gain (¥5.7 billion) attendant on the switch to a cash balance pension plan. Furthermore, the cost of capital decreased by ¥2.2 billion to ¥46.1 billion due to a lower weighted average cost of capital, resulting in a year-on-year increase in TEP of ¥39.6 billion to ¥46.5 billion.

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

* TEP: NOPAT - cost of capital
** NOPAT: Net operating profit after tax prior to interest payments

TEP



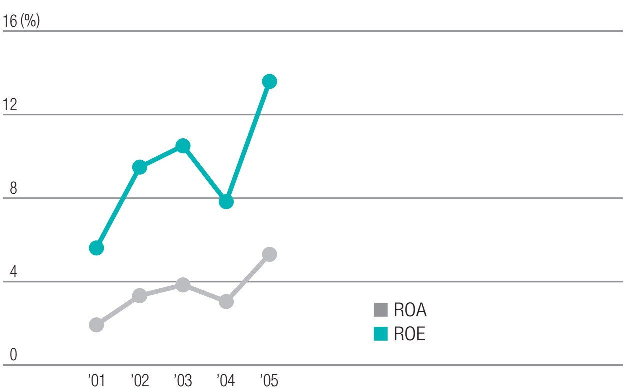
Substantial Improvement in ROA

Total assets at the end of the year under review amounted to ¥1,668.7 billion, an increase of ¥1.9 billion from the previous year's level. Property, plant and equipment decreased ¥10.9 billion year on year to ¥1,159.5 billion through ongoing depreciation. Investments and other non-current assets decreased ¥18.7 billion to ¥199.7 billion. There was a reduction in investment securities and long-term loans resulting from internal eliminations due to expansion of the scope of consolidation. Increases in cash and cash equivalents and receivables raised current assets by ¥27.6 billion to ¥286.6 billion.

Return on assets (ROA*), one of the management policies defined in Frontier 2007, was 5.0% for the year under review. This marked a substantial improvement from 2.7% in the previous year, when net income was low due to transient factors.

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

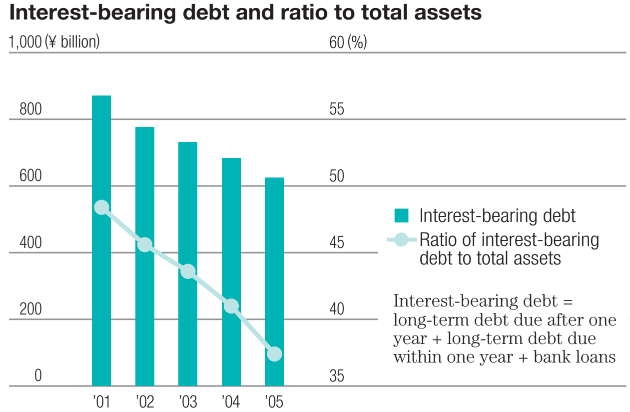
ROA and ROE



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

A reduction in interest-bearing debt to ¥627.0 billion by the end of fiscal 2007 is one target of Frontier 2007. This target was achieved ahead of schedule, and the balance of interest-bearing debt at the end of the year under review was ¥624.1 billion, a reduction of ¥58.6 billion from the previous year. A major factor in this success was the redemption and retirement of convertible bonds. The year-end ratio of interest-bearing debt to total assets improved from 41.0% to 37.4%. The debt to equity ratio fell below 1.0, improving from 1.14 to 0.96.

Interest-bearing debt and ratio to total assets



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

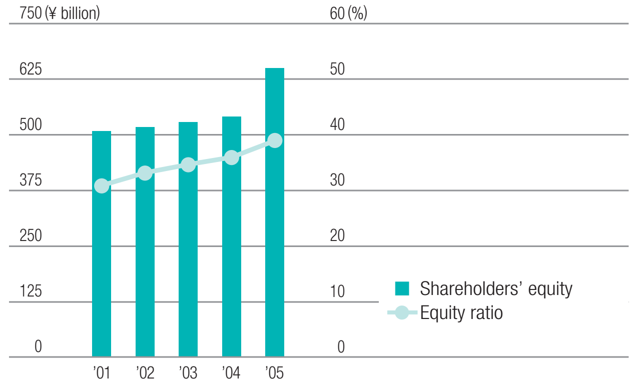
Continued Repurchases of Common Stock

Shareholders' equity at the year-end totaled ¥648.7 billion, an increase of ¥50.3 billion over the previous year. While retained earnings increased ¥74.9 billion as a result of the sharp increase in net income, stock repurchases amounted to ¥20.3 billion. Frontier 2007 calls for the allocation of ¥100.0 billion, about 20% of free cash flow generated during the five-year period of the plan, for the repurchase of stock to prevent dilution caused by the conversion of convertible bonds into shares. During fiscal 2003, the first year of the plan, 76.6 million shares were repurchased for ¥27.8 billion. During the year under review the Company repurchased 49.6 million shares during August and September of 2004 for ¥20.0 billion. Accordingly, a total of 126.2 million shares were repurchased at a cost of ¥47.8 billion during the two-year period.

The shareholders' equity ratio improved from 35.9% to 38.9%, and return on equity (ROE*) increased from 7.6% in the previous year to 13.5%.

*ROE=net income/shareholders' equity (average of positions 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 (TEPCO), which is the greatest competitor of Tokyo Gas.

Tokyo Gas has reduced gas rates three times since 1999, by about 10% in total. TEPCO also reduced its electricity rates three times, by about 17% in total, during the same period. Tokyo Gas will continue to implement strategic rate reduction as necessary to prevail over competition.

■ Temperature Fluctuation Risk

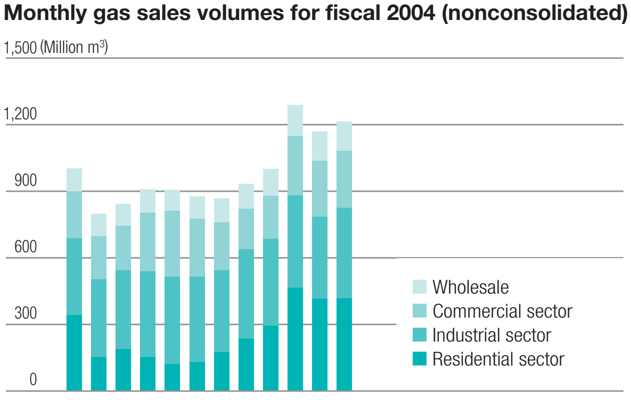
Temperatures affect the volume of city gas sales, which account for around 70% of consolidated sales and 80% of income. Gas is used mainly for water heating and space heating, especially in residential use. Mild winter weather can erode revenues and income by reducing the volume of gas sold.

The average temperatures in fiscal 2004 were 23.4ºC in the first half of the year, 10.7ºC in the second half, and 17.1ºC over the whole year. Forecasts for fiscal 2005 are based on an average of 17.0ºC 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)	-2.3%
Intervening months (April, May, October, November)	-1.8%
Annual	-1.4%

Monthly gas sales volumes for fiscal 2004 (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.

Approx. ¥2.5 billion for each ¥1 movement in the yen-dollar exchange rate
Approx. ¥4.0 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 2004, the crude oil price averaged $38.82 per barrel, and the average exchange rate was ¥107.55 to one dollar. Forecasts for fiscal 2005 are based on an average crude oil price of $38 per barrel and an exchange rate of ¥105 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 2005, 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.

Principal Management Risks

The level of business risk facing Tokyo Gas is expected to increase due to growing competition under industry deregulation and the Company's entry into new business fields. For this reason, in fiscal 2003 Tokyo Gas established an integrated risk management system and stipulated the principal forms of risk with which management should be involved. This makes it possible to systematically ascertain important risks and to disclose appropriate information on the risks to stakeholders. The important risks are reconfirmed and revised each year in meetings of management and the Board of Directors.

Details of the principal risks with which management should be involved are described below. Forward-looking statements contained herein are based on assessments of Tokyo Gas as of March 31, 2004.

1) Production and supply interruption risk

The production and supply of city gas are the foundation of Tokyo Gas' business, so a major gas leak or explosion attendant on the production or supply of gas or a major gas leak or explosion at a customer site might result not only in direct damages, but also in tangible and intangible damages such as the need to bear public responsibility.

2) Natural disaster risk

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

3) Resource procurement supply interruption risk

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

4) Market risk

Tokyo Gas might incur losses in the event of changes in the market price of company-owned real estate, financial assets, pension assets or other assets.

5) Weather risk

Abnormal weather conditions, particularly summer heat waves and warm winters, reduce gas sales volume in the residential sector and affect revenues.

6) Risk faced by existing business

A. Competitive risk

As industry deregulation progresses, competition with electric power companies and new firms entering the gas business is becoming fierce. Competition might have an increased impact on Tokyo Gas' business performance. Specifically, demand might decrease or rates might fall owing to marketing offensives by electric power companies to promote electrification, electric power rate reductions or competition from new market entrants.

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

B. Demand risk

Economic recession, changes in industry structure, progress with energy conservation activities or other factors might result in a partial decrease in existing demand.

C. Regulatory risk

Tokyo Gas manages its operations in compliance with the Gas Utility Industry Law and other laws, regulations and institutions. As deregulation progresses, any revisions to these laws, regulations or institutions that prove detrimental to the Tokyo Gas Group might affect business performance.

7) New-market risk

Industry deregulation entails increases in business opportunities such as the emergence of new markets in the future brought about by the fusion of energy-related markets. The Tokyo Gas Group sees this situation as a growing opportunity to enter into new businesses and is working to expand its business in energy-related fields, including gas-field development and other upstream development, LNG transport, city gas-related businesses overseas and new services for residential customers. Entry into these new businesses might involve new risks different from those Tokyo Gas has faced in the established gas business.

8) Risk of information leaks

Improper disclosure of customers' personal information gathered and managed in the conduct of business as a public utility might result not only in direct costs required to remedy the situation, but also in tangible and intangible damages, such as the need to bear public responsibility more serious than that required of other companies.

9) Risk of failure or malfunctioning of backbone systems

The failure or malfunctioning of backbone computer systems connected with the manufacture and supply of gas or the calculation of gas rates might result not only in a disruption in gas supply and delays in customer service, but also in tangible and intangible damages such as the need to bear public responsibility.

10) Environmental and compliance risks

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

11) Risks associated with corporate responsibility and customer service

Inadequate responses to customer needs or inappropriate customer services might result in lowering corporate competitiveness and in tangible and intangible damages such as the need to bear public responsibility. Moreover, because Tokyo Gas regards the enhancement of customer satisfaction as an important means of fortifying corporate competitiveness, and the importance of customer satisfaction is increasing, Tokyo Gas recognizes it as a business risk should the Company be unable to increase customer satisfaction or fail to meet the level of satisfaction required by customers.

Frequently Asked Questions

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

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

Although about 220 city gas companies compete in this limited geographical area, three large companies account for about 80% of the total gas sales volume: Tokyo Gas, Osaka Gas Co., Ltd., and Toho Gas Co., Ltd. In addition to city gas suppliers, there are about 1,700 specific-area gas suppliers and 30,000 liquefied petroleum gas (LPG) suppliers, most of which are small or medium-sized firms. The resource for approximately 90 percent of the city gas in Japan is natural gas, almost all of which is imported in the form of liquefied natural gas (LNG). Only a few companies import and regasify LNG to supply city gas. Unlike the United States and Europe, Japan does not have a nationwide pipeline network; each city gas company maintains a network of pipelines in its service area through which it supplies and markets gas.

Q2 Does Tokyo Gas plan to acquire neighboring gas companies?

Tokyo Gas currently wholesales gas to 19 city gas companies around its service area. Wholesale volumes currently account for approximately 10% of total gas sales, and are expected to increase by an annual average of 3.2% over the next five years. The wholesale supply business allows Tokyo Gas to earn income without increasing assets, so its basic policy calls for an active development of this market. As hostile takeovers could have an adverse effect on the Company's wholesale business, it has no intention to aggressively pursue M&A.

On the other hand, Tokyo Gas purchased the municipal gas operation of Konosu City in Saitama Prefecture, when it was privatized in April 2002. It was also selected by Nagano Prefecture to be the new owner of the gas operation previously owned by the prefectural government, following the privatization in September 2004. Should there arise an optimal M&A opportunity with the potential to increase our corporate value and benefit our customers, Tokyo Gas will consider acting on the opportunity in accordance with the wishes of the other party.

Q3 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

Q4 What is the definition of "energy service business"?

It is a business in which energy service providers offer one-stop energy solutions that include the provision of electricity and heat through gas cogeneration systems and other energy facilities they build, own and operate on customer sites. The system offers benefits that are attracting an increasing number of potential customers, benefits that include virtually no initial investment (allowing swift installation), environmental friendliness and energy cost savings. This is a business that offers tremendous growth potential because increases in system efficiency have dramatically improved profitability.

In 2002, Tokyo Gas established a wholly owned subsidiary called ENERGY ADVANCE Co., Ltd. with the aim of expanding the energy services business. This company takes advantage of the Tokyo Gas Group's LNG procurement capabilities and advanced engineering to maximize the added-value potential of gas cogeneration. It uses a highly effective marketing strategy, which targets environmentally conscious customers primarily in the Kanto region, where there is significant untapped demand.

ENERGY ADVANCE is now the leader in the cogeneration field. By March 31, 2005 the company had signed 67 contracts for systems that have a total capacity of approximately 140 MW. It has been selected for 32 projects subsidized by the New Energy and Industrial Technology Development Organization (NEDO), with a total capacity of approximately 120 MW.

Q5 What advantages does Tokyo Gas have in the electric power generation business?

Tokyo Gas has several strengths in the electric power generation business.

1) Competitive fuel procurement that takes advantage of strong bargaining power.
2) Power plant sites adjacent to demand areas that leverage existing infrastructure such as LNG terminals.
3) Potentially lower fixed costs per m^3 and even more competitive fuel procurement, resulting from the Company's involvement in the electric power business, which raises LNG transaction volumes.

At the business decision stage, Tokyo Gas will use a flexible approach, based on careful consideration of market trends, to determine project scales and approaches to marketing.

11-year Summary

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31	2005	2004	2003	2002
Net sales	¥1,190,783	¥1,151,825	¥1,127,634	¥1,097,589
Gas sales	834,658	831,115	792,454	750,439
Gas appliance sales	135,109	133,873	142,636	149,203
Related construction	64,795	68,034	70,568	71,338
Real estate rental	34,701	35,444	36,346	37,551
Other business	234,721	172,160	158,327	156,011
Operating income	145,349	152,287	123,294	110,608
Net income	84,047	44,787	59,201	51,912
Depreciation*	140,271	146,895	141,027	145,564
Capital expenditures**	107,529	107,441	111,988	105,296
Free cash flow	116,789	84,241	88,240	92,178
Per share (yen)				
Net income (Basic)	¥31.47	¥16.44	¥21.18	¥18.47
Net income (Diluted)	28.24	14.98	19.11	16.66
Shareholders' equity	244.73	221.53	208.65	200.75
Cash dividends applicable for the year	7.00	7.00	6.00	6.00

At year-end (March 31)				
Total assets	¥1,668,734	¥1,666,828	¥1,676,064	¥1,702,713
Long-term debt due after one year	547,139	545,845	598,322	680,887
Total shareholders' equity	648,766	598,453	579,706	564,078

Ratios				
Operating income to net sales	12.2%	13.2%	10.9%	10.1%
Net income to net sales	7.1%	3.9%	5.3%	4.7%
ROE	13.5%	7.6%	10.4%	9.3%
ROA	5.0%	2.7%	3.5%	3.0%
Equity ratio	38.9%	35.9%	34.6%	33.1%

Notes: 1. Segment sales include intra-group transactions.
2. Free cash flow = net income + depreciation* - capital expenditures**
*including amortization of long-term prepayments **purchases of tangible fixed assets + purchases of intangible fixed assets + long-term prepayments (accounting basis)

Millions of yen, except per share amounts

2001	2000	1999	1998	1997	1996	1995
¥1,086,771	¥992,255	¥997,767	¥1,009,155	¥988,077	¥958,662	¥915,862
740,731	672,069	674,997	686,649	663,066	633,253	601,989
146,517	127,916	133,925	127,880	135,057	136,344	138,557
71,908	68,651	68,817	71,060	74,767	73,784	75,121
37,601	37,841	37,616	38,978	40,916	40,568	—
159,578	158,819	155,045	154,602	144,032	143,931	167,206
103,659	69,233	72,303	76,485	62,163	67,109	60,105
27,595	26,698	17,764	17,241	15,432	16,762	11,072
150,374	140,306	143,009	—	—	—	—
111,397	124,975	151,126	—	—	—	—
66,572	42,029	9,647	—	—	—	—
¥9.82	¥9.50	¥6.32	¥6.14	¥5.49	¥5.97	¥3.94
9.13	8.84	5.94	5.76	5.37	—	—
196.72	172.33	149.98	148.67	147.65	147.23	146.32
6.00	5.00	5.00	5.00	5.00	5.00	5.00

¥1,797,669	¥1,805,086	¥1,707,446	¥1,720,684	¥1,772,132	¥1,657,176	¥1,608,244
708,329	843,634	820,753	765,304	878,674	743,177	724,523
552,790	484,239	421,442	417,755	414,906	413,725	411,164

9.5%	7.0%	7.2%	7.6%	6.3%	7.0%	6.6%
2.5%	2.7%	1.8%	1.7%	1.6%	1.7%	1.2%
5.3%	5.9%	4.2%	4.1%	3.7%	4.1%	2.7%
1.5%	1.5%	1.0%	1.0%	0.9%	1.0%	0.7%
30.8%	26.8%	24.7%	24.3%	23.4%	25.0%	25.6%

Consolidated Balance Sheets

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2005	2004	2005
Property, plant and equipment (Notes 3 and 4):			
Production facilities	¥ 714,527	¥ 713,910	$ 6,677,822
Distribution facilities	2,069,325	2,018,459	19,339,487
Service and maintenance facilities	182,103	182,075	1,701,894
Other	673,327	611,749	6,292,774
Construction in progress	48,311	38,496	451,505
	3,687,593	3,564,689	34,463,482
Accumulated depreciation	(2,528,076)	(2,394,260)	(23,626,874)
	1,159,517	1,170,429	10,836,608
Intangibles:			
Consolidation difference	2,903	—	27,127
Other intangibles	19,877	18,856	185,769
	22,780	18,856	212,896
Investments and other non-current assets:			
Investment securities (Notes 4 and 5)	100,601	108,486	940,196
Long-term loans	4,047	13,230	37,826
Deferred tax assets (Note 10)	51,330	51,252	479,715
Other investments and non-current assets	45,503	47,131	425,263
Allowance for doubtful accounts	(1,711)	(1,659)	(15,993)
	199,770	218,440	1,867,007
Current assets:			
Cash and cash equivalents	50,665	43,961	473,501
Marketable securities (Note 5)	8	1	77
Notes and accounts receivables:			
Trade	139,723	125,244	1,305,822
Allowance for doubtful accounts	(963)	(1,215)	(8,996)
Inventories (Note 6)	25,436	22,827	237,721
Deferred tax assets (Note 10)	12,075	11,588	112,851
Other current assets	59,723	56,697	558,159
Total current assets	286,667	259,103	2,679,135
	¥ 1,668,734	¥ 1,666,828	$ 15,595,646

See accompanying notes.

LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY	Millions of yen 2005	2004	Thousands of U.S. dollars (Note 1) 2005
Long-term debt due after one year (Note 7)	¥ 547,139	¥ 545,845	$ 5,113,446
Deferred tax liability (Note 10)	2,599	2,396	24,294
Employees' severance and retirement benefits (Note 9)	141,480	157,808	1,322,243
Allowance for repairs of gas holders	3,464	3,445	32,372
Other non-current liabilities	24,196	24,853	226,135
Current liabilities:			
Long-term debt due within one year (Note 7)	51,843	106,870	484,516
Notes and accounts payable:			
Trade	60,564	35,747	566,015
Other	29,065	36,902	271,631
Bank loans (Note 7)	25,124	30,029	234,800
Income taxes payable (Note 10)	41,690	32,808	389,630
Accrued expenses	32,616	44,958	304,825
Deferred tax liability (Note 10)	167	—	1,563
Other current liabilities	51,390	42,456	480,280
Total current liabilities	292,459	329,770	2,733,260
Commitments and contingent liabilities (Note 14)			
Minority interest	8,631	4,258	80,660
Shareholders' equity (Note 11):			
Common stock:			
Authorized: 6,500,000,000 shares			
Issued: 2,810,171,295 shares	141,844	141,844	1,325,649
Capital surplus	2,067	2,065	19,320
Retained earnings	532,810	457,924	4,979,533
Net unrealized holding gains on securities	31,501	35,655	294,401
Foreign currency translation adjustments	(311)	(227)	(2,908)
	707,911	637,261	6,615,995
Treasury stock, at cost			
159,437,083 shares in 2005			
109,205,944 shares in 2004	(59,145)	(38,808)	(552,759)
Total shareholders' equity	648,766	598,453	6,063,236
	¥1,668,734	¥1,666,828	$15,595,646

Consolidated Statements of Income

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales (Note 12)	**¥1,190,783**	¥1,151,825	**$11,128,814**
Costs and expenses (Note 12):			
Cost of sales	**624,722**	578,530	**5,838,525**
Selling, general and administrative	**420,712**	421,008	**3,931,884**
	1,045,434	999,538	**9,770,409**
Operating income (Note 12)	**145,349**	152,287	**1,358,405**
Other income (expenses):			
Interest and dividend income	**1,086**	1,399	**10,146**
Gains from settlement of weather derivatives	**2,741**	—	**25,617**
Exclusive facilities income	**1,507**	374	**14,087**
Reversal of environmental conditioning costs	**—**	1,650	**—**
Gains from sale of securities (Note 5)	**5,262**	589	**49,182**
Interest expense	**(13,134)**	(14,823)	**(122,748)**
Adjustments of charges for construction of distribution facilities	**(4,043)**	(4,145)	**(37,783)**
Losses on unsecured notes redemption	**(2,879)**	(6,575)	**(26,907)**
Gains resulting from changes to pension system (Note 2)	**—**	5,665	**—**
Losses on impairment of fixed assets (Note 12)	**(1,198)**	(3,322)	**(11,200)**
Write-off of unrecognized actuarial differences of pension plans (Note 2)	**—**	(58,956)	**—**
Special severance payment	**(3,487)**	—	**(32,587)**
Foreign exchange losses	**(52)**	(15)	**(490)**
Equity in net income of an affiliated company	**258**	236	**2,412**
Other, net	**1,913**	(1,233)	**17,874**
	(12,026)	(79,156)	**(112,397)**
Income before income taxes and minority interest in net income of consolidated subsidiaries	**133,323**	73,131	**1,246,008**
Income taxes (Note 10):			
Current	**45,074**	44,266	**421,248**
Deferred	**3,534**	(16,367)	**33,030**
	84,715	45,232	**791,730**
Minority interest in net income of consolidated subsidiaries	**(668)**	(445)	**(6,241)**
Net income	**¥ 84,047**	¥ 44,787	**$ 785,489**

	Yen		U.S. dollars (Note 1)
	2005	2004	2005
Amounts per share of common stock (Note 2):			
Net income	**¥31.47**	¥16.44	**$0.29**
Diluted net income	**28.24**	14.98	**0.26**
Cash dividends applicable to the year	**7.00**	7.00	**0.07**

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	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, 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)
Net income				84,047			
Increase due to addition of consolidated subsidiaries				10,988			
Net unrealized holding gains on securities					(4,154)		
Foreign currency translation adjustments						(84)	
Treasury stock			2				(20,337)
Cash dividends paid (¥7.50 per share)				(20,084)			
Bonuses to directors				(65)			
Balance at March 31, 2005	**2,810,171**	**¥141,844**	**¥2,067**	**¥532,810**	**¥ 31,501**	**¥(311)**	**¥(59,145)**

	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, 2004	1,325,649	$19,303	$4,279,664	$333,222	$(2,125)	$(362,691)
Net income			785,489			
Increase due to addition of consolidated subsidiaries			102,692			
Net unrealized holding gains on securities				(38,821)		
Foreign currency translation adjustments					(783)	
Treasury stock		17				(190,068)
Cash dividends paid ($0.07 per share)			(187,702)			
Bonuses to directors			(610)			
Balance at March 31, 2005	**1,325,649**	**$19,320**	**$4,979,533**	**$294,401**	**$(2,908)**	**$(552,759)**

See accompanying notes.

Consolidated Statements of Cash Flows

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interest in net income of consolidated subsidiaries	¥ 133,323	¥ 73,131	$ 1,246,008
Adjustments to reconcile income before income taxes and minority interest in net income of consolidated subsidiaries to net cash provided by operating activities:			
Depreciation (Note 12)	136,421	143,129	1,274,959
Amortization of long-term prepayments	3,851	3,766	35,989
Losses on impairment of fixed assets (Note 12)	1,198	3,322	11,200
Loss on disposal of property, plant and equipment	3,388	3,790	31,667
Gains from sale of securities	(5,262)	(589)	(49,182)
Loss on unsecured notes redemption	2,879	6,575	26,907
Increase (decrease) in allowance for doubtful accounts	(1,293)	(193)	(12,083)
Increase (decrease) in employees' severance and retirement benefits	(17,456)	36,912	(163,139)
Interest and dividend income	(1,086)	(1,399)	(10,145)
Interest expense	13,134	14,823	122,748
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable	(7,597)	5,157	(70,999)
Decrease (increase) in inventories	(778)	(1,701)	(7,273)
Increase (decrease) in notes and accounts payable	6,057	274	56,610
Increase (decrease) in consumption taxes payable	(1,140)	(1,552)	(10,653)
Bonuses paid to directors	(65)	(77)	(610)
Other—net	5,011	(7,571)	46,830
	270,585	277,797	2,528,834
Cash received for interest and dividends	1,057	1,381	9,879
Cash paid for interest	(13,003)	(15,053)	(121,528)
Cash paid for income taxes	(43,601)	(46,517)	(407,478)
Net cash provided by operating activities	215,038	217,608	2,009,698
Cash flows from investing activities:			
Purchase of time deposits	(6,667)	(12,581)	(62,309)
Proceeds from redemption of time deposits	9,123	11,629	85,262
Purchases of investment securities	(14,119)	(15,371)	(131,950)
Proceeds from sales of securities	6,263	7,683	58,535
Purchases of property, plant and equipment	(94,084)	(101,012)	(879,288)
Purchases of intangible fixed assets	(12,787)	(12,211)	(119,503)
Long-term prepayments	(2,332)	(2,103)	(21,797)
Proceeds from sale of tangible and intangible fixed assets	4,029	1,235	37,650
Expenditure of long-term loans receivable	(1,610)	(3,886)	(15,048)
Proceeds from long-term loans	4,428	894	41,381
Other—net	380	(315)	3,556
Net cash used in investing activities	(107,376)	(126,038)	(1,003,511)
Cash flows from financing activities:			
Net increase (decrease) repayments of short-term bank loans	(2,691)	(11,871)	(25,145)
Proceeds from long-term debt	60,566	87,790	566,033
Repayments of long-term debt	(125,703)	(131,042)	(1,174,790)
Cash dividends paid	(20,144)	(16,482)	(188,263)
Payments for acquiring treasury stock	(20,442)	(28,038)	(191,050)
Other—net	254	(101)	2,370
Net cash used in financing activities	(108,160)	(99,744)	(1,010,845)
Effect of exchange rate changes on cash and cash equivalents	(2)	5	(19)
Net increase (decrease) in cash and cash equivalents	(500)	(8,169)	(4,677)
Cash and cash equivalents at beginning of year	43,961	52,130	410,848
Increase in cash and cash equivalents due to addition of consolidated subsidiaries	7,204	—	67,330
Cash and cash equivalents at end of year	¥ 50,665	¥ 43,961	$ 473,501

See accompanying notes.

Notes to Consolidated Financial Statements

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

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

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and 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 readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107 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, 2005 and 2004, 52 subsidiaries and 18 subsidiaries, respectively, were consolidated. All significant inter-company transactions and account balances are eliminated in consolidation.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on their fair value at the time the Company acquired control of the respective subsidiary.

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

The Company implemented the strategic business unit system on April 1, 2004, based on its medium-term management plan "Frontier 2007," developed in October 2002, where the Company has set the establishment of a group management system as one of its major goals. Upon implementation of the new system, the Company has expanded its scope of consolidation, resulting in an increase in the number of consolidated subsidiaries from 18 companies in the year ended March 31, 2004, to 52 companies in the year ended March 31, 2005. As a result, the result figures for the year ended March 31, 2005 have been calculated based on the new scope of consolidation. The effects of expansion of the scope of consolidation are summarized as follows.

Increase (Decrease)

	Millions of yen	Thousands of U.S. dollars
Sales	¥43,157	$403,336
Operating income	2,567	23,991
Net income	(457)	(4,271)

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, 2005 and 2004, one affiliated company was accounted for by the equity method.

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

As the accounting standard for impairment of fixed assets ("Opinion on Setting Accounting Standard for Impairment of Fixed Assets," issued by the Business Accounting Deliberation 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.

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 that are not accounted for using the equity method are stated at moving-average cost.
(c) Available-for-sale securities, which are defined as securities other than held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and securities held for trading purposes, are stated at fair market value at the year-end, if their fair market values are readily available. The difference between acquisition costs and book values of these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Available-for-sale securities with no available fair 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, unless the decline is considered recoverable, 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 currency swap contracts, interest rate swaps, foreign exchange forward contracts, commodity swaps and weather derivatives only for the purpose of mitigating the risk of fluctuations in foreign exchange rates, interest rates, market prices of raw materials and finished products and affects of changes in temperature. The Company and its consolidated subsidiaries do not use derivative financial instruments for speculative trading purposes. The derivative financial instruments are executed with creditworthy financial institutions, and the Company's and its consolidated subsidiaries' management believes there is little risk of default by counterparties. The derivative financial instruments are used based on internal policies and procedures on risk control. Derivatives are stated at fair market value at the year-end. The Company and its consolidated subsidiaries use hedging accounting, provided that the conditions of the accounting were applicable to the rules.

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 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 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, 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 (excluding enterprise taxes based on "amount of added value" and "amount of capital"). The Company and its consolidated subsidiaries recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

Enterprise tax In the case of companies engaged in gas business, enterprise tax which is levied, not on taxable income, but on net sales, is accounted for in "Selling, general and administrative" expenses. With the promulgation of the "Revision of the Local Tax Law" (Legislation No. 9, 2003) on March 31, 2003, the tax bases for assessing enterprise taxes comprise "amount of income," "amount of added value" and "amount of capital" commencing April 1, 2004. Enterprise taxes based on "amount of added value" and "amount of capital" are included in "Selling, general and administrative expenses" commencing this fiscal year pursuant to "Practical Solutions on Presentation for Size-Based Components of Corporate Enterprise Tax on the Income Statement" (Accounting Standards Board, Practical Solution Report No. 12 issued on February 13, 2004). The effect of the change was not significant.

In the accompanying consolidated statements of income, enterprise tax is accounted for in "Selling, general and administrative" expenses in the amount of ¥11,607 million (US$108,474 thousand) and ¥11,145 million for the years ended March 31, 2005 and 2004, respectively.

Foreign currency translation Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates, and the resulting translation gains or losses are charged to income currently.

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

Cash dividends per share have been presented on an accrual basis and include dividends approved or to be approved after the balance sheet dates, but applicable to the year then ended.

Reclassifications Certain prior year amounts have been reclassified to conform to 2005 presentation. These changes had no impact on previously reported results of operations.

3. Property, plant and equipment

Property, plant and equipment is generally recorded at cost. However, in cases where the Company and its consolidated subsidiaries receive government grants toward the cost of acquisition, such amounts are offset against the acquisition cost of the related asset. Such offsets recorded at March 31, 2005 and 2004 were ¥259,241 million (US$2,422,814 thousand) and ¥238,700 million, respectively.

4. Pledged assets

Pledged assets at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Distribution facilities	¥ 5,658	¥ 5,742	$ 52,876
Service and maintenance facilities	141	142	1,322
Other	10,807	7,865	100,996
Investment securities	75	37	700
	¥16,681	¥13,786	$155,894

Pledged as collateral for long-term debt and other liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Long-term debt	¥5,299	¥9,073	$49,519
Accounts payable	—	6	—
Bank loans	—	300	—
Other current liabilities	60	53	561
	¥5,359	¥9,432	$50,080

5. Securities

Acquisition costs, book values and fair values of securities with available fair market values at March 31, 2005 and 2004 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Securities with fair value exceeding book value:			
Book value	¥45	¥35	$416
Fair value	47	36	435
Difference	¥ 2	¥ 1	$ 19

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Securities with fair value not exceeding book value:			
Book value	¥ —	¥10	$ —
Fair value	—	10	—
Difference	¥ —	¥ —	$ —

(b) Available-for-sale securities

	Millions of yen		
For 2005	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition cost:			
Equity securities	¥12,454	¥62,578	¥50,124
Securities with book values not exceeding acquisition cost:			
Equity securities	2,324	2,126	(198)
Total	¥14,778	¥64,704	¥49,926

	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

	Thousands of U.S. dollars		
For 2005	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition cost:			
Equity securities	$116,393	$584,844	$468,451
Securities with book values not exceeding acquisition cost:			
Equity securities	21,715	19,865	(1,850)
Total	$138,108	$604,709	$466,601

Available for sale securities sold amounted to ¥6,040 million (US$56,447 thousand) and ¥2,613 million for the years ended March 31, 2005 and 2004, respectively. Gains on available-for-sale securities amounted to ¥5,398 million (US$50,449 thousand) and ¥597 million and losses on available-for-sale securities amounted to ¥136 million (US$1,267 thousand) and ¥7 million for the years ended March 31, 2005 and 2004, respectively.

Available-for-sale securities with no available fair values, which were stated at moving-average cost, amounted to ¥12,008 million (US$112,223 thousand) and ¥11,732 million at March 31, 2005 and 2004, respectively. Investments in unconsolidated subsidiaries and affiliated companies amounted to ¥23,832 million (US$222,726 thousand) and ¥29,715 million for the years ended March 31, 2005 and 2004, respectively.

6. Inventories

Inventories at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished products	¥ 3,173	¥ 1,949	$ 29,658
Raw materials	13,570	11,372	126,823
Supplies	8,604	8,177	80,409
Work in process	89	1,329	831
	¥25,436	¥22,827	$237,721

7. Bank loans and long-term debt

At March 31, 2005 and 2004, bank loans consisted of short-term notes, bearing interest at an average annual rate of 0.29%. Long-term debt at March 31, 2005 and 2004 was as follows:

		Millions of yen		Thousands of U.S. dollars
		2005	2004	2005
Domestic unsecured notes	Due 2016 at a rate of 4.0%	¥ 27,700	¥ 27,700	$ 258,879
	Due 2018 at a rate of 2.625%	40,000	40,000	373,832
	Due 2009 at a rate of 1.68%	30,000	30,000	280,374
	Due 2009 at a rate of 1.73%	30,000	30,000	280,374
	Due 2010 at a rate of 2.01%	20,000	20,000	186,916
	Due 2011 at a rate of 1.39%	30,000	30,000	280,374
	Due 2012 at a rate of 1.35%	20,000	20,000	186,916
	Due 2023 at a rate of 1.01%	20,000	20,000	186,916
	Due 2013 at a rate of 1.41%	30,000	30,000	280,374
	Due 2014 at a rate of 1.59%	20,000	—	186,916
	Due 2024 at a rate of 2.29%	10,000	—	93,458
	Due 2025 at a rate of 2.14%	10,000	—	93,458
	Due 2015 at a rate of 4.1%	13,800	13,800	128,972
	Due 2004 at a rate of 1.03%	—	3,000	—
	Due 2009 at a rate of 1.18%	4,000	4,000	37,383
Domestic unsecured convertible bonds	3rd issue due 2005 at a rate of 1.5%	—	82,877	—
	5th issue due 2009 at a rate of 1.2%	39,929	49,963	373,168
	6th issue due 2007 at a rate of 1.1%	49,956	49,965	466,879
DM bearer bonds due 2005 at a rate of 7.0%		18,333	18,333	171,340
Loans from banks, insurance companies and government agencies due through 2019 at rates of 0.174% to 6.40%				
Secured		5,299	9,074	49,519
Unsecured		179,965	174,003	1,681,914
		598,982	652,715	5,597,962
Less—Amounts due within one year		51,843	106,870	484,516
		¥547,139	¥545,845	$5,113,446

The indentures covering the fifth and sixth domestic convertible bonds provide, among other conditions, for (1) conversion into shares of common stock at the conversion prices per share of ¥339.00 (US$3.17) and ¥339.00 (US$3.17), respectively (subject to adjustment in certain circumstances), (2) conversion periods through March 30, 2009 and March 29, 2007, respectively.

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

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

The annual maturities of long-term debt at March 31, 2005 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 51,843	$484,516
2007	75,987	710,162
2008	40,613	379,557
2009	71,756	670,618
2010	81,807	764,552
2011 and thereafter	276,976	2,588,557
	¥598,982	$5,597,962

8. Derivative transactions

Contract amounts, market values and recognized gains on the currency swap contracts, except those accounted for using hedge accounting, and weather derivatives at March 31, 2005 and 2004 were as follows:

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

	Millions of yen			
	At March 31, 2004			
	Contract amounts	Beyond one year	Market value	Recognized gains (losses)
Currency swap contracts:				
Receive Euro, pay Japanese yen	¥ —	¥ —	¥ —	¥ —
Weather derivatives:	—	—	—	—
	¥ —	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	At March 31, 2005			
	Contract amounts	Beyond one year	Market value	Recognized gains (losses)
Currency swap contracts:				
Receive Euro, pay Japanese yen	$ 983	$ —	$302	$302
Weather derivatives:	52,570	—	—	—
	$ —	$ —	$ —	$302

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

9.Employees' severance and retirement benefits

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥345,322	¥ 328,518	$ 3,227,308
Unrecognized prior service costs	2,275	1,148	21,258
Unrecognized actuarial differences	(16,351)	(8,579)	(152,812)
Less fair value of pension assets	(190,056)	(163,350)	(1,776,224)
Prepaid pension costs	290	71	2,713
Employees' severance and retirement benefits	¥141,480	¥ 157,808	$ 1,322,243

Included in the consolidated statements of income for the years ended March 31, 2005 and 2004 were severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service costs—benefits earned during the year	¥ 9,711	¥ 9,659	$ 90,759
Interest cost on projected benefit obligation	7,475	8,182	69,861
Expected return on plan assets	(3,402)	(3,057)	(31,797)
Amortization of prior service costs	(155)	(3,761)	(1,446)
Amortization of actuarial differences	3,049	59,446	28,495
Other	1,038	101	9,697
Severance and retirement benefit expenses	¥17,716	¥70,570	$165,569

The discount rate and the rate of expected return on plan assets used by the Company and its consolidated subsidiaries are approximately 2.1% and 2.0%, respectively, at March 31, 2005, and approximately 2.3% and 2.0%, respectively, at March 31, 2004.

10. Income taxes

The Company is subject to a number of taxes based on taxable income, which, in the aggregate, indicate a statutory rate in Japan of approximately 36.2% for the years ended March 31, 2005 and 2004.

It is not shown due to the difference between the statutory tax rate and the effective tax rate for financial statement purposes for the year ended March 31, 2005 being not significant. The significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the year ended March 31, 2004 was as follows.

	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 (for impairment of fixed assets)	0.93
Other—net	1.40
Effective tax rate	38.15%

Significant components of deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Liabilities for retirement benefits	¥49,043	¥52,847	$458,347
Other—net	37,999	33,731	355,128
Less valuation allowance	(1,227)	(2,030)	(11,465)
Subtotal	85,815	84,548	802,010
Deferred tax liabilities:			
Net unrealized holding gains on securities	18,396	20,734	171,925
Reserve for tax purposes cost reduction of certain pipelines	1,110	1,462	10,370
Other—net	5,672	1,908	53,010
Subtotal	25,178	24,104	235,305
Deferred tax assets—net	¥60,637	¥60,444	$566,705

11. Shareholders' equity

At the current conversion prices, 365,512 thousand shares of common stock were issuable at March 31, 2005 upon full conversion of the outstanding convertible bonds (see Note 7).

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

The Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays shall be appropriated and set aside as legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of the stated capital. As of March 31, 2005, the total amount of legal reserve and additional paid-in capital has already exceeded 25% of the stated capital and, therefore, no additional provision is required.

And under the 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.

The Code provides that cash dividends may be approve semiannually by the resolution of the annual general shareholders' meeting after the end of each fiscal year or by the declaration of the Board of Directors after the end of each interim semi-annual period. Such dividends are payable to shareholders of record at the end of each fiscal year or semi-annual period. Appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained. Retained earnings at March 31, 2005 include amounts representing the year-end cash dividends and bonuses to directors and approved at the shareholders' meeting held on June 29, 2005 as discussed in Note 15 (2).

12. Segment information

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

A summary of net sales, costs and expenses, operating income, identifiable assets, depreciation, losses on impairment of fixed assets and capital expenditures by business segments for the years ended March 31, 2005 and 2004 was as follows:

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

	Millions of yen						
	Gas sales	Gas appliance sales	Related construction	Real estate rental	Other business	Elimination or corporate	Consolidation
For 2004							
Sales:							
Outside customers	¥ 826,567	¥132,254	¥64,944	¥ 14,151	¥113,909	¥ —	¥1,151,825
Intra 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

	Thousands of U.S. dollars						
	Gas sales	Gas appliance sales	Related construction	Real estate rental	Other business	Elimination or corporate	Consolidation
For 2005							
Sales:							
Outside customers	$7,725,079	$1,237,138	$568,511	$ 130,881	$1,467,205	$ —	$11,128,814
Intra group	75,466	25,559	37,049	193,429	726,446	(1,057,949)	—
Total	7,800,545	1,262,697	605,560	324,310	2,193,651	(1,057,949)	11,128,814
Costs and expenses	6,093,207	1,196,775	572,152	263,532	2,068,276	(423,533)	9,770,409
Operating income	$1,707,338	$ 65,922	$ 33,408	$ 60,778	$ 125,375	$ (634,416)	$ 1,358,405
Identifiable assets	$9,408,159	$ 398,889	$200,240	$1,916,626	$2,077,018	$ 1,594,714	$15,595,646
Depreciation	1,000,766	4,811	1,726	115,498	169,552	(17,394)	1,274,959
Losses on impairment of fixed assets	—	—	—	—	11,200	—	11,200
Capital expenditures	700,747	4,991	2,778	30,072	276,833	(32,267)	983,154

Costs and expenses under Elimination or corporate that cannot be allocated to business segments are related mainly to general administrative expenses of the Company, amounted to ¥66,945 million (US$625,651 thousand) and ¥69,466 million at March 31, 2005 and 2004, respectively.

Assets under Elimination or corporate mainly comprise cash and cash equivalents, current and noncurrent securities and deferred tax assets of the Company, amounted to ¥218,385 million (US$2,040,985 thousand) and ¥225,856 million at March 31, 2005 and 2004, respectively.

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

13. Information for certain leases

Finance leases

Information as lessee

Lease payments in the years ended March 31, 2005 and 2004, and future minimum lease payments at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Lease payments	¥ 613	¥ 958	$ 5,728
Future minimum lease payments to be received:			
Current	¥ 561	¥ 840	$ 5,243
Noncurrent	1,324	1,683	12,374
	¥1,885	¥2,523	$17,617

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, 2005 and 2004 were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2005			
Other	¥3,994	¥2,109	¥1,885
	¥3,994	¥2,109	¥1,885
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

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2005			
Other	$37,323	$19,706	$17,617
	$37,323	$19,706	$17,617

Information as lessor

Lease income in the years ended March 31, 2005 and 2004, and future minimum lease payments to be received at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Lease income	¥ 4,221	¥ 4,473	$ 39,450
Future minimum lease payments to be received:			
Current	¥ 4,117	¥ 4,553	$ 38,478
Noncurrent	12,379	12,989	115,692
	¥16,496	¥17,542	$154,170

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, 2005 and 2004 were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2005			
Other	¥23,988	¥16,156	¥7,832
For 2004			
Other	¥25,214	¥15,470	¥9,744

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2005			
Other	$224,183	$150,991	$73,192

Operating leases

Information as lessor

Future minimum lease payments to be received at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Future minimum lease payments inclusive of interest:			
Current	¥ 544	¥ —	$ 5,082
Noncurrent	1,049	—	9,806
	¥1,593	¥ —	$14,888

14. Commitment and contingent liabilities

The Company and its consolidated subsidiaries were contingently liable (1) for debt guarantees in the amount of ¥10,751 million (US$100,481 thousand) at March 31, 2005 for financial institution loans to affiliated companies, other than consolidated subsidiaries (2) in the amount of ¥242 million (US$2,261 thousand) at March 31, 2005 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$361,682 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, 2005, the Company had several long-term purchase contracts for the supply of LNG. The purchase price determinable under such contracts is contingent upon fluctuations in the market price of crude oil.

15. Subsequent events

(1) Acquisitions of treasury stock

The Board of Directors held on May 23, 2005, and the general meeting of shareholders held on June 29, 2005 approved the acquisition of treasury stock based upon the approval of the general meeting of shareholders.

Kind of shares: Common stock
Number of shares: Limited to 50,000,000 shares
Cost of shares acquisitions: Limited to ¥20,000 million ($186,916 thousand)

(2) Appropriation of retained earnings

At the general meeting of shareholders held on June 29, 2005, the Company's shareholders approved (i) payment of year-end cash dividends of ¥3.5 (US$0.03) per share aggregating ¥9,278 million (US$86,706 thousand) to the shareholders of record as of March 31, 2005, and (ii) payment of bonuses to directors totaling ¥65 million (US$607 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, 2005 and 2004, and the related consolidated statements of income, stockholders' 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 2 to the consolidated financial statements, effective for the year ended March 31, 2004, TOKYO GAS CO., LTD. changed the method of accounting for actuarial differences of pension plans and, TOKYO GAS CO., LTD. and consolidated subsidiaries prospectively adopted new accounting standards for impairment of fixed assets.

(2) As discussed in Note 15 (1) to the consolidated financial statements, subsequent to March 31, 2005, TOKYO GAS CO., LTD. decided to acquire treasury stock.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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, 2005

Consolidated Subsidiaries and Equity-method Affiliates

As of March 31, 2005

Main Consolidated Subsidiaries

Company	Business	Capital (¥ million)	Equity owned by Tokyo Gas (%)	FY2004 Net sales (¥ million) [% of outside sales]	Operating income (¥ million)
Tokyo Gas Urban Development Co., Ltd.	Real estate leasing, management and brokerage	11,440	100	32,405 [40.2]	5,632
Tokyo Gas Toyosu Development Co., Ltd.	Real estate leasing and management	5,000	100	784 [32.7]	220
ENERGY ADVANCE Co., Ltd.	Energy service, district heating and cooling	3,000	100	28,903 [92.0]	4,952
Gastar Co., Ltd.	Production and sale of gas appliances	2,450	66.7	25,840 [47.1]	1,872
KANPAI Co., Ltd.	Gas facilities construction and gas appliance sales	1,300	100	43,055 [36.5]	271
Tokyo LNG Tanker Co., Ltd.	LNG and LPG transportation and chartering of carriers	1,200	100	6,141 [27.8]	593
Tokyo Gas Energy Co., Ltd.	Sales of LPG	1,000	100	19,544 [75.3]	183
Tokyo Gas Chemicals Co., Ltd.	Sales of gas for industry and chemicals	1,000	100	17,217 [70.8]	605
Park Tower Hotel Co., Ltd.	Hotel "Park Hyatt Tokyo" management	1,000	100	8,963 [99.5]	400
Chiba Gas Co., Ltd.	Supply of gas in Yachiyo City, Narita City and surrounding cities	480	100	11,072 [99.6]	633
TG Credit Services Co., Ltd.	Financing and leasing related to gas equipment and construction	450	100	9,314 [55.2]	605
Tokyo Oxygen and Nitrogen Co., Ltd.	Production and sale of liquefied oxygen and nitrogen	400	54	2,203 [44.3]	173
TG Information Network Co., Ltd.	Information processing services, software development and sales of computer equipment	400	100	13,469 [24.7]	890
Toyoko Engineering Co., Ltd.	Gas facilities construction and gas appliance sales	300	100	21,741 [48.5]	239
Tsukuba Gakuen Gas Co., Ltd.	Supply of gas in Tsukuba City	280	100	5,469 [97.9]	517
TG Enterprise Co., Ltd.	Group financial administration business	200	100	682 [38.7]	175
Tokyo Gas Engineering Co., Ltd.	Comprehensive engineering services with a particular focus on energy-related work	100	100	27,081 [70.5]	601
Tokyo Gas Customer Service Co., Ltd.	Periodic safety checks, meter and billing services	50	100	7,857 [1.8]	785
TG IT Service Co., Ltd.	Operation of Tokyo Gas systems and networks	50	100	9,991 [0.0]	183
KANPAI LIVING SERVICE Co., Ltd.	Sales, installation and repair of gas appliances, expansion and reconstruction work	50	100	5,824 [62.9]	163
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 52 companies in April 2004.
3. 1RM nearly equals ¥27.42.

Other Subsidiaries

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

Investor Information

As of March 31, 2005

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

The Chrysler Building, 405 Lexington Avenue, 33rd Floor
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 Pacific Regional Office

Level 30, Menara Standard Chartered
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 130,985

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

Independent Auditors KPMG AZSA & Co.

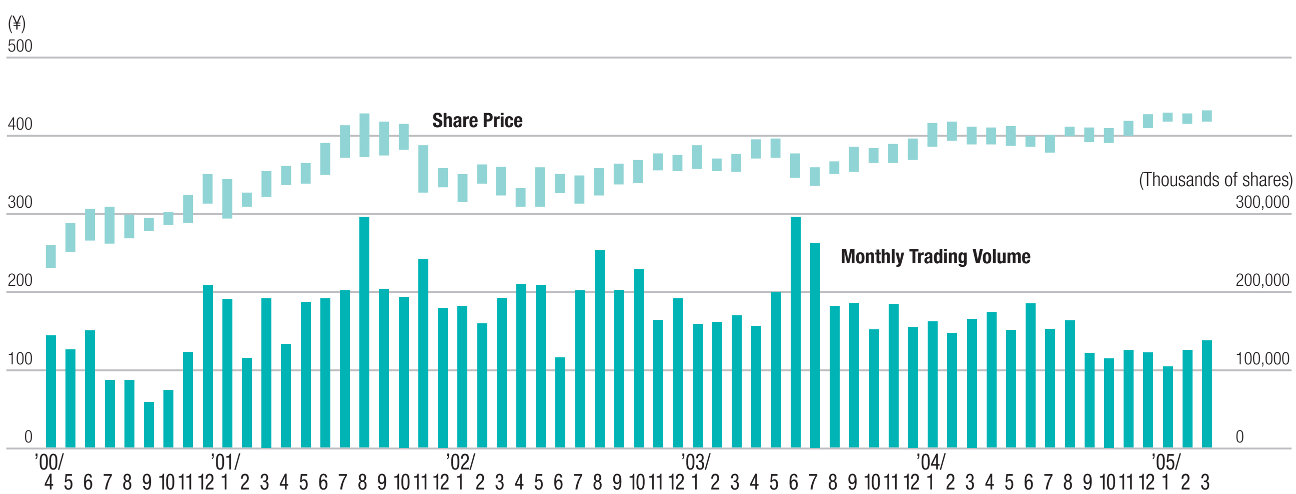
Transfer Agent The Chuo Mitsui Trust & Banking Co., Ltd.
3-33-1 Shiba, Minato-ku, Tokyo 105-8574, Japan

Number of Employees 8,447 (Nonconsolidated basis, excluding part-time workers)

Principal Shareholders

Name	Number of shares held (Thousands)	Percentage of total shares outstanding
Nippon Life Insurance Company	160,238	5.70
Tokyo Gas Co., Ltd.	159,437	5.67
The Dai-ichi Mutual Life Insurance Company	155,962	5.55
The Master Trust Bank of Japan, Ltd. (Trust Account)	138,220	4.92
State Street Bank and Trust Company	100,769	3.59
Japan Trustee Services Bank, Ltd. (Trust Account)	94,872	3.38
Fukoku Mutual Life Insurance Company	78,504	2.79
Employees Shareholding Association	40,400	1.44
Mellon Bank, NA as agent for its client Mellon Omnibus US Pension	35,084	1.25
Mizuho Corporate Bank, Ltd.	33,000	1.17

Monthly Share Price Range (Tokyo Stock Exchange)



FURTHER INFORMATION

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Forward-Looking Statements

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

Financial Data and Graphs

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