Financial Section

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Summary

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

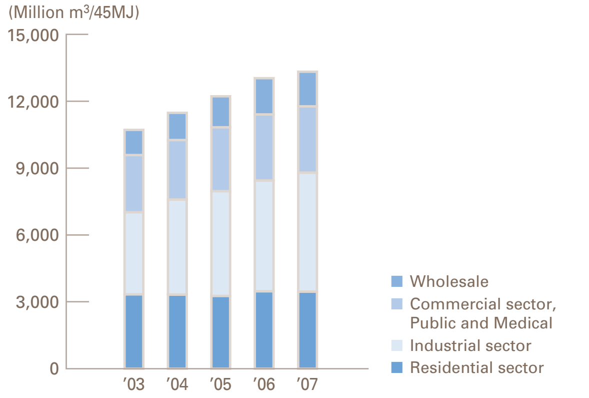
Sales Trends in the Core Gas Business

Gas Sales Volume Growth Led by Industrial Sector

■ Residential Sector

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

Gas sales volume by sector



Sales volume declined by 95 million m³, or 2.7%, to 3,452 million m³.

■ Commercial Sector, Public and Medical

Temperatures were lower year-on-year in the first half and higher in the second. Air conditioning demand declined, with the result that gas sales were 113 million m³, or 3.7%, below the previous year's level at 2,972 million m³.

■ Industrial Sector

Gas sales increased by 293 million m³, or 5.8%, to 5,336 million m³. This growth reflects the start-up of new facilities by customers using gas solely for power generation, and steady growth in the operations of new and existing customers.

■ Wholesaling to Other Gas Companies

Sales increased by 132 million m³, or 9.3%, year-on-year to 1,554 million m³. This was mainly attributable to steady growth in the operations of new and existing customers in the service areas of the purchasing suppliers.

Total sales increased by 217 million m³, or 1.7%, over the previous year's level to 13,315 million m³, with the industrial sector contributing most of the growth. Sales exceeded the forecast for the current year by 137 million m³, or 1.0%.

Analysis of Income

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

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

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

Business results by segment (¥ million)

Sales

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

Operating income

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

Note: Segment sales include intra-group transactions.

■ Gas Sales

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

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

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

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

■ Gas Appliances Sales

Higher Sales, Higher Costs, Lower Income

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

■ Related Construction

Reduced Installation Numbers Reflected in Lower Sales and Income

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

■ Real Estate Rental

Reduced Depreciation Reflected in Higher Income Despite Lower Revenues

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

■ Other Business

Energy Service Business Expanding

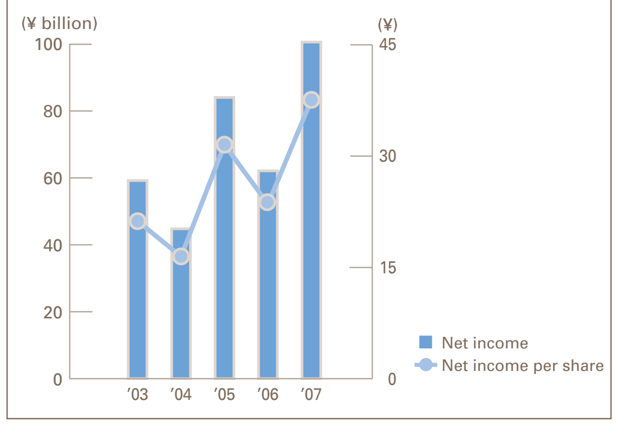
Sales of other business segments increased by ¥32.8 billion, or 13.0%, year-on-year to ¥285.4 billion. Reasons for the higher result include the sustained expansion of the on-site energy service business, and increased operations by the Tokyo Gas LNG tanker fleet. Operating expenses rose by ¥28.6 billion,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

■ Other Revenues and Income/Net Income

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

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

Net income and net income per share



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

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

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

■ Operating Cash Flow

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

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

■ Fiscal 2007 Projection

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

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

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

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

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

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

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

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

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

Tax Revision in Fiscal 2007

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

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

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

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

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

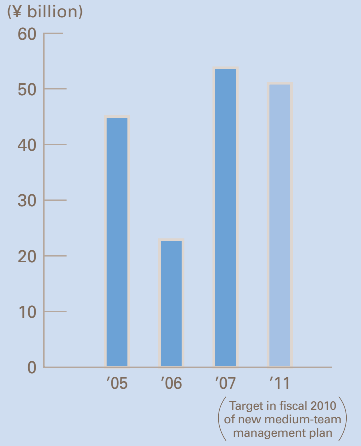
As far as cash flow utilization is concerned, we are investing steadily in areas that will generate income streams in the future, as provided in our medium-term management plan.

Tokyo Gas Original Indicator : TEP

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

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

TEP (EVA® Tokyo Gas Version)



TEP: NOPAT – cost of capital

NOPAT: Net ordinary income after tax prior to interest payments

Cash Flows and Financial Position

Increased Net Income Reflected in Higher Cash Flows from Operating Activities

■ Cash Flows from Operating Activities

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

■ Cash Flows from Investing Activities

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

■ Cash Flows from Financing Activities

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

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

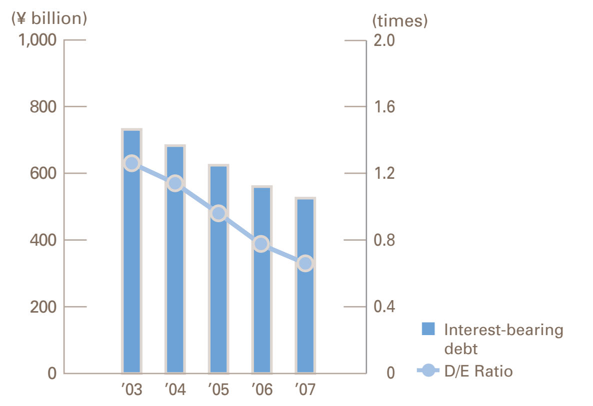
Years ended March 31 (unit : million yen)	2007	2006	2005
Net cash provided by operating activities	190,597	181,529	215,038
Net cash used in investing activities	(130,922)	(116,071)	(107,376)
Net cash used in financing activities	(65,844)	(83,041)	(108,160)

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

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

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

Interest-bearing debt and D/E ratio



Interest-bearing debt = long-term debt due after one year + long-term debt due within one year + bank loans
D/E ratio = interest-bearing debt / total shareholders' equity (as of end of fiscal year)

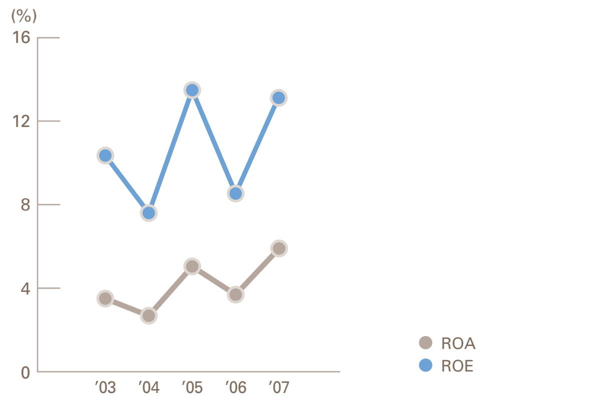
■ Increase in Net Income — ROA at 5.9%

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

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

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

ROA and ROE



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

■ ROE at 13.2%

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

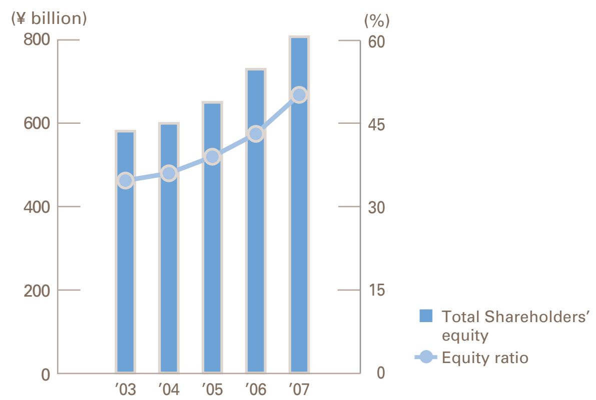
■ Dividend Increases and Stock Repurchases — 60% Target for Total Payout Ratio

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

In line with this concept, we will raise the dividend for fiscal 2006 by 1 yen to ¥8.0 per share. We also plan to repurchase 60 million shares worth ¥39.0 billion yen in fiscal 2007. This is expected to result in a total payout ratio of 60.1% in fiscal 2006.

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

Total 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 full rate reduction since 1999, by about 10% in total. TEPCO also reduced its electricity rates five times, by about 25% in total, during the same period. Tokyo Gas will continue to implement strategic rate menu as necessary to prevail over competition.

■ Temperature Fluctuation Risk

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

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

Impact of 1ºC temperature rise on gas sales volume

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

■ Gas Resource Fluctuation Risk

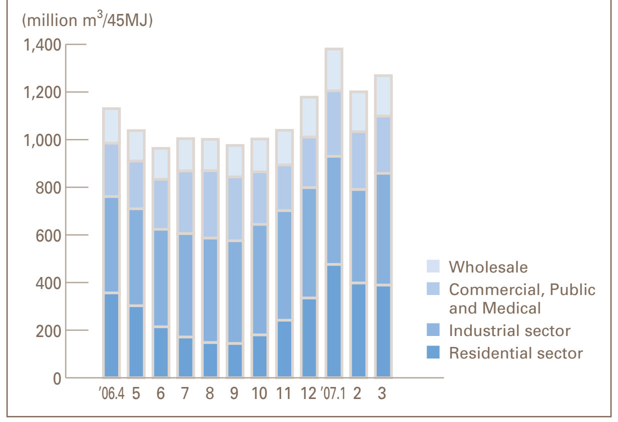
City gas supplied by Tokyo Gas is produced mainly from imported LNG. Since contracts are denominated in U.S. dollars, earnings are at risk from fluctuations in the yen-dollar exchange rate. Also, the dollar-denominated LNG prices are linked to crude oil prices on a sliding scale, which exposes the Company to risk from changes in the international market price for crude oil.

The extent to which these fluctuations affect gas resource costs over in the year ended March 31, 2007 is as follows.

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

Approx. ¥4.4 billion for each $1 movement in the per-barrel price of crude oil

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



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

In fiscal 2007, the crude oil price averaged $63.45 per barrel, and the average exchange rate was ¥116.97 to one dollar. Forecasts for fiscal 2006 are based on an average crude oil price of $55 per barrel and an exchange rate of ¥120 to one dollar.

* Depending on the contract, changes may be reflected within a six-month time lag. Adjustment has an upper limit (please refer to page 5 of the accompanying Investors' Guide 2007).

■ Interest Rate Fluctuation Risk

Tokyo Gas negotiates fixed interest rates for both short-term and long-term interest-bearing debt, which precludes risk of interest rate fluctuation during the term of an obligation. However, there may be risk of fluctuation when loans are refinanced.

■ Stock Price Fluctuation Risk

Tokyo Gas primarily holds equities to maintain corporate relationships essential to the conduct of its business operations. Equity of publicly listed companies is subject to market risk. Tokyo Gas has established management policies and rules for handling of such equities.

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

1 Disruption of Production and Supply

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

2 Quality Problems Affecting Gas Equipment

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

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

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

4 Natural disaster risk

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

5 Resource procurement supply interruption risk

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

6 Market risk

Tokyo Gas might incur losses in the event of changes in the market price of company-owned real estate, financial assets, pension assets or other assets. Additionally, fluctuations in the price of gas resources take about six months to show up in gas rates. This factor may affect revenues by breaking up a fiscal year, which could cause over- or under-collection of gas rates.

7 Weather risk

Abnormal weather conditions, particularly summer heat waves and warm winters, reduce gas sales volume in the residential sector, where gas is mainly used to supply hot water and heating, thereby affecting revenues.

8 Risk faced by existing business

A. Competitive risk

As industry deregulation progresses, competition with electric power companies and new firms entering the gas business is increasingly fierce. Competition may have a greater impact on Tokyo Gas business performance. Specifically, demand might decrease or rates may fall. Tokyo Gas may lose a portion of existing demand should LNG lose competitiveness compared to other forms of energy, or should it become unable to purchase LNG at competitive prices.

B. Changes to the Resource Procurement Environment

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

C. Demand risk

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

D. Legal and regulatory risk

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

9 ROI risk

Tokyo Gas continues to make large investments in keeping with the goal of “establishing a total energy business” as expressed in the medium-term management plan. Doing so involves investments channeled into the electric power business, energy service business, and gas field and other development projects, the LNG transportation business and other new businesses, as well as large investments into the foundations or to expand existing businesses such as wide-area pipeline construction and IT. Such investments run the risk of not bringing in appropriate returns or not producing the expected results due to changes in the economic situation.

10 Risk of information leaks

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

11 Risk of failure or malfunctioning of backbone systems

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

12 Interruption of communication with call centers

Most communication with customers takes place via call centers. Interruptions to telephone service to call centers would not only disrupt service to customers over wide areas, but may also incur serious tangible and intangible loss, including the need to bear public responsibility.

13 Environmental and compliance risks

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

14 Risks associated with corporate responsibility and customer service

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

12-year Summary

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries

Millions of yen, except per share amounts

For the years ended March 31	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Net sales	¥ 1,376,958	¥ 1,266,502	¥ 1,190,783	¥ 1,151,825	¥ 1,127,634	¥ 1,097,589	¥ 1,086,771	¥ 992,255	¥ 997,767	¥ 1,009,155	¥ 988,077	¥ 958,662
Gas sales	999,521	910,321	834,658	831,115	792,454	750,439	740,731	672,069	674,997	686,649	663,066	633,253
Gas appliance sales	135,407	130,826	135,109	133,873	142,636	149,203	146,517	127,916	133,925	127,880	135,057	136,344
Related construction	59,230	59,747	64,795	68,034	70,568	71,338	71,908	68,651	68,817	71,060	74,767	73,784
Real estate rental	34,035	34,187	34,701	35,444	36,346	37,551	37,601	37,841	37,616	38,978	40,916	40,568
Other business	285,407	252,596	234,721	172,160	158,327	156,011	159,578	158,819	155,045	154,602	144,032	143,931
Operating income	162,315	112,346	145,349	152,287	123,294	110,608	103,659	69,233	72,303	76,485	62,163	67,109
Net income	100,700	62,115	84,047	44,787	59,201	51,912	27,595	26,698	17,764	17,241	15,432	16,762
Depreciation*	133,142	136,377	140,271	146,895	141,027	145,564	150,374	140,306	143,009	—	—	—
Capital expenditures**	124,557	119,435	107,529	107,441	111,988	105,296	111,397	124,975	151,126	—	—	—
Free cash flow	109,285	79,057	116,789	84,241	88,240	92,178	66,572	42,029	9,647	—	—	—
Amounts per share of common stock (yen)												
Net income	¥ 37.50	¥ 23.48	¥ 31.47	¥ 16.44	¥ 21.18	¥ 18.47	¥ 9.82	¥ 9.50	¥ 6.32	¥ 6.14	¥ 5.49	¥ 5.97
Diluted net income	35.69	21.70	28.24	14.98	19.11	16.66	9.13	8.84	5.94	5.76	5.37	—
Net assets	293.11	270.48	244.73	221.53	208.65	200.75	196.72	172.33	149.98	148.67	147.65	147.23
Cash dividends applicable to the year	8.00	7.00	7.00	7.00	6.00	6.00	6.00	5.00	5.00	5.00	5.00	5.00

At year-end (March 31)	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Total assets	¥ 1,692,635	¥ 1,693,899	¥ 1,668,734	¥ 1,666,828	¥ 1,676,064	¥ 1,702,713	¥ 1,797,669	¥ 1,805,086	¥ 1,707,446	¥ 1,720,684	¥ 1,772,132	¥ 1,657,176
Long-term debt due after one year	465,896	496,740	547,139	545,845	598,322	680,887	708,329	843,634	820,753	765,304	878,674	743,177
Total net assets	806,046	—	—	—	—	—	—	—	—	—	—	—
Total shareholders' equity	—	728,232	648,766	598,453	579,706	564,078	552,790	484,239	421,442	417,755	414,906	413,725

Ratios	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Operating income to net sales	11.8%	8.9%	12.2%	13.2%	10.9%	10.1%	9.5%	7.0%	7.2%	7.6%	6.3%	7.0%
Net income to net sales	7.3%	4.9%	7.1%	3.9%	5.3%	4.7%	2.5%	2.7%	1.8%	1.7%	1.6%	1.7%
ROE	13.2%	9.0%	13.5%	7.6%	10.4%	9.3%	5.3%	5.9%	4.2%	4.1%	3.7%	4.1%
ROA	5.9%	3.7%	5.0%	2.7%	3.5%	3.0%	1.5%	1.5%	1.0%	1.0%	0.9%	1.0%
Equity ratio	47.0%	43.0%	38.9%	35.9%	34.6%	33.1%	30.8%	26.8%	24.7%	24.3%	23.4%	25.0%

Notes: 1. Segment sales include intra-group transactions.
2. Free cash flow = net income + depreciation* – capital expenditures**
*including amortization of long-term prepayments
**purchases of tangible fixed assets + purchases of intangible fixed assets + long-term prepayments (accounting basis)
3. Effective from the year ending March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard for presentation of net assets ("Accounting Standard for Presentation of Net Assets in the Balance Sheet and its Implementation Guidance" issued by the Business Accounting Deliberation Council on December 9, 2005.)

Consolidated Balance Sheets

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

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

Accompanying notes are an integral part of these financial statements.

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

Consolidated Statements of Income

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

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

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

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

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

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

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Change in Net Asset

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

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

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

Accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

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

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

Accompanying notes are an integral part of these financial statements.

1 Basis of presenting consolidated financial statements

Tokyo Gas Co., Ltd. (the "Company") and its consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. The Company, as a regulated company, also follows the Gas Business Law related accounting regulations for preparing such financial statements.

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

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

The consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note2(19) Significant accounting policies, is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

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

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

2 Significant accounting policies

(1) Consolidation — The consolidated financial statements include the accounts of the Company and all of its significant subsidiaries. For the years ended March 31, 2007 and 2006, 52 and 54 subsidiaries, respectively, were consolidated. All significant inter-company transactions and account balances are eliminated in consolidation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company and its consolidated subsidiaries use hedging accounting, provided that the conditions of the accounting were applicable to the rules. Regarding forward exchange contracts and foreign currency swap contracts fulfilled certain conditions, the hedged foreign currency receivable and payable are recorded using the Japanese yen amount of the contracted forward rate or swap rate. Regarding interest rate swap contracts fulfilled certain conditions, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the liabilities for which the swap contract was executed.

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

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

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

(13) Reserve for and retirement benefits —
The Company and its consolidated subsidiaries provide post-employment benefit plans, an unfunded lump-sum payment plan and a funded pension plan. The Company and certain consolidated subsidiaries provide defined benefit plan and defined contribution pension plan. Under which reserve for retirement benefits are based on the level of wages and salaries, length of service and certain other factors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 Property, plant and equipment

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

4 Pledged assets

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

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

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

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

5 Securities

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

(a) Held-to-maturity debt securities

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

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

(b) Other securities with fair value

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

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

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

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

6 Effect of the Bank Holiday

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

7 Inventories

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

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

8 Bank loan payables and long-term debt

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

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

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

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

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

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

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

9 Derivative transactions

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

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

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

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

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

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

10 Reserve for retirement benefits

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

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

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

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

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

11 Income taxes

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

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

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

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

12 Net assets

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

(a) Distribution to the shareholders

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

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

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

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

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

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

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

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

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

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

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

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

(c) Treasury stock

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

13 Additional Information for Cash Flows

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

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

14 Segment information

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

A summary of net sales, costs and expenses, operating income, identifiable assets, depreciation, losses on impairment of fixed assets and capital expenditures by business segments for the years ended March 31, 2007 and 2006 was as follows:

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

	Millions of yen						
	Gas sales	Gas appliance sales	Related construction	Real estate rental	Other business	Elimination or corporate	Consolidation
For 2006							
Sales:							
Outside customers	¥ 898,553	¥128,376	¥55,772	¥ 11,055	¥172,746	¥ —	¥1,266,502
Intra group	11,768	2,450	3,975	23,132	79,850	(121,175)	—
Total	910,321	130,826	59,747	34,187	252,596	(121,175)	1,266,502
Costs and expenses	750,301	126,209	56,771	28,728	242,949	(50,802)	1,154,156
Operating income	¥ 160,020	¥ 4,617	¥ 2,976	¥ 5,459	¥ 9,647	¥ (70,373)	¥ 112,346
Identifiable assets	¥1,013,054	¥ 43,075	¥19,719	¥193,712	¥228,086	¥ 196,253	¥1,693,899
Depreciation	100,788	485	184	11,340	21,421	(1,918)	132,300
Losses on impairment of fixed assets	—	—	—	—	—	—	—
Capital expenditures	88,216	805	37	2,850	6,596	(1,572)	116,932

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

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

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

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

15 Information for certain leases

Finance leases

Information as lessee

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

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

The Company and its consolidated subsidiaries use certain other facilities and other intangibles under lease arrangements. Acquisition cost, accumulated depreciation and net book value for property held under finance leases which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2007 and 2006 were as follows:

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

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

Information as lessor

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

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

Acquisition cost, accumulated depreciation and net book value for property held under finance leases which do not transfer ownership of the leased property to the lessee for the years ended March 31, 2007 and 2006 were as follows:

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

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

Operating leases

Information as lessor

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

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

16 Commitment and contingent liabilities

At March 31, 2007, the Company and its consolidated subsidiaries were contingently liable for (1) debt guarantees in the amount of ¥6,858 million (US$58,116 thousand) for financial institution loans to companies other than consolidated subsidiaries, (2) ¥41 million (US$348 thousand) with respect to joint and several liabilities upon default of the other debtors and (3) ¥38,700 million (US$327,966 thousand) as guarantors for domestic unsecured bonds issued by the Company, and assigned to certain banks under the debt assumption agreements made in the years ended March 31, 2004, 2003 and 2002.

At March 31, 2007, the Company had several long-term purchase contracts for the supply of LNG. The purchase price determinable under such contracts is contingent upon fluctuations in the market price of crude oil.

17 Subsequent events

(1) Resolution of acquisitions of treasury stock

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

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

(2) Implementation of acquisitions of treasury stock

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

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

(3) Issue of bond

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

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

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Tokyo Gas Co., Ltd. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2007 and 2006, the related consolidated statements of income for the years then ended, the consolidated statement of changes in net assets for the year ended March 31, 2007, the consolidated statement of shareholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for the years ended March 31, 2007 and 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokyo Gas Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 2(19) to the consolidated financial statements, effective April 1, 2006, Tokyo Gas Co., Ltd. and consolidated domestic subsidiaries adopted new accounting standards for the presentation of net assets in the balance sheet.
(2) As discussed in Note 17(1) to the consolidated financial statements, subsequent to March 31, 2007, Tokyo Gas Co., Ltd. decided to acquire treasury stock.
(3) As discussed in Note 17(2) to the consolidated financial statements, subsequent to March 31, 2007, Tokyo Gas Co., Ltd. effectuated acquisition of treasury stock.
(4) As discussed in Note 17(3) to the consolidated financial statements, subsequent to March 31, 2007, Tokyo Gas Co., Ltd. published the 28th unsecured bond.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 28, 2007