TOKYO GAS

Annual Report 2009

Tokyo Gas Co., Ltd.

STABILITY AND GROWTH

INTEGRATION AND EXPANSION ALONG THE LNG VALUE CHAIN

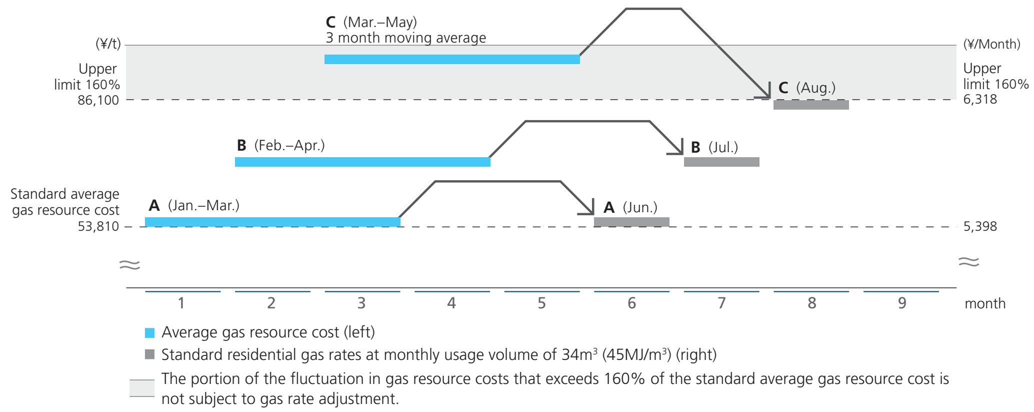
CHARACTERISTICS OF THE CITY GAS BUSINESS IN JAPAN

As a result of its environmental friendliness and stable supply environment, natural gas is increasingly used in a wide range of applications. In comparison with Europe and North America, natural gas still accounts for only a lower share of primary energy consumption in Japan. Accordingly, in the years ahead the relative growth potential of natural gas in comparison with other forms of energy is expected to be substantial.

In Japan, which is dependent on imports of LNG as the resource for city gas, pipeline networks are independently installed in each area where LNG terminals are built, and city gas is produced, distributed, and sold through these systems. Pipeline networks are principally built in large urban areas with high populations, while in outlying regions, natural gas is supplied through such means as tanker trucks.

Topics: Overview of the gas rate adjustment system

Fluctuations in gas resource costs and residential gas rates at Tokyo Gas (example)



The price of LNG is significantly influenced by crude oil prices and exchange rate fluctuations. Consequently, the gas resource costs borne by city gas suppliers are substantially influenced by changes in these areas. The gas rate adjustment system was introduced to promptly adjust gas rates[1] to reflect such exogenous factors (gas resource cost fluctuations). The system is intended to increase rate transparency and to clarify the efforts of suppliers to increase management efficiency.

Under this system, the impact of fluctuations in gas resource procurement costs on the revenues and expenditures of gas companies is neutral over the medium to long term[2].

1 In general, gas rates comprise the base rate + specific unit price (unit rate x gas usage volume), and under the gas rate adjustment system, fluctuations in resource costs are reflected in the unit rate component of gas rates by adjustment amount.

2 There is a time lag between the payment for gas resources and the reflection of the gas resource costs in gas rates. Consequently, in a single fiscal year, there can be under-recovery or over-recovery in relation to gas resource costs stemming from fluctuations in crude oil prices and exchange rates.

The section inside this cover provides further details and explanation of gas rates as well as an explanation of the features of the Company's business model.

Contents

Japan's Gas Rate System

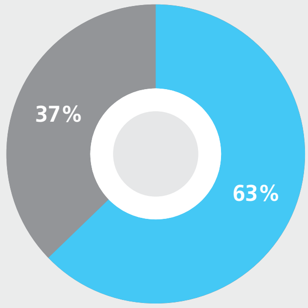
Two Sectors of Japan's Gas Market

Japan's city gas market is divided into the regulated sector, comprising small-volume customers, and the deregulated sector, which is made up of large-volume customers and wholesale businesses.

In the regulated (small volume) sector, city gas companies designated by the Minister of Economy, Trade and Industry are permitted monopolistic supply within their supply districts. At the same time, supply and safety obligations and gas-rate regulations are imposed on those companies.

The deregulated (large volume and wholesale) sector comprises customers with annual gas usage of 100,000 m^3 or more. Gas suppliers are allowed to freely enter this sector and are not restricted to their supply areas. Gas rates are determined through negotiations between suppliers and customers. For large-volume customers, Tokyo Gas also utilizes a scheme to reflect gas resource costs in gas rates.

Gas Usage Volume Share for the Regulated and Deregulated Sectors in Japan's City Gas Market



■ Deregulated sector
■ Regulated sector

Rate Revisions

In addition to the portion that reflects changes in gas resource cost, the basic charge rates, etc., are also subject to revision. Tokyo Gas believes that our customers, as well as shareholders, are important stakeholders. With the objective of mainly returning to our customers some of the savings from increased management efficiency, we have revised rates five times over the past 10 years. Our policy is to conduct rate revisions so that it will have maximum effect in the competitive business environment.

Tokyo Gas Rate Revisions

Date of revision	Revision percentage
December 10, 1999	–2.00%
February 15, 2001	–3.02%
January 1, 2005	–5.18%
February 21, 2006	–0.28%
April 15, 2008	–1.51%

Average revision percentage for regulated rates overall in Tokyo and other districts

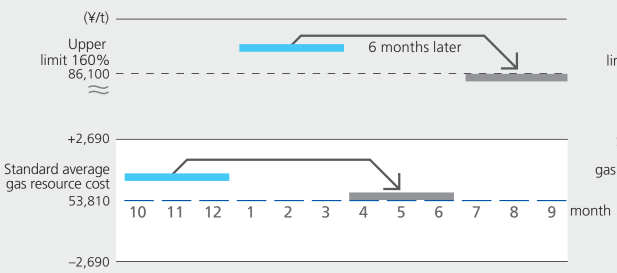
Changes in the Gas Rate Adjustment System

Given the dramatic, significant fluctuations in gas resource costs in recent years, the gas rate adjustment system was reviewed with the objectives of moderating the scale of the changes in gas rates while ensuring that changes in costs are promptly reflected in the rates. As a result, a new system was introduced in May 2009. Under this system, the unit price is adjusted each month.

This change will contribute to more stable management conditions for suppliers. As noted above, gas resources costs are affected by external factors such as crude oil prices and exchange rates. These costs will be reflected more smoothly in gas rates, and the new system reduces the influence of profits on single-year results.

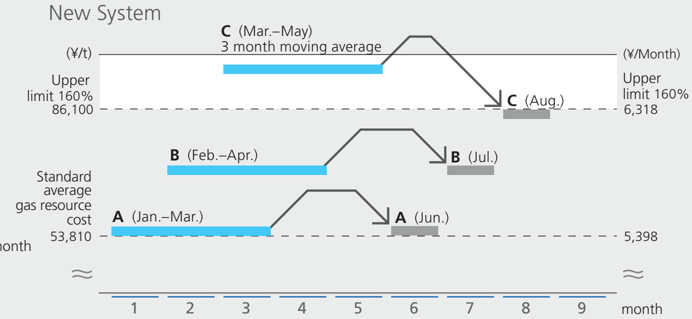
(Reference) Comparison of Gas Rate Adjustment Systems

Former System



■ Average gas resource cost
■ Adjustment of specific unit price
When the fluctuation of gas resource cost is within ± 5% of standard average gas resource cost, the gas rate adjustment system is not applied.

New System



■ Average gas resource cost (left)
■ Standard residential gas rates at monthly usage volume of 34m^3 (45MJ/m^3) (right)
The portion of the fluctuation in gas resource costs that exceeds 160% of the standard average gas resource cost is not subject to gas rate adjustment.

The Tokyo Gas Business Model

Tokyo Gas is Japan's largest city gas supplier, with 10.51 million customers. Our service area encompasses the Tokyo metropolitan area and the surrounding Kanto region, a market with huge demand and high growth potential.

As a city gas supplier, we do more than just deliver gas to customers. Our operations extend from participation in upstream LNG projects to transport by LNG tanker, conversion to city gas at LNG terminals, gas supply through pipelines, sales of gas appliances, and safety at customer sites. Our establishment of an LNG value chain from upstream businesses to downstream businesses sets us apart from other gas suppliers around the world.

LNG Value Chain of Tokyo Gas

Natural gas resource development
- Participation in upstream projects, such as the Darwin, Pluto, and Gorgon projects
- Overseas gas-related operations, such as supply, retail sales, and electric power generation

Procurement / Transportation
- LNG transportation with carriers operated by Tokyo Gas

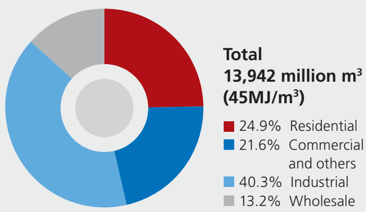
Production / Power Generation
- City gas production
- LNG power plant business

City gas transport
- Transportation by pipeline
- Transportation by LNG tanker truck
- Wholesaling to other gas companies

Sales / Services
- Residential / commercial and others / industrial city gas supply
- Electric power retail
- Energy services

With a gas sales volume of 13,942 million m^3, Tokyo Gas has a share of more than 40% of the total gas sales volume for all city gas suppliers in Japan. By sector, through the fiscal year ended March 2001, the residential sector accounted for the largest share of the Company's sales volume, but thereafter, sales volume in the industrial sector exceeded the volume in the residential sector and has accounted for the largest share of the Company's sales volume.

The Company's Gas Sales Volume
(Year ended March 2009)



SPECIAL FEATURE 1

Four Keys to the Future Growth Potential of Tokyo Gas

Fact 1
GROWTH POTENTIAL
18%

Fact 2
ENVIRONMENTAL FRIENDLINESS
55%

Fact 3
SERVICE AREA
40%

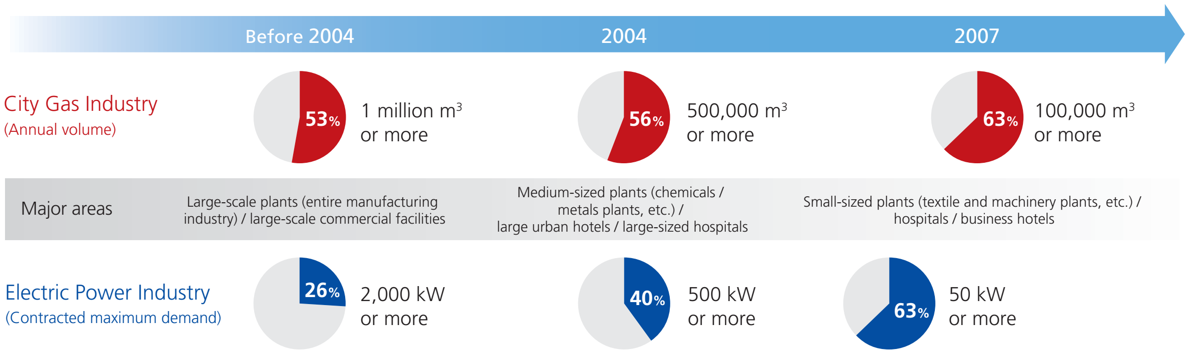
Fact 4
COMPREHENSIVE STRENGTH
No.1

Fact 1

GROWTH POTENTIAL

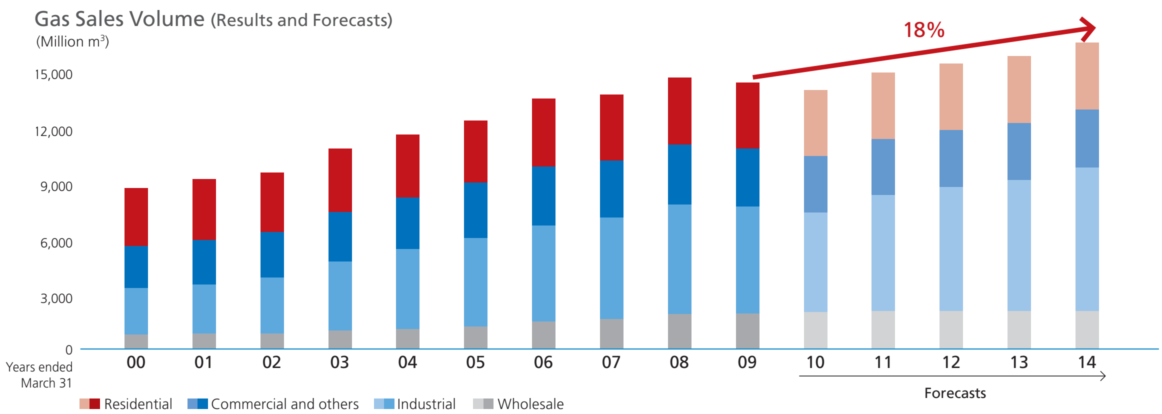
Until February 1995, city gas suppliers in Japan were allowed regional monopoly supply for all of their customers, but were subject to various regulations, such as supply obligations and rate controls. However, against a background of deregulatory initiatives and the introduction of the principle of competition in Japan and overseas, the deregulation of the gas supply industry was commenced in stages from March 1995, with the objectives of promoting competition among suppliers, increasing management efficiency, and expanding the energy choices available to customers. As a result, the growth opportunities available to suppliers expanded.

Gas and Electricity Deregulation Schedule and Share of Total Volume in Deregulated Fields



In the gas industry, the scope of deregulation was extended to customers with annual contracted volumes of more than 2 million m^3 a year in 1995 and those with annual contracted volumes of more than 1 million m^3 a year in 1999. Figures for share of total volume are based on fiscal 2007 data. (Source: The Japan Gas Association)
In the electricity industry, meanwhile, the scope of deregulation was extended to customers with annual consumption of more than 2,000 kW in 2000. (Source: Agency for Natural Resources and Energy, the Market Monitoring Subcommittee 1st Report, April 2005)

Gas Sales Volume (Results and Forecasts)



Growth in the Deregulated Sector

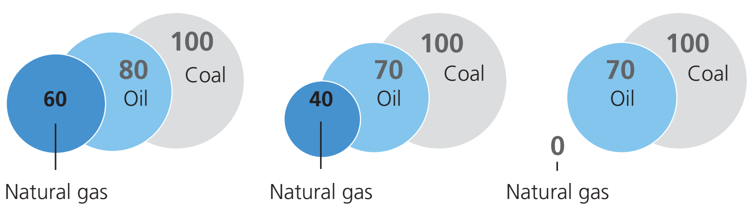
In addition to the deregulation of the city gas supply industry, the electric power industry was also deregulated at the same time. The deregulation of both gas and electric supply made it possible for other companies to supply gas in our service area. On the other hand, it also enabled Tokyo Gas to supply gas and electricity to customers in the service areas of other companies. In this setting, the Company's growth is supported by new operational pillars. These include the power generation business, which draws on existing infrastructure, and cogeneration systems, which use gas and supply heat and electricity. The Company will aim for sustained growth as an integrated energy business that supplies energy and heat in addition to its core business—the supply of city gas—in the Tokyo metropolitan area and the Kanto region.

EXPECTING
18% GROWTH
IN GAS SALES
VOLUME DURING
THE NEXT 5 YEARS

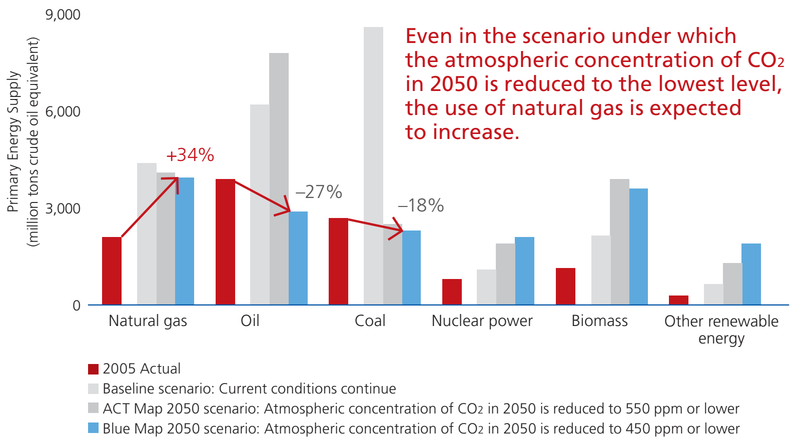
Fact 2
ENVIRONMENTAL FRIENDLINESS

In comparison with other fossil fuels, the combustion of natural gas produces limited emissions of carbon dioxide (CO_2) and nitrogen oxide (NOx), and no emissions of sulfur oxide (SOx). Natural gas is a form of energy with an extremely low environmental burden. Accordingly, the Company believes that its operations—promoting the use of natural gas by extending pipelines and expanding markets—contribute to the development of environmentally friendly society.

Comparison of Emissions (Coal = 100)

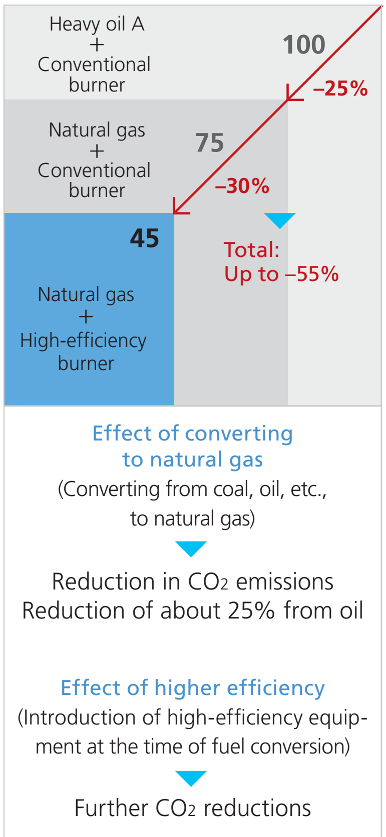


Forecast for Global Energy Supply Under Various IEA Scenarios



According to the Intergovernmental Panel on Climate Change (IPCC), to prevent a variety of adverse factors leading to climate change on a global scale, the atmospheric CO_2 concentration needs to be reduced to less than 450 ppm (IPCC Fourth Assessment Report).

CO_2 Reduction Effect from Using Natural Gas for Industrial Furnaces



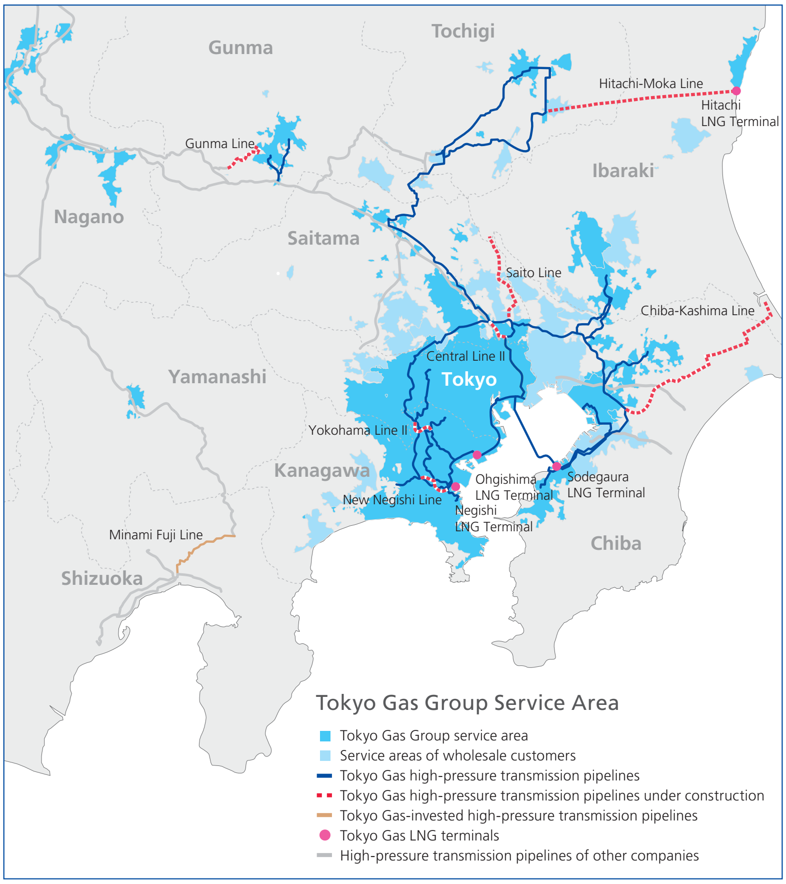
Strong Demand for Clean Energy

Under the Blue Map 2050 scenario announced by the International Energy Agency (IEA) calling for CO_2 emissions to be cut in half by 2050, the use of environmentally superior natural gas is expected to increase. In recent years, companies have announced their own energy-saving and CO_2 reduction targets, and there is a notable trend toward the aggressive introduction of energy-saving/new energy facilities. The shift toward the use of natural gas as a fuel has begun to support the Company's growth. With a focus on methods of using new energy in a low-carbon society, the Company is developing and promoting highly efficient appliances that use city gas. We are also nurturing technologies to realize a reduced environmental burden. These have led, for example, to our achievement of a world first with the market introduction of "ENE-FARM," a residential-use fuel cell.

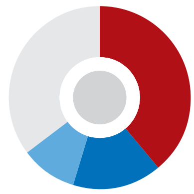
CO_2 EMISSIONS FROM GAS CAN BE REDUCED TO 55% LESS THAN CO_2 EMISSIONS FROM OIL

Fact 3
SERVICE AREA

Even among Japan's city gas suppliers, who all handle the same environmentally friendly natural gas, Tokyo Gas has a key strength in its location in the Kanto area. This is the market with the highest energy demand in Japan and a region that is expected to continue to grow in the years ahead. Supported by this strength, Tokyo Gas is positioned to achieve continued growth in both number of customers and gas sales volume in the future.



Breakdown of GDP of Japan by Major Area (Year ended March 2007)

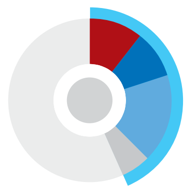


Total: ¥518.8 trillion

- 39.0% The Tokyo area: Tokyo, Kanagawa, Saitama, Chiba, Ibaraki, Tochigi, Gunma, Yamanashi, and Nagano prefectures
- 15.8% The Osaka area: Osaka, Hyogo, Kyoto, Shiga, Nara, and Wakayama prefectures
- 10.0% The Nagoya area: Aichi, Gifu, and Mie prefectures

Source: Cabinet Office, Government of Japan

Share of Tokyo Gas of Total City Gas Sales Nationwide (Year ended March 2009)



43.4% Tokyo Gas Total: 13,942 million m³

- 10.8% Residential
- 9.4% Commercial and others
- 17.5% Industrial
- 5.7% Wholesale

Japan Total: 32,097 million m³

Source: The Japan Gas Association web site, (Gas Sales Volume JGA Newsletter)

Substantial Latent Demand and Growth Potential

There are a large number of city gas suppliers in Japan—about 210—but the three largest account for approximately 80% of the total city gas sales volume. Tokyo Gas has a market share of 43%, the largest share of any of these companies.

The location of a supplier's service area has a significant influence on its operational scale. The Kanto area is Japan's largest economic region, accounting for about 40% of Japan's GDP, and even though Japan faces population decline overall, the Kanto area is one of the few regions in Japan that is expected to benefit from inward migration. Moreover, a key geographical feature of the Kanto region is that it is relatively easy to extend pipelines out to the peripheral industrial regions. In the future, we will make full use of this geographical advantage as we work to uncover potential demand that exists in the area extending 200 km from Tokyo and to provide gas to more customers.

KANTO AREA:
40% OF
JAPAN'S GDP

Fact 4

COMPREHENSIVE STRENGTH

We are leveraging the business opportunities stemming from a deregulated competitive environment, environmentally friendly natural gas, and our promising operational base in the Kanto region. Moreover, we are drawing on the strength of our global LNG value chain, extending from upstream to downstream, and providing customers with a wide range of value and services related to energy. Moving forward, as the No. 1 gas supplier in Japan in terms of gas sales volume, Tokyo Gas will also strive to be No. 1 in comprehensive strength.

People Supporting the Comprehensive Strength of the Tokyo Gas Group

1 Procurement / Transportation

Safety inspection on an LNG tanker. Using our own fleet of seven vessels, we have increased our procurement capabilities. We obtain more than 10 million tons of LNG a year from regions such as Australia, Malaysia, and Brunei, representing the second-largest LNG import volume in Japan.

2 Transport of city gas through pipelines

Maintenance and management of high-pressure gas pipelines. Supporting the foundation of safe gas transport. The pipeline network of Tokyo Gas extends to 57,000 km.

3 Engineering

Introducing gas facilities and conducting combustion tests at the plants of customers who have converted to the use of natural gas as a fuel. In the industrial sector, we provide total solutions that extend from proposing gas facilities to operating, maintaining, and upgrading them.

4 Gas appliance installation and inspection

A Tokyo Gas LIFEVAL employee inspects gas appliances at a customer's residence. Tokyo Gas LIFEVAL is the integrated point of customer contact for our efforts to carefully meet diverse customer needs in the residential sector.

Providing Strong Benefits through Our LNG Value Chain and Sales Capabilities

Tokyo Gas conducts an integrated energy business, with natural gas as its core energy source. The Company leverages its comprehensive strengths at each stage of the LNG value chain. In LNG procurement, we have created a portfolio that supplements 10 long-term projects with short-term and medium-term projects, and this way we have achieved stable procurement that can respond flexibly to future changes in the operating environment. With a focus on future growth, we are aggressively expanding terminals and pipeline networks.

We have established a sales system in the residential sector that is based on close links to local communities and provides one-stop solutions to meet increasingly diverse and sophisticated customer needs. In the commercial and industrial sectors, we are working to expand gas demand through multi-energy supply, which involves combinations of electricity and other forms of energy, centered on natural gas; advanced energy engineering capabilities; and energy services, including optimal utilization of facilities and maintenance.

No.1
IN COMPREHENSIVE STRENGTH

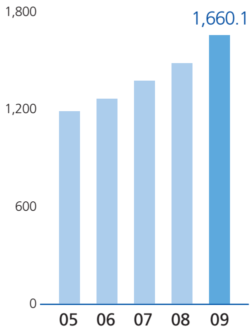
FINANCIAL HIGHLIGHTS

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31

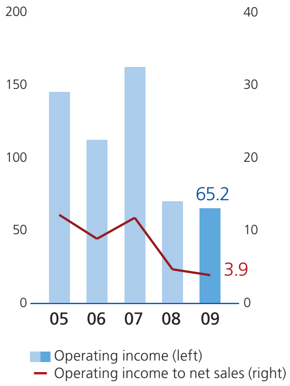
	Millions of yen (except otherwise stated)					Thousands of U.S. dollars[1] (except otherwise stated)
	2009	2008	2007	2006	2005	**2009**
For the Years						
Net sales	¥1,660,162	¥1,487,496	¥1,376,958	¥1,266,501	¥1,190,783	$16,940,428
Operating income	65,204	70,048	162,315	112,345	145,349	665,346
Net income	41,708	42,487	100,699	62,114	84,047	425,591
Amounts per share of common stock (¥ / $)						
Net income	15.63	15.94	37.50	23.48	31.47	0.15
Net income (Diluted)	15.37	15.50	35.69	21.70	28.24	0.15
Net assets	284.72	289.49	293.11	270.46	244.73	2.90
Cash dividends applicable to the year	8.00	8.00	8.00	7.00	7.00	0.08
At Year-end						
Total assets	¥1,764,185	¥1,703,651	¥1,692,635	¥1,693,898	¥1,668,734	$18,001,887
Interest-bearing debt	593,230	558,716	525,467	559,911	624,105	6,053,367
Total net assets	784,616	780,455	806,045	738,486	657,396	8,006,285
Ratios						
Operating cash flow[2]	¥ 182,791	¥ 184,908	¥ 233,841	¥ 198,490	¥ 224,318	$ 1,865,214
Operating income to net sales (%)	3.9	4.7	11.8	8.9	12.2	—
Net income to net sales (%)	2.5	2.9	7.3	4.9	7.1	—
ROE[3] (%)	5.4	5.4	13.2	9.0	13.5	—
ROA[4] (%)	2.4	2.5	5.9	3.7	5.0	—
Equity ratio (%)	43.8	45.1	47.0	43.0	38.9	—
D/E ratio[5] (times)	0.77	0.73	0.66	0.77	0.96	—

1 U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥98=U.S.$1, the prevailing exchange rate as of March 31, 2009.
2 Operating cash flow = net income + depreciation (including amortization of long-term prepayments)
3 ROE = net income / total equity (average of positions at start and end of fiscal year)
4 ROA = net income / total assets (average of positions at start and end of fiscal year)
5 D/E ratio = interest-bearing debt (year-end) / total shareholders' equity (year-end)

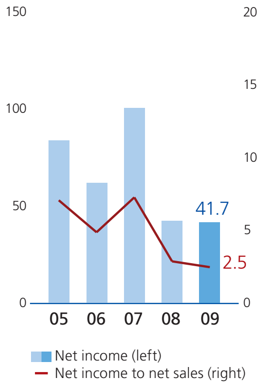
Net Sales
(¥ billion)



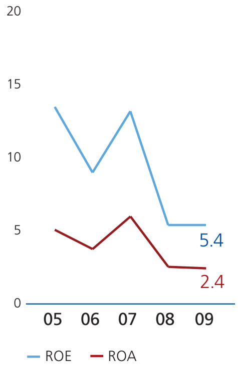
Operating Income / Operating Income to Net Sales
(¥ billion) (%)



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



ROE / ROA
(%)

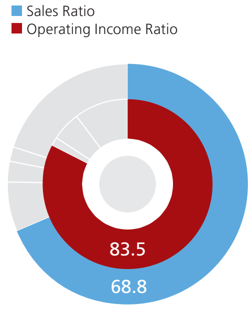


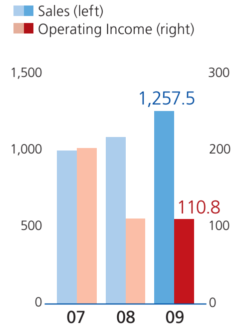
All graph data for years ended March 31

OVERVIEW BY SEGMENT

Segment	Sales Ratio / Operating Income Ratio (%) Year ended March 31, 2009	Sales / Operating Income (¥ billion) Years ended March 31

Gas Sales





Tokyo Gas uses its three LNG terminals along the shores of Tokyo Bay to gasify LNG, its main gas resource. It sells city gas to more than 10 million customers, primarily in the Kanto region, through a pipeline network of about 57,000 km. (External sales ratio: 97.0%)

- The gas sales volume declined by 1.9% year on year, to 13,942 million m^3.
- Due to higher unit prices under the gas rate adjustment system, sales increased by 15.7% year on year, to ¥1,257.5 billion.
- Operating income declined by 0.7% year on year, to ¥110.8 billion, due to an increase in gas resource costs resulting from higher LNG prices.

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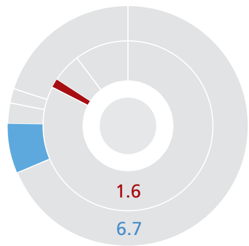
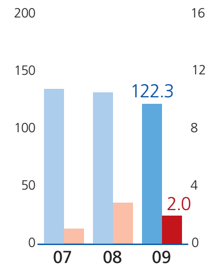
Gas Appliance Sales





We sell gas cooktops, water heaters, gas air conditioning systems using hot water, residential cogeneration systems, gas heat pump air conditioning systems, and other products. The sales are mainly handled by the service network of Tokyo Gas, LIFEVAL, Enesta, and Enefit. (External sales ratio: 95.8%)

- As a result of economic conditions, the number of new projects declined and existing customers were reluctant to purchase gas appliances. Sales were down by 7.5%, to ¥122.3 billion, and operating income decreased by 28.3%, to ¥2.0 billion.

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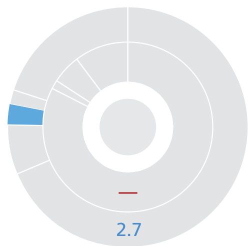
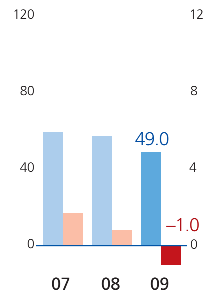
Installation Work





This segment carries out construction, such as the installation of gas pipes and valves on the sites of customers in our service area.
(External sales ratio: 93.4%)

- Due to sluggish conditions in construction and to a decrease in starts and building permits, sales fell by 14.4% year on year, to ¥49.0 billion, and operating income declined by ¥1.8 billion, to –¥1.0 billion.

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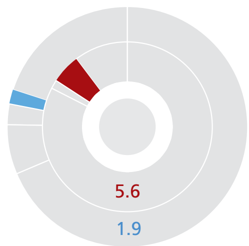
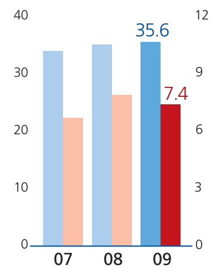
Real Estate Rental





This segment is mainly involved in leasing, management, and related activities for the Shinjuku Park Tower and other office buildings. These activities are principally conducted by our consolidated subsidiary, Tokyo Gas Urban Development Co., Ltd. In addition, this subsidiary leases land in Toyosu, Ginza, and Gofukubashi, etc. (External sales ratio: 36.8%)

- Sales increased by 1.3% year on year, to ¥35.6 billion, as a result of increased lease income due to the GINZA gCUBE building, a commercial facility that was opened in September.
- Operating expenses increased due to higher removal expenses accompanying renovation work at the Hamamatsucho head office building and other factors, and operating income declined by 6.5%, to ¥7.4 billion.

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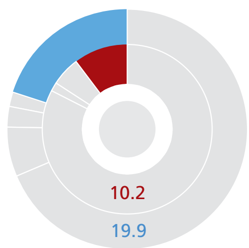
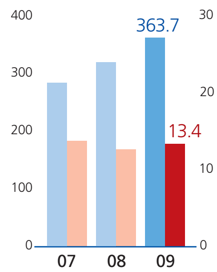
Other Business





This segment includes energy services, facility construction and engineering, industry gas sales, LPG sales, system integration services, electric power, credit and leases, and shipping. (External sales ratio: 72.5%)

- New customers were acquired in the energy service business. In electric power operations, Kawasaki Natural Gas Power Generation Co., Ltd. began operations in April 2008. In shipping operations, a new ship was placed into service and shipping revenue from the Company's own fleet increased. Sales in this segment increased by 13.6% year on year, to ¥363.7 billion.
- The worsening economic conditions resulted in declines in profits in such areas as industry gas sales. However, operating income rose 5.6% year on year, to ¥13.4 billion, due to higher gross profit in shipping, etc.

→ See Page 28

Segment sales include intra-group transactions.

TO OUR SHAREHOLDERS AND INVESTORS

President **Mitsunori Torihara**

Fiscal 2008 in Review: A Year of Dramatic Changes

Fiscal 2008 (the year ended March 2009) was marked by unprecedented changes in the Company's operating environment. Due to the global recession that began with the financial crisis in the United States in the fall 2008, Japan's economy underwent a significant slowdown during the year, and there are still no clear signs of a recovery. As a result, demand for city gas, which supports industrial activities, declined mainly due to lower utilization rates at plants. Year on year, gas sales volume in the industrial sector was down about 2% for the full fiscal year and down more than 10% in the second half of the fiscal year, when the economic recession became more apparent. Total gas sales volume, including that for the residential, commercial and other sectors, declined year on year for six consecutive months from October 2008, and it declined 1.9% for the full fiscal year.

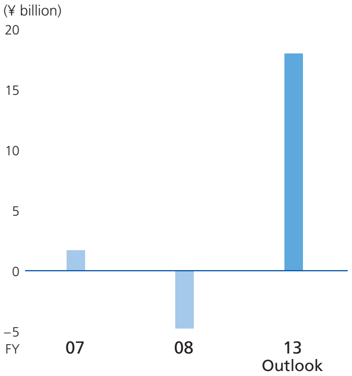
Moreover, the dramatic fluctuations in crude oil prices were a major influence on our operations. The WTI crude oil price underwent dramatic—and extremely unusual—fluctuations, posting a record high of $147.27 per barrel in July and subsequently falling to the $30 dollar level in December. As the price of LNG, the resource for city gas, is basically linked to the price of crude oil, these fluctuations had a major effect on our revenues and expenditures. In the second half of the fiscal year, the LNG price began to appreciate, favorably impacting our performance. However, the time lag under the gas rate adjustment system had an adverse effect on our performance in the fiscal year.

Due to higher unit prices under the gas rate adjustment system, total net sales increased 11.6% from the previous year, to ¥1,660.1 billion. Nonetheless, operating income and net income both declined, with operating income down 6.9%, to ¥65.2 billion, and net income decreasing 1.8%, to ¥41.7 billion.

Against the background of these dramatic fluctuations in LNG prices, in response to requests from the government, we implemented special measures to mitigate changes in gas rates in the residential sector. (For the period from January to March 2009, the amount by which gas rates were adjusted to reflect increased resource costs under the gas rate adjustment system was reduced by ¥4.2 billion, and that amount will be recovered through adjustments to rates in fiscal 2009.) Also, the gas rate adjustment system was itself revised, and a new system was implemented in May 2009. Under the new system, gas rates are reviewed each month and changes in resource prices are reflected more promptly in the rates. In the same way, the gas rate adjustment system for large-volume customers was reviewed from February 2009. The timing of the gas resource price shift was advanced, and consequently the risk that the changes in the gas resource price would affect income was reduced.

Major Management Indicators in Medium-Term Management Plan

TEP



TEP (Tokyo Gas Economic Profit) =
net operating profit after tax prior to interest payments – cost of capital (invested capital x WACC)
WACC Fiscal 2007 results: 3.6%
WACC Fiscal 2008 results: 3.4%
WACC Fiscal 2013 outlook: 3.8%

Operating Cash Flow

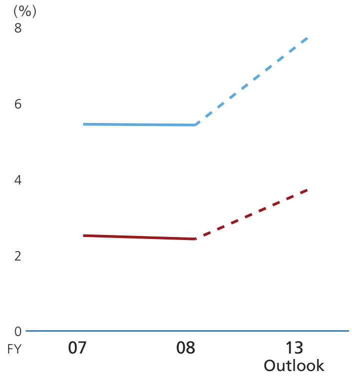
Fiscal 2007 ¥184.9 billion

Fiscal 2008 ¥182.7 billion

↓

Fiscal 2009 – 2013
Total ¥1,060.0 billion

ROE / ROA



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

Preparing a Foundation for Long-Term Growth

Even in this difficult operating environment, we are steadily implementing a variety of initiatives for future growth. As a Group providing energy to society, we continually make long-term forecasts regarding future demand and move forward with the establishment of a sound supply system. We are also working aggressively with the development of technologies related to sophisticated energy usage to ensure that we can provide high-value-added products and services to meet changing market needs.

The Group is aiming to achieve sustained growth through the establishment of an integrated energy business, with natural gas at its core. The integrated energy business is a business model for realizing optimal energy usage by customers, and by doing so, we also aim to develop new demand. To those ends, it includes being a multi-energy supplier that provides access to gas, electric power, and heat, as well as an energy services provider offering a variety of one-stop energy solutions that add value for customers. In addition, the integrated energy business is also a long-term strategy for the development of operations in a wider supply area, centered on the region extending for a 200-km radius around Tokyo. In fiscal 2008, we steadily implemented key initiatives targeting growth in integrated energy operations, such as the expansion of LNG upstream and transport operations, the expansion of pipeline systems, the construction of large-scale power generation facilities, the enhancement of energy service operations, and the establishment of a new franchise system in order to improve the services to local communities.

Background to the Formulation of the New Medium-Term Management Plan

In January 2009, we formulated a medium-term management plan for fiscal 2009–2013. This plan targets an appropriate response to the economic recession discussed above, to fluctuations in the operating environment stemming from crude oil price movements, and to changes in the management environment going forward, as well as the "evolution and advancement of the integrated energy business strategy."

In formulating the plan, the first environmental change that we considered was the growth in social demands for environmental conservation. The first commitment period of the Kyoto Protocol came into effect in 2008, and discussions regarding the post-Kyoto framework are underway in the approach to COP15, the U.N. climate conference, which will be held in December 2009. Climate change countermeasures are becoming more important. In this setting, we must actively respond to the demands of

WE ARE STEADILY IMPLEMENTING A VARIETY OF INITIATIVES FOR FUTURE GROWTH

As an “energy frontier corporate group” with operations centered on natural gas, we endeavor to realize comfortable lifestyles and environmentally friendly cities, and strive to ensure continued development while consistently earning the trust of customers, shareholders, and society—
In accordance with this management philosophy, we will focus on the evolution and advancement of the integrated energy business.

customers and society by further expanding the highly efficient usage of natural gas and providing optimal energy usage systems that offer high environmental value, utilizing renewable energy.

Change in the structure of energy demand was another important point in the formulation of the plan. In the industrial and commercial sectors, we expect a short-term decline in demand due to the economic recession. However, given the environmental merits of natural gas, there is still a large potential in the Kanto area for gas demand switching from oil to natural gas and for power generation. By expanding infrastructure and aggressively developing potential demand, we expect industrial and commercial demand to become a major source of future growth. In the residential sector, there is a trend toward slow growth in energy demand over the long term due to sluggish housing starts, a decrease in the average number of people per household, the diffusion of energy-saving appliances, and an increase in housing that is more airtight and better insulated. Our important challenges include bolstering sales for the purpose of expanding new demand in the Kanto area, where the population is still expected to grow, and taking steps to steadily increase demand.

Furthermore, we must respond to changes in the gas resource procurement environment. The price of LNG is possibly on a rising trend over the medium to long term due to such factors as increasing global demand and the rise of resource nationalism. Accordingly, we need to enhance the LNG value chain, such as in upstream and transport operations, and by doing so, we will strengthen our system for the stable procurement of cost-competitive LNG over the long term.

Competition in energy markets continues to intensify. Particularly, in the residential sector, electric power companies are aggressively promoting all-electric houses. In response, we need to bolster our overall competitiveness, not limited to our gas price competitiveness, but also technology, product, proposal, and other capabilities that enable us to respond appropriately to diverse customer needs.

In consideration of these kinds of changes in the environment, we will develop our operations with an emphasis on the “three E’s”—Eco-friendly (creation of value emphasizing the environment), Excellent service (improvement of value for customers), and Expansion (rigorous in-depth cultivation and widening of markets). At the same time, we will focus on two initiatives that support the three E’s: ”strengthening the LNG value chain” and ”reinforcement of the synergy of All Tokyo Gas.” In this way, the new medium-term management plan targets the evolution and advancement of the integrated energy business.

The Role of Tokyo Gas in Alleviating Environmental Problems

In terms of growth potential, the most promising field is the business related to the reduction of environmental burdens. As an “energy frontier corporate group” with operations centered on natural gas, we have a management philosophy that targets the realization of comfortable lifestyles and environmentally friendly cities. We strive to ensure continued development based on the trust of customers, shareholders, and society. In accordance with this philosophy, we are implementing a variety of initiatives to create higher environmental value.

One of the most noteworthy of these initiatives is the May 2009 start of marketing of the “ENE-FARM” residential-use fuel cell cogeneration system, which has been highly anticipated not only by the national government but also by the housing industry and local communities. We have demonstrated that “ENE-FARM” reduces energy consumption by 33% and CO_2 emissions

45% in comparison with conventional systems. For a typical household—a detached house with four people—this is equivalent to an annual reduction in CO_2 emissions of 1.5 tons (1 kg per person per day). "ENE-FARM" will certainly play an important role in reducing climate change contributing gases, and we will do our utmost to promote its diffusion.

In the industrial and commercial sectors, meanwhile, we will develop energy services with higher environmental value. In addition to cogeneration, these services will utilize renewable energy, including sunlight and solar heat. In this way, we will make steady progress toward the realization of a low-carbon society. Also, in regional redevelopment projects, Tokyo Gas will strive to build optimal energy systems at the local community level through the use of the area-wide, networked energy system "Smart Energy Network." These systems will allow flexible exchange of energy among residences, office buildings, and large commercial facilities, such as hospitals and hotels.

To move forward with this type of advanced energy usage, it will be necessary to accelerate the development of innovative new technologies, such as high-efficiency appliances and optimal energy systems that utilize renewable energy. Accordingly, Tokyo Gas will support alliances among industry, government, and academia and aggressively invest resources in technological development based on a long-term viewpoint.

Brand Strength Based on Relationships of Trust with Customers

Our close relationships with customers, which have been cultivated throughout our history of more than 120 years, and our brand strength, which is represented by the words "security," "safety," and "reliability," will become increasingly important sources of competitive advantage in the years ahead. To fully leverage these strengths and accurately meet increasingly diverse and sophisticated customer needs, we are rebuilding our sales and customer service system with a focus on close links to local communities. Since April 2008, we have been steadily establishing new Tokyo Gas LIFEVAL operations. Through Tokyo Gas LIFEVAL, we are restructuring and integrating the sales and costomer service functions, which are key points of contact with customers. These functions, which include gas service related construction, sales and maintenance of gas appliances, meter reading, and periodic gas facility safety checks, were previously divided among Enesta and Tokyo Gas Customer Service. Now, Tokyo Gas LIFEVAL provides one-stop customer service for a variety of needs. We have divided our base of approximately 10 million customers in the Tokyo metropolitan area into 65 service blocks, and will establish Tokyo Gas LIFEVAL operations in each of these blocks through joint investment by the Company and the former Enesta. We expect to complete the establishment of the new system in October 2009. Through this system, we will further strengthen our relationships with customers, counter the aggressive sales efforts by electric power companies to promote a shift to electricity, and work to achieve sustained increases in the market share earned by gas.

WE FULLY LEVERAGE OUR BRAND STRENGTH, WHICH IS REPRESENTED BY THE WORDS "SECURITY," "SAFETY," AND "RELIABILITY"

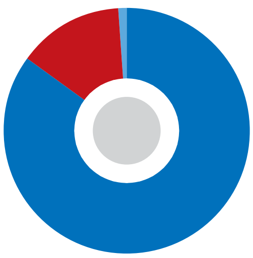
All Tokyo Gas Initiatives

To realize sustained growth as a multi-energy company with natural gas at its core, it is essential that we leverage All Tokyo Gas synergies, not only limited to Group companies, but also cooperating companies, involved with the LNG value chain, from resource procurement to customer sales and service. We also need to strengthen the All Tokyo Gas management foundation by further enhancing human resources and technologies. In these endeavors, we will focus on the newly established Tokyo Gas LIFEVAL and our affiliated companies, which are pillars of the integrated energy operations strategy in such fields as LNG upstream and transport operations, energy services, and power generation. On this foundation, we will draw on the synergies of All Tokyo Gas to work toward the achievement of the medium-term management plan.

On the other hand, as in past plans, our policy regarding the allocation of cash flow is clearly spelled out in the current medium-term management plan, with priority given to investment in future growth and the provision of returns to shareholders. For shareholder returns, we remain committed to our policy of a total payout ratio of 60%. This policy entails the provision of a return to shareholders through dividends and purchases of treasury stock totaling 60% of net income. In regard to dividends, our priority is to maintain stable dividend payments, with gradual increases over the long term in line with growth in income. This approach also underscores our unstinting efforts to steadily implement the initiatives in the medium-term management plan to achieve sustained growth in the years ahead.

President **Mitsunori Torihara**

Allocation of Cash Flow During the Period of the Medium-Term Management Plan

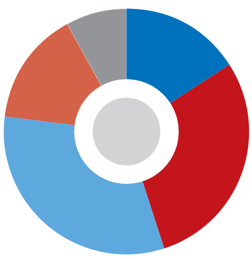


Five year total: about ¥1,070.0 billion*

- 85% Investment / loan
- 14% Shareholders' return
- 1% Reduction of interest-bearing debt

* Operating cash flow + other cash flow

Capex, Investment, and Loan



Five year total: about ¥900.0 billion

- 16% Upstream / overseas / LNG fleet
- 29% Infrastructure
- 15% Business base
- 32% Demand development
- 8% Others

WE WILL DRAW ON THE SYNERGIES OF ALL TOKYO GAS TO WORK TOWARD THE ACHIEVEMENT OF THE MEDIUM-TERM MANAGEMENT PLAN

SPECIAL FEATURE 2

Tokyo Gas Group Medium-Term Management Plan for FY2009–2013

EVOLUTION AND ADVANCEMENT OF INTEGRATED ENERGY BUSINESS

Through the enhancement of the integrated energy business, offering multi-energy supply retaining natural gas at the core, and energy services offering one-stop energy solutions, Tokyo Gas prepares itself for future patterns of energy use and the development of society.

Growth Potential 10 Years into the Future

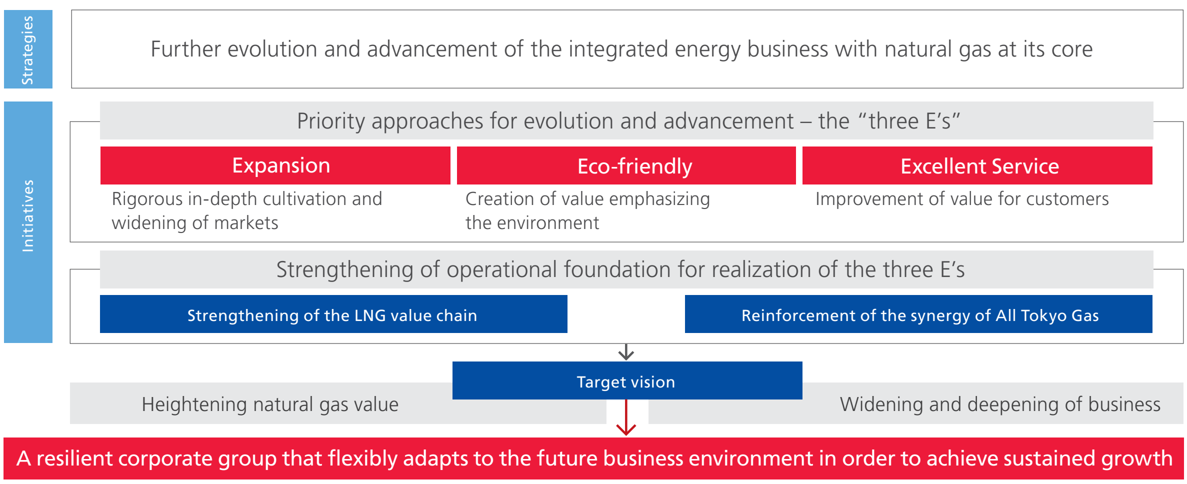
Under our previous medium-term management plan, we worked toward the rapid establishment of the integrated energy business. Through a variety of measures that were steadily implemented throughout the period covered by the plan, we worked to create new growth fields and were able to realize strong competitiveness. Such new fields have included upstream operations, LNG transportation, and electric power.

While we do not anticipate any change in the advantage and importance of natural gas as an energy resource, we are seeing changes in our operating environment that will have a major effect on our business development. These include further increases in social expectations regarding environmental conservation, intensified competition among different sources of energy, changes in LNG procurement conditions, and the influence of the economic slowdown on energy demand over the short term. In this setting, we will implement the Group medium-term management plan for fiscal 2009–2013 (from the year ending March 2010 to the year ending March 2014), for which the theme is "evolution and advancement of the integrated energy business." While looking ahead to the latter half of the coming decade, by strategically allocating management resources, and by taking steps to reinforce our business foundations, we will strive to be a resilient corporate group that flexibly adapts to the future business environment in order to achieve sustained growth.

Framework for the Medium-Term Management Plan

To achieve further evolution and advancement of our integrated energy business with natural gas at its core, we will conduct operational development with an emphasis on the "three E's:"—Expansion (rigorous in-depth cultivation and widening of markets), Eco-friendly (creation of value emphasizing the environment), and Excellent service (improvement of value for customers). The three E's will be supported on a foundation comprising two components: "strengthening the LNG value chain" and "reinforcement of the synergy of All Tokyo Gas."

Overview of Medium-Term Management Plan



Priority Approaches – The Three E's

Expansion – Rigorous In-Depth Cultivation and Widening of Markets

Approaches thus far
- Diffusion of natural gas use over a wider area within a 200-km radius around Tokyo in the Kanto region
- One-stop supply of multi-energy services (gas, electricity, etc.)

Priorities
- Cultivation of new demand within the wide-area radius and augmentation of the wide-area infrastructure
- Demand development through rigorous in-depth cultivation of the residential market
- Diffusion and expansion of natural gas use over a wider area through locally rooted gas companies

Development and Expansion of Industrial Demand

Japan's energy markets are presenting increasingly difficult conditions due to such factors as the economic slowdown and the declining population. Nonetheless, within the 200-km area including Tokyo and surrounding prefectures, there is abundant demand, mainly from the industrial sector. Accordingly, thorough-going development and expansion of natural gas demand is the most important challenge in the Company's medium-term management plan.

At this point, we believe that potential demand in the Kanto area is about 9 billion m³, including thermal demand, which we are targeting through conversion from other fuels, and electric power demand, which we are targeting through cogeneration and other systems. By securing that potential demand, over the course of the medium-term management plan, we forecast growth in gas sales volume of more than 3% per annum. Thus, volume is forecast to reach ¥16.4 billion m³ in fiscal 2013.

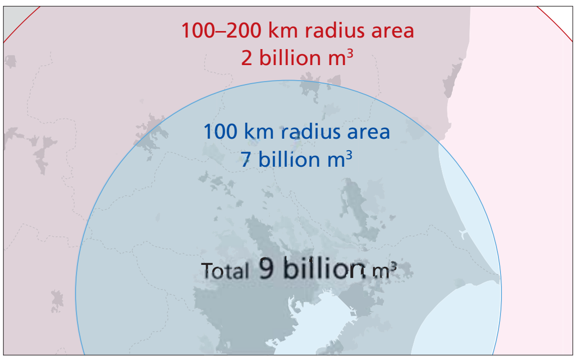
Initiatives in the Residential-Use Market

In the residential sector, competition between gas and electric power will intensify. In response, we will strive for a further increase in the number of customers by stepping up marketing efforts targeting new residential units. Moreover, we will further bolster Tokyo Gas Group-wide sales initiatives, targeting house builders and other sub-users. Further, through strategic investment in pipelines, we will expand our supply areas and aim to secure new customers. We expect the number of customers to reach 11.2 million by the end of fiscal 2013.

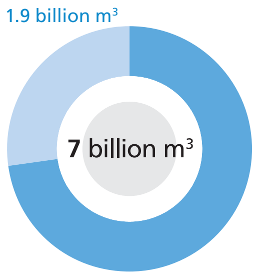
Also, within the 200-km Kanto area radius, market characteristics differ based on region. Accordingly, focusing on our wide-area branches and related city gas companies, we will build an operational system closely linked to various regions, cooperate with peripheral gas suppliers, and bolster our marketing capabilities.

9 Billion m³ Growth Potential

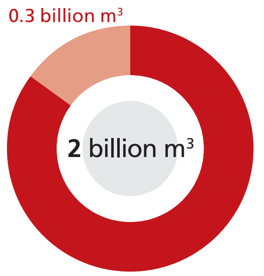
Potential Industrial and Commercial Demand within a 200-km Radius around Tokyo



100 km Radius Area



100–200 km Radius Area



The Company's estimate

- Conversion from other fuels, etc.
- Cogeneration / power generation use

- Conversion from other fuels, etc.
- Cogeneration / power generation use

LNG tanker trucks

Tokyo Gas Yokosuka Power

Chiba-Kashima Line

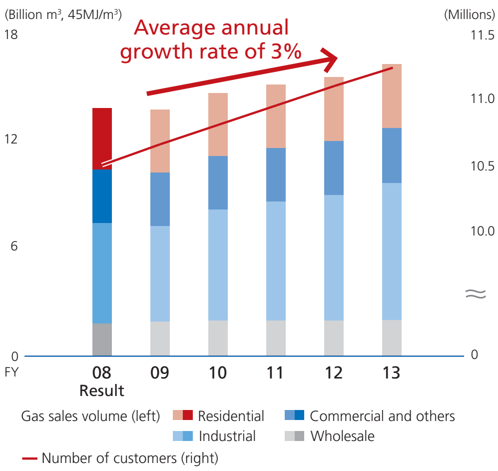
Expand Integrated Energy Business—Bolster Electric Power and Energy Services

Under the new medium-term management plan, we will further expand and boost the competitiveness of our electricity business, which supports our multi-energy supply activities. In addition to the three large-scale power stations already in operation, the plan foresees the startup of Ohgishima Power by the end of fiscal 2009. As a result, as of fiscal 2010 our share of the capacity of these power stations will be about 1,300 MW. In addition to conventional power retailing, we will work to expand operations by establishing a sales portfolio that includes market transactions. We will also aim to expand gas business synergies.

In the energy service business, we will increase our competitiveness by leveraging our ability to provide one-stop solutions. Related issues include achieving the best energy mix, facility selection, operation, safety management, finance, support for energy saving, and regional energy services.

Steady Growth in Operational Scale

Outlook for Gas Sales Volume and Number of Customers



Expanding Electric Power Operations / Bolstering Competitiveness

Major Electric Power Plants in Operation

Plant	Capacity	Percentage of shares held	State of operation
Tokyo Gas Baypower	100 MW	100%	In operation since October 2003
Tokyo Gas Yokosuka Power	240 MW	75%	In operation since June 2006
Kawasaki Natural Gas Power Generation	840 MW	49%	In operation since April 2008

Large-Scale Power Plants under Construction

Plant	Capacity	Percentage of shares held	State of operation
Ohgishima Power	1,220 MW	75%	Commencing at end of fiscal 2009

Establishment of a system in which our share of capacity is about 1,300 MW

Priority Approaches – The Three E's

Eco-friendly – Creation of Value Emphasizing The Environment

Approaches thus far

- Contribution to reduced environmental burden in energy use through the promotion of natural gas utilization and the development and diffusion of gas appliances and systems

Priorities

- Contribution to the realization of a low-carbon society through increased sales of natural gas, which has excellent environmental features; as well as aggressive initiatives in such areas as the provision of goods and services that use new energy and the enhancement of energy-saving through the supply of new energy and area-wide / networked energy usage.

Extensive Adoption of the "ENE-FARM" Residential-Use Fuel Cell

The Group has developed, diffused, and expanded equipment and systems for the advanced use of environmentally friendly natural gas, especially high-efficiency systems that reduce the burden on the environment. In the residential sector, the "ENE-FARM" residential-use fuel cell, which represents these systems, will be deployed to the market for a full-scale commercial roll out under the medium-term management plan. In comparison with previous systems, environmental friendliness is a strength of this system, which reduces CO_2 emissions by 1.5 tons a year per household*. We will leverage this strength and work to achieve further reductions in cost and size. We are aiming for sales of 42,000 units by the end of fiscal 2013. We will position "ENE-FARM," which offers a one-stop supply of electricity and heating, as our main strategic product in order to realize a low-carbon society. Through its adoption, we will take the initiative in working for a transition to a hydrogen-based society in the future.

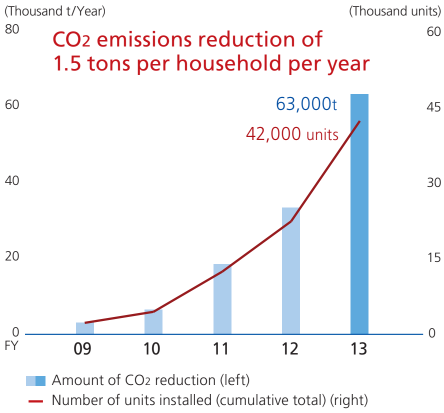
* The Company's trial calculation based on verification testing and assuming four people per household.

Further Creation of Environmental Value

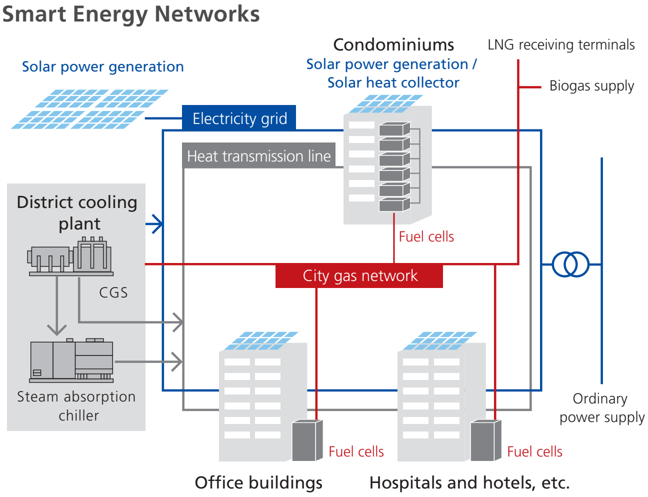
We are giving careful consideration to patterns of energy usage expected from the second half of the coming decade, as well as to expansion of growth opportunities. With these factors in mind, we will take steps to integrate new sources of energy and natural gas as well as to achieve further reductions in environmental burden / CO_2 emissions. These will be key steps toward the realization of a low-carbon society. Specifically, from the current fiscal year, we will implement full-scale initiatives in double power generation combining solar power with "ENE-FARM." In addition to the optimization of individual appliances/energies, we will also target the construction of "smart energy networks" that integrate electricity, thermal, gas, and renewable energies to facilitate optimal area-wide / networked energy usage.

Realization of a Low-Carbon Society

Reduction of CO_2 Emissions through Diffusion and Expansion of the "ENE-FARM" Residential-Use Fuel Cell



Smart Energy Networks



Priority Approaches – The Three E's

Excellent Service – Improvement of Value for Customers

Approaches thus far

- Establishment of new energy service companies (Tokyo Gas LIFEVAL) rooted in the local community
- Proposal of diverse solutions and value to customers through multi-energy supply and energy services
- Concentration on periodic inspection of customer gas facilities and systematic renovation of gas pipes

Priorities

- Improvement of customer satisfaction through the proposal of value, the provision of timely services, and the proposal of higher quality solutions that cater to the needs of each customer
- Further heightening of the value of the "safety, security, and reliability" brand by reinforcing gas appliance and pipeline safety measures as well as countermeasures for earthquakes and other natural disasters

Establishment and Promotion of the Setup for Tokyo Gas LIFEVAL

As a measure to strengthen marketing in the residential sector, all functions, which used to be separated by type of service, have been integrated into newly set-up Tokyo Gas LIFEVAL. Leveraging all points of contact with customers, such as periodic gas facility safety checks and meter reading, we will provide various services that offer thoroughgoing responses to diverse needs and implement one-stop value proposals. In this way, we will aim for even higher customer satisfaction. From April 2008, we have moved ahead with the roll out of regionally linked marketing systems through LIFEVAL. By October 2009, we plan to have LIFEVAL set up in some 65 service blocks in all, in line with our original plans.

Providing Added Value to Our Industrial and Commercial Customers

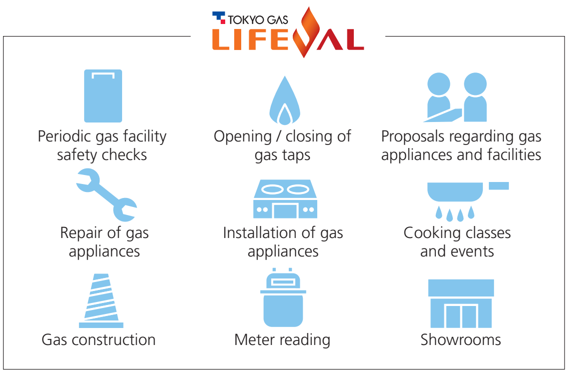
In response to the increasingly sophisticated and diverse needs of our customers, we will take full advantage of the direct sales, technical, and engineering capabilities that we have cultivated in order to propose higher value.

Enhancing "Safety, Security, and Reliability"

We will take steps to improve the quality of assets through ongoing investment in upgrading production and supply facilities, such as replacement of aging pipes, together with the strengthening of measures to assure the safety of gas appliances. In this way, we will strive to further heighten the brand value symbolized by the words "safety, security, and reliability."

Focused on Improving Customer Satisfaction

Tokyo Gas LIFEVAL One-Stop Services



Increasing Value Added through Tokyo Gas Group Comprehensive Strengths

Provision of Value to Customers in Line with Facility Life Cycle

Needs / demands
Understanding of the latest customer needs / wishes

System selection
Consultation utilizing technical/engineering capabilities
- Proposal of optimal energy usage
- Proposals utilizing energy-saving/new energy usage technologies
- Finance services
- Further sophistication in the safety of gas appliances

Operation / maintenance
Operational support / maintenance in line with customer needs
- Monitoring of energy-saving diagnoses
- Provision of operation / maintenance services
- Risk management
- Safety services (strengthening of periodic gas facility safety checks)

Delivery of solutions for customer needs

Strengthening of the LNG Value Chain

Active Augmentation of the Trunk Infrastructure with a Focus on the Future

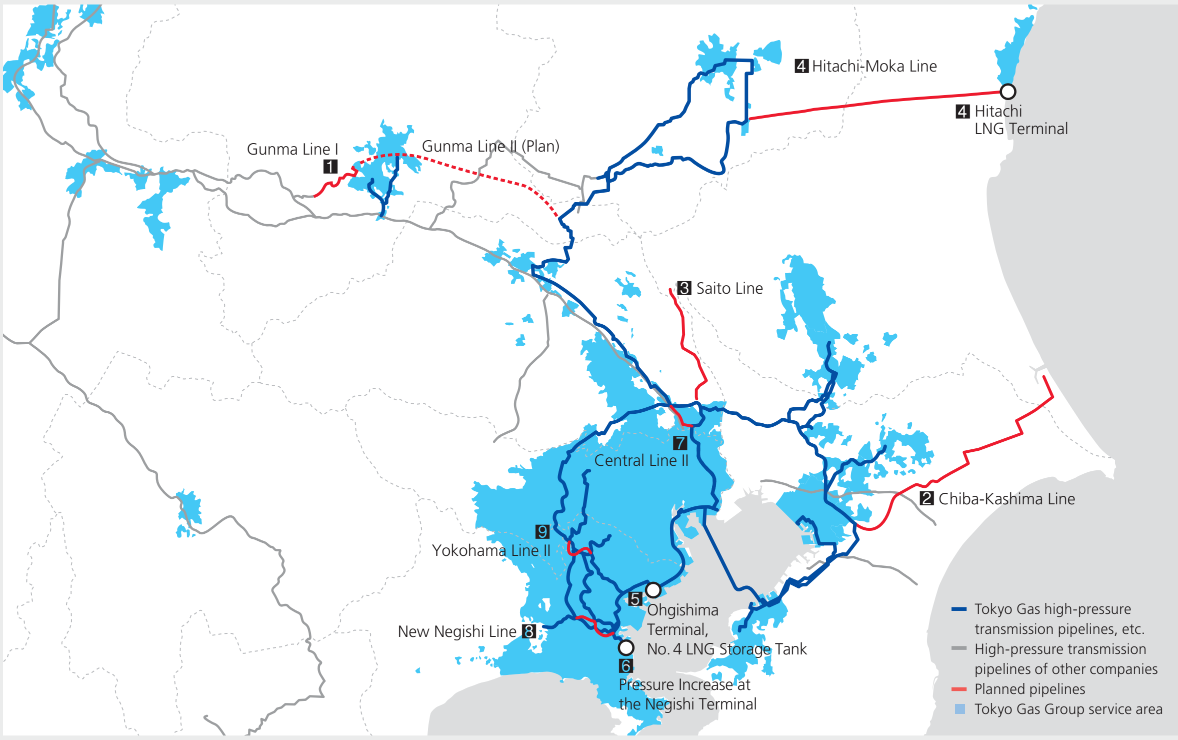
To achieve the evolution and enhancement of the integrated energy business through initiatives centered on the three E's, key points will include the augmentation of wide-area trunk infrastructure to secure long-term demand and to expand operations.

In addition to the Chiba-Kashima Line project, which is currently under construction, we will investigate and implement pipeline construction projects with a focus on securing potential demand in the northern Kanto area. These projects include the new construction of the Saito Line. With an eye to expanding natural gas demand and building a more stable supply system for the second half of the coming decade and thereafter, we will begin to consider the construction of new LNG terminals and pipelines to link the new terminals to existing networks.

Stable LNG Procurement that can Respond to Changes in the Environment

To realize stable procurement of competitive LNG, in addition to existing long-term contracts, we will participate in the start-up of new projects, such as Pluto and Gorgon, and at the same time we will take steps to acquire upstream interests. In these ways, we will implement initiatives in overseas operations related to the LNG value chain. In addition, we will bolster our in-house fleet of LNG vessels, aiming to reduce LNG transport costs and expand business in the transport of LNG for other companies.

Major Infrastructure Formation Plan



Objectives	Line	Scheduled start of service
Enhancement of wide-area infrastructure	1 Gunma Line I	Fiscal 2009
	2 Chiba-Kashima Line	Fiscal 2011
	3 Saito Line	Around fiscal 2015
	4 Hitachi Terminal and Hitachi-Moka Line	Around fiscal 2017
Enhancement of foundations for stable supply	5 Ohgishima Terminal, No. 4 LNG Storage Tank	Fiscal 2013
	6 Pressure Increase at the Negishi Terminal	Fiscal 2013
	7 Central Line II	Fiscal 2010
	8 New Negishi Line	Fiscal 2013
	9 Yokohama Line II	Fiscal 2013

Reinforcement of the Synergy of All Tokyo Gas

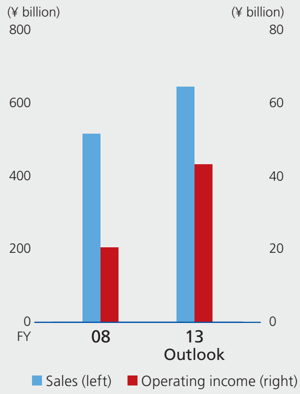
Consolidated Group Management

Tokyo Gas conducts business in a wide range of areas within the LNG value chain, from upstream to downstream. To realize the steady evolution and advancement of the integrated energy business, we must reinforce and consolidate the comprehensive strengths of the Tokyo Gas Group and supporting companies.

In regard to our human resources base, we will take steps to enhance skills through personnel exchange programs within the Group. Tokyo Gas LIFEVAL has an important role in the current medium-term management plan, and we will implement a human resource development program especially for Tokyo Gas LIFEVAL in order to further improve the quality of this system.

Regarding business execution systems, since the previous medium-term management plan, we have been strategically investing funds in the fields of upstream operations, overseas projects, energy services, and the power supply business. During the period covered by the current medium-term management plan, we expect to see a certain level of results from these investments, which will make a contribution to growth and higher profitability within the Group as a whole. We are targeting an increase in operating income at consolidated subsidiaries in fiscal 2013 to more than ¥40 billion—more than double the results in fiscal 2008.

Outlook for Results of Consolidated Subsidiaries



Financial Strategy and Key Indicators in the Medium-Term Management Plan

By steadily implementing the key initiatives under the medium-term management plan, we should generate cash flow of about ¥1,070.0 billion yen over the five years from fiscal 2009 to fiscal 2013. We will aggressively invest this cash flow in upstream, infrastructure, and demand development projects while providing appropriate returns to shareholders.

While investing vigorously to realize sustained future growth, we will implement a balanced financial strategy, with consideration for investment efficiency, financial soundness, and shareholder return, and in fiscal 2013 we expect an ROA of 3.7%, a D/E ratio of 0.69, and an ROE of 7.7%. In providing returns to our shareholders, our aim is to avoid reducing dividends and to work to increase dividends over the long term. We are targeting a total payout ratio of 60%, including treasury stock acquisitions.

Major Management Indicators (Consolidated)

	Fiscal 2008	Fiscal 2013 (plan)
Operating cash flow (¥ billion)	182.7	Five year plan: 1,060.0
ROA (%)	2.4	3.7
ROE (%)	5.4	7.7
TEP* (¥ billion)	(4.8)	18.0

* TEP (Tokyo Gas Economic Profit) =
net operating profit after tax prior to interest payments – cost of capital (invested capital x WACC)
WACC Fiscal 2008 results: 3.4%
WACC Fiscal 2013 outlook: 3.8%

Main Data (Consolidated)

	Fiscal 2008	Fiscal 2013 (plan)
City gas sales volume (billion m^3, 45MJ/m^3)	13.9	16.4
Total net sales (¥ billion)	1,660.1	1,720.0
Total assets (¥ billion)	1,764.1	1,920.0
Interest-bearing debt (¥ billion)	593.2	640.0
Equity ratio (%)	43.8	48.4
D/E ratio (times)	0.77	0.69
Reference: Non-consolidated gas sales (¥ billion)	1,225.7	1,180.0

Premise
Plan for fiscal 2009–2013: Crude oil price: $70 per barrel; exchange rate: ¥100 to the dollar

Gas Segment

In the year under review, gas sales volume was down 1.9% year on year, to 13,942 million m^3, due to such factors as a decline in demand stemming from a warm winter and the economic slowdown. On the other hand, gas sales rose 15.7%, or ¥170.5 billion year on year, to ¥1,257.5 billion, due to higher unit prices under the gas rate adjustment system. However, as a result of higher gas resource procurement costs stemming from increases in LNG prices, which continued from the previous term, operating expenses were up 17.6%, to ¥171.3 billion, and operating income was down 0.7%, to ¥110.8 billion.

Influence of Rising Gas Resource Costs on Revenues / Expenditures

In general, the prices of LNG imported into Japan are linked to crude oil prices. Consequently, under the influence of higher crude oil prices, gas resource costs increased from the year ended March 2008. Also, LNG prices reflect the average crude oil import prices in Japan from several months earlier. As a result, although crude oil prices experienced a downturn starting in summer 2008, LNG prices continued to increase through the end of 2008, which also had an influence on the rise in gas resource costs.

Under the gas rate adjustment system (see "Characteristics of the City Gas Business in Japan" inside the front cover), changes in gas resource costs are reflected in gas rates and thereby recovered. However, a certain period of time is needed before LNG prices are reflected in gas rates and as a result, several months are required until gas resource costs are recovered through gas rates. For most of the year ended March 2009, the rise in gas resource costs preceded the rise in gas rates, and consequently, the recovery of gas resource costs was insufficient. As in the previous fiscal year, gas resource costs were under-recovered in the year ended March 2009.

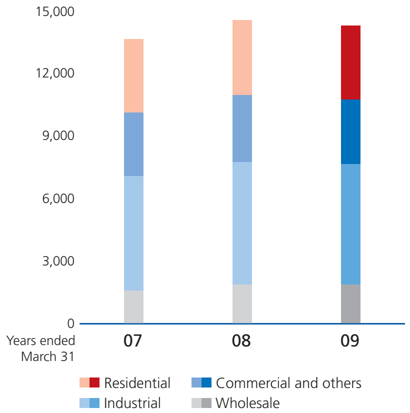
Influence of Temperature Changes on Gas Sales Volume

In the first half of the year ended March 2009 (summer), temperatures were 0.5°C lower on average than in the previous fiscal year. In the second half (winter), however, the average temperature was 0.5°C higher than in the previous year. Accordingly, in regard to air conditioning demand in the commercial sector, cooling demand in the first half and heating demand in the second half were adversely affected. In addition, gas sales volume in the residential sector, where heating and hot water demand increases in the second half of the fiscal year, was also negatively affected.

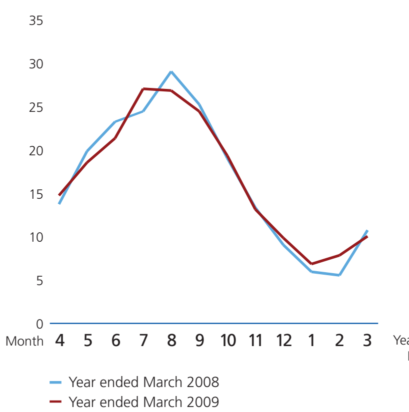
Outlook for the Year Ending March 2010

We forecast a small increase in gas sales volume in the year ending March 2010, due to such factors as a rise in the number of new housing starts in the residential sector. In regard to economic trends, the difficult conditions seen in the January-to-March period of 2009 are expected to continue throughout the fiscal year, and consequently gas sales volume is expected to decline year on year in each of the commercial, industrial, and wholesale sectors. Overall, gas sales volume is forecast to decrease year on year.

Gas Sales Volume by Sector (Consolidated)

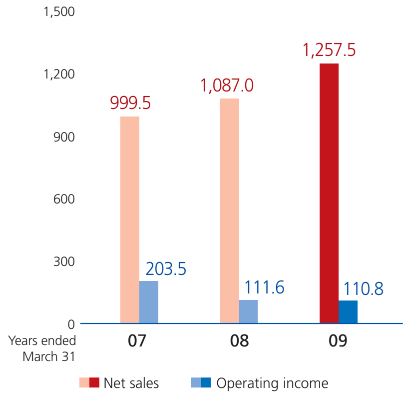


Temperature (Otemachi, Tokyo)



Average temperature in the year ended March 2008:
First half: 22.6°C; second half: 10.6°C; full year: 16.6°C
Average temperature in the year ended March 2009:
First half: 22.1°C; second half: 11.1°C; full year: 16.6°C

Results: Gas Sales Segment



Residential Sector

Overview

In the residential sector, gas is principally used for household heating and hot water as well as for cooking appliances, such as gas ranges and ovens.

The Kanto area, which the Company has positioned as a strategic area, is recording continued growth, and growth in the number of customers is expected to exceed 100,000 a year. However, in recent years there has been a decline in the number of people per household due to trends toward fewer children and nuclear families. In addition, there has been an increase in housing air tightness and insulation. As a result, gas sales volume per household unit is following a gradual declining trend. Also, competition with all-electric housing, which is being promoted principally by electric power companies, is intensifying.

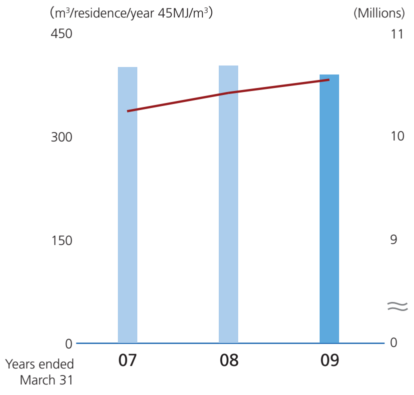
In this setting, in the residential sector, Tokyo Gas will leverage its points of contact with its customers to implement thorough market cultivation and will work to maintain and expand gas sales volume per customer. At the same time, we will strive to achieve growth in total gas sales volume by increasing the number of customers through aggressive marketing activities.

Initiatives in Recent Years

Establishment of Tokyo Gas LIFEVAL

Tokyo Gas has invested more than one-third of the equity in Tokyo Gas LIFEVAL, a new regional energy company, and promoted its establishment. Tokyo Gas LIFEVAL was established with the aim of building close relationships with customers by responding carefully to their diversifying lifestyles and needs. Under Tokyo Gas LIFEVAL,

Residential Gas Sales Volume per Residence and Number of Customers



Figures for residential gas sales volume per customer are non-consolidated figures for Tokyo Gas.

Tokyo Gas LIFEVAL's service

the sales and service functions that comprise points of contact with customers, such as maintenance and sales of gas appliances, periodic gas facility safety check, and meter reading, are being restructured and integrated. Excluding the wide-area markets, we have established a system based on the division of our service area in Tokyo, Kanagawa, Chiba, and Saitama prefectures into approximately 65 service blocks. Following up on the 27 blocks established in the fiscal year ended March 2009, we established 23 blocks in April 2009, giving Tokyo Gas LIFEVAL a total of 50 blocks. In October 2009, we plan to complete the establishment of all of the blocks.

Start of general sales of "ENE-FARM" residential-use fuel cell
"ENE-FARM," which provides a means to reduce CO_2 emissions in the residential sector, is a fuel cell cogeneration system that generates electricity by separating hydrogen from city gas. Having completed four years of large-scale verification testing, in May 2009 we achieved a world first with the start of general sales of these systems for residential use. "ENE-FARM" can make a significant contribution to the realization of a low-carbon society. At the same time, together with "ECOWILL" (a residential use gas engine cogeneration system), "ENE-FARM" has been positioned by Tokyo Gas as a strategic product that will facilitate the development of the new market for in-house power generation and will support increased gas sales volume in the future. Over many years, Tokyo Gas has built relationships of trust with housing developers, housing construction companies, building contractors, architects, and others. Leveraging these relationships, we will focus our "ENE-FARM" sales efforts on new detached housing. Also, during the period covered by the medium-term management plan for fiscal 2009 – 2013, we will work to reduce costs and to improve ease of installation, aiming for a cumulative total of 42,000 installed units in fiscal 2013 and laying the foundation for full-scale diffusion.

Residential-use fuel cell "ENE-FARM"

Rate Initiatives

In the fiscal year ended March 2009, we implemented two rate-related initiatives in the regulated sector, comprising small-volume costomers. First, rates were lowered in April 2008. Under the medium-term management plan for fiscal 2006–2010, we took steps to reduce fixed costs through increases in management efficiency. We also promised to return, during the course of the plan, the results of those initiatives to gas users, who are as important stakeholders as shareholders. We have fulfilled that promise. This revision was a reduction averaging 1.51% in our tariffs for the entire regulated sector, encompassing both service and optional agreement tariffs in Tokyo, the largest district in number of customers. This rate reduction had the effect of reducing gross profit by approximately ¥8.9 billion in the fiscal year ended March 2009. Also, one-fourth of the gas rate increase under the gas rate adjustment system for January to March 2009 was not adjusted in this period. This will have the effect of reducing profit for the fiscal year ended March 2009 by ¥4.2 billion. We implemented special measures to adjust this evenly over the year from April 2009 to March 2010. In this way, we have taken steps to mitigate the scale of the increase in gas rates stemming from the dramatic rise in the price of crude oil, and to meet the request of the national government to stabilize living conditions for consumers.

A new gas rate adjustment system was introduced from May 2009. Please see "Characteristics of the City Gas Business in Japan" inside the front cover.

Natural gas cogeneration system using a leading-edge, high-efficiency gas engine (Makuhari District Heating and Cooling Center)

Commercial and Others, Industrial, Wholesale Sectors

Overview

Commercial and others sector

In the commercial and others sector, in line with the diverse needs of a wide range of customers, such as offices, schools, hospitals, and commercial facilities, gas is used in customized cogeneration systems, gas air conditioning systems (absorption cooling and heating systems and gas heat pump air conditioning systems), cooking equipment, and water heating equipment.

Industrial sector

In the industrial sector, we conduct sales of gas to customers with factories that use furnaces, boilers, and the like, and sell gas for power generation use to Independent power producers[1] and Power producers and suppliers[2].

1 Independent electric power companies that conduct wholesale electric power supply
2 Companies, other than electric power companies, that supply electricity to meet large-volume demand

Wholesale sector

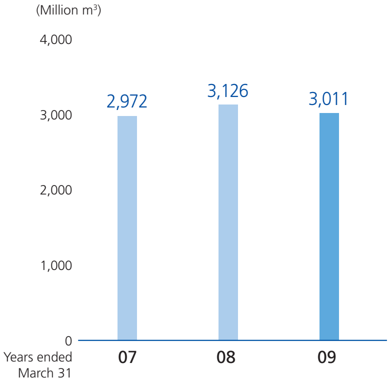
In the wholesale sector, we supply gas on a wholesale basis, principally to 26 gas suppliers in the Kanto region (as of the end of March 2009, excluding companies to which Tokyo Gas supplies LNG).

Initiatives in Recent Years

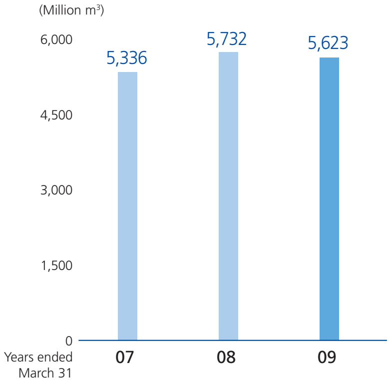
Commercial and others sector

With competition between gas and electricity intensifying, Tokyo Gas is making proposals for the optimal mix of energy systems to meet customer needs. These activities involve the overall coordination of systems, including low-energy consumption, low-cost systems, such as cogeneration systems, as well as air conditioning, hot water, and cooking systems. In doing so, we work in cooperation with wholly owned subsidiary ENERGY ADVANCE Co., Ltd. to leverage energy services, such as ESCO operations, which cover everything needed to conduct energy-saving renovations, including technologies, facilities, human resources, and financial resources. In addition to providing one-stop solutions encompassing a wide

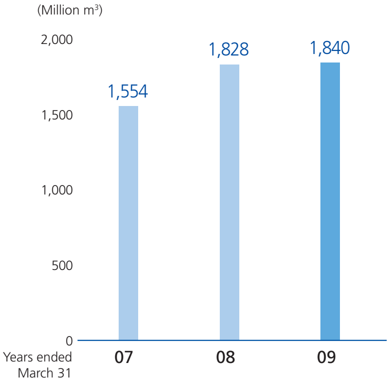
Gas Sales Volume in the Commercial and Others Sector



Gas Sales Volume in the Industrial Sector



Gas Sales Volume in the Wholesale Sector



range of energy-related services, we have worked to promote and increase the efficiency of district heating/cooling systems, which are drawing attention as high-efficiency methods of using energy. In the fiscal year ended March 2009, gas sales volume declined year on year due primarily to the temperature-related effects of a cool summer and warm winter and to reduced utilization rates of existing facilities in line with energy-saving measures. However, we will continue to propose superior energy services, with a focus on cultivating fuel conversion and redevelopment projects in urban areas and on meeting gas facility replacement demand, which is expanding.

Industrial sector

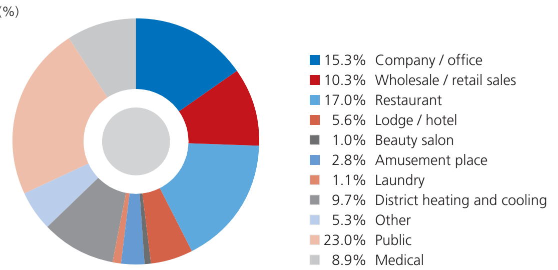
In recent years, public demands for global warming countermeasures and other environmental initiatives have been continually strengthening, and the higher price of crude oil has also had an effect. In this setting, the shift to the use of natural gas as a fuel in the industrial sector has progressed, and as a result, sales in the first half of the fiscal year ended March 2009 were favorable. However, in early fall, industrial production declined as inventories were reduced under the influence of the economic recession, and plant utilization rates were reduced, centered on the steel, machinery, and chemical industries. Gas sales volume saw substantial declines. In the fiscal year ending March 2010, the economic slump is expected to have an effect throughout the year, and we are forecasting a decline of about 10% year on year. However, the trend toward low-carbon technologies continues to grow, and as a result, we anticipate further progress in the shift to natural gas in tandem with a recovery in economic conditions. In response to this demand, we will work to increase gas sales volume by extending pipelines to the Kashima and Northern Kanto regions and by bolstering gas supply through LNG tanker trucks.

Wholesale sector

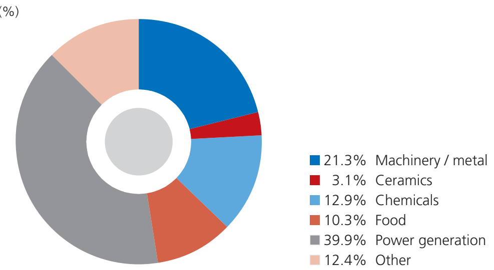
To expand wholesale business, a framework that enables the development of both wholesale gas suppliers and Tokyo Gas over the long term is necessary. Tokyo Gas supports large-volume sales in the service areas of wholesale gas suppliers, and through the Gas Network Consortium, which is composed of 41 general gas suppliers, mainly our wholesale gas customers, Tokyo Gas is working to find common ground on various challenges and to implement measures targeting the resolution of those challenges. In the fiscal year ended March 2009, large-volume demand from wholesale customers declined due to the economic slowdown, but this was offset by development of new demand from wholesale gas suppliers and by facility expansions by existing customers. Consequently, gas sales volume was up 0.7% year on year, to 12 million m^3, representing the only year-on-year increase of any sector.

Breakdown of Gas Sales Volume by Industry

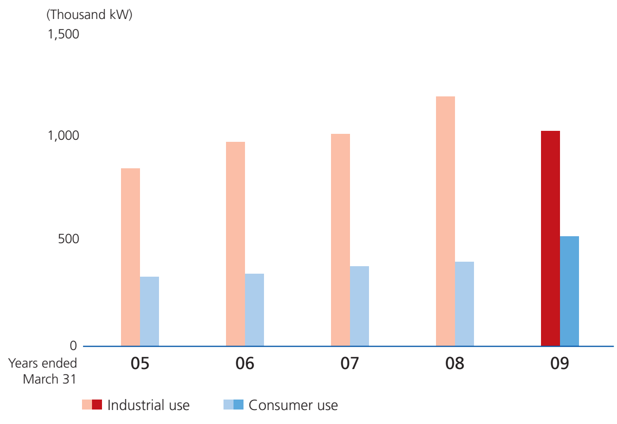
Commercial, Public, and Medical Use
(Year ended March 2009)



Industrial Use (Year ended March 2009)

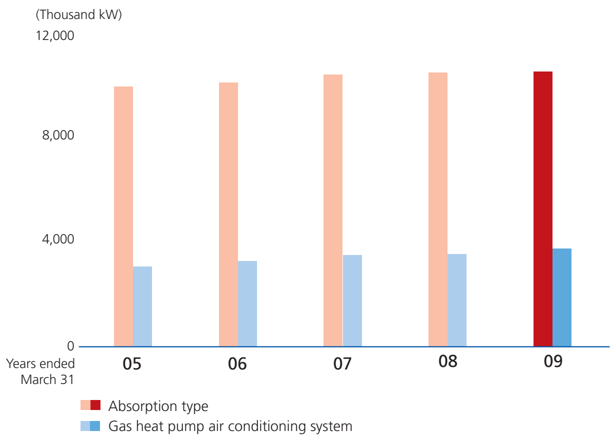


Penetration of Natural Gas Cogeneration Systems



A portion of cogeneration system capacity has been changed from industrial use to commercial use as of March 31, 2009.

Penetration of Gas Air Conditioning



LNG Vessel "Energy Frontier"

Procurement and Transportation

Overview

More than 95% of the city gas supplied by Tokyo Gas is sourced from LNG, with 2% from LPG used to adjust caloric value, and the remainder from domestic natural gas and other sources. To realize stable gas resource procurement, the Company is working to diversify its sources of LNG and currently has 10 long-term LNG contracts in six countries. We are also taking steps to facilitate flexible, competitive resource procurement in line with demand, such as increasing the FOB ratio, which makes possible transport cost reductions through the use of our own vessels, and increasing flexibility in volumes through changes in destinations and flexible increases in transaction volumes in accordance with contracts.

Initiatives in Recent Years

Initiatives targeting stable procurement

Since the second half of the fiscal year ended March 2009, gas demand has declined due to the economic slump, but we are utilizing the flexibility of the amount sourced from long-term LNG projects, and consequently we are conducting procurement in line with demand fluctuations. Sakhalin II, which we began to source from in April 2009, has been added to our long-term contract projects, thereby diversifying our LNG procurement sources, and from the year ending March 2010, we plan to procure from Pluto and Gorgon in Australia as well.

Expansion of upstream and transportation operations

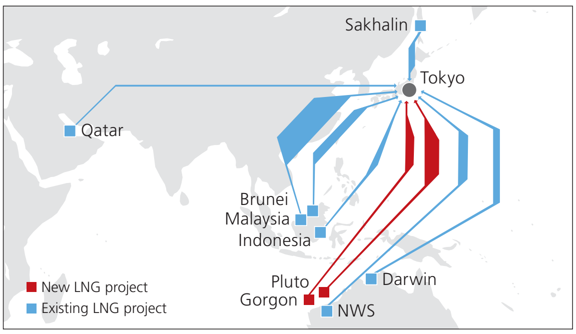
In addition to initiatives in the procurement of cost-competitive LNG, Tokyo Gas has upstream interests in projects from which LNG is procured—3% in the Darwin project and 5% in the Pluto project. By participating in upstream projects, we acquire a variety of know-how and facilitate flexible responses to changes in the operating environment, such as increase in crude oil prices. We have also established our own fleet of tankers, which comprised seven vessels as of May 2009, and we use that fleet to transport LNG. These vessels are used not only for long-term LNG contracts but also for transport of LNG procured via short-term contracts. Through these initiatives, we have increased procurement flexibility and hiked the FOB ratio to 50%, thereby contributing to lower procurement costs.

Tokyo Gas LNG Imports by Country of Origin

(Thousand tons)

	Years ended March 31			
Country	2007	2008	2009	
Malaysia	3,309	3,767	4,482	(40.2%)
Australia	3,395	3,289	2,847	(25.5%)
Brunei	1,514	1,405	1,257	(11.3%)
Indonesia	626	740	742	(6.6%)
Qatar	598	715	631	(5.7%)
Others	749	958	1,203	(10.7%)
Total	10,191	10,874	11,162	(100.0%)

Tokyo Gas Long-Term LNG Contracts



Tokyo Gas Sodegaura LNG Terminal

Production, Supply, and Infrastructure

Overview

Tokyo Gas receives about 11 million tons of LNG a year at three LNG terminals along the shores of Tokyo Bay and delivers city gas to its customers through a pipeline network of about 57,000 km—greater than the circumference of the earth. After LNG is received at the terminals, it is transferred to LNG tanks that have a total storage capacity of about 3.4 million kl. It is regasified to natural gas using vaporizers, LPG is added to adjust the caloric value, and it is transported through the pipelines.

Initiatives in Recent Years

LNG terminals

The Company's LNG terminals are among the largest in the world, and to respond to growth in demand for natural gas and to increase supply stability, Tokyo Gas continues to undertake capital investment. In November 2009, we will start construction of a 250,000-kl LNG tank, the largest in the world, at the Ohgishima terminal, with a target completion date of October 2013. The Company has also started investigation for constructing a fourth LNG terminal in Hitachi, anticipating continued demand growth from the 2010s in the 200-km radius of the Kanto region.

Pipeline network development

The high-pressure trunk pipelines circling the Tokyo metropolitan area and the three LNG terminals work together to support the reliable supply system of Tokyo Gas. To meet long-term demand growth, we have built the Chuo Trunk Line I, which runs north to south through the middle of, and connects to, the trunk lines circling Tokyo. The construction of this line was completed in December 2008, a year ahead of initial plans. To secure demand and expand operations from the second half of the 2010s, we will consider and implement measures to expand the trunk infrastructure in the wide service area during the period covered by the medium-term management plan.

Capital expenditures

In the year ended March 2009, capital expenditures increased by ¥7.9 billion, or 5.7%, year on year, to ¥145.9 billion. On a non-consolidated basis, major capital investment activities include supply facility projects—such as construction of trunk pipelines, construction of supply pipelines, and replacement of existing gas pipelines—which totaled ¥83.1 billion, and terminal construction facilities, which totaled ¥8.8 billion. During the period covered by the medium-term management plan, targeting expansion of demand over the medium-to-long term, we will allocate about ¥580.0 billion for capital expenditures and investment and loans with the objectives of developing demand and increasing production, supply, and infrastructure development.

Major Capital Investment Projects in the Year Ended March 2009

		Project name
Tokyo Gas	¥106.5 billion	•Production facilities: ¥8.8 billion (Negishi LNG Terminal BOG facilities, etc.)
		•Distribution facilities: ¥83.1 billion (Chiba-Kashima Line, ¥8.9 billion; Chuo Trunk Line, ¥5.8 billion; New Negishi Line and Yokohama Line II, ¥5.6 billion; newly constructed supply pipelines, ¥11.1 billion; replacement of existing gas pipelines, ¥15.1 billion)
		•Service and maintenance facilities, etc.: ¥14.6 billion (System related: ¥7.0 billion, etc.)
Consolidated subsidiaries	Total: ¥42.2 billion	•Tokyo LNG Tanker, LNG tanker construction expenses: ¥8.5 billion
		•ENERGY ADVANCE, cogeneration systems, ¥8.0 billion
Total:	¥145.9 billion (after eliminations)	

Gas Appliance Sales Segment

To encourage customers to use gas more comfortably, we sell gas appliances that are produced by other companies to specifications determined by Tokyo Gas. For residential customers, we offer gas cooktops, water heaters, gas air conditioning systems using hot water, residential-use cogeneration systems, floor heating systems, mist saunas, in-home power generation systems, and other appliances. For industrial customers, we principally offer gas heat pump air conditioning systems. These residential and industrial appliances are sold through such channels as affiliated companies and cooperating companies. In the fiscal year ended March 2009, we recorded lower sales and profits in this segment. Sales were down 7.5% year on year, to ¥122.3 billion, and operating income declined 28.3%, to ¥2.0 billion.

Mist sauna "MiSTY"

Installation Work Segment

This segment carries out construction, such as the installation of gas pipes and valves on the sites of customers in our service area.

In the year ended March 2009, conditions in the housing market worsened due to the influence of the economic recession. The number of new housing starts in our service area declined 16.9%, to 217,000, and the number of installations undertaken by the Company declined. In addition, due in part to increased material prices, sales were down 14.4% year on year, to ¥49.0 billion, and the segment recorded an operating loss of ¥1.0 billion, compared with operating income of ¥0.8 billion in the year ended March 2008.

Real Estate Rental Segment

This segment's business primarily involves leasing and management for the Shinjuku Park Tower and other office buildings. These activities are conducted by Tokyo Gas Urban Development Co., Ltd. In the year ended March 2009, sales were ¥35.6 billion, and operating income was ¥7.4 billion.

Real estate operations are positioned to support increased competitiveness in our integrated energy business, the core business of Tokyo Gas. Results from the real estate business are used in the Company's core operations, and in regard to large scale properties for which asset prices are expected to rise, we will conduct development to fully leverage the potential of the property while limiting risk. Development funds are, as a general rule, from real estate sales, and there is no influence on core operations.

Major development projects will utilize a site of about 3.2 hectares in Tamachi and a site of about 20 hectares in Toyosu that are suitable for development. With the objective of recording business income from both of these properties in the middle of the 2010s, we are currently moving ahead with development planning in cooperation with a partner developer. In addition, the GINZA gCUBE building was opened in September 2008.

Shinjuku Park Tower

Other Business Segment

Overview

This segment includes energy services, facility construction and engineering, industry gas, LPG, system integration, electric power, credit and leases, and shipping operations.

Initiatives in Recent Years

In the year ended March 2009, energy services sales increased due to a higher number of new projects undertaken by ENERGY ADVANCE Co., Ltd. In electric power operations, Kawasaki Natural Gas Power Generation Co., Ltd. began operation of its first unit in April 2008 and its second unit in October 2008. Consequently, we increased our share of the capacity of power generation projects to about 400 MW. As a result, sales increased, but due to higher fuel costs and other factors, income declined. In shipping operations, we are taking steps to bolster the capacity of our own fleet as one facet of measures to strengthen the value chain. In June 2008, we put the Energy Navigator, our sixth vessel, into service. Due to the increase in the number of vessels and other factors, Tokyo LNG Tanker Co., Ltd., which manages and operates the Company's fleet, recorded increased shipping revenues and higher income. In May 2009, our seventh vessel, the Energy Confidence, was placed into service.

In the year ending March 2010, the economic recession is expected to have an adverse effect on the revenues of ENERGY ADVANCE Co., Ltd., Tokyo Gas Chemical Co., Ltd., and other companies. In addition, increases in depreciation accompanying the introduction of our seventh vessel and higher charter fees will have an adverse effect on the operating income of Tokyo LNG Tanker. As a result, we expect both sales and operating income in the other business segment to decline year on year.

Kawasaki Natural Gas Power Generation

LNG Vessel "Energy Navigator"

Overview of Major Companies in the Other Business Segment (Years ended March 31)

Field	Major companies	Net sales 2009 (¥ billion)	Net sales 2008 (¥ billion)	Net sales Change (%)	Operating income 2009 (¥ billion)	Operating income 2008 (¥ billion)	Operating income Change (%)
Energy services	Tokyo Gas Co., Ltd., ENERGY ADVANCE Co., Ltd.	107.9	73.1	47.5	1.7	1.0	64.6
Industrial gas, etc.	Tokyo Gas Chemicals Co., Ltd., Tokyo Oxygen and Nitrogen Co., Ltd.	38.0	39.0	(2.7)	1.4	2.1	(32.4)
LPG, etc.	Tokyo Gas Energy Co., Ltd.	38.9	38.6	0.7	0.2	0.0	498.1
System integration, etc.	TG Information Network Co., Ltd.	19.9	18.8	5.5	0.6	0.5	8.6
Electric power	Tokyo Gas Yokosuka Power Co., Ltd., Tokyo Gas Co., Ltd.	30.3	15.5	95.5	(0.9)	(0.6)	—
Credit and leases	TG Credit Service Co., Ltd.	13.2	13.9	(4.8)	1.5	1.5	(3.2)
Shipping	Tokyo LNG Tanker Co., Ltd.	15.8	11.5	37.0	2.8	1.6	80.3
Facility construction, engineering and others	Tokyo Gas Engineering Co., Ltd., Capty Co., Ltd.	99.4	109.4	(9.1)	5.8	6.3	(7.5)
Total		363.7	320.3	13.6	13.4	12.7	5.6

TECHNOLOGY DEVELOPMENT

Strategic Direction of Technology Development

In technology development, we focus on three areas: (1) the creation of appealing concepts and the development of products that give concrete form to the value created by those concepts, (2) the development of innovative environmental technologies that will contribute to the realization of a low-carbon society, and (3) technologies that support the operational platforms for stable administration of gas operations and for realization of higher-level usage and cost reductions. In the fiscal year ended March 2009, the Company allocated about ¥9.1 billion to technology development.

Major Initiatives

Through the development of products that reflect consideration for the understanding and materialization of customer needs, we provide customers with systems and appliances incorporating innovative environmental technologies.

In the year ended March 2009, we completed large-scale verification testing of a residential-use polymer electrolyte fuel cell (PEFC) (sales name: "ENE-FARM"), and made significant progress toward the market introduction stage. We will continue to make improvements in this technology, such as cost reductions, targeting its use in multiple dwelling units in the second half of the 2010s, and will strive to foster its full-fledged diffusion. We will also proceed with development and verification testing of solid oxide fuel cell (SOFC) technologies, which have the potential to offer superior durability and cost savings. We have developed solar-powered hot water systems as a technology that uses renewable energy and contributes to progress toward a low-carbon society. From November 2008, we conducted the world's first onsite verification testing of CO_2 separation and collection during the production of hydrogen. This technology cuts CO_2 emissions in half while maintaining production efficiency of about 80%, thereby heightening the possibility of city gas usage in the future low-carbon society.

In platform technologies, we work to make it possible for natural gas to be delivered safely to the customer and to be used without worries. To that end, we will continue to deepen, pass along, and utilize infrastructure construction technologies, maintenance management technologies, combustion engineering-related technologies, and gas quality management technologies, among others.

The Technology Development Strategy of Tokyo Gas

Creation of Appealing Concepts and Development of Appealing Products

Residential sector

- Development of technologies related to understanding customers
- Development of proposal-style lifestyle products
- Effectiveness and efficiency testing
- Commercialization with consideration for quality

New cooktop "My Choice"

Commercial and industrial sectors

- Customer support technologies that contribute to retention of existing customers and development of technologies that increase the safety of gas systems
- Development of technologies that utilize solar heat and biomass.

Incomplete combustion warning sensor for commercial kitchens

Development of Innovative Environmental Technologies

Innovative energy-saving technologies for high-level use of city gas

- Development of next-generation "ENE-FARM" (polymer electrolyte fuel cell)

ENE·FARM

- Development of SOFC (solid oxide fuel cell)
- Development of several hundred kW class MCFC (molten carbonate fuel cell) combined cycle system

Renewable energy technologies, low-carbon technologies

- Technologies using biomass
- Technologies for systems combining solar heat/solar batteries with gas systems
- Technologies for the highly efficient production and use of hydrogen
- CO_2 separation, collection, transport, and processing technologies
- Technologies related to "Smart Energy Network" composed of distributed power sources

Solar heat hot water system for condominium housing

Hydrogen station

Technologies Supporting Our Operational Platforms

- **Production**
Long-term facility usage, increased quality of terminal operations, etc.

- **Pipelines**
Maintenance of security levels and optimization of security investment

- **Meters**
Development of services using ultrasonic meters, etc.

CORPORATE GOVERNANCE

Our Fundamental Concept of Corporate Governance

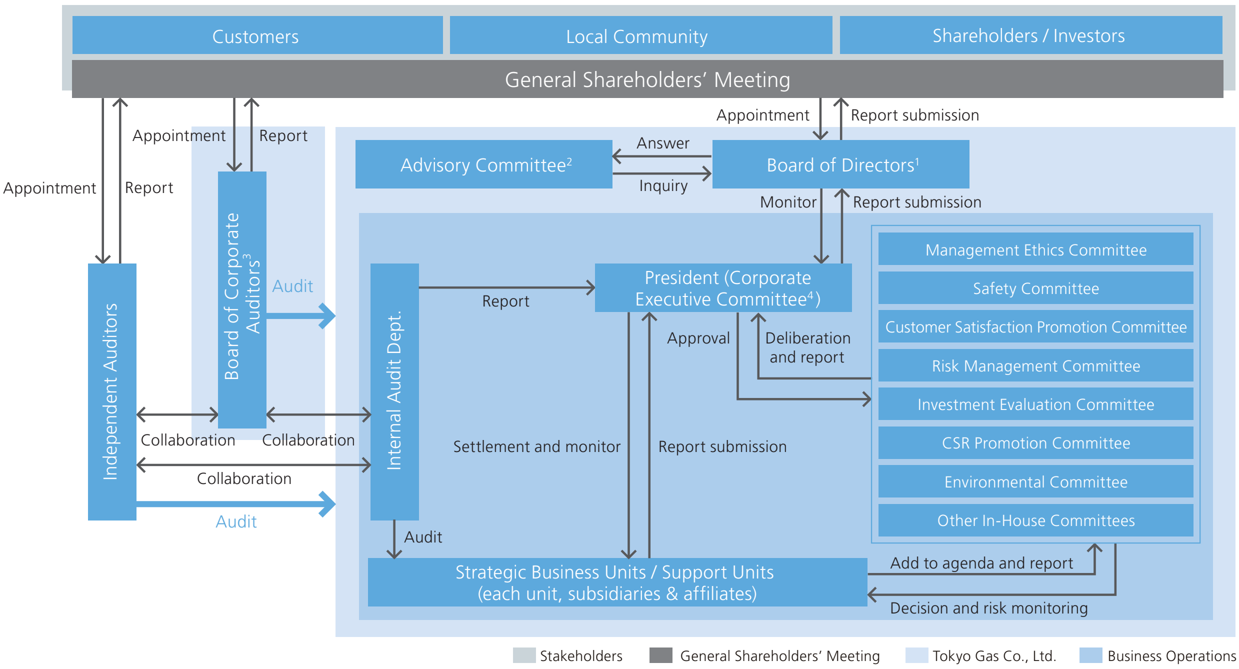
As an "energy frontier corporate group" that focuses on natural gas, Tokyo Gas has a management philosophy that aims at the realization of comfortable lifestyles and environmentally friendly cities. We work to ensure continued development while consistently earning the trust of customers, shareholders, and society. Based on this philosophy, our fundamental concept of enhancing corporate governance is intended to achieve a continuous increase in our corporate value by maximizing the value provided to all of our stakeholders. We are also endeavoring to develop systems and measures to further augment corporate governance, and are implementing them with a commitment to management legality, soundness, and transparency. Tokyo Gas continues to emphasize the importance of accurate decision making, clear separation of management functions and executive functions, efficient business operations, strengthening of auditing and monitoring functions, and clarification of management and executive responsibilities.

Initiatives to Strengthen Corporate Governance

In accordance with our fundamental concept of corporate governance, we have implemented the following ongoing measures to build an optimal corporate governance system for the Company and to further strengthen this system.

2002	•The number of directors was significantly reduced (from 30 to 15). •Outside directors were invited to join the Board of Directors. •An executive officer system was introduced. •The term of office for each officer was shortened to one year. •The Management Ethics Committee, which is chaired by the President, was established. This committee aims at creating an open atmosphere in the organization and promoting transparent management systems, through the discussions relating to compliance in general.
2003	•The Enterprise Risk Management System was introduced.
2005	•The Advisory Committee was established to discuss matters relating to candidates for director positions, officer remuneration, and other similar issues. •The officer remuneration system was revised, with principal measures including the abolition of retirement benefits, the introduction of a performance-linked remuneration scheme, and the establishment of share-purchasing guidelines.
2006	•In order to meet the requirements of the Internal Control Reporting System based on the Financial Instruments and Exchange Law, the Internal Control Promotion Committee was established.
2008	•The Risk Management Committee was established. •The evaluation related to the internal control reporting system was completed. •The IR system was reevaluated, and the IR Department was established. As a result, IR activities were strengthened and the risk management functions that had been dispersed throughout various departments were combined in the IR Department.

Corporate Governance Structure



1 Board of Directors: 11 directors (3 outside directors, and 8 internal directors)
2 Advisory Committee: 2 outside directors, and 1 outside auditor, Chairman, and President
3 Board of Corporate Auditors: 5 corporate auditors (3 outside auditors, and 2 internal auditors)
4 Corporate Executive Committee: President, 2 Executive Vice Presidents, 10 senior executive officers (3 of the representative directors also serve as President and Executive Vice Presidents.)

Management Structure

In June 2002, we reduced the number of directors dramatically (from a maximum of 30 to a maximum of 15) so as to streamline and speed up management decision making. In order to clarify the separation between management and executive functions and to strengthen the decision-making and management functions of the Board of Directors, we invited three outside directors, all of whom have extensive expert knowledge, to join the Board. The outside directors monitor the appropriateness of management activities in a flexible and objective manner. We have created a structure that supports prompt and effective decision making while maintaining proper management transparency. We have also established the Advisory Committee to discuss matters relating to candidates for director positions, officer remuneration, and other similar issues. This committee is comprised of outside directors, outside auditors, and Tokyo Gas directors. As of the end of June 2009, there were 11 directors.

Tokyo Gas has adopted an executive officer system that provides clearly defined accountability. By delegating substantial authority to the executive officers, the system also supports speedy execution by the executive officers of operational matters, based on major business operation plans and the like determined by the Board of Directors. As of the end of June 2009, there were 23 executive officers.

In addition, to assist the Board of Directors, we have set up the Corporate Executive Committee as a deliberative body. It comprises the President, the Executive Vice Presidents, and the senior executive officers. It deliberates in advance on agenda items for upcoming meetings of the Board of Directors and on important matters related to management. After in-depth discussion at these weekly meetings, the President makes final decisions on such management issues. In order to establish clear lines with regard to the directors' management accountability and the executive officers' operational accountability, we have set their respective terms of office at one year.

The three outside auditors and two corporate auditors strictly audit the legality and appropriateness of the performance of duties by the directors from a position of complete independence. Further, they actively make recommendations at Corporate Executive Committee and Board of Directors to enhance the effectiveness of monitoring.

Internal Control System

Under our internal control system, the Board of Directors, which includes three independent outside directors, determines the basic policies for the development of the important business operations plans and the internal control systems and monitors the performance of the directors. In accordance with the basic policies determined by the Board, the executive officers act to carry out business operations as well as to develop and operate the internal control system. We have established the Corporate Executive Committee as a deliberative body to assist the Board. This body undertakes prior discussions on the agenda for upcoming meetings of the Board and deliberates on important matters related to management.

The five corporate auditors, three of which are outside auditors, monitor the performance of the directors' duties. In addition, the Internal Audit Department, independently of business units, monitors the business activities in each segment of Tokyo Gas and its consolidated subsidiaries, as well as the state of the development and operation of internal control and risk management. To implement specialized audits efficiently, the Internal Audit Department has developed a structure of four groups, specializing in financial, operational, information system, and compliance audits. In April 2009, an internal control group was newly established to evaluate the effectiveness of internal control regarding financial reporting.

Reforming the Remuneration System

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

1. Abolition of retirement benefits
   Retirement benefits for directors have been abolished. Yearly retirement benefits have been integrated into monthly payments to officers.
2. Introduction of a performance-linked remuneration scheme
   A performance-linked remuneration scheme that reflects Company-wide and divisional performance for the previous term has been introduced for the monthly payment of directors who double as executive officers.

Total Remuneration for Directors and Corporate Auditors

(Fiscal 2008)

	Millions of yen	Thousands of U.S. dollers
Remuneration for 11 directors	461	4,704
Remuneration for 6 corporate auditors*	106	1,081
Total	567	5,785

* Including one auditor who retired after the General Shareholders' Meeting in June, 2008

Compensation for Independent Auditors

(Fiscal 2008)

	Millions of yen	Thousands of U.S. dollers
Remuneration for auditing services	307	3,132
Remuneration for non-auditing services	34	346
Total	341	3,479

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

Enterprise Risk Management System

In fiscal 2003, the Group established the Enterprise Risk Management (ERM) system, which includes risk management regulations and documented rules concerning major risks that require management intervention.

The IR Department's Risk Management Group was established to promote overall risk management, and approximately 100 Risk Management Promotion Officers have been deployed in Tokyo Gas and its consolidated subsidiaries, and in this way ERM is promoted. Under this risk management system, every year, we review risks, evaluate fluctuations in the importance of risks, and assess the implementation and improvement status of countermeasures. This system facilitates the steady implementation of the ERM-PDCA (Plan-Do-Check-Act) cycle.

Furthermore, in fiscal 2008, the Risk Management Committee was established to assess, manage, and evaluate the status and operation of the ERM system and to improve the level of ERM on a Group-wide basis. This committee checks the status and operation of the ERM system, including periodic risk reviews, reports to the Corporate Executive Committee and the Board of Directors, and secures the necessary approvals.

As a result of the establishment of the ERM system, we can identify and clarify the most recent major risks, which reflect changes in the management environment, and we can provide appropriate disclosure of risk information to the capital markets and other major stakeholders. Also, as a result of periodic monitoring through the Corporate Executive Committee and Board of Directors' meetings, we can implement appropriate responses to risks that are becoming more diverse, complex, and advanced.

Crisis Management System

Because the Company provides public services that comprise a lifeline, for many years we have also had a crisis management system that serves as a response system in the event that a risk-related event actually occurs. Specifically, we have formulated Emergency Response Organization Regulations. In the event of the occurrence of any type of crisis, the Emergency Response Organization responds to the situation immediately in accordance with the Emergency Response Organization Regulations. Possible crises include major natural disasters, such as earthquakes, or production or supply disruptions arising from major accidents at pipelines or terminals, as well as influenza, terrorism, failures in mission-critical IT systems, and compliance problems. Moreover, periodic training is conducted for major risk response measures.

Promoting Compliance

Our stance is reflected in three basic policies calling for the fostering of compliance awareness, the cooperation of each workplace with compliance efforts based on the Group policy, and the establishment of compliance PDCA cycles.

We have established the Management Ethics Committee, chaired by the President. This committee discusses at the management level basic compliance policies and all aspects of compliance initiatives by the Group, monitors the implementation of compliance-related measures, and confirms activity programs from the following year and thereafter. We have also established the Compliance Department, a specialized unit that provides leadership in compliance-related activities. These include development of compliance promotion systems for each unit, awareness and educational campaigns about the code of conduct, compliance risk reduction measures, maintenance of advisory systems, and the distribution of information within and beyond the Tokyo Gas Group companies.

In addition to continuous education about activities related to our code of conduct revised in 2004, we are moving forward with a compliance casebook designed for applying the code of conduct to various problems in the workplace, so as to achieve the permeation of compliance.

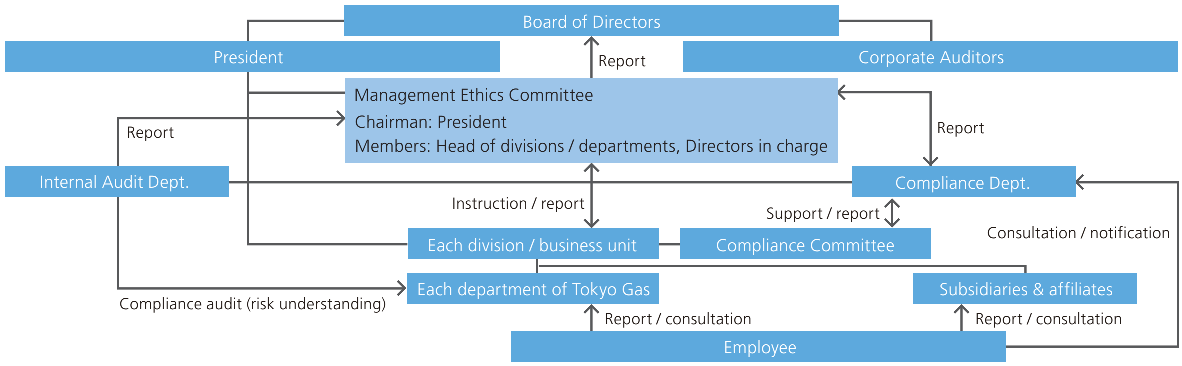
Major Risks Requiring Management Intervention

Risks associated with accidents, disasters, etc.	Gas resource procurement difficulties, natural disasters, accidents accompanying gas manufacture and supply, supply impairments, problems in the areas of assurance of gas safety and the quality of gas appliances and other products, damage due to rumors caused by gas accidents at other firms
Market fluctuation risks	Market price and interest rate fluctuations affecting real estate and financial assets
Risks accompanying business execution	Risks related to established business (changes in the environment of gas resource procurement, risks associated with insufficient or excessive recovery of gas resource costs, decrease in gas sales due to climate change, reduction in existing demand, decrease in demand accompanying intensified competition, delay in the establishment or start of business by new regional energy companies, failure to achieve technology development goals, changes in laws, regulations, institutions, or national/local energy policy), delayed cultivation of new markets, inability to recover investments
Risks related to information management and system operation	Leakage of personal information, shutdown or malfunction of mission-critical IT systems, interruption of telephone service at call centers
Risks related to corporate social responsibility	Conformance with new environmental regulations, etc., compliance violations, insufficient customer satisfaction or customer service

Compliance risk countermeasures include internal and external advisory systems. By operating these systems effectively, we are endeavoring to ensure that compliance-related problems are discovered and resolved quickly so that our corporate self-regulatory processes will continue to function effectively. Dedicated to auditing the observance of laws, regulations, and corporate ethics, the Compliance Audit Group has also been established within the Internal Audit Department. It has been steadily working to mitigate risks by implementing follow-up audits to verify progress in tackling concerns identified at first auditing.

We monitor the effectiveness of Group compliance promotion activities by conducting regular compliance awareness surveys of all employees. The results of these surveys are reflected in initiatives for the following years.

Compliance Structure



Enhancement of IR Activities

As distinctive characteristics of the IR activities of Tokyo Gas, our top management diligently participates in our IR activities. In addition to disclosing a wide range of information, we also engage in interactive communication with investors. We believe that through these activities, we can put stock market expectations and the opinions to good use in the management of the Company and enhance discussion of the thinking of our management with all of our investors. In so doing, we eliminate the gap between our true corporate value and the market assessment of the Company. Based on this belief, primarily in the period after the announcement of our financial results, we have been engaged in IR activities including visits by top management to institutional investors in Japan and overseas. Briefings and individual meetings are also used as opportunities for wide-ranging discussions.

Tokyo Gas has always disclosed its short-, medium- and long-term management targets as well as the specific management strategies and action plans adopted to achieve these targets. We have also actively shared information about our business performance and progress towards goals. Among our disclosure activities, we will continue to improve and expand the content of our annual report, investors' guide, IR website, and Tokyo Gas Newsletter.

Group Management Structure

The Tokyo Gas Group currently consists of Tokyo Gas Co., Ltd., together with 57 subsidiaries and four equity-method affiliated companies. With the deregulation of the energy sector, Tokyo Gas now faces escalating competition from both inside and outside the industry. In April 2004, we introduced the "Strategic Business Unit" (SBU) system, which is designed to focus all of the resources of the Tokyo Gas Group on the task of surviving and succeeding in an increasingly competitive environment. Under this structure, Tokyo Gas corporate divisions are linked with Group companies to form business units in each business area. The divisions and companies work closely together on tasks ranging from the formulation of business strategies to the allocation of management resources and the management of operations, all under the responsibility of unit managers. The aim of this cooperative approach is to maximize our Group potential and further strengthen our competitiveness.

BOARD OF DIRECTORS AND CORPORATE AUDITORS

Director, Chairman
Norio Ichino

April 1964 Joined the Company
June 2003 President, Representative Director, and Executive President
April 2006 Director and Vice Chairman of the Board
April 2007 Director and Chairman of the Board

Representative Director, President
Mitsunori Torihara

April 1967 Joined the Company
June 2003 Representative Director, Executive Vice President, Chief Executive of Strategic Planning Div. and in charge of Internal Audit Dept. and Compliance Dept.
April 2004 Representative Director, Executive Vice President, Chief Executive of Corporate Communication Div. and in charge of Compliance Dept.
April 2006 President, Representative Director, and Executive President

Representative Director, Executive Vice President
Tadaaki Maeda

April 1970 Joined the Company
April 2004 Senior Executive Officer, Chief Executive of Energy Resources Div. and in charge of Internal Audit Dept.
June 2004 Director, Senior Executive Officer, Chief Executive of Energy Resources Div. and in charge of Internal Audit Dept.
April 2006 Representative Director, Executive Vice President and Chief Executive of Strategic Planning Div.
April 2007 Representative Director, Executive Vice President, Chief Executive of Energy Production Div., and in charge of Environmental Affairs Dept.

Representative Director, Executive Vice President
Tsuyoshi Okamoto

April 1970 Joined the Company
April 2006 Director, Senior Executive Officer, Chief Executive of Corporate Communication Div. and in charge of Compliance Dept., Internal Audit Dept.
April 2007 Representative Director, Executive Vice President, and in charge of Personnel Dept., Secretary Dept., General Administration Dept., Compliance Dept., and Internal Audit Dept.
April 2009 Representative Director, Executive Vice President, and in charge of Personnel Dept., Secretary Dept., General Administration Dept., and Compliance Dept.

Director, Senior Executive Officer
Shigeru Muraki

July 1972 Joined the Company
April 2006 Senior Executive Officer and Chief Executive of Technology Development Div.
April 2007 Senior Executive Officer, Chief Executive of Energy Solutions Div. and General Manager of Volume Sales Dept. of Energy Solutions Div.
June 2007 Director, Senior Executive Officer and Chief Executive of Energy Solutions Div. and General Manager of Volume Sales Dept. of Energy Solution Div.

Director, Senior Executive Officer
Toshiyuki Kanisawa

April 1972 Joined the Company
April 2006 Senior Executive Officer, and Chief Executive of Residential Sales Div.
April 2007 Senior Executive Officer, and Chief Executive of Residential Sales Promotion Div.
June 2007 Director, Senior Executive Officer, and Chief Executive of Residential Sales Promotion Div.
April 2009 Director, Senior Executive Officer, and Chief Executive of Housing Development Div.

Director, Senior Executive Officer
Tsutomu Oya

April 1975 Joined the Company
April 2004 Executive Officer, and General Manager of Air-conditioning and Commercial Customer Development and Sales Dept. of Energy Sales and Service Div., and Acting General Manager of Volume Sales Dept. of Energy Sales and Service Div.
April 2006 Senior Executive Officer and Chief Executive of Energy Resources Div.
June 2009 Director, Senior Executive Officer and Chief Executive of Energy Resources Div.

Director, Senior Executive Officer
Michiaki Hirose

April 1974 Joined the Company
April 2008 Senior Executive Officer and in charge of Corporate Planning Dept., Investor Relations Dept., Finance & Managerial Accounting Dept, Accounting Dept., Affiliated Companies Dept., and Gas Industry Privatization Research Project Dept.
April 2009 Senior Executive Officer and in charge of Corporate Planning Dept. and Affiliated Companies Dept.
June 2009 Director, Senior Executive Officer and in charge of Corporate Planning Dept., Corporate Communications Dept., and Affiliated Companies Dept.

Auditor	Yasunori Takakuwa
Auditor	Kunihiro Mori
Outside Auditor	Shoji Mori (Vice Chairman, Institute for International Socio-Economics Studies)
Outside Auditor	Yukio Masuda (Standing Consultant, Mitsubishi Corporation)
Outside Auditor	Masayuki Osawa (Administrative Director of Yokohama City Silver Human Resources Center)

Outside Director
Kazumoto Yamamoto

Current position	Advisor, Asahi Kasei Corporation
June 2005	Director of the Company

As a nation, Japan has a long history, traditions, and culture, and companies, too, have their own histories, traditions, and cultures. As a result, I do not believe that there is any single, fixed way of implementing management and corporate governance, because management cannot ignore those distinctive company characteristics. It is important to clarify the purpose of a company's business activities, and to search for the style of management and governance that are best suited to that purpose. As a company that helps to support the framework of society, Tokyo Gas bears an important responsibility to maintain and expand its business operations over the long term. To do that, however, it is essential that the Company is not content with activities intended to simply "support." Rather, we must implement bold initiatives designed to foster "change" over the long term. The Company faces high expectations in the fields of energy usage and supply, especially in regard to how they will change the structure of society and what role they will play in that process.

Outside Director
Katsuhiko Honda

Current position	Advisor, Japan Tobacco Inc.
June 2007	Director of the Company

If we do not fulfill our responsibilities to four groups of stakeholders—customers, society, investors, and employees—then we will not be able to achieve our company mission of sustained development. This is a fundamental element of management that applies to any company, anywhere in the world. Tokyo Gas is a "public utility" that provides social infrastructure, but I believe that the public interest aspect of a company's operations is not intrinsic to the company itself but rather is granted to the company by the customers who support it. In the midst of severe changes in our operating environment, it is important that we continually develop products with high value added and increase management efficiency, without letting the fact that we are a public utility become an excuse for avoiding operational reforms. As an outside director, it is my role to offer a third-party perspective, reflecting on whether or not our management is focused on the groups of stakeholders I mentioned and offering advice.

Outside Director
Sanae Inada

Current occupation	Attorney
June 2007	Director of the Company

Ensuring that a company's ongoing management and development is conducted in accordance with social norms and ethics is the purpose of corporate governance and compliance. Tokyo Gas supports the public interest through the supply of city gas, and the Company's managers must set an example of that conduct. I also think that top executives should have pride in managing a leading company in the industry, and they should present a management vision for 10 years into the future. The reason is precisely because we are in an environment of fierce competition among forms of energy. As a city gas supplier in the growing Kanto region, Tokyo Gas meets a substantial part of Japan's energy needs. Moreover, the Company has a significant responsibility to publicly display an image of the future of energy. As a natural gas pioneer, Tokyo Gas needs to make full use of the environmental superiority of natural gas. Active discussions are held at the Company's Board of Directors meetings, and I will continue to offer my opinion with an awareness of my role as an outside director of a company that supports society.

President

Mitsunori Torihara

Executive Vice Presidents

Tadaaki Maeda
Chief Executive of Energy Production Div. and in charge of Environmental Affairs Dept.

Tsuyoshi Okamoto
In charge of Personnel Dept., Secretary Dept., General Administration Dept., and Compliance Dept.

Senior Executive Officers

Shigeru Muraki
Chief Executive of Energy Solutions Div. and General Manager of Volume Sales Dept.

Toshiyuki Kanisawa
Chief Executive of Housing Development Div.

Tsutomu Oya
Chief Executive of Energy Resources Div.

Michiaki Hirose
In charge of Corporate Planning Dept., Corporate Communications Dept., and Affiliated Companies Dept.

Norikazu Hoshino
Dispatched to the Japan Gas Association

Mikio Itazawa
Chief Executive of Pipeline Network Div.

Hirokazu Hayashi
Chief Executive of Regional Development Marketing Div.

Kazuo Yoshino
In charge of Investor Relations Dept., Finance & Managerial Accounting Dept., and Accounting Dept.

Hisao Watanabe
Chief Executive of Technology Development Div. and Information Technology Div.

Manabu Fukumoto
In charge of Purchasing Dept., Real Estate Management Dept., Major Site Development Dept., and Internal Audit Dept.

Matsuhiko Hataba
Chief Executive of Residential Sales Promotion Div.

Executive Officers

Akio Maekawa
Coordinator, Energy Solution Div.

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

Yutaka Kunigo
General Manager, Industrial Gas Sales Dept. of Energy Solutions Div.

Masahiro Mikami
General Manager, General Administration Dept.

Hiroaki Kubota
General Manager, Energy Production Dept. of Energy Production Div.

Kenichi Enkaku
Representative Senior Managing Director of ENERGY ADVANCE Co., Ltd.

Hidefumi Takahashi
General Manager, Kanagawa service branch, Residential Sales Promotion Div.

Hideaki Obana
General Manager, Corporate Communications Dept.

Hiroaki Kobayashi
General Manager, Customer Safety Dept. of Residential Sales Promotion Div.

Environmental Initiatives

Basic Policy

Our environmental philosophy states that the "The Tokyo Gas Group will promote the harmonious use of energy to contribute to the protection of regional and global environments as well as to the sustainable development of society." This philosophy is reflected in our four environmental policies, and we are striving to serve as a leader in environmental management as we play an active role in helping to solve global environmental problems.

1 Reduce the environmental impact of customers' energy use
2 Reduce the total environmental impact of Tokyo Gas' business activities
3 Strengthen environmental partnerships with local and international communities
4 Advance R&D in environment-related technologies

Initiatives in Fiscal 2008

In order to carry out the Environmental Policies, we have created Environmental Protection Guidelines in three major categories. First, global warming prevention guidelines are intended to reduce CO_2 emissions resulting from the increased use of natural gas. Second, resource recycling promotion guidelines focus on reducing the environmental impact of the Company's activities through the implementation of the "3Rs" (reduce, reuse, recycle). Third, green purchasing guidelines promote consideration for the environment when purchasing the materials, construction work, or services necessary for business activities. With these guidelines, we established concrete environmental targets and have been striving to meet them. For example, in fiscal 2008 we reduced the level of CO_2 emissions generated by customers by 721 tons. From fiscal 2009, we have enhanced our environmental guidelines with the addition of three new guiding principles, namely biodiversity maintenance, environmental communication, and environment-related technology development.

As part of our CSR efforts, in September 2007 we established the Tokyo Gas Environmental Support Fund in commemoration of having reached the 10 million customer mark. With the goal of contributing to solving global and regional environmental problems and helping to realize a sustainable society, the Fund provides support for groups active in environmental preservation. In fiscal 2008, the Fund contributed a total of ¥10 million to 13 groups.

For further details of the environmental initiatives being carried out by Tokyo Gas, please refer to the ECO page on the Company's website and the Tokyo Gas CSR Report 2008.
Access! ECO URL: www.tokyo-gas.co.jp/env/
CSR Report 2008 URL: www.tokyo-gas.co.jp/csr/report_e/index.html

Results for Fiscal 2008 and Targets for Fiscal 2010

		Target for fiscal 2010	Results for fiscal 2008
Global Warming	Reduction of CO_2 emissions from customers' facilities	8.00 million tons	7.21 million tons
	Unit energy use in gas production facilities (per unit of gas production)	1% or more reduction	0.8% reduction*
	Unit energy use in district cooling / heating systems (per heat sales volume unit)	1% or more reduction	1.0% reduction*
	Unit energy use at power plants (per unit of power transmitted)	1% or more reduction	1.4% reduction*
	Unit energy use in Tokyo Gas business offices (per city gas sales volume unit)	1% or more reduction	4.3% reduction*
Resource Recycling	Zero emissions at production plants	10 sites/10 sites	13 sites/15 sites
	Other waste (construction waste, etc.)	More than 91%	83%
	Reduction ratio of waste paper	10% reduction from fiscal 2005	1.9% reduction
	Recycling of waste paper	More than 85%	89%
	Sheets of copy paper used per person per year	5,000	6,570
	Excavation spoil ratio	16%	18%
Green Purchasing	Green procurement ratio	More than 70%	66%
	Number of affiliated companies that have already introduced an electronic catalog purchasing system	49 companies	44 companies

* Annual average reduction ratio

Safety Initiatives

Basic Policy

Tokyo Gas has established the following three key policies for the safe use of gas equipment.

1 Increase the use of equipment that does not cause numerous incidents of accidents, gas leaks, or malfunctions, and of functional equipment to minimize such incidents ("hard" countermeasures)
2 Educate customers on the correct use of equipment and carry out regular inspections ("soft" countermeasures)
3 Establish emergency response protocols to be executed should a gas leak occur (emergency response countermeasures)

Initiatives in Fiscal 2008

Among our "hard" countermeasures, in fiscal 2008 we continued the "Switchover Promotion Campaign" that we began in January 2007, targeting water heaters and bathtub water heaters not equipped with incomplete combustion avoidance devices. As part of the campaign, we agree to bear part of the cost of switching to safe appliances. Since the campaign began, we have spent ¥2.4 billion, and the number of targeted appliances has decreased from 298,000 units to 172,000 units.

Moreover, we continue to loan ventilation alarms without charge to ensure the safety of customers using gas equipment in commercial kitchens, an initiative we began in November 2006. A number of accidents occurred in commercial kitchens in 2008, and accordingly we have increased our visits to customers. By the end of March 2009, out of our target of 150,000 alarms, we had installed 83,600 alarms.

Among our "soft" countermeasures, as required by the Gas Utility Industry Law, we implement periodic gas facility safety checks for each of our customers once every 40 months. These gas facility safety inspections include checking gas pipes for leaks and testing exhaust equipment. In addition to enhancing these inspections, we are also working to promote awareness of safe gas usage through communication with customers.

For emergency response countermeasures, we have full-time personnel with specialized skills in such areas as gas leaks. These personnel are deployed to our Gas Light 24 emergency response bases, from which we are able to rapidly respond to emergencies 24 hours a day, 365 days a year.

To ensure the safe supply of gas, we have been systematically replacing aging pipes, such as gray cast-iron pipes and galvanized gas pipes, with safer polyethylene pipes. We spent ¥15.1 billion on these replacements in fiscal 2008. We have already announced our intention to complete the replacement of gray cast-iron pipes and galvanized gas pipes by fiscal 2015, and are striving to advance this deadline as much as possible.

For further information on Tokyo Gas safety initiatives, please refer to the Tokyo Gas CSR Report 2008, which is available on the Tokyo Gas website.


Gas Light 24


Safety control center


Polyethylene pipes

FAQ

Q 1 How does Tokyo Gas structure its rates?

The Company's gas rate system is divided into the following three categories.

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

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

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

"Regulated" rates are calculated using a total cost principle[1]. A simplified version of this calculation is given below.

Operating cost, etc.	+	Fair return	−	Deductions, etc.	=	Total fair cost
Cost of gas resources[2] Depreciation Personnel expenses Non-operating expenses Overhead Income taxes		Calculated using the rate-base system, which involves multiplying fixed-asset investments, etc., by the appropriate ratio of fair return		Profit from gas appliance sales, etc. Profit from real estate business, etc.		Represents an appropriate profit added to an appropriate cost under efficient management

1 Total cost principle: For a specific period (1 to 3 years), a fair return is added to the necessary and appropriate costs for the relevant period and gas rates are set on that basis (total cost). In this way, rates are calculated in accordance with METI rules.
2 Fluctuations in foreign exchange rates or crude oil prices are reflected in the meter rate gas unit price every month in accordance with the gas resource cost adjustment system. (Please refer to "Characteristics of the City Gas Business in Japan" on the inside front cover.) Consequently, the impacts of such fluctuations on revenue and expenditure will be neutral in the medium to long term.

Q 2 What processes are used by Tokyo Gas when making investment decisions?

Since fiscal 2003, Tokyo Gas has made decisions on new businesses, the continuation of businesses, and exits from businesses through Tokyo Gas Economic Profit (TEP), and decisions on investments through Net Present Value (NPV) and Internal Rate of Return (IRR). These three indicators are used as common standards throughout the Tokyo Gas Group. TEP is an original evaluation method for ensuring that the amount of profit exceeds the cost of capital.

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

Corporate Executive Committee meetings are held each week and are attended by executives at the senior executive officer level and above, as well as the two corporate auditors. Final decisions on important management issues are made after in-depth discussion, including deliberations by the Investment Evaluation Committee in the case of investment decisions. To follow the results and monitor projects in which investments have been made, Tokyo Gas evaluates the situation regularly in the Investment Evaluation Committee and reports findings at the Corporate Executive Committee.

Q 3 What is your relationship with Tokyo Electric Power Company (TEPCO)?

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

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

At the marketing level, however, Tokyo Gas and TEPCO are competitors. In the commercial and industrial sectors, TEPCO has moved into the gas market, and Tokyo Gas and TEPCO are engaged in the competition for gas demand. Also, in the residential sector, the competition with all-electric systems has intensified. As a result of in-depth development focusing on major sub-users and initiatives to build close relationships with customers, centered on LIFEVAL, which we began to establish from fiscal 2008, we are working to hold the percentage of newly built houses with all-electric systems in our service area to a minimum.

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

Q 4 What is the definition of the "energy service business"?

In the energy service business, energy service providers build and own facilities such as cogeneration systems, and provide one-stop energy services, such as electricity and heat. This type of service is drawing attention on account of its major advantages for customers. These include ease of implementation stemming from lack of need for a large initial investment, a high level of environmental performance, and reduced energy costs. Also, this is a field with growing appeal as a business due to improvements in system efficiency.

In 2002, Tokyo Gas moved to expand its involvement in the energy service business by establishing a wholly owned subsidiary, ENERGY ADVANCE Co., Ltd. The company operates very efficiently by capitalizing on the LNG procurement systems and advanced engineering capabilities of the Tokyo Gas Group, making the most of the high added value that can be achieved with cogeneration systems. It targets environmentally concerned customers, especially in the Kanto region, where demand is high. This company's energy services, which were introduced in 2003, have achieved the leading position in the industry, with 297 contracts at the end of March 2009.

Q5 What do you see as the role of the power generation business within the integrated energy business?

Tokyo Gas has established its power generation business as a multi-energy supply measure to provide all forms of energy that customers require in a one-stop manner. We intend to achieve an optimal mix with facilities such as cogeneration systems.

Furthermore, we believe our power generation business has a number of strengths.
(1) It allows for competitive fuel procurement backed by our bargaining power.
(2) Power plants are located close to demand areas utilizing existing infrastructure such as LNG terminals.
(3) Synergy effects with the gas business are possible, such as improved terminal utilization rates and one-stop services.

Currently, we have four power plants in operation, under construction, or planned (refer to the table below), with our share of generating capacity of 1,300 MW.

Moreover, from a standpoint of developing renewable energy, we installed a wind farm with a capacity of 1,990 kW inside our Sodegaura Terminal in October 2005. We are also constructing a wood chip biomass electric power plant with a capacity of 13,600 kW in Agatsuma-gun, Gunma Prefecture, with the objective of starting operations in fiscal 2010.

Tokyo Gas Baypower Co., Ltd.	100 MW	In operation since October 2003
Tokyo Gas Yokosuka Power Co., Ltd.	240 MW	In operation since June 2006
Kawasaki Natural Gas Power Generation Co., Ltd.	840 MW	In operation since April 2008
Ohgishima Power Co., Ltd.	1,220 MW	Commencing in March 2010

Q6 What is the view on M&As involving Tokyo Gas?

Tokyo Gas is already supplying wholesale gas to 36 other gas suppliers in its service area (including the companies to which Tokyo Gas supplies by inland vessels and tanker trucks). We are aggressively developing the wholesale supply business, which earns income with high capital efficiency, without focusing on M&As.

As for M&As, we might consider entering into a capital partnership after evaluating the corporate value of the company in question, if a company were to approach us with such a proposal, or if a government-owned gas business were to become privatized.

Last year, we carefully examined the privatization of the city gas business in Sendai. However, due to the increasing uncertainty of the business outlook since last autumn, we opted not to participate in that endeavor. Recently, a variety of government-owned gas businesses are being privatized. Using the experience we have gained through our acquisitions of the Nagano City, Konosu City, and Yotsukaido City gas businesses, we will consider participating in bidding if we are convinced, after conducting thorough due diligence, that the business will enhance our corporate value and increase benefits to our customers.

FINANCIAL SECTION

Contents

For purposes of presentation, from this annual report, all amounts less than one billion yen or one million yen have been rounded down, and hundredths of a percentage point have been rounded to the nearest whole number. Therefore, the figures presented in this report may differ from those presented in the annual reports in past years. In addition, all graphs and tables represent fiscal years ended March 31 of the respective years.

TWELVE-YEAR SUMMARY

Years ended March 31

	2009	2008	2007	2006	2005
	Millions of yen, except per share amounts				
For the Years					
Net sales	¥1,660,162	¥1,487,496	¥1,376,958	¥1,266,501	¥1,190,783
Gas sales	1,257,574	1,087,044	999,521	910,320	834,658
Gas appliance sales	122,363	132,236	135,407	130,825	135,108
Installation work	49,094	57,325	59,229	59,746	64,794
Real estate rental	35,637	35,169	34,034	34,187	34,701
Other business	363,783	320,361	285,407	252,595	234,720
Operating income	65,204	70,048	162,315	112,345	145,349
Net income	41,708	42,487	100,699	62,114	84,047
Depreciation*	141,083	142,421	133,142	136,376	140,271
Capital expenditures**	145,929	138,006	124,556	119,435	107,529
Free cash flow	36,862	46,902	109,285	79,057	116,789
Amounts per share of common stock (Yen)					
Net income	¥ 15.63	¥ 15.94	¥ 37.50	¥ 23.48	¥ 31.47
Diluted net income	15.37	15.50	35.69	21.70	28.24
Net assets	284.72	289.49	293.11	270.46	244.73
Cash dividends applicable to the year	8.00	8.00	8.00	7.00	7.00
At Year-End					
Total assets	¥1,764,185	¥1,703,651	¥1,692,635	¥1,693,898	¥1,668,734
Interest-bearing debt	593,230	558,716	525,467	559,911	624,105
Total net assets	784,616	780,455	806,045	—	—
Total shareholders' equity	—	—	—	728,231	648,766
Ratios					
Operating income to net sales	3.9%	4.7%	11.8%	8.9%	12.2%
Net income to net sales	2.5%	2.9%	7.3%	4.9%	7.1%
ROE	5.4%	5.4%	13.2%	9.0%	13.5%
ROA	2.4%	2.5%	5.9%	3.7%	5.0%
Equity ratio	43.8%	45.1%	47.0%	43.0%	38.9%

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
3 Effective from the year ended 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.)

	2004	2003	2002	2001	2000	1999	1998
	¥1,151,824	¥1,127,633	¥1,097,589	¥1,086,770	¥ 992,255	¥ 997,766	¥1,009,154
	831,114	792,453	750,438	740,731	672,069	674,996	686,648
	133,873	142,635	149,203	146,516	127,916	133,925	127,880
	68,033	70,568	71,337	71,907	68,651	68,817	71,060
	35,443	36,346	37,551	37,601	37,841	37,616	38,978
	172,160	158,326	156,011	159,577	158,819	155,044	154,601
	152,287	123,294	110,607	103,659	69,233	72,302	76,484
	44,787	59,201	51,911	27,595	26,698	17,764	17,240
	146,895	141,027	145,564	150,374	140,306	143,009	—
	107,441	111,988	105,296	111,397	124,975	151,126	—
	84,241	88,240	92,178	66,572	42,029	9,647	—
	¥ 16.44	¥ 21.18	¥ 18.47	¥ 9.82	¥ 9.50	¥ 6.32	¥ 6.14
	14.98	19.11	16.66	9.13	8.84	5.94	5.76
	221.53	208.65	200.75	196.72	172.33	149.98	148.67
	7.00	6.00	6.00	6.00	5.00	5.00	5.00
	¥1,666,828	¥1,676,064	¥1,702,712	¥1,797,669	¥1,805,086	¥1,707,446	¥1,720,683
	682,744	731,301	775,894	870,347	957,085	911,901	911,000
	—	—	—	—	—	—	—
	598,453	579,706	564,077	552,790	484,239	421,443	417,755
	13.2%	10.9%	10.1%	9.5%	7.0%	7.2%	7.6%
	3.9%	5.3%	4.7%	2.5%	2.7%	1.8%	1.7%
	7.6%	10.4%	9.3%	5.3%	5.9%	4.2%	4.1%
	2.7%	3.5%	3.0%	1.5%	1.5%	1.0%	1.0%
	35.9%	34.6%	33.1%	30.8%	26.8%	24.7%	24.3%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary

Due to such factors as a decline in demand due to a warm winter and an economic slowdown, gas sales volume was down 1.9%, to 13,942 million m^3.

With higher unit prices under the gas rate adjustment system, gas sales increased, and net sales were up 11.6%, to ¥1,660.1 billion. On the other hand, operating expenses increased due to such factors as higher gas resource costs accompanying higher LNG prices and an increase in amortization of the actuarial differential on retirement benefits. Operating income was down 6.9% year on year, to ¥65.2 billion, and net income declined 1.8%, to ¥41.7 billion.

The Company's Operating Environment in the Year Under Review

In the fiscal year ended March 31, 2009, the following three factors had a major influence on the operations of Tokyo Gas (hereafter "the Company").

Economic Slowdown Resulting from the Global Recession that Began with the U.S. Financial Crisis

Through the first half of the fiscal year, conditions were favorable worldwide. Japan's manufacturing industry enjoyed good operating conditions, and in terms of industrial gas sales volume, existing customers increased their utilization and we made progress with new customer development. Overall, gas sales volume was on a growth track. However, the global financial crisis stemming from the subprime loan problem in the United States marked a turning point, and from September, the global economic recession became serious, resulting in a sharp downturn for the Japanese economy. Consequently, there was a major slowdown in Japanese industrial activity, centered on export industries, and our gas sales volume for industrial use began to decline from October.

Dramatic Fluctuations in the Prices of LNG Due to Changes in the Price of Crude Oil and Exchange Rates

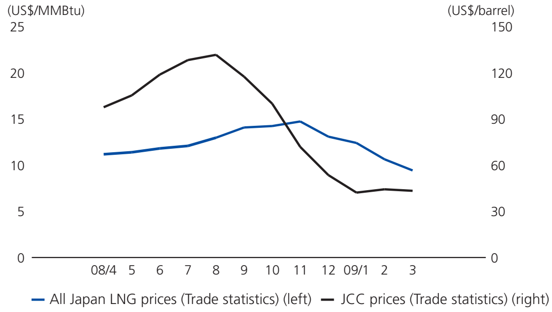
In the first half of the fiscal year, due to strong demand and an influx of speculative funds, the price of WTI crude oil posted a record high of $147.27 per barrel in July. Nevertheless, due to the global economic recession following the subprime shock, crude oil demand rapidly declined, and the price fell to $49.66 at the end of March, after reaching the $30 dollar level at one point during the year. LNG, which accounts for the majority of our resources, is linked to the Japan Customs-cleared Crude (JCC) price, so dramatic fluctuations in the crude oil price have a major effect on the Company's revenues and expenditures.

The yen–dollar exchange rate moved in the ¥100 range through October, and subsequently the yen appreciated from November, reaching the ¥90 level in January and February. The trend toward yen appreciation in the second half of the fiscal year reduced LNG import prices, and worked to lower gas resource costs.

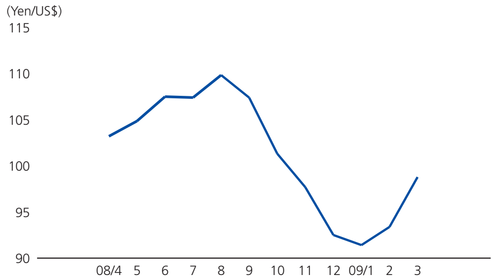
Influence of Temperature Changes on Gas Sales Volume

For residential heating and hot water demand and for commercial air conditioning demand, the volume of gas sales is significantly affected by temperature. In the first half of the fiscal year, the average temperature was 0.5°C lower than in the previous fiscal year, and the lower temperature resulted in increased demand for hot water in the residential sector but lower demand for air conditioning in the commercial sector. In the second half, the average temperature was 0.5°C higher than in the previous year, and the higher temperature resulted in decreased demand for heating and hot water in the residential sector and for air conditioning in the commercial sector.

Prices of Crude Oil and LNG



Yen–Dollar Exchange Rate



Sales Trends in the Core Gas Business

Down 1.9% year on year

Residential Sector

In the first half of the fiscal year, low temperatures resulted in increased demand for hot water. In the second half, however, when gas demand is seasonally higher, high temperatures resulted in decreased demand for hot water and heating. As a result, sales volume decreased by 61 million m^3, or 1.8%, to 3,468 million m^3.

Commercial and Other Sectors

Gas sales volume was down 115 million m³, or 3.7%, to 3,011 million m³. Temperatures were lower year on year in the first half of the fiscal year and higher in the second half. Consequently, air conditioning demand declined. In addition, the economic recession had a partial effect.

Industrial Sector

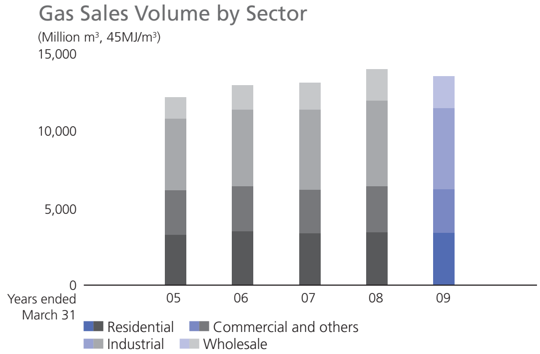
In the first half of the fiscal year, existing customers increased their utilization and we made progress with new customer development. As a result, sales volume recorded favorable growth. However, from October, under the influence of the economic recession stemming from the subprime loan problem, there was an increase in customers who reduced their plant utilization rates, with a focus on the steel, machinery, and chemical industries. Consequently, for power generation use, gas sales volume rose 227 million m³, or 10.9%, to 2,303 million m³. However, for general industrial use, gas sales volume was down 335 million m³, or 9.1%, to 3,320 million m³. Overall, gas sales volume in the industrial sector was down 109 million m³, or 1.9% year on year, to 5,623 million m³.

Wholesale Sector

Starting from the fiscal year ended March 31, 2009, two wholesale gas suppliers made a contribution to gas sales volume for the full fiscal year. (Supply to Noda Gas was started in August 2007, and to Tatebayashi Gas in November 2007.) As a result, on a consolidated basis, there were a total of 26 wholesale gas suppliers. In addition, new demand by wholesale gas suppliers was developed, and the utilization by existing customers was increased. As a result, gas sales increased by 12 million m³, or 0.7%, to 1,840 million m³.

Consequently, overall gas sales volume was down 273 million m³, or 1.9%, to 13,942 million m³.

Gas Sales Volume by Sector



Analysis of Income

Income continued to decline under the influence of higher gas resource costs, lower gas sales volumes, and an increase in amortization of the actuarial differential on retirement benefits.

Gas sales increased by 15.7% in the fiscal year ended March 31, 2009, due to higher unit prices under the gas rate adjustment system. Results from other segments included an increase in sales in the energy services business. Total net sales increased by ¥172.7 billion, or 11.6%, from the previous year, to ¥1,660.1 billion.

Operating income fell by ¥4.8 billion, or 6.9% year on year, to ¥65.2 billion. Reasons for the decline included increased gas resource costs resulting from higher gas sales volumes and a steep rise in the price of LNG as well as an increase in amortization of the actuarial differential on retirement benefits.

Gas Sales Segment

Higher sales and lower income resulting from increase in gas resource costs partially canceled out higher unit prices under the gas rate adjustment system

The gas sales volume in the fiscal year under review was down 1.9%. However unit prices were increased under the gas rate adjustment system, and gas sales were up ¥170.5 billion, or 15.7%, to ¥1,257.5 billion. Factors such as a steep rise in prices for LNG and higher gas sales volumes led to an increase in gas resource costs. As a result, operating expenses increased by ¥171.3 billion, or 17.6%, despite our efforts to reduce overhead expenses. Operating income decreased by ¥0.8 billion, or 0.7%, to ¥110.8 billion.

Gas Appliance Sales Segment

Sales and expenses down, lower sales and profits

Due to a decline in the number of new installations in our service area and to the reluctance of existing customers to purchase gas appliances, sales declined by ¥9.9 billion, or 7.5%, year on year, to ¥122.3 billion. Operating expenses were down ¥9.1 billion, or 7.1%, and operating income fell ¥0.8 billion, or 28.3%, to ¥2.0 billion.

Installation Work Segment

Decline in number of projects, lower sales and profits

The number of new construction projects declined due to sluggish conditions in construction and to a decrease in starts and building permits, and sales were down by ¥8.2 billion, or 14.4% year on year, to ¥49.0 billion. Operating expenses decreased by ¥6.3 billion, or 11.2%, to ¥50.1 billion, and operating income declined by ¥1.8 billion, or 232.7%, to –¥1.0 billion.

Real Estate Rental Segment

Decline in profit due to higher operating expenses

Sales increased by ¥0.4 billion, or 1.3%, to ¥35.6 billion. A particular factor here was the contribution made by increased lease income due in part to the GINZA gCUBE building, which was opened in September. Operating expenses rose ¥0.9 billion, or 3.6%, to ¥28.1 billion. As a result, operating income decreased ¥0.5 billion, or 6.5%, to ¥7.4 billion.

Other Business Segment

Energy service and shipping businesses expanding

Sales of other business segment increased by ¥43.4 billion, or 13.6%, to ¥363.7 billion, due to the expansion of the energy service business, to higher sales in the power generation business accompanying the operational start of the Kawasaki Natural Gas Power Generation Co., Ltd., and to a rise in shipping revenue as a result of an increase in the number of vessels. Operating expenses rose by ¥42.8 billion, or 13.9%, due to such factors as higher fuel prices in the power generation business. As a result, operating income was up ¥0.7 billion, or 5.6%, to ¥13.4 billion.

Non-Operating Income and Expenses, Extraordinary Income and Losses, and Net Income

Total non-operating income was down ¥3.2 billion, to ¥15.6 billion. Accompanying higher crude oil prices, overseas LNG development operations recorded increased profits, and as a result equity in earnings of affiliates increased. Nonetheless, other income declined due to the influence of the appreciation of the yen and to lower miscellaneous income. Total non-operating expenses were up ¥0.4 billion, to ¥22.5 billion.

In terms of extraordinary income, we recorded gain on adjustment for changes of "Accounting Standard for Lease Transactions," gain on transfer of benefit obligation relating to employees' pension fund, and gain on transfer of business, due in part to the dissolution of a joint venture in the industrial gas business. As a result, total extraordinary income was up ¥5.5 billion, to ¥10.7 billion.

Total extraordinary losses were down ¥1.2 billion, to ¥1.0 billion, due in part to a decline in loss on reduction of noncurrent assets.

As a result, net income was down ¥0.7 billion, or 1.8%, to ¥41.7 billion.

Business Results by Segment (¥ million)

Sales

Years ended March 31	2009	2008	2007
Gas Sales	1,257,574	1,087,044	999,521
Gas Appliance Sales	122,363	132,326	135,407
Installation Work	49,094	57,325	59,229
Real Estate Rental	35,637	35,169	34,034
Other Businesses	363,783	320,361	285,407
Total	1,828,452	1,632,228	1,513,599
Elimination or Corporate	(168,290)	(144,731)	(136,641)
Consolidation	1,660,162	1,487,496	1,376,958

Operating income

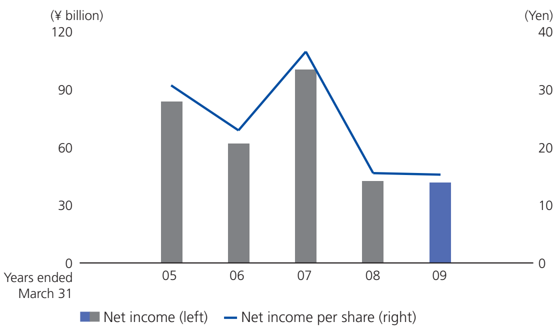
Years ended March 31	2009	2008	2007
Gas Sales	110,857	111,663	203,566
Gas Appliance Sales	2,086	2,909	1,169
Installation Work	(1,099)	828	1,750
Real Estate Rental	7,442	7,963	6,731
Other Businesses	13,482	12,768	13,847
Total	132,768	136,133	227,065
Elimination or Corporate	(67,563)	(66,084)	(64,750)
Consolidation	65,204	70,048	162,315

Note: Segment sales and operating income include intra-group transactions.

Contribution to Net Sales by Segment

Years ended March 31	2009	2008	Change
Gas Sales	68.8%	66.6%	+2.2 point
Gas Appliance Sales	6.7%	8.1%	-1.4 point
Installation Work	2.7%	3.5%	-0.8 point
Real Estate Rental	1.9%	2.2%	-0.3 point
Other Businesses	19.9%	19.6%	+0.3 point

Net Income and Net Income Per Share



Financial Position and Liquidity

Assets

Total assets increased by ¥60.5 billion, or 3.6% year on year, to ¥1,764.1 billion. Total property, plant and equipment declined ¥13.2 billion, to ¥1,110.8 billion. Due to an increase in other intangible assets, total intangible assets amounted to ¥26.0 billion. Investments and other assets decreased by ¥13.8 billion, to ¥215.1 billion. A major factor in this decline was a decrease of ¥22.2 billion in investment securities, to ¥109.1 billion, due to the sluggish stock market.

Total current assets were up ¥84.8 billion, to ¥412.1 billion. This was attributable to the following factors. In response to global financial uncertainty, cash and deposits were up ¥20.8 billion from a year earlier. Due to the influence of the economic slump from October, gas sales volume declined rapidly, and consequently, the LNG inventories that had been prepared for the winter season, when gas demand generally increases, did not decline in line with expectations. As a result, raw materials and supplies increased ¥22.1 billion. Moreover, other current assets rose ¥22.8 billion.

Liabilities

Total liabilities rose ¥56.3 billion, to ¥979.5 billion. Total noncurrent liabilities rose ¥16.5 billion, to ¥633.2 billion due to an increase in long-term loans payable caused by new funding needs, such as for overseas investment, offset by a decrease in bonds payable. Total current liabilities rose ¥39.7 billion, to ¥346.3 billion. Principal factors in this increase included a rise of ¥24.8 billion in current portion of noncurrent liabilities, due in part to the shift of the status of bonds from the category of noncurrent liabilities to that of current liabilities.

Net Assets

Total net assets rose ¥4.1 billion, to ¥784.6 billion. Treasury stock declined ¥40.4 billion, from ¥42.7 billion to ¥2.3 billion. As a result, total shareholders' equity was up ¥37.3 billion, to ¥772.5 billion. In valuation and translation adjustments, valuation difference on available-for-sale securities was down due to sluggish stock market conditions, and foreign currency translation adjustment was down due to a decline in assets of overseas consolidated subsidiaries and equity-method affiliates due to the appreciation of the yen. Consequently, total valuation and translation adjustments were down ¥34.0 billion, to –¥0.2 billion. Minority interests were up ¥0.8 billion, to ¥12.2 billion.

Changes in Treasury Stock

The policy for shareholder return highlighted in the medium-term management plan entailed the following: To achieve a "60% total payout ratio," in conjunction with dividends, we will acquire treasury stock, and the acquired stock will subsequently be canceled.

Treasury stock declined ¥40.4 billion, to ¥2.3 billion. Open market purchases of treasury stock of ¥9.9 billion (23.98 million shares) were offset by the cancellation of treasury stock totaling ¥11.6 billion (24.00 million shares). The fifth unsecured convertible bonds (conversion price: ¥339) were scheduled for redemption at the end of March 2009, and requests for conversion to shares of common stock reduced treasury stock by ¥38.9 billion (80.55 million shares).

Equity Ratio

Minority interests did not change significantly, and as a result, in the same way as net assets, total shareholders' equity* was up slightly, rising ¥3.2 billion, or 0.4%, to ¥772.3 billion. On the other hand, total assets increased 3.6%, and as a result, the equity ratio declined 1.3 percentage points, to 43.8%.

* Total shareholders' equity = Net assets – Minority interests

Interest-Bearing Debt

In the fiscal year ended March 31, 2009, interest-bearing debt increased by ¥34.5 billion, or 6.2%, to ¥593.2 billion, because of the increase in the demand for funds, particularly for new capital investments and for gas resource costs. As a result, the D/E ratio rose 0.04 point, to 0.77.

Credit Ratings

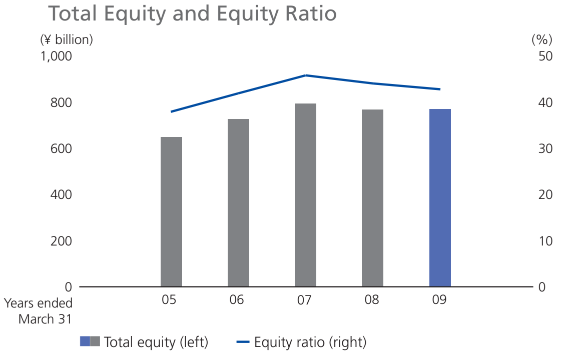
To secure financial flexibility in regard to liquidity on hand and capital policy, and to secure access to financial resources through the capital markets, the Company believes that it is necessary to maintain its credit rating at a certain level. In order to smoothly raise funds from capital markets, Tokyo Gas Co., Ltd. has acquired ratings from Standard & Poor's, Moody's, and Rating and Investment Information Inc. (R&I), a rating agency in Japan. As of July 2008, the ratings were as follows.

S&P	AA (stable)
Moody's	Aa1 (stable)
R&I	AA+ (stable)

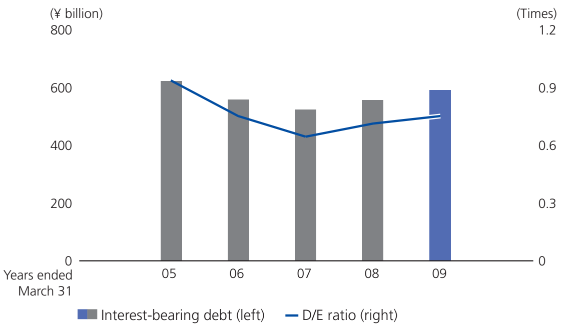
Capital Expenditures and Depreciation

Capital expenditures rose ¥7.9 billion, or 5.7%, to ¥145.9 billion. This increase was principally attributable to higher investment in new trunk lines for the purpose of stable supply and to an increase in pipeline investment for the purpose of demand development. Depreciation declined ¥1.3 billion, or 0.9%, to ¥141.0 billion. In the future, the Company will continue to make capital expenditures, in a systematic manner, for the purposes of supply stability and demand development.

Total Equity and Equity Ratio



Interest-Bearing Debt and D/E Ratio



Cash Flows

Cash Flows from Operating Activities

Cash flows from operating activities decreased by ¥22.6 billion from the previous year, to ¥159.5 billion. In addition to income before income taxes of ¥68.0 billion, decrease (increase) in prepaid pension costs amounted to ¥9.0 billion, an increase of ¥18.0 billion from the previous fiscal year. However, increase (decrease) in notes and accounts payable–trade was ¥6.0 billion, a decline of ¥29.8 billion from the previous fiscal year, and decrease (increase) in inventories was –¥21.1 billion, a decline of ¥18.5 billion from the previous fiscal year. These were the major factors contributing to the decline in cash flows.

Cash Flows from Investment Activities

Cash flows from investment activities in the fiscal year under review were –¥163.5 billion, compared with –¥155.3 billion in the previous year. Proceeds from sales and redemption of securities were down by ¥8.2 billion, to ¥1.3 billion. The total of purchase of property, plant and equipment and purchase of intangible assets was up by ¥4.9 billion from the previous year, to ¥140.7 billion. Major outflows in the fiscal year under review were related to gas pipeline construction. Purchase of investment securities was down by ¥4.0 billion from the previous year, to ¥15.0 billion.

Cash Flows from Financing Activities

Cash flows from financing activities in the fiscal year under review were ¥30.9 billion, compared with –¥25.1 billion in the previous year. Purchase of treasury stock declined ¥29.1 billion from the previous year, to ¥10.4 billion. In addition, proceeds from long-term loans payable were ¥81.1 billion, compared with ¥59.5 billion in the previous year.

As a result, the balance of cash and cash equivalents at the end of the fiscal year was up ¥20.3 billion from the end of the previous year, to ¥64.0 billion.

Operating Cash Flow

In both the previous and current medium-term management plans, Tokyo Gas, aiming to aggressively invest in the gas business, made operating cash flow a key management indicator. Operating cash flow is calculated by adding depreciation to net income.

Operating cash flow for the fiscal year ended March 31, 2009 amounted to ¥182.7 billion, a year-on-year decrease of ¥2.1 billion. The lower figure reflects a decrease of ¥0.7 billion in net income, and a decrease of ¥1.3 billion in depreciation.

Total Payout Ratio to be 63%

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

In accordance with this "total payout ratio" concept, the Company plans dividends of ¥8.0 per share for the fiscal year ended March 31, 2009 and share repurchases of ¥5.0 billion (15 million shares) in the fiscal year ending March 31, 2010. As a result, the total payout ratio for the fiscal year ended March 31, 2009 is expected to be 63%.

In regard to dividends, our priority is to maintain stable dividends, as well as gradual increases over the long term, without reducing dividends based on income level.

In regard to share repurchases, our basic principle is to cancel the shares. In July 2008, we cancelled 24 million shares, more than the number of shares repurchased during the fiscal year ended March 31, 2009. Consequently, the number of shares issued declined by the same number, to 2,717,571,295 shares.

	Millions of yen		
Years ended March 31	**2009**	2008	2007
Net cash provided by operating activities	159,561	182,204	190,597
Net cash used in investing activities	(163,575)	(155,365)	(130,922)
Net cash provided by (used in) financing activities	30,932	(25,189)	(65,843)

Key Management Indicators

ROA and ROE about the same as those of the previous fiscal year

ROA

Net income decreased ¥0.7 billion, to ¥41.7 billion, and average total assets increased. As a result, ROA fell to 2.4% from 2.5% in the previous fiscal year.

ROE

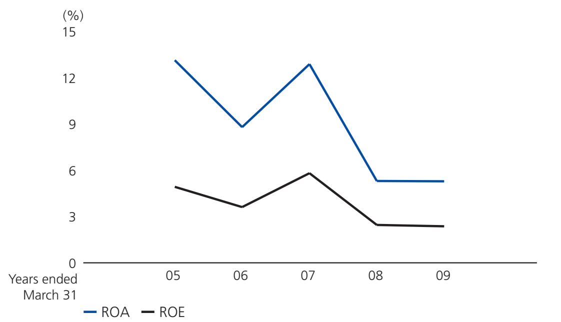
Average shareholders' equity declined, but net income decreased 1.8%, to ¥41.7 billion, and as a result, ROE was 5.4%, or the same as that of the previous fiscal year.

TEP

Our goal is to generate profit in excess of capital costs. This is reflected in our adoption of Tokyo Gas Economic Profit (TEP: Net ordinary income after tax prior to interest payments minus the cost of capital) as our main management indicator. TEP is also being used as a management indicator for group companies and as a benchmark for business restructuring and integration.

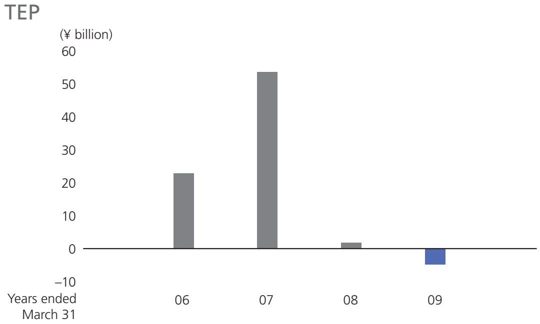
In the fiscal year ended March 2009, Net Ordinary Profit After Tax Prior to Interest Payments (NOPAT) declined ¥8.6 billion year-on-year, to ¥41.2 billion, due in part to an increase in amortization of the actuarial differential on retirement benefits and higher overhead expenses. On the other hand, the Weighted Average Cost of Capital (WACC) fell from 3.6% to 3.4%, with the result that the cost of capital declined by ¥2.1 billion, to ¥46.0 billion. As a result, TEP declined by ¥6.5 billion, to –¥4.8 billion.

ROA and ROE



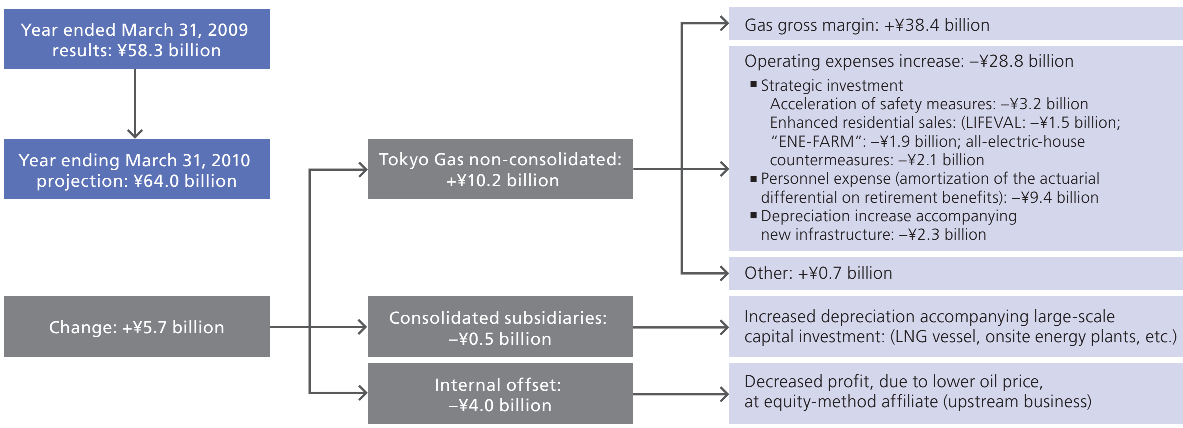
ROE = Net income/Equity (average of positions at start and end of fiscal year)

TEP



TEP = NOPAT – cost of capital (Invested capital x WACC)
NOPAT: Net ordinary income after tax prior to interest payments

Analysis of Ordinary Income in the Fiscal Year Ending March 31, 2010 (vs. the Fiscal Year Ended March 31, 2009)



Forecast (as of April 28, 2009)

Forecasting higher sales and profits in the year ending March 2010

In the fiscal year ending March 31, 2010, we expect consolidated sales to decline ¥279.1 billion, or 16.8%, to ¥1,381.0 billion; operating income to increase ¥7.8 billion, or 12.0%, to ¥73.0 billion; and net income to increase ¥0.3 billion, or 0.7%, to ¥42.0 billion.

In the fiscal year ended March 31, 2009, ordinary income amounted to ¥58.3 billion, but in the fiscal year ending March 31, 2010, we are forecasting a year-on-year increase of ¥5.7 billion, or 9.7%, to ¥64.0 billion. Principal factors include the non-consolidated ordinary income of Tokyo Gas (+¥10.2 billion), the ordinary income of consolidated subsidiaries (–¥0.5 billion), and internal offset (–¥4.0 billion).

On a non-consolidated basis, Tokyo Gas is expected to record an increase of ¥10.2 billion in ordinary income in comparison with the fiscal year ended March 31, 2009. Gas sales volume and sales revenues are both projected to decrease, but we expect the gross profits on gas to improve by ¥38.4 billion because declines in gas resource costs are expected to exceed declines in sales revenues. Among the principal factors, we project that the drop in gas sales volume will reduce profits by ¥12.4 billion, while improvement in under-recovery of gas resource costs due to the time lag under the gas rate adjustment system should increase profits by ¥37.0 billion. Due to investment to steadily implement the key policies under the new medium-term management plan and to increases in retirement benefits accounting actuarial differences and other salary expenses, fixed expenses are projected to increase ¥28.8 billion.

The ordinary income for consolidated subsidiaries is projected to basically remain at the previous year's level, with a slight decline of ¥0.5 billion due to increased depreciation stemming from large-scale capital investment.

For further information, please refer to the previous page.

External Risks Affecting Business Activities

Gas Resource Purchase Price 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 provisional calculation of the extent to which these fluctuations will affect gas resource costs in the year ending March 31, 2010 is as follows.

Approximately ¥3.7 billion with an exchange rate fluctuation of ¥1/dollar

Approximately ¥4.4 billion with a fluctuation in crude oil price of $1/barrel

Fluctuations in the cost of gas resources are passed on to gas rates after at most five months under the "gas rate adjustment" system. Accordingly, in a single fiscal year, there can be under-recovery or over-recovery. Under this system, although earnings may be subject to temporary increases and decreases in a given fiscal year, the effect on operating income in the year ending March 2010, after consideration of the time lag in the gas rate adjustment system, will be as follows.

Approximately ¥0.8 billion with an exchange rate fluctuation of ¥1/dollar

Approximately ¥1.1 billion with a fluctuation in crude oil price of $1/barrel

In fiscal year ended March 2009, the crude oil price averaged $90.51 per barrel, and the average exchange rate was ¥100.71 to one dollar. Forecasts for fiscal year ending March 2010 are based on an average crude oil price of $50 per barrel and an exchange rate of ¥100 to one dollar.

Temperature Fluctuation Risk

Temperatures affect the volume of city gas sales, which account for around 70% of consolidated sales. In the residential sector, gas is used mainly for water heating and space heating. Mild winter weather can erode revenues and income by reducing the volume of gas sold. On the other hand, in the commercial sector gas is mainly used for air conditioning systems, so if temperatures are high in the summer or low in the winter the gas sales volume increases.

The average temperatures in fiscal year ended March 2009 were 22.1°C in the first half of the year, 11.1°C in the second half, and 16.6°C over the whole year. Forecasts for fiscal year ending March 2010 are based on an average of 16.9°C over the whole year.

Impact of 1°C Temperature Rise on Overall Gas Sales Volume

	Rate of change
Summer (June–September)	–0.6%
Winter (December–March)	–2.5%
Intervening months (April, May, October, November)	–2.2%
Annual	–1.9%

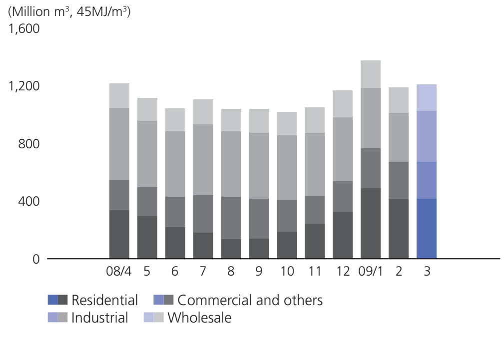
Interest Rate Fluctuation Risk

Tokyo Gas mostly procures both short-term and long-term interest-bearing debt at fixed interest rates so there is only a very small interest rate fluctuation risk during the term of an obligation. However, there may be fluctuation risk when loans are refinanced.

Stock Price Fluctuation Risk

The equities held by Tokyo Gas are primarily those of its good business partners, which are held with the objective of fostering mutual growth. Equities of publicly listed companies are subject to market risk. Tokyo Gas has established management policies and rules and regularly reviews the necessity of equity holdings and their asset valuations for handling of such equities.

Monthly Gas Sales Volumes for the Fiscal Year Ended March 31, 2009 (Non-Consolidated)



BUSINESS RISKS

Described below are items in the annual *Yuho* securities report concerning the Company's business and financial situation that could have a significant influence on investor decisions. Forward-looking statements are based on the judgments of the Group as of the end of the fiscal year (March 31, 2009).

1. Accidents and Disasters

(1) 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 procurement of gas resources may disrupt the supply of natural gas.

(2) Natural disaster risk

Tokyo Gas engages in facility-dependent businesses because city gas production and supply facilities are the foundation of its business. Accordingly, earthquakes, typhoons, or other major natural disasters may cause damage to LNG terminals and other production facilities or pipelines and other supply facilities and disrupt the supply of city gas. Costs accompanying recovery efforts could affect revenues.

(3) Gas production / supply accidents or supply disruption

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, or a disruption of supply, could result not only in direct damages but also in tangible and intangible losses, including social liability.

(4) Ensuring the safety of gas and quality problems affecting gas equipment

Tokyo Gas has a responsibility to ensure the safe supply of gas. Tokyo Gas sells gas appliances and other equipment under the Tokyo Gas brand through consolidated subsidiaries and related companies, etc. Costs accompanying responses to accidents caused by supply, gas appliances, and other equipment could affect future earnings, and there could also be other direct and indirect losses.

(5) Damage to reputation resulting from gas accidents caused by other gas companies

Accidents involving gas supply by other gas 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.

2. Market Fluctuation Risks

Tokyo Gas might incur losses in the event of changes in the market price of Company-owned real estate, stocks, pension assets, or other assets and fluctuation of interest rates.

3. Risks Accompanying Business Execution

(1) Risks faced by existing business

A. Changes to the gas resource procurement environment

If demand increases more than the amount procured through LNG projects based on long-term contracts, or trouble occurs at a shipping terminal or during transportation, or there are delays of LNG supply by new projects, etc., revenues may be affected by increases in gas resource costs due to our procurement of spot LNG.

B. Under-recovery or over-recovery of gas resource costs

Under the gas rate adjustment system, changes in the gas resource costs are in principle reflected in gas rates, but the fluctuation is reflected in the rates as much as five months later. If this occurs over the accounting year, revenues for a single fiscal year may be affected due to under-recovery or over-recovery of gas resource costs. In particular, if crude oil prices or the exchange rate fluctuate suddenly or to an extreme degree, the effect on revenues for a single fiscal year may be large.

C. Decline in gas sales volume due to weather fluctuations

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.

D. Demand risk

Decreased facility utilization due to economic recession, advancement of energy conservation activities, changes in industry structure, or other factors may result in a partial decrease in existing gas demand in the industrial and commercial sectors. Also, changes in lifestyles, the penetration of energy-saving appliances, or other factors may result in a partial decrease in existing demand in the residential sector.

E. Decline in demand due to intensified competition

Increasing competition with electric utilities and companies entering into the gas business, as well as possible loss of LNG competitiveness against other energy sources due to crude oil price fluctuation, may result in lower demand and may affect revenues.

F. Delay in the establishment and commencement of operations of the new regional energy company

For April 2008 to October 2009, the Tokyo Gas Group will gradually restructure and integrate its residential sector service operations to establish a new regional energy company, Tokyo Gas LIFEVAL, which will execute all these operations in an integrated manner. The new company will develop regional demand for gas, primarily among residential customers. We have made careful preparations to ensure that the Company has a smooth launch and does not have operational errors. However, this initiative constitutes a fundamental revision of our regional marketing structure, and if unforeseen changes to the situation were to occur, they could affect the smooth commencement of the business.

G. Technology development failure

If we are unable to develop or commercialize in a timely manner the new products and new technologies necessary for the performance of our business, we may lose competitiveness with other forms of energy and this may affect business performance.

H. Changes in laws, regulatory systems, or energy policies of the national governments or local governments

Tokyo Gas manages its operations in compliance with the Gas Utility Industry Law, the Japanese Corporate Law, the Financial Instruments and Exchange Act, and other laws, regulations and institutions, as well as the energy policies of the national government and local governments. Any revisions to these laws, regulations, institutions, or policies that prove detrimental to the Tokyo Gas Group may affect business performance.

(2) Delays in opening up new markets

As stated in the medium-term management plan, the Company is working to develop new markets by promoting the adoption of the "ENE-FARM" residential-use fuel cell and new energy systems incorporating solar light and heat. Subsequent changes in the Group's internal or external environment could lead to delays in the development of new markets, changes in business strategies, and failure to recover investment.

(3) ROI

Tokyo Gas continues to make large investments in keeping with the goal of "advancing and developing the total energy business strategy" as expressed in the medium-term management plan. Doing so involves investments in strengthening the foundation for stable supply, including the expansion of wide-area infrastructure, such as pipeline construction over a wide area, and LNG tank construction. It also involves investments channeled into the electric power business, energy service business, gas field and other development projects, the LNG transportation business, and investments in enhancing the foundation in existing businesses such as IT, as well as the utilization of Company-owned real estate. Such investments run the risk of not bringing in appropriate returns or not producing the expected results due to changes in the economic situation, which could affect revenues.

4. Risks Related to Information Management and System Operation

(1) Personal 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 damage to the trust of customers and others, with more serious consequences than for other companies.

(2) Risk of failure or malfunctioning of IT backbone systems

The failure or malfunctioning of IT backbone systems related to the manufacture and supply of gas, to customer contact operations, or to 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 damage to the Tokyo Gas Group's brand image.

(3) 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 damage to the Tokyo Gas Group's brand image.

5. Risks Related to Corporate Social Responsibility

(1) Response to new environmental regulations, etc.

The need to comply with new environmental laws or additional obligations to improve the environment might have an effect on the business operation of the Tokyo Gas Group, and it could affect revenues.

(2) Compliance violations

Any violations of laws, rules, and regulations or inappropriate responses to information disclosure that contravene corporate ethics may result not only in direct costs required to remedy the situation, but also in tangible and intangible loss, including receiving social sanctions.

(3) Inadequate customer satisfaction or responses to customer needs

Inadequate customer satisfaction or inappropriate customer service may result in declining corporate competitiveness and in tangible and intangible loss, including damage to the Tokyo Gas Group's brand image.

CONSOLIDATED BALANCE SHEETS

March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2009**	2008	**2009**
Noncurrent assets			
Property, plant and equipment			
Production facilities	¥ 193,613	¥ 200,585	$ 1,975,642
Distribution facilities (Note 3)	490,809	486,845	5,008,255
Service and maintenance facilities (Note 3)	60,510	60,765	617,448
Other facilities (Note 3 and 12)	297,643	303,189	3,037,173
Inactive facilities	316	316	3,224
Construction in progress	67,957	72,419	693,438
Total property, plant and equipment	1,110,852	1,124,122	11,335,224
Intangible assets			
Goodwill	1,233	1,833	12,581
Other (Note 12)	24,816	21,385	253,224
Total intangible assets	26,049	23,219	265,806
Investments and other assets			
Investment securities (Note 3 and 4)	109,173	131,443	1,114,010
Long-term loans receivable (Note 3)	24,839	18,485	253,459
Deferred tax assets (Note 8)	46,212	31,635	471,551
Other	35,847	48,072	365,785
Allowance for doubtful accounts	(906)	(614)	(9,244)
Total investments and other assets	215,166	229,022	2,195,571
Total noncurrent assets	1,352,068	1,376,365	13,796,612
Current assets			
Cash and deposits (Note 3)	66,905	46,092	682,704
Notes and accounts receivable – trade	166,542	172,889	1,699,408
Lease receivables and lease investment assets	25,594	—	261,163
Merchandise and finished goods	3,807	3,742	38,846
Work in process	43	64	438
Raw materials and supplies	56,905	34,718	580,663
Deferred tax assets (Note 8)	13,461	13,704	137,357
Other (Note 3)	79,431	56,590	810,520
Allowance for doubtful accounts	(574)	(516)	(5,857)
Total current assets	412,117	327,286	4,205,275
Total assets	¥1,764,185	¥1,703,651	$18,001,887

Accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 1) 2009
Noncurrent liabilities			
Bonds payable (Note 5)	¥ 291,490	¥ 331,489	$ 2,974,387
Long-term loans payable (Note 3 and 5)	207,741	155,648	2,119,806
Deferred tax liabilities (Note 8)	3,654	3,066	37,285
Provision for retirement benefits (Note 7)	100,734	93,557	1,027,897
Provision for gas holder repairs	3,555	3,558	36,275
Provision for safety measures	1,450	2,957	14,795
Other	24,597	26,346	250,989
Total noncurrent liabilities	633,223	616,624	6,461,459
Current liabilities			
Current portion of noncurrent liabilities (Note 3 and 5)	88,169	63,359	899,683
Notes and accounts payable – trade	103,319	99,352	1,054,275
Short-term loans payable (Note 5)	5,910	8,378	60,306
Income taxes payable	34,894	25,150	356,061
Deferred tax liabilities (Note 8)	2	1	20
Other (Note 3)	114,048	110,327	1,163,755
Total current liabilities	346,345	306,570	3,534,132
Total liabilities	979,568	923,195	9,995,591
Net assets (Note 9)			
Shareholders' equity			
Capital stock*	141,844	141,844	1,447,387
Legal capital surplus	2,065	2,065	21,071
Retained earnings	631,045	634,116	6,439,234
Treasury stock**	(2,361)	(42,774)	(24,091)
Total shareholders' equity	772,594	735,251	7,883,612
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	11,466	31,917	117,000
Deferred gains or losses on hedges	920	424	9,387
Foreign currency translation adjustment	(12,615)	1,479	(128,724)
Total valuation and translation adjustments	(228)	33,820	(2,326)
Minority interests	12,250	11,382	125,000
Total net assets	784,616	780,455	8,006,285
Total liabilities and net assets	¥1,764,185	¥1,703,651	$18,001,887

* Capital stock
Common stock
Authorized: 6,500,000,000 shares
Issued: 2,717,571,295 shares as of March 31, 2009 / 2,741,571,295 shares as of March 31, 2008

** Treasury stock: 4,884,659 shares as of March 31, 2009 / 84,937,500 shares as of March 31, 2008

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Net sales (Note 11)	¥1,660,162	¥1,487,496	$16,940,428
Cost of sales	1,139,791	974,110	11,630,520
Gross profit	520,371	513,386	5,309,908
Selling, general and administrative expenses			
Supply and sales expenses	381,177	370,795	3,889,561
General and administrative expenses	73,989	72,541	754,989
Total selling, general and administrative expenses	455,166	443,337	4,644,551
Operating income	65,204	70,048	665,346
Non-operating income			
Interest income	1,089	446	11,112
Dividends income	1,675	1,513	17,091
Equity in earnings of affiliates	5,529	3,775	56,418
Miscellaneous income	7,381	13,162	75,316
Total non-operating income	15,675	18,898	159,948
Non-operating expenses			
Interest expenses	10,869	10,460	110,908
Adjustments of charges for construction of distribution facilities	3,257	3,723	33,234
Miscellaneous expenses	8,415	7,930	85,867
Total non-operating expenses	22,542	22,114	230,020
Ordinary income	58,337	66,832	595,275
Extraordinary income			
Gain on sales of noncurrent assets	—	1,849	—
Gain on sales of investment securities	—	3,355	—
Gain on adjustment for changes of "Accounting Standard for Lease Transactions"	7,846	—	80,061
Gain on transfer of benefit obligation relating to employees' pension fund	1,570	—	16,020
Gain on transfer of business	1,359	—	13,867
Total extraordinary income	10,775	5,205	109,948
Extraordinary losses			
Impairment loss	—	567	—
Loss on reduction of noncurrent assets	—	710	—
Loss on valuation of investment securities	1,076	1,078	10,979
Total extraordinary losses	1,076	2,356	10,979
Income before income taxes	68,037	69,681	694,255
Income taxes – current	27,630	22,748	281,938
Income taxes – deferred	(2,366)	3,238	(24,142)
Total income taxes	25,264	25,986	257,795
Minority interests in income	1,064	1,207	10,857
Net income	¥ 41,708	¥ 42,487	$ 425,591

	Yen		U.S. dollars
	2009	2008	2009
Amounts per share of common stock			
Net income	¥15.63	¥15.94	$0.15
Diluted net income	15.37	15.50	0.15
Cash dividends applicable to the year	8.00	8.00	0.08

Accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Shareholders' equity			
Capital stock			
Balance at the end of previous period	¥141,844	¥141,844	$1,447,387
Changes of items during the period			
Total changes of items during the period	—	—	—
Balance at the end of period	141,844	141,844	1,447,387
Legal capital surplus			
Balance at the end of previous period	2,065	2,065	21,071
Changes of items during the period			
Total changes of items during the period	—	—	—
Balance at the end of period	2,065	2,065	21,071
Retained earnings			
Balance at the end of previous period	634,116	644,652	6,470,571
Changes at the beginning of current year due to application of PITF No.18	94	—	959
Changes of items during the period			
Dividends from surplus	(21,200)	(22,831)	(216,326)
Net income	41,708	42,487	425,591
Disposal of treasury stock	(11,710)	(2,098)	(119,489)
Retirement of treasury stock	(11,622)	(34,539)	(118,591)
Change of scope of consolidation	(340)	113	(3,469)
Change of scope of equity method	—	6,332	—
Total changes of items during the period	(3,165)	(10,536)	(32,295)
Balance at the end of period	631,045	634,116	6,439,234
Treasury stock			
Balance at the end of previous period	(42,774)	(44,564)	(436,469)
Changes of items during the period			
Purchase of treasury stock	(10,462)	(39,572)	(106,755)
Disposal of treasury stock	39,252	6,823	400,530
Retirement of treasury stock	11,622	34,539	118,591
Total changes of items during the period	40,413	1,790	412,377
Balance at the end of period	(2,361)	(42,774)	(24,091)
Total shareholders' equity			
Balance at the end of previous period	735,251	743,997	7,502,561
Changes at the beginning of current year due to application of PITF No.18	94	—	959
Changes of items during the period			
Dividends from surplus	(21,200)	(22,831)	(216,326)
Net income	41,708	42,487	425,591
Purchase of treasury stock	(10,462)	(39,572)	(106,755)
Disposal of treasury stock	27,542	4,725	281,040
Retirement of treasury stock	—	—	—
Change of scope of consolidation	(340)	113	(3,469)
Change of scope of equity method	—	6,332	—
Total changes of items during the period	37,247	(8,745)	380,071
Balance at the end of period	772,594	735,251	7,883,612
Valuation and translation adjustments			
Valuation difference on available-for-sale securities			
Balance at the end of previous period	31,917	49,706	325,683
Changes of items during the period			
Net changes of items other than shareholders' equity	(20,451)	(17,789)	(208,683)
Total changes of items during the period	(20,451)	(17,789)	(208,683)
Balance at the end of period	11,466	31,917	117,000
Deferred gains or losses on hedges			
Balance at the end of previous period	424	1,095	4,326
Changes of items during the period			
Net changes of items other than shareholders' equity	496	(671)	5,061
Total changes of items during the period	496	(671)	5,061
Balance at the end of period	920	424	9,387
Foreign currency translation adjustment			
Balance at the end of previous period	1,479	302	15,091
Changes of items during the period			
Net changes of items other than shareholders' equity	(14,094)	1,177	(143,816)
Total changes of items during the period	(14,094)	1,177	(143,816)
Balance at the end of period	(12,615)	1,479	(128,724)
Total valuation and translation adjustments			
Balance at the end of previous period	33,820	51,103	345,102
Changes of items during the period			
Net changes of items other than shareholders' equity	(34,048)	(17,283)	(347,428)
Total changes of items during the period	(34,048)	(17,283)	(347,428)
Balance at the end of period	(228)	33,820	(2,326)
Minority interests			
Balance at the end of previous period	11,382	10,944	116,142
Changes of items during the period			
Net changes of items other than shareholders' equity	867	438	8,846
Total changes of items during the period	867	438	8,846
Balance at the end of period	12,250	11,382	125,000
Total net assets			
Balance at the end of previous period	780,455	806,045	7,963,826
Changes at the beginning of current year due to application of PITF No.18	94	—	959
Changes of items during the period			
Dividends from surplus	(21,200)	(22,831)	(216,326)
Net income	41,708	42,487	425,591
Purchase of treasury stock	(10,462)	(39,572)	(106,755)
Disposal of treasury stock	27,542	4,725	281,040
Change of scope of consolidation	(340)	113	(3,469)
Change of scope of equity method	—	6,332	—
Net changes of items other than shareholders' equity	(33,180)	(16,845)	(338,571)
Total changes of items during the period	4,066	(25,590)	41,489
Balance at the end of period	¥784,616	¥780,455	$8,006,285

Accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Net cash provided by (used in) operating activities			
Income before income taxes	¥ 68,037	¥ 69,681	$ 694,255
Depreciation and amortization	136,899	138,132	1,396,928
Impairment loss	—	567	—
Amortization of goodwill	610	684	6,224
Amortization of long-term prepaid expenses	4,184	4,288	42,693
Loss on retirement of property, plant and equipment	3,561	1,568	36,336
Loss on reduction of noncurrent assets	—	710	—
Loss (gain) on valuation of investment securities	1,076	1,078	10,979
Increase (decrease) in provision for retirement benefits	7,177	621	73,234
Decrease (increase) in prepaid pension costs	9,027	(9,015)	92,112
Increase (decrease) in provision for safety measures	(1,507)	(2,469)	(15,377)
Interest and dividends income	(2,764)	(1,959)	(28,204)
Interest expenses	10,869	10,460	110,908
Equity in (earnings) losses of affiliates	(5,529)	(3,775)	(56,418)
Decrease (increase) in notes and accounts receivable – trade	2,585	(3,004)	26,377
Decrease (increase) in inventories	(21,111)	(2,542)	(215,418)
Increase (decrease) in notes and accounts payable – trade	6,005	35,883	61,275
Decrease (increase) in accounts receivable – other	(12,186)	(560)	(124,346)
Decrease (increase) in lease receivables and investment assets	(4,042)	—	(41,244)
Loss (gain) on transfer of business	(1,359)	—	(13,867)
Gain on adjustment for changes of "Accounting Standard for Lease Transactions"	(7,846)	—	(80,061)
Other, net	(7,623)	(8,237)	(77,785)
Subtotal	186,063	232,112	1,898,602
Interest and dividends income received	3,421	2,784	34,908
Interest expenses paid	(10,850)	(10,196)	(110,714)
Income taxes paid	(19,073)	(42,496)	(194,622)
Net cash provided by (used in) operating activities	159,561	182,204	1,628,173
Net cash provided by (used in) investment activities			
Payments into time deposits	(6,085)	(5,467)	(62,091)
Proceeds from withdrawal of time deposits	5,575	5,466	56,887
Purchase of investment securities	(15,091)	(19,111)	(153,989)
Proceeds from sales and redemption of securities	1,388	9,630	14,163
Purchase of property, plant and equipment	(133,629)	(128,972)	(1,363,561)
Purchase of intangible assets	(7,120)	(6,786)	(72,653)
Purchase of long-term prepaid expenses	(1,479)	(3,023)	(15,091)
Proceeds from sales of noncurrent assets	828	1,496	8,448
Payments of long-term loans receivable	(8,996)	(9,834)	(91,795)
Collection of long-term loans receivable	1,505	1,184	15,357
Net decrease (increase) in short-term loans receivable	(1,031)	—	(10,520)
Other, net	558	51	5,693
Net cash provided by (used in) investment activities	(163,575)	(155,365)	(1,669,132)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	(2,468)	(3,235)	(25,183)
Increase (decrease) in commercial papers	—	(6,000)	—
Repayments of lease obligations	(5)	—	(51)
Proceeds from long-term loans payable	81,185	59,590	828,418
Repayment of long-term loans payable	(31,249)	(43,162)	(318,867)
Proceeds from issuance of bonds	20,000	29,989	204,081
Redemption of bonds	(4,888)	—	(49,877)
Proceeds from sales of treasury stock	235	302	2,397
Purchase of treasury stock	(10,462)	(39,572)	(106,755)
Cash dividends paid	(21,208)	(22,823)	(216,408)
Cash dividends paid to minority shareholders	(205)	(278)	(2,091)
Net cash provided by (used in) financing activities	30,932	(25,189)	315,632
Effect of exchange rate change on cash and cash equivalents	(6,570)	524	(67,040)
Net increase (decrease) in cash and cash equivalents	20,347	2,173	207,622
Cash and cash equivalents at beginning of year	43,706	40,231	445,979
Increase in cash and cash equivalents from newly consolidated subsidiary	1	1,301	10
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(45)	—	(459)
Cash and cash equivalents at end of year	¥ 64,009	¥ 43,706	$ 653,153

Accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

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 Financial Instruments and Exchange Law (formerly 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.

Previously, the accompanying consolidated financial statements were produced by restructuring (reorganizing, changing notes) and translating into English 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 Financial Instruments and Exchange Act. From the fiscal year ended March 31, 2009, however, the financial statements, including the financial statements for previous years but excluding notes to consolidated financial statements, are not being restructured. In addition, the accompanying consolidated financial statements do not necessarily include all of the information included in the Japanese version of the consolidated financial statements filed as per the Financial Instruments and Exchange Act.

Equivalent U.S. dollar amounts are included for the convenience of readers outside Japan, and are converted at a rate of ¥98 per U.S. dollar, the prevailing exchange rate on March 31, 2009. These conversions 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, 2009 and 2008, 57 and 55 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.

The following two companies were newly established and added to the scope of consolidation from the current fiscal year:

Tokyo Gas Lifeval Kazusa Co., Ltd.
TGI Financial Solutions Co., Ltd.

The following company was added to the scope of consolidation from the current fiscal year to reflect the increased significance of the subsidiary:

Nijio Co.,Ltd.

In addition, TK Customer Service Co., Ltd. was liquidated and removed from the scope of consolidation from the current fiscal year.

The Company's major unconsolidated subsidiaries include Ohgishima Power Co., Ltd.

Unconsolidated subsidiaries were not included in the scope of the consolidation because total assets, net sales and the amount of net income/loss equivalent to the portion of the Company's interests, or the amount of retained earnings, etc., equivalent to the portion of the Company's interests was small and lacking in qualitative significance, and therefore they do not have a significant impact on the consolidated financial statements.

(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. Four affiliated companies were accounted for using the equity method for the two years ended March 31, 2009 and 2008.

The unconsolidated subsidiaries and affiliates not accounted for by the equity method were excluded from the scope of application of equity methods, due to the immaterial effect of the Company's total interest on their net income/loss and retained earnings to the consolidated financial statements and totally insignificance.

(3) Accounting period of consolidated subsidiaries — Although the Company's fiscal year ends on March 31, the following companies end their year on December 31:

TOKYO GAS AUSTRALIA PTY LTD
Tokyo Gas International Holdings B.V.
Tokyo Gas Bajio B.V.
Tokyo Gas Darwin LNG Pty Ltd
TOKYO GAS–MITSUI & CO. HOLDINGS SDN. BHD.
Tokyo Gas Pluto Pty Ltd

All significant adjustments considered necessary during the period from December 31 to the consolidated fiscal year-end have been made with consolidation.

(4) Property, plant and equipment — For property, plant and equipment, the acquisition cost is shown. However, in the case of acquisition expenses of the Company and its consolidated subsidiaries that have been subsidized by the national government, etc., the amount of such subsidiaries are offset against the acquisition cost of the corresponding asset (reduction entry).

Primarily, the declining-balance method of depreciation is applied, based on the estimated useful life of the asset. However, the straight-line method is applied for certain buildings (excluding ancillary equipment). Accumulated depreciation on property, plant and equipment is deducted directly from the balances of the corresponding assets.

In the accompanying consolidated financial statements, accumulated depreciation on property, plant and equipment amounted to ¥2,915,715 million (US$29,752,193 thousand) and

¥2,825,986 million for the years ended March 31, 2009 and 2008, respectively.

As a result of the revision of the Corporation Tax Law, as of the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007, to the depreciation method prescribed by the revised Corporation Tax Law.

In addition, as of the fiscal year ended March 31, 2008, as to property, plant and equipment acquired on or before March 31, 2007, as of the fiscal year following that in which assets reach 5% of their acquisition cost pursuant to the depreciation method prescribed by the Corporation Tax Law prior to its revision, the difference between an amount equal to 5% of the acquisition cost and the memorandum value is depreciated uniformly over five years and included in depreciation expenses.

The effect of these accounting changes on segment information is shown in Note 11. Segment Information.

The total amount of impairment loss is directly deducted from the amount shown for the respective asset.

(5) Intangible fixed assets — the straight-line method is applied. For software used by the Company, the straight-line method is applied based on the period of useful life within the Company.

(6) Accounting for certain lease transactions — Finance leases that do not involve transfer of ownership were previously accounted for based on standards for ordinary rental transactions. From the current fiscal year, however, the Accounting Standard for Lease Transactions is applied, and the accounting method is as per ordinary sale and purchase transactions.

When the Company is the lessee, those finance lease transactions that do not transfer ownership and commenced on or before March 31, 2008, are accounted for based on standards for ordinary rental transactions.

The effects from the change on profit and loss when the Company is the lessee are negligible. When the Company is the lessor, the effects of the change on operating income and recurring income are negligible, but income before income taxes is increased by ¥7,715 million (US$78,724 thousand).

(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 such that they present insignificant risk of change.

(9) Securities — The Company and its consolidated subsidiaries classify their securities under 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 values are stated at moving-average cost.

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

(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 for 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 that fulfilled certain conditions, the hedged foreign currencies receivable and payable are recorded using the Japanese yen amount of the contracted forward rate or swap rate. Regarding interest rate swap contracts that 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 — Inventory values are based on the moving-average cost method. Balance sheet values are calculated using the book value reduction method based on declining profitability.

(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) Provision for retirement benefits — The Company and its consolidated subsidiaries provide an unfunded lump-sum payment plan and a funded pension plan as retirement benefit schemes. The Company and certain consolidated subsidiaries provide defined benefit plans and defined contribution plans. Retirement benefits under these plans are determined based on the level of wages and salaries, length of service, and certain other factors.

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

Provision for retirement benefits is provided based on the estimated amounts of projected benefit obligations 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 in which they arise.

(14) Provision for gas holder repairs — 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) Provision for safety measures — The Company provides for expenses necessary to secure safety for gas consumers by estimating the total amount of such expenses that are expected to be incurred 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 foreign exchange gains or losses are charged to current income/expense. Assets and liabilities of the foreign subsidiaries are translated into Japanese yen at the exchange rates prevailing at the consolidated year-end date. Profit and loss accounts for the year are translated into Japanese yen at the exchange rates prevailing at the consolidated year-end date as well. Differences in yen amounts arising from the use of different rates are presented as "Foreign currency translation adjustment" and "Minority interests" 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 that are not expected to reduce future income taxes.

(18) Enterprise tax — In the case of companies engaged in gas businesses, enterprise tax that 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 ¥17,447 million (US$178,030 thousand) and ¥15,226 million for the years ended March 31, 2009 and 2008, respectively.

(19) Research and development expenses — Research and development expenses are charged to income as incurred. In the accompanying consolidated statements of income, research and development expenses included in "Selling, general and administrative expenses" and "Cost of sales" amounted to ¥9,164 million (US$93,510 thousand) and ¥9,950 million for the years ended March 31, 2009 and 2008, respectively.

(20) 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.

Convertible bonds had reached redemption by March 31, 2009, and there are no convertible bonds outstanding.

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 they are applicable to the year then ended.

(21) Reclassifications — Certain prior year amounts have been reclassified to conform to the fiscal year ended March 31, 2009 presentation. These changes had no impact on previously reported results of operations.

3. Pledged Assets

Pledged assets at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Distribution facilities	¥ 6,494	¥ 6,779	$ 66,265
Service and maintenance facilities	13	93	132
Other facilities	11,794	13,791	120,346
Investment securities	355	30	3,622
Long-term loans receivable	36	37	367
Cash and deposits	1,907	1,736	19,459
Other current assets	—	4	—
	¥20,603	¥22,474	$210,234

Liabilities secured by the above assets at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Long-term loans payable (including current portion of noncurrent liabilities)	¥9,584	¥11,325	$97,795
Other current liabilities	¥ 56	¥ 59	$ 571

4. Securities

Acquisition costs, book values and fair values of securities with available fair values at March 31, 2009 and 2008 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Securities with fair value exceeding book value:			
Book value	¥34	¥44	$346
Fair value	35	45	357
Difference	¥ 0	¥ 1	$ 0

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Securities with fair value not exceeding book value:			
Book value	¥10	¥199	$102
Fair value	9	199	91
Difference	¥ 0	¥ 0	$ 0

(b) Other securities with fair value

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Securities with fair values exceeding acquisition cost:			
Equity securities			
Acquisition cost	¥ 9,148	¥22,142	$ 93,346
Fair value	31,386	73,250	320,265
Difference	¥22,237	¥51,108	$226,908

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Securities with fair values not exceeding acquisition cost:			
Equity securities			
Acquisition cost	¥16,581	¥3,473	$169,193
Fair value	12,660	2,959	129,183
Difference	¥ (3,921)	¥ (513)	$ (40,010)

Other securities sold amounted to ¥40 million (US$408 thousand) and ¥3,714 million for the years ended March 31, 2009 and 2008, respectively. Gain on sales of other securities amounted to ¥33 million (US$336 thousand) and ¥3,355 million for the years ended March 31, 2009 and 2008, respectively.

Other securities with no available fair value, which were stated at moving-average cost, amounted to ¥24,742 million (US$252,469 thousand) and ¥20,964 million at March 31, 2009 and 2008, respectively. Investments in unconsolidated subsidiaries and affiliated companies amounted to ¥40,324 million (US$411,469 thousand) and ¥33,959 million for the years ended March 31, 2009 and 2008, respectively.

5. Short-Term Loans Payable, Bonds Payable and Long-Term Loans Payable

The average annual interest rates for short-term loans payable at March 31, 2009 and 2008 were 0.7% and 0.9%, respectively.

Bonds payable and long-term loans payable at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Domestic unsecured bonds			
Due in 2016 at a rate of 4.0%	¥ 27,700	¥ 27,700	$ 282,653
Due in 2018 at a rate of 2.625%	40,000	40,000	408,163
Due in 2009 at a rate of 1.68%	30,000	30,000	306,122
Due in 2009 at a rate of 1.73%	30,000	30,000	306,122
Due in 2010 at a rate of 2.01%	20,000	20,000	204,081
Due in 2011 at a rate of 1.39%	30,000	30,000	306,122
Due in 2012 at a rate of 1.35%	20,000	20,000	204,081
Due in 2023 at a rate of 1.01%	20,000	20,000	204,081
Due in 2013 at a rate of 1.41%	30,000	30,000	306,122
Due in 2014 at a rate of 1.59%	20,000	20,000	204,081
Due in 2024 at a rate of 2.29%	10,000	10,000	102,040
Due in 2025 at a rate of 2.14%	10,000	10,000	102,040
Due in 2015 at a rate of 4.1%	13,800	13,800	140,816
Due in 2009 at a rate of 1.18%	—	4,000	—
Due in 2027 at a rate of 2.29%	19,996	19,996	204,040
Due in 2015 at a rate of 1.4%	9,994	9,993	101,979
Due in 2015 at a rate of 1.658%	20,000	—	204,081
Domestic unsecured convertible bonds 5th issue due in 2009 at a rate of 1.2%	—	28,195	—
Loans from banks, insurance companies and government agencies due through 2020 at rates of 0.53% to 5.35%:			
Secured	9,584	11,325	97,795
Unsecured	226,244	175,328	2,308,612
	587,320	550,338	5,993,061
Less: amounts due within one year	88,087	63,200	898,846
	¥499,232	¥487,138	$5,094,204

The annual maturities of bonds payable and long-term loans payable at March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
2010	¥ 88,087	$ 898,846
2011	53,767	548,642
2012	48,353	493,397
2013	43,569	444,581
2014	36,681	374,295
2015 and thereafter	316,860	3,233,265
	¥587,320	$5,993,061

Note: The Company has a specific commitment line contract with the main correspondent financial institution of ¥30,000 million ($306,122 thousand) in total.

6. 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, 2009 and 2008 were as follows:

	Millions of yen			
	At March 31, 2009			
	Contract amounts			
	Total	Beyond one year	Fair value	Recognized gains (losses)
Commodity derivatives	¥8,876	¥8,876	¥(1,279)	¥(1,279)
Weather derivatives	600	—	—	—
	—	—	—	¥(1,279)

	Millions of yen			
	At March 31, 2008			
	Contract amounts			
	Total	Beyond one year	Fair value	Recognized gains (losses)
Commodity derivatives	¥ 764	¥—	¥815	¥815
Weather derivatives	1,100	—	—	—
	—	—	—	¥815

	Thousands of U.S. dollars			
	At March 31, 2009			
	Contract amounts			
	Total	Beyond one year	Fair value	Recognized gains (losses)
Commodity derivatives	$90,571	$90,571	$(13,051)	$(13,051)
Weather derivatives	6,122	—	—	—
	—	—	—	$(13,051)

Fair value of commodity derivatives contracts was calculated based on the information presented by financial institutions. Contract amounts of commodity derivatives are solely nominal values, and 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 amounts under the contracts. Fair values of weather derivatives were not stated because the calculation of the fair values was impossible.

7. Provision for Retirement Benefits

Provision for retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected benefit obligation	¥352,690	¥ 363,728	$3,598,877
Unrecognized prior service costs	1,915	2,220	19,540
Unrecognized actuarial differences	(35,211)	(25,243)	(359,295)
Less: Fair value of pension assets	(218,660)	(256,174)	(2,231,224)
Prepaid pension costs	—	9,027	—
Provision for retirement benefits	¥100,734	¥ 93,557	$1,027,897

Net periodic retirement benefit expenses for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service costs – benefits earned during the year	¥ 9,402	¥ 9,847	$95,938
Interest cost on projected benefit obligation	6,359	6,500	64,887
Expected return on plan assets	(5,028)	(5,168)	(51,306)
Amortization of actuarial differences	20,735	13,393	211,581
Amortization of prior service costs	(192)	(165)	(1,959)
Other	4,608	4,828	47,020
Net periodic retirement benefit expenses	35,885	29,235	366,173
Gain on transfer of benefit obligation relating to employees' pension fund	(1,570)	—	(16,020)
Net	¥34,315	¥29,235	$350,153

The discount rate and the rate of expected return on plan assets used by the Company and its consolidated subsidiaries are mainly 1.8% and 2.0% for the years ended March 31, 2009 and 2008, respectively.

Certain domestic consolidated subsidiaries obtained approval from the Minister of Health, Labour and Welfare on April 1, 2008 for the return of the past services portion of the substitutional portion of the welfare pension fund.

8. 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, 2009 and 2008.

Reconciliation of the difference between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2009 and 2008 are not presented as they are negligible.

Significant components of deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Provision for retirement benefits	¥36,847	¥34,277	$375,989
Other	44,724	42,581	456,367
Less: Valuation allowance	(8,471)	(7,094)	(86,438)
Subtotal	73,101	69,764	745,928
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	6,793	18,641	69,316
Other	10,289	8,851	104,989
Subtotal	17,083	27,492	174,316
Deferred tax assets – net	¥56,017	¥42,272	$571,602

9. Net Assets

(a) Distribution to the shareholders

Under the Japanese Corporate Law ("the Law"), dividends can be paid at any time during the fiscal year in addition to the year-end dividend upon resolution at a shareholders' meeting. Interim dividends may also be paid upon a resolution of the Directors' meeting provided that the articles of incorporation of the company so stipulate, and that the company meets certain criteria.

The 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 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 26, 2009, the Company's shareholders approved payment of year-end cash dividends of ¥4.0 (US$0.04) per share aggregating ¥10,850 million (US$110,714 thousand) to the shareholders of record as of March 31, 2009.

Such appropriations have not been accrued in the consolidated financial statements for the year ended March 31, 2009. Such appropriations are recognized in the period in which they are approved by the shareholders.

(b) Increases/decreases and transfer of capital stock, reserve, and surplus

Under the Law, the entire amount paid for new shares is required to be designated as capital stock. However, a company may, through a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as legal capital surplus, which is included in capital surplus.

Under the Law, in cases in which 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 capital stock over the total of legal capital surplus and legal retained earnings must be set aside as legal capital surplus or legal retained earnings. Legal retained earnings are included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal retained earnings and legal capital surplus could be used to eliminate or reduce a deficit, or could be capitalized generally by a resolution of the shareholders' meeting.

Legal capital surplus and legal retained earnings may not be distributed as dividends. Under the Law, however, all legal capital surplus and all legal retained earnings may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

(c) Treasury stock

The 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 a specific formula.

10. Additional Information for Cash Flows

Reconciliation of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Cash and deposits	¥66,905	¥46,092	$682,704
Less: Time deposits with maturities over three months, etc.	(2,896)	(2,385)	(29,551)
Cash and cash equivalents	¥64,009	¥43,706	$653,153

Significant non-cash transactions for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Decrease in treasury stock due to the conversion of convertible bonds	¥ 38,978	¥ 6,542	$ 397,734
Losses on disposal of treasury stock due to the conversion of convertible bonds	(11,671)	(2,119)	(119,091)
Decrease in convertible bonds	¥ 27,306	¥ 4,422	$ 278,632

11. Segment Information

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

A summary of net sales, operating expenses, operating income, assets, depreciation, impairment losses, and capital expenditures by business segments for the years ended March 31, 2009 and 2008 is as follows:

	Millions of yen						
For 2009	Gas sales	Gas appliance sales	Installation work	Real estate rental	Other business	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥1,220,023	¥117,256	¥45,834	¥ 13,132	¥263,915	¥ —	¥1,660,162
Intra group	37,551	5,106	3,259	22,505	99,867	(168,290)	—
Total	1,257,574	122,363	49,094	35,637	363,783	(168,290)	1,660,162
Operating expenses	1,146,717	120,276	50,194	28,194	350,301	(100,726)	1,594,957
Operating income (loss)	¥ 110,857	¥ 2,086	¥ (1,099)	¥ 7,442	¥ 13,482	¥ (67,563)	¥ 65,204
Assets	¥1,037,149	¥ 40,097	¥17,548	¥175,539	¥267,562	¥ 226,286	¥1,764,185
Depreciation	109,247	733	101	9,637	19,347	(2,168)	136,899
Impairment losses	—	—	—	—	—	—	—
Capital expenditures	110,653	917	54	5,769	29,562	(2,507)	144,450

	Millions of yen						
For 2008	Gas sales	Gas appliance sales	Installation work	Real estate rental	Other business	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥1,056,100	¥129,201	¥ 53,569	¥ 12,360	¥236,263	¥ —	¥1,487,496
Intra group	30,943	3,125	3,755	22,808	84,097	(144,731)	—
Total	1,087,044	132,326	57,325	35,169	320,361	(144,731)	1,487,496
Operating expenses	975,381	129,417	56,497	27,206	307,592	(78,646)	1,417,448
Operating income (loss)	¥ 111,663	¥ 2,909	¥ 828	¥ 7,963	¥ 12,768	¥ (66,084)	¥ 70,048
Assets	¥ 993,802	¥ 43,551	¥ 18,891	¥179,857	¥256,631	¥210,917	¥1,703,651
Depreciation	107,312	605	122	9,907	22,244	(2,060)	138,132
Impairment losses	—	—	—	—	567	—	567
Capital expenditures	94,404	648	35	4,300	37,701	(2,108)	134,983

	Thousands of U.S. dollars						
For 2009	Gas sales	Gas appliance sales	Installation work	Real estate rental	Other business	Elimination or corporate	Consolidated
Net sales:							
Outside customers	$12,449,214	$1,196,489	$467,693	$ 134,000	$2,693,010	$ —	$16,940,428
Intra group	383,173	52,102	33,255	229,642	1,019,051	(1,717,244)	—
Total	12,832,387	1,248,602	500,959	363,642	3,712,071	(1,717,244)	16,940,428
Operating expenses	11,701,193	1,277,306	512,183	287,693	3,574,500	(1,027,816)	16,275,071
Operating income (loss)	$ 1,131,193	$21,285	$ (11,214)	$ 75,938	$ 137,571	$ (689,418)	$ 665,346
Assets	$10,583,153	$409,153	$179,061	$1,791,214	$2,730,224	$ 2,309,040	$18,001,887
Depreciation	1,114,765	7,479	1,030	98,336	197,418	(22,122)	1,396,928
Impairment losses	—	—	—	—	—	—	—
Capital expenditures	1,129,112	9,357	551	58,867	301,653	(25,581)	1,473,979

Operating expenses under Elimination or Corporate that cannot be allocated to business segments are related mainly to general administrative expenses of the Company, amounting to ¥68,664 million (US$700,653 thousand) and ¥67,096 million for the years ended March 31, 2009 and 2008, respectively.

Assets under Elimination or Corporate mainly comprise cash and deposits, investment securities, and deferred tax assets of the Company and its consolidated subsidiaries, and they amounted to ¥259,494 million (US$2,647,897 thousand) and ¥243,678 million at March 31, 2009 and 2008, respectively.

As described in Note 2. Significant accounting policies (4) Property, plant and equipment, as a result of the revision of the Corporation Tax Law, from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007, to the depreciation method prescribed by the revised Corporation Tax Law.

In addition, from the year ended March 31, 2008, as to property, plant and equipment acquired on or before March 31, 2007, as of the fiscal year following that in which assets reach 5% of their acquisition cost pursuant to the depreciation method prescribed by the Corporate Tax Law prior to its revision, the difference between an amount equal to 5% of the acquisition cost and the memorandum value is depreciated uniformly over five years and included in depreciation expenses.

Geographic segment information is not shown since more than 90% of both consolidated net sales and total assets are generated in Japan. Information on overseas sales is not disclosed due to overseas sales being immaterial compared to consolidated net sales.

12. Information for Certain Leases

Finance leases

Information as lessee

The Company and its consolidated subsidiaries use certain other facilities and other intangible assets under lease contracts. Finance lease transactions beginning on or before March 31, 2008 that do not transfer ownership are accounted for based on standards for ordinary rental transactions.

Lease payments and amounts equivalent to depreciation for the finance lease transactions shown above that do not transfer ownership for the years ended March 31, 2009 and 2008, and future lease payments including interest as of March 31, 2009 and 2008, are shown below.

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Lease payments	¥ 550	¥ 547	$ 5,612
Depreciation expenses	550	547	5,612
Future lease payments inclusive of interest:			
Current	472	555	4,816
Noncurrent	2,670	3,146	27,244
	¥3,142	¥3,702	$32,061

Acquisition cost, accumulated depreciation and net book value for property held under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis as of March 31, 2009 and 2008 were as follows:

	Millions of yen		
For 2009	Acquisition cost	Accumulated depreciation	Net book value
Other facilities	¥4,415	¥1,341	¥3,074
Other intangible assets	178	110	68
	¥4,593	¥1,451	¥3,142
For 2008			
Other facilities	¥5,311	¥1,715	¥3,596
Other intangible assets	200	94	105
	¥5,512	¥1,810	¥3,702

	Thousands of U.S. dollars		
For 2009	Acquisition cost	Accumulated depreciation	Net book value
Other facilities	$45,051	$13,683	$31,367
Other intangible assets	1,816	1,122	693
	$46,867	$14,806	$32,061

Information as lessor

In the fiscal year ended March 31, 2008, finance lease transactions that do not transfer ownership were accounted for based on standards for ordinary rental transactions. Lease income, depreciation expenses and the amount corresponding to interest income in the year ended March 31, 2008, and the future lease payments to be received at March 31, 2008, were as follows.

For 2008	Millions of yen
Lease income	¥ 4,719
Depreciation expenses	1,636
Interest income	1,407
Future lease payments to be received:	
Current	¥ 5,517
Noncurrent	19,880
	¥25,397

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 year ended March 31, 2008 were as follows:

	Millions of yen		
For 2008	Acquisition cost	Accumulated depreciation	Net book value
Other facilities	¥26,241	¥14,375	$11,866
Other intangible assets	1,090	754	335
	¥27,332	¥15,130	$12,202

The breakdown of lease investment assets as of March 31, 2009, is as follows:

	Millions of yen	Thousands of U.S. dollars
For 2009		
Claims for lease fees	¥22,198	$226,510
Estimated residual value	64	653
Equivalent interest received	(3,724)	(38,000)
Lease investment assets	¥18,539	$189,173

Scheduled recovery amounts of claims for lease fees related to lease receivables and investment assets as of March 31, 2009, are as follows:

	Millions of yen		Thousands of U.S. dollars	
For 2009	Lease obligations	Lease investment assets	Lease receivables	Lease investment assets
Within 1 year	¥1,050	¥4,954	$10,714	$50,551
More than 1 year but within 2 years	1,044	4,305	10,653	43,928
More than 2 years but within 3 years	1,038	3,605	10,591	36,785
More than 3 years but within 4 years	1,000	2,922	10,204	29,816
More than 4 years but within 5 years	883	2,242	9,010	22,877
More than 5 years	¥2,988	¥4,167	$30,489	$42,520

Operating leases

Information as lessee

Future lease payments at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Future lease payments:			
Current	¥110	¥ 32	$1,122
Non-current	331	125	3,377
	¥441	¥158	$4,500

Information as lessor

Future lease payments to be received at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Future lease payments:			
Current	¥ 1,952	¥326	$ 19,918
Non-current	11,087	457	113,132
	¥13,040	¥783	$133,061

13. Commitment and Contingent Liabilities

At March 31, 2009, the Company and its consolidated subsidiaries were contingently liable for (1) debt guarantees in the amount of ¥6,050 million (US$61,734 thousand) for financial institution loans to companies other than consolidated subsidiaries and (2) ¥38,700 million (US$394,897 thousand) as guarantors for domestic unsecured bonds issued by the Company, and assigned to certain banks under debt assumption agreements made in the years ended March 31, 2002, 2003, and 2004.

At March 31, 2009, the Company held 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.

Adjustment of the cost for raw materials is subject to movements on trading contract renewals or price negotiations thereof with gas resource suppliers.

14. Subsequent Events

Resolution on acquisition of treasury stock

The Directors' meeting held on April 28, 2009 resolved to acquire treasury stock.

Number of shares: Limited to 15,000 thousand shares
Cost of shares acquisitions: Limited to ¥5,000 million (US$51,020 thousand)
Period of acquisitions: From April 30, 2009 to October 30, 2009

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. (the "Company") and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tokyo Gas Co., Ltd. and subsidiaries as of March 31, 2009 and 2008, and the 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(4) to the consolidated financial statements, as a result of the revision of the Corporation Tax Law, effective April 1, 2007, Tokyo Gas Co., Ltd. has changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007, to the depreciation method prescribed by the revised Corporation Tax Law.

(2) As discussed in Note 2(4) to the consolidated financial statements, as a result of the revision of the Corporation Tax Law, effective April 1, 2007, as to assets acquired on or before March 31, 2007, as of the fiscal year following that in which assets reach 5% of their acquisition cost pursuant to the depreciation method prescribed by the Corporation Tax Law prior to its revision, Tokyo Gas Co., Ltd. writes off the difference between an amount equal to 5% of the acquisition cost and the memorandum value uniformly over five years and records as depreciation expenses.

(3) As discussed in Note 2(6) to the Consolidated Financial Statements, effective April 1, 2008, Tokyo Gas Co., Ltd. has been applying the "Accounting Standard for Lease Transactions".

(4) As described in Note 14 to the consolidated financial statements, Tokyo Gas Co., Ltd. decided to acquire the treasury stock on April 28, 2009.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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 26, 2009

CONSOLIDATED SUBSIDIARIES AND EQUITY-METHOD AFFILIATES

As of March 31, 2009

Main Consolidated Subsidiaries

Company	Business	Capital (¥ million)	Equity owned by Tokyo Gas (%)	FY2008 Net sales (¥ million) [% of outside sales]		Operating income (¥ million)
Tokyo Gas Urban Development Co., Ltd.	Real estate leasing, management and non-life insurance agent, etc.	11,530	100.0	33,539	[35.4]	6,655
Tokyo Gas Toyosu Development Co., Ltd.	Real estate leasing and management	5,000	100.0	641	[100.0]	153
Nagano Toshi Gas Co., Ltd.	City gas business in Nagano Prefecture	3,800	89.2	11,624	[100.0]	727
ENERGY ADVANCE Co., Ltd.	Energy service, district heating and cooling, cogeneration orders, and maintenance	3,000	100.0	68,437	[94.6]	1,189
Gastar Co., Ltd.	Production, sales and maintenance of gas appliances	2,450	66.7	28,568	[41.9]	791
Tokyo LNG Tanker Co., Ltd.	LNG and LPG transportation and chartering of carriers	1,200	100.0	15,822	[24.6]	2,896
Tokyo Gas Energy Co., Ltd.	Sales of liquefied petroleum gas (LPG)	1,000	100.0	36,939	[79.4]	124
Capty Co., Ltd.	Installation of gas supply lines, water supply and drainage lines, air conditioning systems, new construction, and construction of gas mains and branch lines	1,000	100.0	55,849	[35.0]	1,245
Tokyo Gas Chemicals Co., Ltd.	Sales of gas for industry and chemicals and development of LNG cryogenic utilization technology	1,000	100.0	20,671	[72.6]	750
Park Tower Hotel Co., Ltd.	Management of "Park Hyatt Tokyo" hotel and restaurants	1,000	100.0	8,299	[96.2]	(944)
Tokyo Gas Yokosuka Power Co., Ltd.	Independent Power Producer for TEPCO	980	75.0	11,424	[96.6]	540
Chiba Gas Co., Ltd.	Supply of gas to Yachiyo City, Narita City and surrounding cities	480	100.0	18,254	[97.0]	1,186
TG Credit Service Co., Ltd.	Leasing of information equipment, gas appliances and office equipment, and credit administration connected with installations	450	100.0	8,682	[66.6]	428
TG Information Network Co., Ltd.	Information processing services, software development and sales of computer equipment, etc.	400	100.0	18,210	[5.2]	510
Tsukuba Gakuen Gas Co., Ltd.	Supply of gas in Tsukuba City and Tsukuba Mirai City	280	100.0	8,999	[98.9]	477
Tokyo Gas Engineering Co., Ltd.	Comprehensive engineering services with a particular focus on energy-related work	100	100.0	33,363	[70.4]	1,425
Tokyo Gas Customer Service Co., Ltd.	Periodic safety checks, meter and billing services	50	100.0	5,259	[2.0]	199
Capty-Livelic Co., Ltd.	Gas facility construction, gas appliance sales, and maintenance	50	100.0	7,747	[67.5]	116
Nijio Co., Ltd.	Procurement and sales of natural gas and electricity	47	100.0	14,071	[73.6]	(2,989)

Note: Consolidated subsidiaries comprised 57 companies as of the end of March 2009.

Other Subsidiaries

TOKYO GAS AUSTRALIA PTY LTD,
Tokyo Gas International Holdings B. V.,
Tokyo Gas Bajio B.V., Tokyo Gas Darwin LNG Pty Ltd,
Tachikawa Urban Center Co., Ltd.,
Living Design Center Co., Ltd., Tokyo Gas Baypower Co., Ltd.,
TOKYO GAS–MITSUI & CO. HOLDINGS SDN. BHD.,
Tokyo Oxygen and Nitrogen Co., Ltd., TG Showa Co., Ltd.,
Tokyo Carbonic Co., Ltd., Tokyo Gas Pluto Pty Ltd,
TG Enterprise Co., Ltd., Japan Super Freeze Co., Ltd.,
Miho Gas Co., Ltd., Shoei Gas Co., Ltd.,
Tokyo Gas Auto Service Co., Ltd., TG Telemarketing Co., Ltd.,
Tokyo Gas LPG Terminal Co., Ltd., Kawasaki Gas Pipeline Co., Ltd.,
Tokyo Gas Remodeling Co., Ltd., Washimiya Gas Co., Ltd.,
Urban Communications, Inc., Tochigi Gas Co., Ltd.,
Tokyo Gas Techno-Service Co., Ltd.,
Tokyo Gas Building Service Co., Ltd.,
TGI Financial Solutions Co., Ltd.,
Showa Bussan Co., Ltd., Tosetz Co., Ltd., Tokyo Kiko Co., Ltd.,
Capty Customer Service Co., Ltd.,
Enelife Carrier Co., Ltd., Showa Unyu Co., Ltd.,
Tokyo Gas Plant Tech Co., Ltd., Tokyo Rare Gases Co., Ltd.,
Tokyo Auto Gas Co., Ltd., Tokyo Gas Lifeval Kazusa Co., Ltd.,
Capty Tech Co., Ltd.

Equity-Method Affiliates

TOKYO TIMOR SEA RESOURCES INC.
GAS MALAYSIA SDN. BHD.
East Japan Housing Evaluation Center Co., Ltd.
Bajio Generating VOF

INVESTOR INFORMATION

As of March 31, 2009

TOKYO GAS CO., LTD.

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Paris Representative Office
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Asia Pacific Regional Office
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Date of Establishment October 1, 1885

Paid-in Capital ¥141,844,398,888

Aggregate Number of Shares Issuable 6,500,000,000 shares

Issued Number of Shares 2,717,571,295 shares

Number of Shareholders 160,644

Stock Listings Tokyo Stock Exchange,
Osaka Securities Exchange and
Nagoya Stock Exchange (Trade code: 9531)

Independent Auditors KPMG AZSA & Co.

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

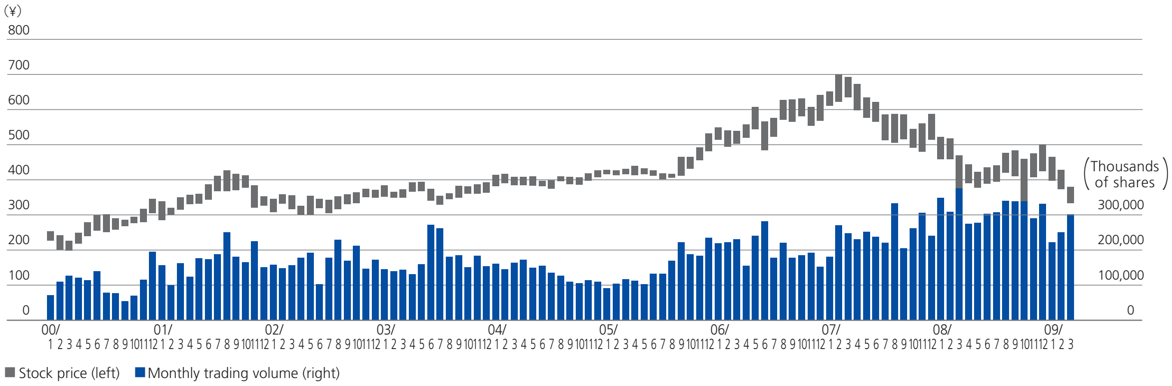
Number of Employees 15,510
(Consolidated basis, excluding workers on loan
and part-time workers)

Principal Shareholders

Name	Number of shares held (Thousands)	Percentage of share ownership (%)
Nippon Life Insurance Company	163,000	6.01
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	158,412	5.84
Japan Trustee Services Bank, Ltd. (Trust Account)	154,891	5.71
The Dai-ichi Mutual Life Insurance Company	120,472	4.44
The Master Trust Bank of Japan, Ltd. (Trust Account)	117,071	4.32
The Chase Manhattan Bank N.A. London SL Omnibus Account	77,384	2.85
Fukoku Mutual Life Insurance Company	68,504	2.53
Tokyo Gas Employees Shareholding Association	38,838	1.43
Mizuho Trust & Banking Co., Ltd. Employee Pension Trust Dai-ichi Mutual Life Insurance Company Account Standby Trustee Trust & Custody Services Bank, Ltd.	35,490	1.31
State Street Bank and Trust Company 505225	32,668	1.20

Note: Percentage of share ownership is calculated by the number of shares excluding treasury stock (4,884 thousand shares).

Monthly Stock Price Range (Tokyo Stock Exchange)



Further Information

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

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Forward-Looking Statements

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

Financial Data and Graphs

For purposes of presentation, from this annual report, all amounts less than one billion yen or one million yen have been rounded down, and hundredths of a percentage point have been rounded to the nearest whole number. Therefore, the figures presented in this report may differ from those presented in the annual reports in past years. In addition, all graphs and tables represent fiscal years ended March 31 of the respective years.

TOKYO GAS

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