



Achieving Sustainable Growth in a Low-Carbon Society

Annual Report 2010

Tokyo Gas Co., Ltd.

Tokyo, the start of the day 7:00 AM

The Tokyo streets are waking up and people are starting their day. All over the city, households are using city gas. For hot water, indoor heating, and cooking. And as fuel for fuel cells.



Tokyo is one of the world's leading cities, with a population of more than 13 million, the largest economy of any city in the world, and abundant natural beauty. From its base in the Tokyo metropolitan area, Tokyo Gas has provided energy that has supported the development of lifestyles and industry in Japan for more than 120 years.

Tokyo, business district Noon

During the day, when economic activity picks up, businesses rely on city gas. For air conditioning in individual offices as well as entire districts. And for heating and in-house power generation in industrial areas.



In 1969, Tokyo Gas received Japan's first imports of liquefied natural gas (LNG) as a raw material for city gas. LNG came to play a major role in ridding the metropolitan area of smog and returning blue skies to Tokyo. Today, with increasing attention being paid to mitigating climate change, LNG is making another important contribution to the environment. As the energy source of the future, natural gas can simultaneously support both lifestyle and industry development and environmental conservation. Moving forward, Tokyo Gas will continue working to spread and expand the use of natural gas.

The Tokyo Gas Group is steadily implementing initiatives targeting sustainable growth in the low-carbon society of tomorrow.

THE DRIVING FORCE OF TOKYO GAS



STRONG PARTNERSHIP

Tokyo Gas has built a corporate brand of security, safety, and trust among more than 10 million customers. On that foundation, we will engage in daily dialogue with stakeholders in order to be a corporate group that maintains the trust of customers, and remains the choice of customers.



CLEAN ENERGY

Natural gas is a clean energy with abundant reserves and the lowest carbon dioxide (CO₂) emissions from combustion of any fossil fuel. Growth in its advanced use will play a major role in the realization of a low-carbon society.



GROWING MARKET

The service area of Tokyo Gas is principally centered on the Kanto region. This area has the highest concentration of energy demand in Japan and the scale of economic activity in Kanto is expected to show strong growth due to population influx. As we extend our supply infrastructure to surrounding areas, we will continue working to uncover potential demand.

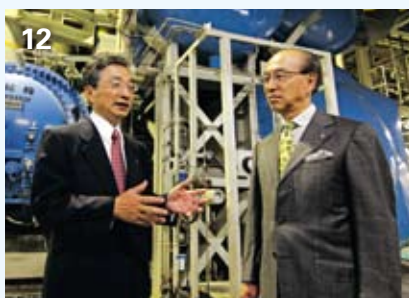
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President Tsuyoshi Okamoto discusses the position of Tokyo Gas in an age of dramatic change, the Company's vision for the realization of a low-carbon society, its progress with the medium-term management plan, and decisions the Company has made to realize sustainable growth.



12 **SPECIAL FEATURE**

Achieving Sustainable Growth in a Low-Carbon Society

The themes of this year's special feature are how the business activities of the Tokyo Gas Group contribute to the achievement of sustainable growth in a low-carbon society. From that perspective, this section explains the background to the Company's business strategies and initiatives and provides specific examples.

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About This Annual Report

This annual report was prepared as a communications tool that helps to foster a better understanding of the Company and to build good relationships with shareholders, investors, and a wide range of other people. In addition to the Company's operating results and business strategies, it also provides information about matters that are not as readily visible from outside the Company, such as the Company's philosophy, its approach to the environment and safety, and the features of its operations and markets.

Other Publications

CSR Report



The CSR Report introduces the corporate social responsibilities (CSR) that the Group is fulfilling through its business activities as well as specific initiatives.

Tokyo Gas

Environmental Activities



This report introduces the Company's activities in the area of the environment, which is an important element in all of the Group's business activities, and introduces the superior characteristics of natural gas and the Company's initiatives.

FINANCIAL HIGHLIGHTS

Tokyo Gas Co., Ltd. and consolidated subsidiaries
Years ended March 31

FOR THE YEARS	Millions of yen (except otherwise stated)					Thousands of U.S. dollars*1 (except otherwise stated)
	2010	2009	2008	2007	2006	2010
Net sales	¥1,415,718	¥1,660,162	¥1,487,496	¥1,376,958	¥1,266,501	\$15,222,774
Operating income	85,229	65,204	70,048	162,315	112,345	916,440
Net income	53,781	41,708	42,487	100,699	62,114	578,290
Depreciation	146,117	141,083	142,421	133,142	136,376	1,571,150
Capital expenditures	148,186	145,929	138,006	124,556	119,435	1,593,397
Amounts per share of common stock (¥ / \$)						
Net income	19.86	15.63	15.94	37.50	23.48	0.21
Diluted net income*2	—	15.37	15.50	35.69	21.70	—
Net assets	301.58	284.72	289.49	293.11	270.46	3.24
Cash dividends applicable to the year	9.00	8.00	8.00	8.00	7.00	0.09
Total payout ratio*3 (%)	60.11	63.35	73.56	60.14	84.29	—
Payout ratio (%)	45.32	51.18	50.19	21.33	29.81	—
AT YEAR-END						
Total assets	¥1,840,972	¥1,764,185	¥1,703,651	¥1,692,635	¥1,693,898	\$19,795,397
Interest-bearing debt	555,919	593,230	558,716	525,467	559,911	5,977,623
Total net assets	826,291	784,616	780,455	806,045	738,486	8,884,849
RATIOS						
Operating cash flow*4	¥ 199,898	¥ 182,791	¥ 184,908	¥ 233,841	¥ 198,490	\$ 2,149,440
Operating income to net sales (%)	6.0	3.9	4.7	11.8	8.9	—
Net income to net sales (%)	3.8	2.5	2.9	7.3	4.9	—
TEP*5 (Billions of yen / Millions of U.S. dollars)	18.6	-4.8	1.7	53.8	22.9	200
ROE*6 (%)	6.8	5.4	5.4	13.2	9.0	—
ROA*7 (%)	3.0	2.4	2.5	5.9	3.7	—
Equity ratio (%)	44.2	43.8	45.1	47.0	43.0	—
D/E ratio*8 (times)	0.68	0.77	0.73	0.66	0.77	—
OPERATIONAL DATA						
Gas sales volume (million m ³)	13,666	13,942	14,215	13,315	13,098	—
Number of customers (thousands)	10,637	10,513	10,380	10,207	10,016	—
LNG imports (thousand tons) (non-consolidated)	10,052	11,162	10,874	10,191	9,745	—

*1 U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥93 = U.S.\$1, the prevailing exchange rate on March 31, 2010.

*2 From the fiscal year ended March 31, 2010, diluted net income per share is not presented in the above table because there are no residual securities from the beginning of the fiscal year.

*3 Total payout ratio for fiscal year n = ((income distributed as dividends funded by net income in FY n) + (share repurchasing in FY n+1)) / (net income in FY n).

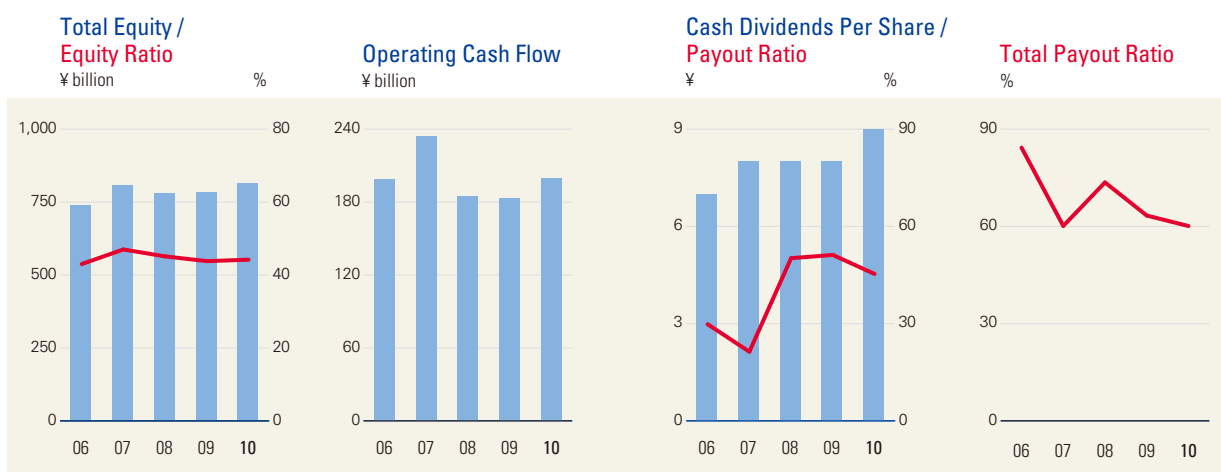
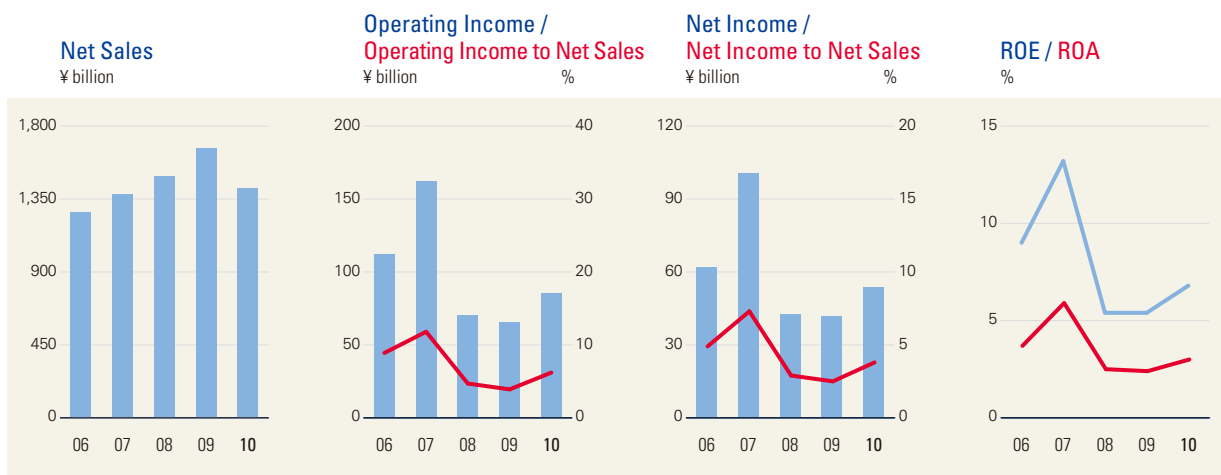
*4 Operating cash flow = net income + depreciation (including amortization of long-term prepayments)

*5 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% / Fiscal 2009 results: 3.2% / Fiscal 2013 outlook: 3.8%

*6 ROE = net income / total equity (average of positions at start and end of fiscal year)

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

*8 D/E ratio = interest-bearing debt (year-end) / total shareholders' equity (year-end)



FINANCIAL STRATEGY AND KEY INDICATORS IN THE MEDIUM-TERM MANAGEMENT PLAN (FY 2009 to FY 2013)

- Through the steady implementation of the key policies in the medium-term management plan, over the five-year period of the plan we will aim to generate cash flow*1 of about ¥1,070 billion. We intend to use this cash flow for aggressive investment in such areas as upstream/overseas projects, infrastructural improvement, and demand development.
- In making investment decisions, we will give due consideration for capital costs and will work to maintain and improve investment efficiency, aiming for ROA of 3.7% in the final year of the plan.
- We will strive to increase dividends over the long term and will maintain the target of 60% for the total payout ratio*2. We will work to make effective use of shareholder capital and will target ROE of 7.7% in the final year of the plan.

*1 Cash flow = operating cash flow + other cash flow

*2 Total payout ratio = ratio of shareholder return (income distributed as dividends funded by net income) + (share repurchases) to net income

Major Management Indicators

Consolidated	Fiscal 2008 (Result)	Fiscal 2009 (Result)	Fiscal 2013 (Plan)
Operating cash flow ¥ billion	182.7	199.8	1,060.0
			Over 5 years
ROA %	2.4	3.0	3.7
ROE %	5.4	6.8	7.7
TEP ¥ billion	-4.8	18.6	18.0



Toward the realization of a low-carbon society, we are working to promote the utilization of natural gas, which is increasingly important as a key source of energy. Moving forward, we will continue striving to develop the integrated energy business by fostering the advanced use of natural gas in a wide range of fields.

Tsuyoshi Okamoto
President and Representative Director

TO OUR SHAREHOLDERS AND INVESTORS

The Group's management philosophy is as follows: "As an integrated energy company, the Tokyo Gas Group shall make an active contribution to pleasant living and the development of environmentally friendly society, and also pursue ongoing advancement together with the rest of society, as a corporate group that earns and maintains the trust of its customers, shareholders and communities through its various activities." In accordance with this management philosophy, my most important mission is to successfully pursue the Group's medium-term management plan for fiscal years from 2009 to 2013 and to establish the route toward growth for All Tokyo Gas over the long term.

Operating Environment Remains Challenging

In the January to March quarter of 2010, there were signs that the global economic slump, which began with the financial crisis in the United States in 2008, had bottomed out. GDP growth, for example, finally turned positive, and corporate results showed signs of recovery. The moderate recovery trend in our operating environment is expected to continue over the short term. However, city gas demand, which has drastically declined, especially in the industrial sector, has not recovered to the level seen prior to the Lehman Brothers collapse. More time will still be required to reach a full-fledged recovery.

We expect the influence of the economic recession to continue in the fiscal year ending March 31, 2011. In the residential sector, due to the continued slowdown in the housing market, the number of new housing starts in our supply area is expected to decline. In addition, in the industrial sector, customers remain very cautious about future economic trends.

Competition with other forms of energy continues to intensify. In the residential sector, the aggressive promotion of all-electric houses by electric companies is spreading from new housing to existing housing. Moreover, in the commercial and industrial sectors, these promotion efforts are expanding to include all-electric commercial kitchens and manufacturing factories. It is important that we deal directly with the fact that we are in an extremely challenging operating environment.

"In the midst of the transition to a low-carbon society, the importance of natural gas is increasing. The mission of Tokyo Gas is to expand the advanced use of natural gas."

Rising Importance of Natural Gas in the Rapidly Changing Energy Industry

Throughout the world, calls for measures to mitigate climate change appear set to bring about major changes in the energy industry.

The Japanese government, for example, has set goals of reducing emissions of greenhouse gases by 25% by 2020 and 80% by 2050, compared to the level in 1990. A number of policy measures are currently being considered to meet these goals, including the Act on Promotion of Global Warming Countermeasures and other laws, environmental taxes, and a domestic emission trading system. There is no question that some of these measures will sooner or later be adopted. In the future, in accordance with the concept of "moving toward a low-carbon society," the Japanese government will likely conduct wide-ranging deliberations about the supply of energy in ways that transcend the traditional framework of petroleum, electricity, and gas.

With regard to the reduction of greenhouse gases, a current focus of attention is the use of renewable energies, such as solar power, solar heat, wind power, and biomass. However, renewable energies suffer from quantitative supply restrictions and problems with supply stability. These forms of energy can only account for a limited portion of total energy demand.

On the other hand, in comparison with other fossil fuels, such as petroleum and coal, natural gas has an overwhelming advantage in environmental friendliness. With a wide range of suppliers backed by substantial reserves, natural gas also offers supply stability. The convenience of natural gas facilitates flexible responses

to a wide range of demand structure, such as dispersed power generation, and natural gas also offers high heat efficiency. Clearly, natural gas has a significant range of competitive advantages. In this setting, we are seeing rapid increases in the importance of natural gas as a key source of energy.

It is our mission to expand the advanced use of natural gas in a wide range of fields. As outlined in our medium-term management plan, we want to actively contribute to the emergence of a low-carbon society through groupwide initiatives in the integrated energy business, with natural gas at its core.

Specific initiatives targeting the realization of a low-carbon society include developing and cultivating natural gas demand, establishing community-based marketing systems, and expanding basic infrastructure. Through the focused application of management resources to these three points, in particular, we are making steady progress.

“Our efforts to promote the advanced use of natural gas will center on the proposal of optimal energy solutions, principally cogeneration systems, and on expanded sales of the “ENE-FARM” residential fuel cell. We will also work to make further progress in the development of smart energy networks.”

Thorough Market Development, Centered on Advanced Use of Natural Gas

In the industrial sector, which accounts for more than 40% of our gas sales volume, there is still a substantial amount of heat demand that is being met by fossil fuels other than natural gas. This means that there is significant potential left for the switch to natural gas. In response to this demand, we do not simply propose a

switch in fuel. We also propose high-value-added energy solutions that include the introduction of cogeneration systems and other high-efficiency equipment. In this way, we are taking steps to enhance convenience for customers.

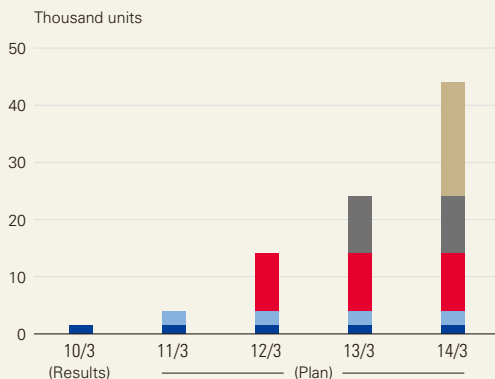
In the residential sector, we are working to promote the spread of the latest appliances, including the “ENE-FARM” residential fuel cell that was launched in 2009. In fiscal 2009, 1,500 “ENE-FARM” fuel cells were sold, and in fiscal 2010, we are planning sales of 2,500 units. As we strive to foster the adoption of a new concept—an age in which energy is generated at home—and to advance the introduction of “ENE-FARM,” we are aiming for cumulative total sales of 42,000 units by the end of March 2014.

The introduction of a range of environmental regulations is currently being debated, and a growing number of commercial and

industrial customers are considering specific responses. We are approaching this accelerating trend as a major business opportunity. As one facet of our energy services, for example, we are devoting resources to the provision of energy-saving diagnoses. These include support for the preparation of reports to the national government that are required under the Law Regarding the Rationalization of Energy Use, and the collection and analysis of data regarding the energy usage of customers and the preparation of reports based on that data. With these support services as a foothold, we are working to expand our energy services operations.

Moreover, to further enhance the value added of natural gas and promote its advanced use, we will undertake a full-scale initiative targeting the establishment of smart energy networks. These networks meet demand for energy, including electricity and heat, with optimal combinations of energy sources. Combining natural gas systems, centered on cogeneration systems, with other energy sources, such as renewable energy and conventionally generated power, these systems provide local communities with networked energy services. Fluctuations in demand for heat and electricity are accommodated through the network, providing outstanding results in the reduction of energy consumption and CO₂ emissions. In this way, smart energy networks exemplify a next-generation energy supply. We will continue our ongoing efforts in technical

Cumulative Unit Sales of “ENE-FARM”



development, which is the foundation for the growth of these operations. Meanwhile, to support concrete progress toward commercialization, in May 2010 we began a demonstration project in Tokyo's Arakawa Ward. As we move forward with smart energy network development, we will steadily accumulate know-how and move closer to commercialization.

“Through the completion of the LIFEVAL system, we have put in place the “structure” needed to enhance services. By adding the “spirit” of community-based marketing to this “structure”, we will further enhance our brand values of security, safety, and trust.”

Implementing the Philosophy of Community-Based Marketing

One point that we are stressing is the establishment of community-based marketing. Our direct contact with 10.63 million customers is a great strength and constitutes a tremendously important management asset for the Company. With the objective of strengthening the service provided to customers, we reorganized and consolidated services that had previously been dispersed and made a step-by-step transition to the Tokyo Gas LIFEVAL system. In October 2009, we completed the establishment of our bases in 63 blocks.

In this way, we completed the “structure.” But by itself, that structure has no meaning. Moving forward, we now need to add the “spirit” to the “structure.” Building relationships of trust is a task that is accomplished through steady effort on a daily basis. Over more than 120 years, we have cultivated our brand values of security, safety, and trust by valuing our customers and supporting local communities. In the years ahead, we must further enhance those brand values.

On the foundation of the relationships of trust that we have cultivated, we will aggressively offer high-value-added proposals in our daily contact with customers. These will include explanations of the advantages of the latest gas appliances, in terms not only of environmental friendliness but also of safety, ease of use, and contribution to comfortable lifestyles for customers.

“In response to growing demand, we will accelerate the construction of our fourth LNG terminal and will implement thorough measures to acquire demand in the region extending for a 200 kilometer radius around Tokyo.”

Strategic Infrastructure Development from a Medium- to Long-term Viewpoint

To meet growing demand for natural gas through the two specific initiatives described above, we must reinforce the LNG value chain, which extends from gas fields to LNG terminals and pipelines, and finally to customers.

With our three existing LNG terminals, our current supply capacity is about 17 to 18 billion m³ a year. We are forecasting growth in demand, and it is possible that we will hit the upper limit of our supply capacity in the second half of the 2010s.

We have considered construction plans for our fourth LNG terminal, the Hitachi LNG Terminal, in the port district of the city of Hitachi in Ibaraki Prefecture, and for a high-pressure transmission pipeline connecting the Hitachi LNG Terminal with the city of Moka in Tochigi Prefecture. Originally, we were planning for the start of operations in the fiscal year ending March 31, 2018, but in December 2009 we decided to accelerate those plans by two years.

Through the completion of this project, we will ensure supply stability in the Tokyo metropolitan area and also increase our supply capacity in the northern Kanto area, centered on the area around the terminal and



along the high-pressure transmission pipeline. In the region extending for a 200-kilometer radius around Tokyo, we will be able to accelerate the advance use of natural gas, centered on industrial customers.

Furthermore, we are also considering the use of the Hitachi LNG Terminal as a shipping base for LNG coastal tanker vessels. We have high expectations for the range of expansion possibilities that will be created by the new terminal, such as the opportunity to expand our supply area using pipelines, trucks, and coastal shipping.

Steady Progress in Implementing the Medium-Term Management Plan

In addition to the three points outlined above, we are making favorable progress in implementing the measures outlined in the medium-term management plan, even in an environment affected by the lengthening slump of the Japanese economy.

We have made progress in bolstering and expanding the LNG value chain, especially in upstream business. In the area of upstream interests, there is a natural hedging effect that moderates the pressure on gas business profits that results from the slide time lag during periods when gas resource costs are rising. Our interests in the Darwin Project, which has reached its fifth year of operations, are contributing to our profits, such as through the receipt of dividends.

We have already acquired interests in the Pluto Project. Construction work is proceeding favorably, and shipments are expected to start in the first half of 2011. In addition, in September 2009, we decided to invest in the new Gorgon Project.

Furthermore, in March 2010 we signed a heads of agreement regarding participation in the Queensland Curtis LNG Project in Australia. In this project, coal bed methane (CBM) will be converted on-site to LNG, which will then be shipped. If this project is successful, Tokyo Gas will be the first Japanese energy company to procure from and hold an interest in a CBM-derived LNG project. The Queensland Curtis LNG Project

will be a milestone in expanding the range of choices that we will have in future projects and in diversifying resource procurement.

In the future, we will continue to maintain an active presence in overseas operations, including the acquisition of interests, in order to expand the scale of the LNG value chain as well as its potential.

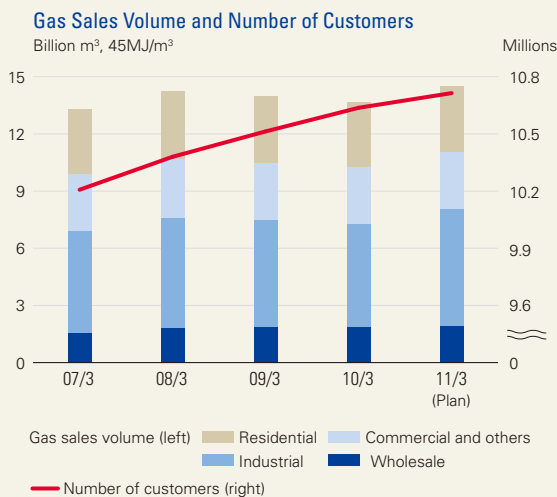
Results in Fiscal 2009 and Outlook for Fiscal 2010

As described above, we have made steady progress with a range of initiatives, but our results reflect the continued sluggish business conditions.

In fiscal 2009, the number of customers rose 1.2%, or 120 thousand, to 10,630 thousand. However, the economic downturn resulted in reduced facility utilization by customers, and the gas sales volume declined by 2.0% year on year, to 13,666 million m³.

Due to the decline in gas sales volume and to lower gas unit prices under the gas rate adjustment system stemming from the decline in crude oil prices, net sales were down ¥244.4 billion, to ¥1,415.7 billion. On the other hand, due to substantial improvement in the slide time lag, operating income rose ¥20.0 billion, to ¥85.2 billion. As a result, we recorded lower sales but higher profits.

For fiscal 2010, we are forecasting gas sales volume of 14,460 million m³, an increase of 5.8%. Key reasons include higher demand as a result of the development of new demand and of improved business condi-



tions, as well as an increase in the amount of gas supplied to the Ohgishima Power Station, which started operations in March 2010.

Due to the increase in gas sales volume, and to the effect of higher unit prices due to increased gas resource costs, we are forecasting net sales of ¥1,551.0 billion, an increase of ¥135.3 billion. In profits, as a result of improvement in actuarial differences associated with accounting for retirement benefits, which will offset the negative effect of higher gas resource costs, we are forecasting operating income of ¥108.0 billion, an increase of ¥22.8 billion. In this way, we are forecasting higher sales and profits.

“Our policy for return to shareholders is to maintain a total payout ratio of 60% of net income, with consideration for higher dividends.”

In providing a return of profits to shareholders, we increased per-share dividends by ¥1, from ¥8 to ¥9. Factors behind this decision included a decline in the risk that we expected when we formulated the medium-term management plan and a forecast of stable future profits. Specifically, the price of LNG, which had fluctuated significantly due to swings in crude oil prices, regained its stability. We were also able to reduce the risk of fluctuations in pension actuarial differences in the future by changing our pension fund investment to a portfolio centered on long-term bonds from fiscal 2010. In addition, we expect to be able to absorb the increased expenses resulting from the acceleration of the construction of the Hitachi LNG Terminal by restricting capital investment as well as overall investment and financing.

We remain committed to our policy of providing a 60% total payout ratio, including dividends and purchases of treasury stock. Due to an absorption-type merger with a subsidiary, we have already purchased 14 million shares of treasury stock in fiscal 2010. Including those shares, we have purchased and cancelled 19.56 million shares of treasury stock, and as a result the total payout ratio reached 60.1%.

Maintaining the Trust of Customers, Remaining the Choice of Customers

I believe that companies are public entities that exist not for a specific group of stakeholders but for all stakeholders. This is especially true for Tokyo Gas, which conducts business operations that have a strong public interest.

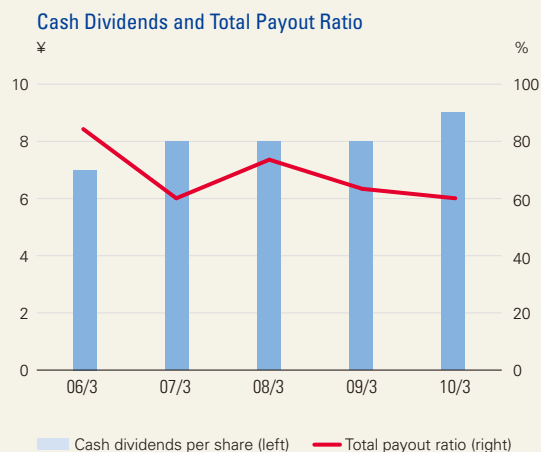
It goes without saying that it is important for the Company to gain the trust of the capital markets and record continual growth. To that end, it is essential to generate a high degree of customer satisfaction and to remain the choice of customers. As an energy company that supports consumer lifestyles as well as industrial activity, this is an important social responsibility.

It is my job as chief executive to create high value-added, centered on the environment, and to demonstrate leadership in the transition to a low-carbon society. This is also corporate social responsibility that must be fulfilled by Tokyo Gas. In this way, we will meet our social responsibilities to customers and local communities through our daily operations. Moving forward, Tokyo Gas will strive to be a company that responds to the mandate of its shareholders and will work to grow together with its shareholders and investors.

July 2010

岡本 毅

President and Representative Director, Tsuyoshi Okamoto



Achieving Sustainable Growth in a Low-Carbon Society

Growing calls for a transition to a low-carbon society on a global scale—Tokyo Gas is working to contribute to the transition to a low-carbon society and to achieve sustained growth. To those ends, we are developing the integrated energy business, with natural gas at its core.

Outlook for a Low-Carbon Society and the Growth Potential of Tokyo Gas

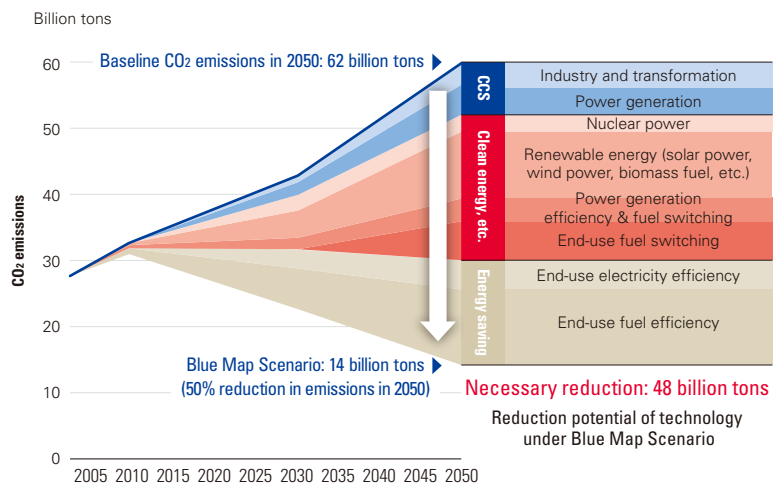
Social Demand for Realization of Low-Carbon Society

KEY POINTS

- Global target—Reduce CO₂ emissions by 50% by 2050 from the 1990 level
- Domestic target—By 2050, reduce CO₂ emissions by 80% from the 1990 level
- Demand for natural gas—Forecast of 34% growth on global basis in comparison with 2005

Due to economic growth in emerging countries, energy demand is steadily increasing, and initiatives to mitigate climate change have become a vitally important issue, not just for Japan but on a global scale. There is an ongoing search for energy with low CO₂ emissions, such as nuclear power and renewable energy, but there remain a number of significant challenges, including construction lead time and limit of supply amount issues. In this setting, natural gas is widely considered to be the source of energy that can make the most realistic and effective contribution to the promotion of global warming countermeasures. Heating accounts for the majority of energy demand, and the use of natural gas to provide heat is certain to expand. Moreover, through cogeneration systems and other technologies, natural gas will also play a more important role with the advanced use of energy, including electricity. Natural gas also has a key role in the International Energy Agency (IEA) scenario calling for CO₂ emissions to be reduced by 50% by 2050.

IEA Blue Map Scenario: 50% reduction in CO₂ emissions by 2050



Annually: 32 additional 1,000MW-class nuclear power plants, about 17,000 4MW-class wind power plants, addition of CCS to 35 500MW-class coal-fired power plants.

Source: IEA Energy Technology Perspective 2008

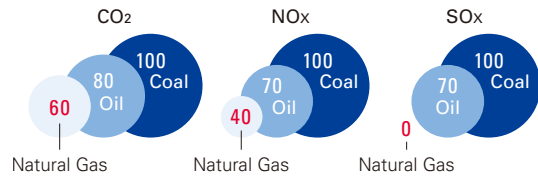
Clean Energy, Natural Gas

KEY POINT

- Natural gas: Lower lifecycle and combustion CO₂ emissions than any other fossil fuel

Methane, the primary ingredient of natural gas, has fewer carbon atoms per molecule than other fossil fuels, such as petroleum or coal. As a result, the combustion of natural gas generates less CO₂ than the combustion of other fossil fuels. That is one reason why natural gas is a clean form of energy. Another is that CO₂ emissions are also low during the city gas production process, which entails the gasification and caloric adjustment of LNG. And with pipelines connecting terminals and end-use regions, the city gas supply infrastructure features extremely low energy loss during transmission. As a result, even when considering the entire lifecycle impact, it is clear that natural gas is an extremely environmentally friendly form of energy.

Comparison of Emissions (Coal = 100)



High-Growth Market

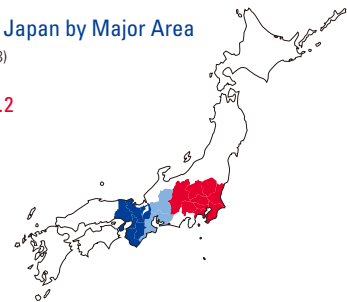
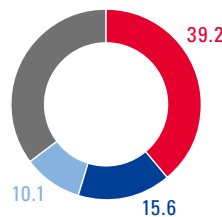
KEY POINTS

- Largest economic region in Japan, accounting for about 40% of GDP
- Only domestic region expected to enjoy continued population inflow

The service area of Tokyo Gas is centered on the Kanto region. This region has the highest concentration of energy demand in Japan, and industrial demand is expected to lead to continued market growth in the years ahead. The Kanto region, in turn, is centered on Tokyo, which boasts one of the largest economies of any city in the world. In fact, the Kanto region alone accounts for about 40% of Japan's GDP. Overall, Japan's population is declining, but Kanto is the only one region in Japan that is expected to enjoy a continued population inflow. Leveraging the geographical advantages of a large plain, we are aggressively extending pipelines to outlying industrial areas. We are also building a new LNG terminal, the Hitachi LNG Terminal, in northeast Kanto. In these ways, we are preparing to meet further demand growth.

Breakdown of GDP of Japan by Major Area

(Year ended March 31, 2008)



Total: ¥520.3 trillion

- 39.2% Tokyo area: Tokyo, Kanagawa, Saitama, Chiba, Ibaraki, Tochigi, Gunma, Yamanashi, and Nagano prefectures
- 15.6% Osaka area: Osaka, Hyogo, Kyoto, Shiga, Nara, and Wakayama prefectures
- 10.1% Nagoya area: Aichi, Gifu, and Mie prefectures

Source: Cabinet Office, Government of Japan

Aiming for Further Growth

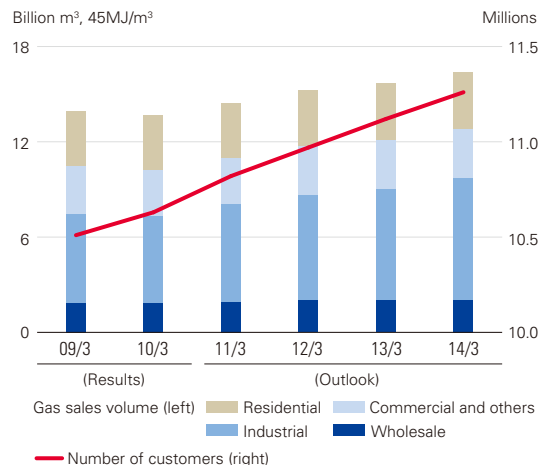
KEY POINTS

- Gas sales volume in the fiscal year ending March 31, 2014 up by 18% from the fiscal year ended March 31, 2009
- Target of reducing customer CO₂ emissions by 4.5 million tons by 2020

Aiming to increase the value added of natural gas and to support growth in its use, Tokyo Gas is implementing a medium-term management plan with the theme of "evolution and advancement of integrated energy business."

To accelerate business development, we will draw on our strengths—environmentally friendly natural gas, a high growth business area, and our engineering capabilities. In these endeavors, we will give consideration to expanding the shift from other fuels to natural gas; taking steps to foster advanced use of natural gas, such as stepping up the introduction of cogeneration systems; and establishing next-generation energy systems, such as smart energy networks. In these ways, we will strive to contribute to society's transition to a low-carbon society and to achieve sustained growth for the Company.

Outlook for Gas Sales Volume and Number of Customers



FEATURE 1

FUEL SWITCHING AND THE INTRODUCTION OF HIGH-EFFICIENCY EQUIPMENT

Energy Savings and CO₂ Emission Reductions from Fuel Switching

Natural gas is widely used in industry for such applications as heating, heat processing, drying, food processing, and air conditioning. Industrial furnaces and boilers consume large amounts of fuel, and the switch from heavy oil or kerosene to low-environmental burden natural gas, combined with the installation of high-efficiency equipment, is one of the most effective means of combating the problem of global warming. Specifically, Tokyo Gas provides its industrial customers with a wide range of optimal systems, such as gas engines, gas turbines, steam-turbine cogeneration systems, and boilers.

In particular, the introduction of regenerative burner systems in industrial furnaces facilitates both extremely high fuel efficiency and low NO_x emissions, and in conjunction with a switch to natural gas, these systems can make possible reductions of up to 50% in energy consumption and up to 55% in CO₂ emissions. The combination of regenerative burner systems and a switch to natural gas is drawing attention as a highly effective environmental countermeasure in this field.

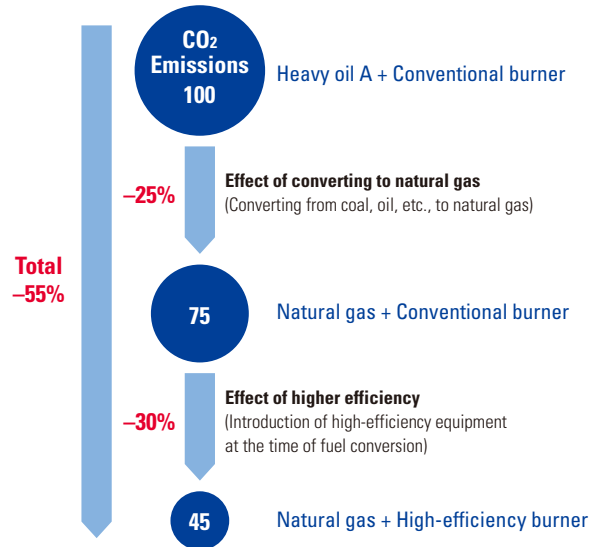
Expanding Gas Usage with Marketing that Leverages Comprehensive Strengths from the Customer's Perspective

Tokyo Gas has high-level engineering skills that it acquired in the development of its integrated energy business. In addition, the Company has the ability to propose total service solutions incorporating facility optimization and maintenance. In today's market, customer needs are not only increasing but also growing more advanced and diverse, and by providing high-value-added solutions that respond to these needs, Tokyo Gas will strive to meet customer expectations, steadily seize growth opportunities, and contribute to the realization of a low-carbon society.

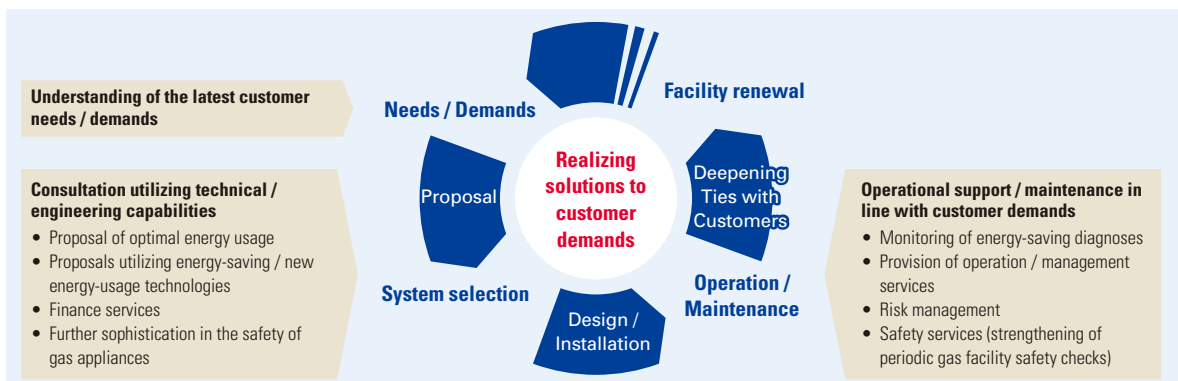


Regenerative Burner System
This system efficiently recovers the high-temperature exhaust gas from industrial furnaces and uses it to preheat the air utilized for combustion. This system is drawing attention as an effective means to save energy and reduce CO₂ emissions.

CO₂ Reduction Effect from Using Natural Gas for Industrial Furnaces



Provision of Value to Customers in Line with Facility Life Cycle



CASE STUDY: FURUKAWA SKY ALUMINUM CORP., FUKAYA PLANT

LPG to Natural Gas— The First Step in the Fuel Switch

“It wasn’t simple at first.” That was the recollection of Osamu Kawakami, a key member of the project team. The switch to natural gas at the Fukaya Plant of Furukawa Sky Aluminum, which got underway in 2003, began with the replacement of the LPG facilities. At that time, there was no difference in the price of LPG and natural gas. Even though there were no substantial cost advantages, however, Furukawa Sky Aluminum decided to make the switch because the company was committed to the introduction of clean energy. “We wanted to pave the way for a switch from heavy oil in the future. However, there were challenging issues, such as installing pipelines over a considerable distance and converting facilities to natural gas firing.” Tokyo Gas sent 450 engineers, and with Tokyo Gas and the Fukaya Plant working closely together, the switchover from LPG was completed in only a year, including the pipeline installation.



Aluminum Melting Furnace

FURUKAWA SKY ALUMINUM, FUKAYA PLANT

Furukawa Sky Aluminum, Japan’s leading maker of aluminum products, is moving ahead with environmental initiatives targeting energy saving and CO₂ emission reductions, centered on a switch to natural gas and the introduction of high-efficiency equipment. The Fukaya Plant is leading the way forward in those endeavors.



From left: Kazuhiko Kobayashi (Tokyo Gas); Hiroyuki Fukui, Osamu Kawakami, and Wataru Shiobara (Furukawa Sky Aluminum)

Heavy Oil to Natural Gas— Moving Ahead with a Full-Scale Fuel Switch

In 2004, Furukawa Sky Aluminum began to implement a full-scale fuel switch at a melting furnace that had been using heavy oil. Today, the fuel switch process has been completed smoothly at seven melting furnaces. In addition, regenerative burners have been introduced.

“We are seeing the effects in reduced energy consumption and in lower CO₂ emissions. Of course, the switch from heavy oil, which is subject to dramatic price fluctuations, also has substantial cost advantages,” said general manager Hiroyuki Fukui. Osamu Kawakami and Wataru Shiobara both reported that “the exhaust is cleaner, with decreases in SO_x, from the sulfur in the heavy oil, as well as in particulate emissions. In addition, the natural gas facilities are simpler, making maintenance and management easier. There has been very little trouble.”

The company reports that cleaner exhaust gas is also contributing to improved relationships with the local community. Tokyo Gas is proud to have been able to work together on this with Furukawa Sky Aluminum, its valued customer.

PRINCIPAL GAS FACILITIES THAT WERE INTRODUCED

- Aluminum melting furnace
- Heat treatment furnace
- Soaking furnace, heating furnace
- Steam boiler

RESULTS

Progress in switch to natural gas:

80% of total fuel consumption

CO₂ emission reduction:

30% reduction from previous level

Energy saving:

10% to 30% reduction from previous level



FEATURE 2

SOLUTIONS SERVICES CENTERED ON NATURAL GAS

The Environmental Friendliness of Natural Gas Cogeneration Systems

As society pursues measures to reduce energy consumption and reduce CO₂ emissions, the ideas of dispersed power generation and waste heat usage through cogeneration systems will play a central role.

Unlike large-scale power generation systems, where the electricity is transmitted over considerable distances to the demand district, with cogeneration systems there is no transmission loss because the power is generated where it is used. Moreover, power generation also creates heat, which has generally been wasted because it was difficult to use. With cogeneration systems, however, this waste heat can be used effectively to meet heat demand, such as for heating and cooling as well as for hot water. Consequently, these systems realize high energy efficiency and make it possible to reduce CO₂ emissions by about 40% in comparison with conventional systems. As of the end of March 2010, there were 1,948 cogeneration systems in operation in our service area, with a total power generation capacity of 1,534,000 kW (commercial use: 1,621 systems, 521,000 kW; industrial use: 327 systems, 1,012,000 kW).

More-Advanced Use and Area-Wide / Networked Energy Services

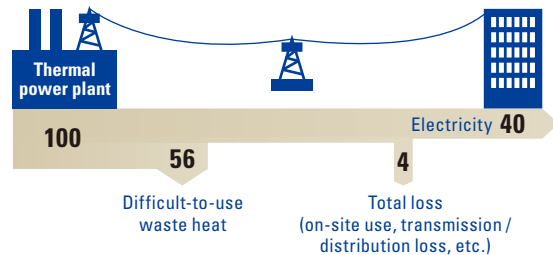
To further advance the use of environmentally friendly natural gas, Tokyo Gas will strive to introduce area-wide / networked energy usage and build optimized energy systems at the local community level. One example of these initiatives is district heating and cooling, in which Tokyo Gas has a history of more than 35 years. These systems contribute to lower energy consumption and reduce CO₂ emissions for an entire district. Currently, the use of these systems is centered on redevelopment areas, such as Makuhari and Shinjuku.

Tokyo Gas does much more than just supply facilities and energy. We are advancing energy service operations and ESCO (energy service company) operations, which provide comprehensive support for reducing energy consumption, such as the necessary technology, human resources, and financial resources. By increasing convenience and enhancing cost merits for customers, we will work to promote the spread of natural gas.

Comparison of Total Energy Efficiency

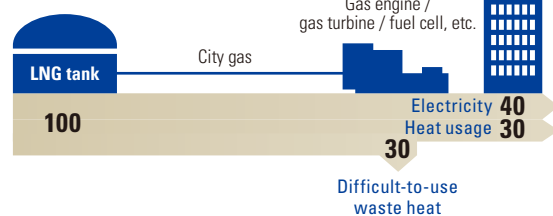
Conventional system*¹

Primary energy (coal, petroleum, natural gas, etc.)



Natural gas cogeneration system*²

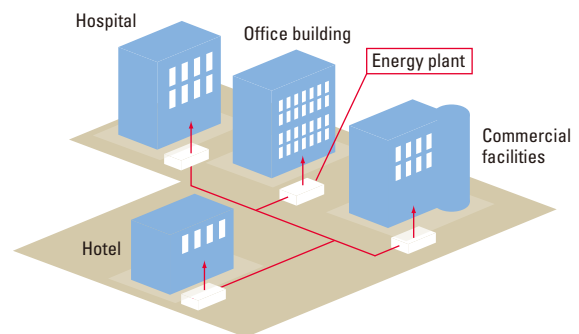
Primary energy (natural gas)



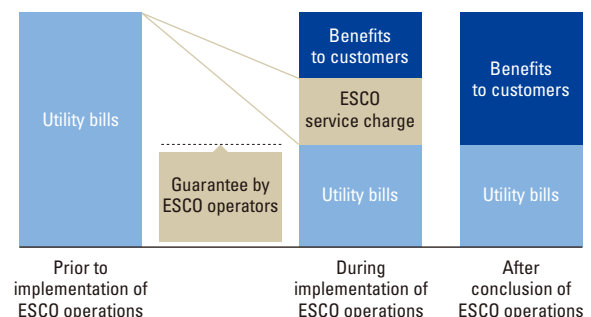
*¹ LHV standard (LHV = lower heating value: the amount of heat from the combustion of the fuel, not including the latent heat of water vapor condensation) The heat efficiency and total loss from thermal power plants is calculated from the results of 9 electric power companies and electricity wholesale companies for fiscal 2003 (Energy Efficiency Standards Subcommittee of the Advisory Committee on Energy and Natural Resources, September 2005)

*² Efficiency of natural gas cogeneration systems is an example using the LHV standard.

Diagram of a District Heating and Cooling System



Economic Benefits of ESCO Operations



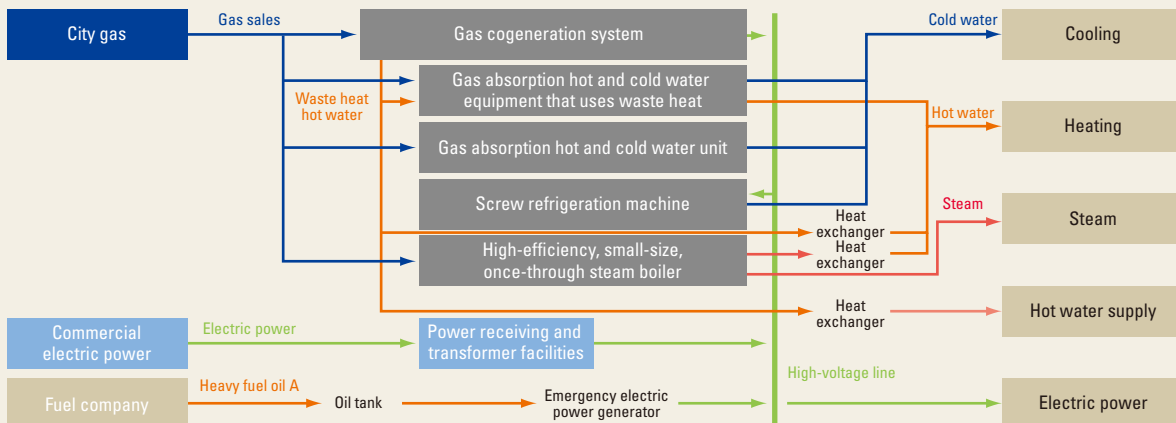
CASE STUDY: MITSUI MEMORIAL HOSPITAL

Commemorating the Hospital's 100th Anniversary, Transitioning to Comfortable, Economical, Environmentally Friendly Energy Services on Behalf of Customers

Mitsui Memorial Hospital faced a problem with outdated power facilities. To further enhance the hospital's health care services by increasing the use of IT in hospital administration and introducing the latest sophisticated medical equipment, additional power was needed. This was one reason the hospital decided to rebuild its facilities. Dr. Toru Mannen, who was honorary director at the time, said, "More than anything else, we felt it was important to improve the amenities for our patients." He noted, "For example, patients are taken to the operating room wearing only a single robe, so air conditioning is extremely important. To achieve both a stable energy supply and enhanced amenities, we needed to switch to an efficient system that did not waste energy."

To meet these needs, Tokyo Gas provided energy services with a good balance across all areas, including cost, environmental friendliness, and comfort. Yutaka Kobayashi, from the hospital's Construction Department, said, "With hospital administration costs increasing, we wanted to reduce energy costs as much as possible. That's why we focused on the energy services of Tokyo Gas." "Gas cogeneration systems are the most efficient, and have an extensive track record. What's more, they are environmentally friendly because they use waste heat. That's why we chose natural gas."

System Overview



Overview of New Energy Services

By combining the latest optimal systems, centered on gas cogeneration systems, high levels of cost savings and environmental friendliness are achieved. We work to offer the optimal mix, including forms of energy other than gas for use in emergencies. Now, the hospital can continue to provide health care services even in the event of a disaster.

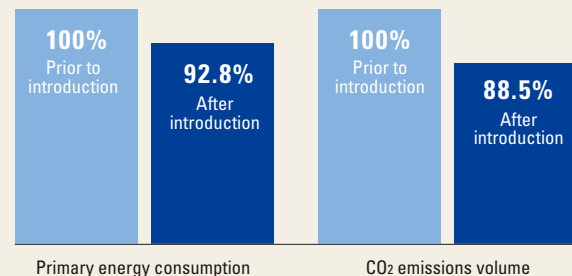


MITSUI MEMORIAL HOSPITAL

The Mitsui Memorial Hospital was established in 1906. This central hospital takes a comprehensive approach to the provision of health care services that meet community needs and are based on the patient's perspective.

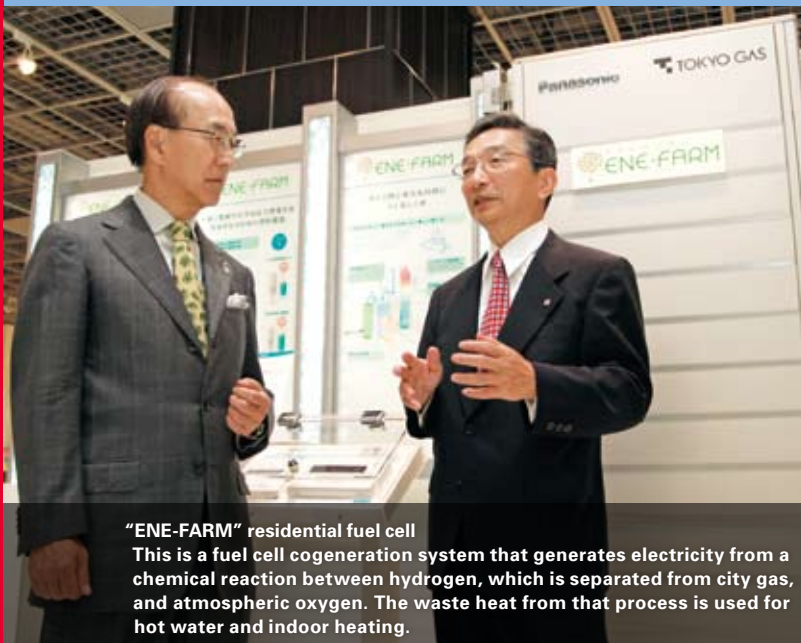
In 2008, the first system was installed in the in-patient wing. This system will also supply electricity, cold water, and steam to the outpatient wing, which is scheduled for completion in 2010. This area-wide usage will further increase efficiency, and we anticipate substantial reductions in energy consumption and CO₂ emissions.

Effect of Introducing Energy System



FEATURE 3

DIALOGUE: TOKYO GAS AND THE TRANSITION TO A LOW-CARBON SOCIETY



“ENE-FARM” residential fuel cell
This is a fuel cell cogeneration system that generates electricity from a chemical reaction between hydrogen, which is separated from city gas, and atmospheric oxygen. The waste heat from that process is used for hot water and indoor heating.

Hidetoshi Nakagami, President of the Jyukankyo Research Institute Inc., which is active in energy and environmental issues, met with Tadaaki Maeda, Vice Chairman of Tokyo Gas. They discussed the importance of natural gas in an energy policy that targets the development of a low-carbon society and the role that Tokyo Gas will play in the years ahead.

The Importance of Natural Gas

“Japan needs to consider a comprehensive energy policy that includes a shift to natural gas.”

MAEDA First, I would like to hear your thoughts about the role of natural gas in future energy policy.

NAKAGAMI This year, the Japanese government has revised the Basic Energy Plan, which outlines the overall direction of Japan’s energy policy. As you know, natural gas plays a key role in global warming countermeasures in Europe and the United States, but the position of natural gas in Japan has not been as clear in past years. Recently, however, there have been comprehensive deliberations on a wide range of topics, including energy security, and as a result, there is a renewed appreciation of the importance of a shift to natural gas.

MAEDA Nuclear power and renewable energy have been drawing a lot of attention as ways to control CO₂ emissions, but a shift to natural gas is still seen as the most realistic and effective policy. Even with just a simple shift in fuel from oil to natural gas, it is possible to cut CO₂ emissions

by about 25%. And in most cases, when the fuel is changed, high-efficiency equipment is installed at the same time, so reductions of up to 50% can be achieved. That’s why we’re seeing a rapid increase in the number of customers that want to switch to natural gas, especially large industrial companies.

NAKAGAMI Does Tokyo Gas have the infrastructure needed to handle that increase?

MAEDA Our pipeline network covers the Tokyo metropolitan area, so we are basically ready in Tokyo. But in the greater Kanto area, there are still some regions where natural gas isn’t used because of a lack of pipeline infrastructure. We consider it part of our mission to facilitate the use of natural gas in those areas.

The first step we are going to take in that direction is to build the Hitachi LNG Terminal and put in a pipeline to northern Kanto. Now we are moving ahead with the conversion to natural gas, principally in industrial areas. In outlying areas, meanwhile, we plan on making full use of trucks and coastal shipping to support growth in the use of natural gas.

Increasingly Sophisticated Use of Natural Gas

“Technology can be used to resolve environmental problems without sacrificing comfortable lifestyles, with a focus on technologies that integrate cogeneration and renewable energy with natural gas.”

MAEDA For many years, you have analyzed and offered opinions about environmental problems from the consumer’s point of view. What are your thoughts about energy saving and environmental problems in housing-related areas, your field of specialty?

NAKAGAMI In comparison with many other countries, Japan lags far behind in the use of heat in housing. Indoor heating is a good example. Overseas, central heating is a basic housing amenity, but in Japan individual room heating is still predominant. This is in contrast to hot water heating, which was centralized at a very early stage in Japan. Before a move to central heating got underway, the global warming problem became a focus of attention. Consequently, there was a point of view that we should reduce energy



Hidetoshi Nakagami
President, Jyukankyo
Research Institute Inc.

Founded Jyukankyo Research Institute in 1973. Is widely active in such fields as energy and global environmental issues as a leader in energy-related problems, especially in the field of housing. Member of a number of advisory councils. Serves as Chairperson, Energy Efficiency and Conservation Subcommittee, Advisory Committee for Natural Resources and Energy, Ministry of Economy, Trade and Industry. Professor, Tokyo Institute of Technology.

environmental problems. Moving forward, to improve environmental friendliness while simultaneously providing highly functional housing, we will need to make effective use of the heat that has been wasted at the point of power generation. And that role will likely be filled by fuel cells and other cogeneration systems. The rapid spread of those technologies should lead to the development of more comfortable lifestyles.

MAEDA Last year, we finally commercialized fuel cells for the residential market, and their use has begun to spread. At this point, they are only available for detached housing, but we are now moving ahead with the development of products for multiple dwelling units (MDUs).

NAKAGAMI There are numerous MDUs in the Tokyo Gas service area, aren't there? I understand that the installation of these units in MDUs poses some challenges, such as space limitations and restrictive installation conditions, but the next-generation model will resolve some of those issues, right?

MAEDA Yes. We are also working on the development of high-efficiency fuel cells, such as solid oxide fuel cells, and on systems incorporating renewable energy. That's a result of our growing understanding of the extremely high level of compatibility between renewable energy and city

usage volume before making qualitative improvements in indoor heating.

MAEDA Qualitative improvements in housing have almost become sacrifices, haven't they?

NAKAGAMI That's right. If more progress had been made in central heating, we could have realized healthier, more comfortable lifestyles, especially with the aging of society, and then discussed

gas appliances. With renewable energy, such as solar power generation and solar heating, output is unstable due to fluctuations in natural conditions, while city gas appliances can be counted on to work any time. Examples of that compatibility include double power generation, which combines fuel cells and solar power generation, and SOLAMO, where we combine solar-powered water heaters and high-efficiency, latent-heat-recovery water heaters.

NAKAGAMI The times are certainly changing, aren't they? Consumers want to live environmentally friendly lifestyles, but in many cases they don't really know how to do so. As such, it is very user friendly of Tokyo Gas to contact customers and offer them integrated systems. I believe customers want the Company to take the initiative in providing integrated energy services.

MAEDA Gas companies have the responsibility of providing city gas to their customers on a continual basis, and they have close ties to local communities. As a result, the customers in those communities trust the gas companies. I think we need to build on those relationships of trust. In addition to services, such as supplying gas, gas companies also need to foster the spread of new systems by meeting customer needs in our role as suppliers of gas appliances.

Smart Energy Networks
"These issues extend beyond electricity; we need to build integrated networks that incorporate heat. And we need an open business model."

MAEDA In Europe and the United States, they are currently searching for ways to move toward smart energy networks, such as the use of smart grids. What are your thoughts about this trend?

NAKAGAMI I think the key points here are establishing information networks that can handle real time demand-side



Tadaaki Maeda
Director, Vice Chairman,
Tokyo Gas

Joined company in 1970. Has principally been in charge of technological and planning divisions. Became executive vice president in 2006, and assumed current position in April 2010.

FEATURE 3

DIALOGUE: TOKYO GAS AND THE TRANSITION TO A LOW-CARBON SOCIETY

information and working to optimize the demand–supply balance as much as possible. That is true for Japan, too, where the supply-side systems are extremely precise, but, surprisingly, the systems can't handle demand-side information.

Generally, the United States has taken the lead in promoting the idea of smart grids, so these grids are often associated with electricity networks, but it is necessary to think about handling heat as well. In that sense, the term “smart energy network” is an extremely good way of thinking about this issue, and I hope it catches on. For example, the district heating and cooling system that we have seen today is really an extremely large heat network. If it is combined with other systems, there will be whole range of interesting possibilities.

MAEDA The majority of energy demand is accounted for by heat, so the idea of a smart energy network that fosters optimization, including not just electricity but also heat, is an idea whose time has come. For example, if renewable energy is introduced on a large scale and output fluctuation adjustments are handled just with conventional, centralized power generation, then facilities costs will expand and heat-related optimization won't be possible. For that reason, we are hearing calls for the “smart” control of heat and electricity through dispersed power sources, such as cogeneration, even in Europe and the United States.

In some urban areas, there are limited places where renewable energy is used, but if advances are made in heat networks that effectively utilize unused energy, such as waste heat from garbage incinerators and cogeneration

systems, it will be possible to make further substantial gains toward a low-carbon society. There is a need for policies coordinated with urban planning.

NAKAGAMI In the past, with energy supply systems, bigger meant more efficient. Now, however, when heat is used, overall energy efficiency can be raised by using combinations of smaller dispersed systems.

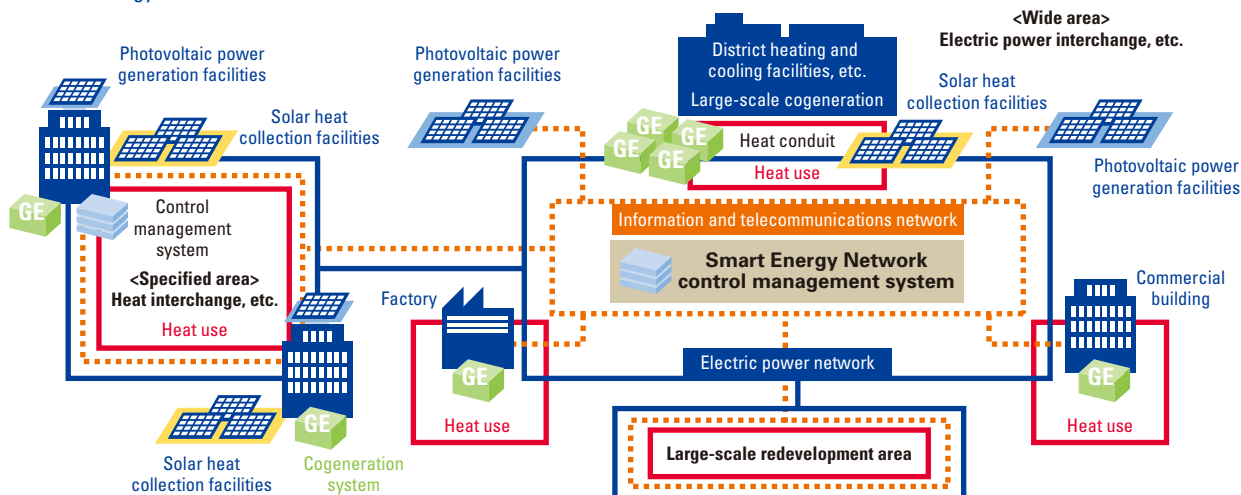
MAEDA Large redevelopment areas present real opportunities. A good example is Shinjuku, where a district heating and cooling system has been introduced. To make the most of these areas in the future, I think there is a need for a framework supporting the optimization of energy usage in that area. At that time, perhaps we will see the emergence of a new business model. For example, something like an energy network operator could handle overall coordination including electricity and heat, rather than having an electric power company handle everything on its own. Currently, we are working to deepen energy services, but in the future I would like the Company to try these new types of businesses.

Toward a Hydrogen Society

“When we move beyond a low-carbon society and onto a hydrogen society, the effectiveness of natural gas will come into play to an even greater extent.”

MAEDA From an extremely long-term perspective, looking beyond the low-carbon society, what do you think about the possibilities of hydrogen?

Smart Energy Network



NAKAGAMI Hydrogen is an extremely clean form of energy, but it also poses many challenges. Nonetheless, the technical challenges are likely to be overcome at some point, so I believe that hydrogen has strong potential over the long term.

The strengths of hydrogen can really be leveraged in fuel cells. It is true that there are some problems with supply infrastructure, but fuel cell cars are also amazing.

MAEDA In the Kanto region, we have more than 100 filling stations for compressed natural gas (CNG) vehicles. If the use of fuel cell cars expands to a certain extent, the conversion of these CNG filling stations to hydrogen filling stations would not be all that difficult.

NAKAGAMI You have a long-term road map, and you're making steady preparations, is that correct?

MAEDA Yes. For now, the most efficient way to produce hydrogen is from natural gas, and we have the technology to separate and collect CO₂ in an efficient manner. In other words, this is both hydrogen production technology and simultaneous CO₂ separation technology. By collecting and storing the CO₂, it is possible to achieve zero emissions.

NAKAGAMI So this is technology that doesn't emit CO₂? You should make sure that more people know about this.

MAEDA If we reach the point where hydrogen is used on a large scale in Japan, then hydrogen will be produced from natural gas at gas fields, and the CO₂ that is separated off in the production process will be sequestered back into the gas fields. At the same time, the pressure from the sequestration will further increase the efficiency with which natural gas can be extracted, so a virtuous cycle will be created, I believe.

NAKAGAMI That's quite interesting. If you are thinking about doing that, then upstream operations will be important, right?

MAEDA That's right. Upstream operations will be undertaken with the principal objective of bolstering the LNG



The Shinjuku District Heating and Cooling Center supplies indoor heating and cooling to the Shinjuku Shin-Toshin district. Condensing turbine / turbo chiller system with the world's largest capacity in a single unit.

value chain, and securing long-term stable supplies of natural gas. In addition, they will lead to many possibilities in the future.

Expanding Overseas

"There is a need to develop superior technologies in emerging countries as well."

MAEDA Finally, Tokyo Gas would like to ask your advice.

NAKAGAMI I believe there is a need for frameworks for the introduction of systems like smart energy networks in emerging countries. Emerging countries are about to start building various networks, and if they use the most advanced technology, they will be able to build amazing networks that are not seen even in developed countries. Tokyo Gas has extremely innovative next-generation technologies, so I would like to see you provide know-how and human resources in this field.

MAEDA We are receiving requests from overseas for technical cooperation and investment. We would like to make contributions overseas as well in a variety of ways, not only in expanding the entire LNG value chain but also in fostering the spread of smart energy networks.

NAKAGAMI I look forward to seeing what you accomplish in the future.

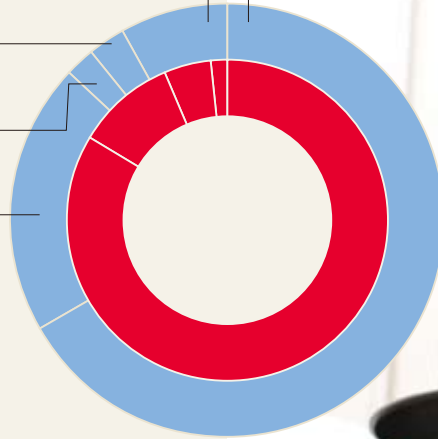
TOKYO GAS AT A GLANCE

Years ended March 31

Sales Ratio / Operating Income Ratio

Year ended March 31, 2010

Gas Sales	66.7%
	83.7%
Gas Appliance Sales	8.0%
	1.5%
Installation Work	2.8%
	—%
Real Estate Rental	2.2%
	4.8%
Other Business	20.3%
	10.0%



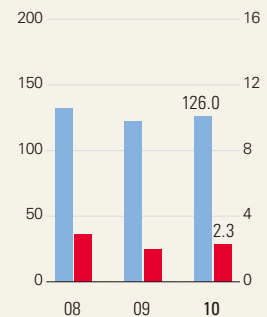
GAS APPLIANCE SALES

We sell gas cooktops, water heaters, gas air conditioning systems using hot water, "ENE-FARM" residential fuel cells, gas heat pump air conditioning systems, and other products. The sales are mainly handled by LIFEVAL, Enesta, and Enefit, which represent the core of Tokyo Gas' community-based marketing system. (External sales ratio: 94.1%)

The year under review saw increased sales of three newly consolidated LIFEVAL companies as well as higher sales of alarms due to a regulation requiring the installation of alarms, which comes into effect in June 2011. As a result, both sales and operating income recorded gains, with sales increasing 3.0% year on year, to ¥126.0 billion, and operating income increasing 12.0%, to ¥2.3 billion.

Sales / Operating Income

¥ billion



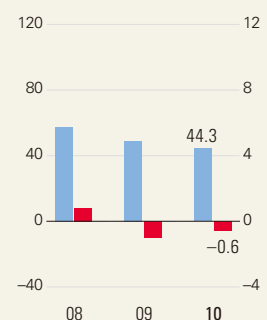
INSTALLATION WORK

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: 93.2%)

Due to sluggish conditions in construction and to a decrease in new housing starts, sales decreased 9.6% year on year, to ¥44.3 billion, while operating loss improved ¥0.4 billion, to ¥0.6 billion. In the year under review, we recorded lower sales and reduced the scale of the loss.

Sales / Operating Income

¥ billion



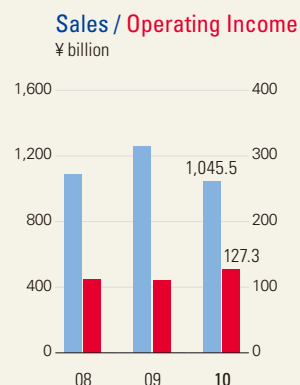
GAS SALES

Tokyo Gas uses its three LNG terminals along the shores of Tokyo Bay to gasify LNG, its main gas resource. The Company 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: 97.3%)

The gas sales volume declined by 2.0% year on year, to 13,666 million m³.

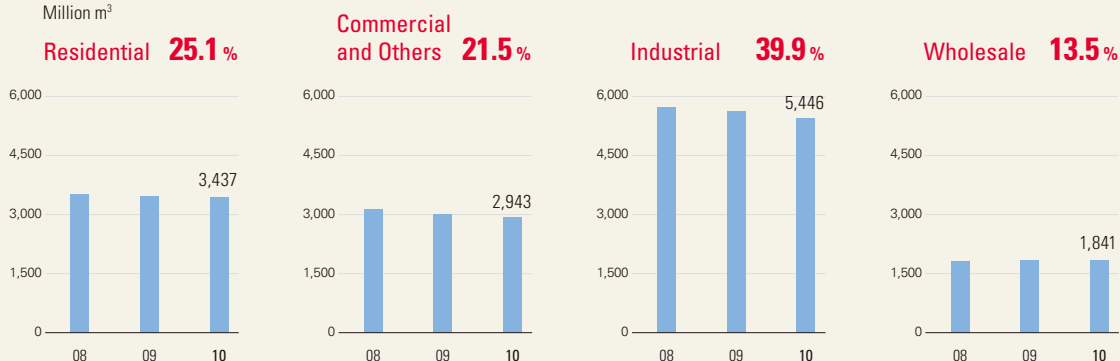
Due to decreased unit prices under the gas rate adjustment system, sales fell by 16.9% year on year, to ¥1,045.5 billion.

Operating income increased by 14.9% year on year, to ¥127.3 billion, due to a decrease in gas resource costs resulting from lower LNG prices.



Gas Sales Volume by Sector

Million m³



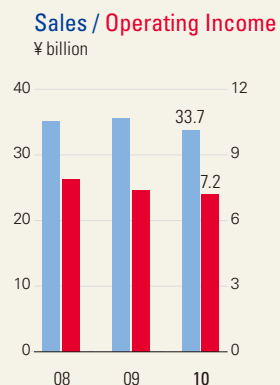
(Amounts less than one million m³ have been rounded to the nearest whole number.)



REAL ESTATE RENTAL

This segment is mainly involved in leasing, management, and related activities for the Shinjuku Park Tower and other office buildings. The Group's real estate rental activities are principally conducted by Tokyo Gas Urban Development Co., Ltd., which accounts for over 90% of the segment's sales. In addition, this subsidiary leases land in such areas as Ginza and Gofukubashi. (External sales ratio: 36.8%)

While the GINZA gCUBE building, a commercial facility that was opened in September 2008, contributed to sales throughout the year, this was not enough to offset the lower rents incurred due to the sluggish conditions in the real estate market. Accordingly, sales fell 5.4% year on year, to ¥33.7 billion, and operating income was down 2.0% year on year, to ¥7.2 billion.

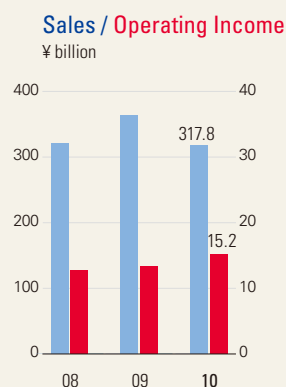


OTHER BUSINESS


This segment includes energy services, LPG, electric power, industrial gas, system integration, shipping, credit and leases, and facility construction and engineering. (External sales ratio: 71.1%)

Sales decreased 12.6% year on year, to ¥317.8 billion, due in part to reduced resource costs in energy services and LPG.

In shipping, a new vessel was put into service, resulting in an increase in depreciation. However, this was offset by a return to profitability in electric power operations due to decreased fuel expenses. Operating income increased 12.8% year on year, to ¥15.2 billion.



LNG Value Chain of Tokyo Gas



Bayu-Undan gas field in the Timor Sea
Gas produced at this gas field is transported to the Darwin LNG Plant, liquified, and sold. This is the Company's first upstream project.

HIGHLIGHTS OF FISCAL 2009

April 2009

One year of operations at Kawasaki Natural Gas Power Generation

Kawasaki Natural Gas Power Generation, which started operations on April 1, 2008, completed its first year of operations.

September 2009

Made final investment decision for the Gorgon Project

October 2009

Completed the Tokyo Gas LIFEVAL system

December 2009

Acquisition of thermal power generation operations in Mexico

Through a holding company, Tokyo Gas and Mitsui & Co., Ltd., concluded a contract for the acquisition of five thermal power generation companies and a pipeline company. The amount of the acquisition was US\$1.2 billion (about ¥110.0 billion).

March 2010

Start of operations at Ohgishima Power Station

Ohgishima Power Co. completed the No. 1 unit at the Ohgishima Power Station and began commercial operations. Ohgishima Power's investors include Tokyo Gas and Showa Shell Sekiyu K.K.. The No. 2 unit also started commercial operations in July 2010.

March 2010

Signed a heads of agreement regarding participation in the Queensland Curtis LNG Project and the purchase of LNG from the project. This is the world's first coal bed methane (CBM) project.

Tokyo Gas is Japan's largest city gas supplier, with 10.63 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 the transport of LNG by tanker, the regasification of LNG to city gas at LNG terminals, the supply of city gas through pipelines, and the sales of gas appliances, as well as the implementation of safety initiatives at customer sites. Our establishment of an LNG value chain from upstream businesses to downstream businesses makes us unique from other gas suppliers around the world.

Spotlight ▶ LNG PROCUREMENT

Position in the LNG value chain

Flexible, competitive resource procurement in line with demand

Principal operating companies

Tokyo Gas Co., Ltd.

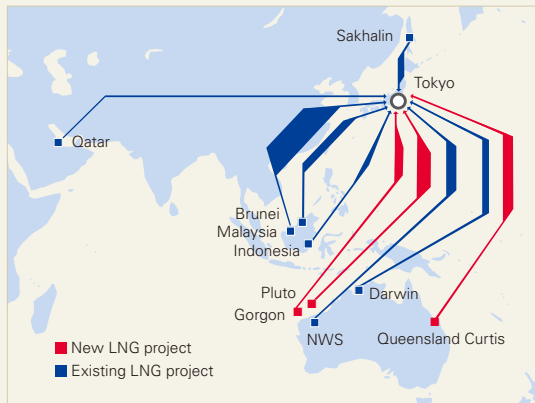
Segment

Gas Sales

Tokyo Gas LNG Imports by Country of Origin

Country	Years ended March 31			
	2008	2009	2010	
Malaysia	3,767	4,482	4,274	(42.5%)
Australia	3,289	2,847	2,416	(24.0%)
Brunei	1,405	1,257	1,166	(11.6%)
Indonesia	740	742	730	(7.3%)
Russia	—	—	505	(5.0%)
Qatar	715	631	297	(3.0%)
Alaska	194	176	141	(1.4%)
Others	763	1,027	523	(5.2%)
Total	10,874	11,162	10,052	(100%)

Tokyo Gas Long-Term LNG Contracts



Implementing Initiatives to Ensure Stable Procurement

More than 95% of the city gas provided by Tokyo Gas is sourced from LNG, and accordingly securing sources that can provide a stable, long-term supply of LNG is an issue of the utmost importance for the Company. Centered on supply sources that are geographically close to Japan and located in regions that are politically stable, Tokyo Gas has concluded long-term LNG contracts for 10 projects in six countries and imports more than 10.0 million tons of LNG a year. We are also taking steps to secure new procurement sources. In April 2009, we began procurement from the Sakhalin II Project. Moving forward, we will continue working to diversify our LNG procurement sources, such as commencing new procurement from the Pluto and Gorgon Projects in Australia starting from 2011 and thereafter. In LNG procurement contracts, we are also taking steps to facilitate flexible, competitive resource procurement in line with demand fluctuations. For example, we are working to accommodate changes in destinations and to increase flexibility in regard to handling volumes.

Unconventional Natural Gas Procurement

Recently, unconventional natural gas has been drawing considerable attention. Tokyo Gas has been working to take advantage of unconventional natural gas through efforts geared toward expanding its options for LNG procurement, such as signing a heads of agreement for the Queensland Curtis LNG Project, which is highly anticipated as the world's first coal-bed methane (CBM) LNG project.

CBM is an unconventional natural gas like shale gas and tight sand gas. Natural gas is absorbed in the cleat of the coal bed. In the United States, commercial production began in the 1980s and currently supplies about 10% of natural gas consumption in the United States. In Australia, full-scale use of this gas has gotten underway in recent years.

Spotlight ▶ UPSTREAM INTERESTS

Position in the LNG value chain

Competitive resource procurement through the acquisition of upstream interests

Principal operating companies

TOKYO GAS AUSTRALIA PTY LTD, Tokyo Gas Darwin LNG Pty Ltd

Segment

Other Business

Outline of Project Participation

Project	Annual contracted quantity (1,000 tons)	Inception of contract	Duration	Contract type	Project participation (%)
Darwin	1,000	2006	17 years (-2022)	FOB	3.07
Pluto	1,500 – 1,750	2011	15 years	Ex-Ship, FOB	5.0
Gorgon	1,100	(2014)	25 years	FOB	1.0
Queensland Curtis LNG	1,200	(2015)	20 years	Ex-Ship	1.25 (Upstream) 2.5 (Midstream)

Acquisition of Upstream Interests

In the acquisition of upstream interests, we are doing everything possible to control the risk associated with projects. For example, we are restricting acquisitions to projects that have already completed the prospecting phase and therefore have a high probability of starting operations and, at the same time, are candidates for the Company's LNG procurement operations. Tokyo Gas holds about 3% of the Darwin Project, 5% of Pluto, and 1% of Gorgon. Long-term LNG procurement contracts have been concluded with all of these projects. At the same time, we have also announced that we are moving ahead with discussions regarding the acquisition of interests in the Queensland Curtis Project in Australia, an unconventional natural gas development project. In these ways, we continue to aggressively strengthen the LNG value chain. The Darwin Project, which is already in operation, is demonstrating steady effects on earnings, such as through the receipt of steady dividends.

Spotlight ▶ TRANSPORTATION

Position in the LNG value chain

Decreasing cost by increasing FOB

Principal operating company

Tokyo LNG Tanker Co., Ltd.

Segment

Other Business

One of the Largest Fleets in Japan

In May 2009, the Energy Confidence was placed into service, bringing our fleet to a total of seven vessels. Going forward, we plan to introduce another vessel in 2011. At eight vessels, our fleet will be one of the largest among domestic electric power and gas companies, and by leveraging this fleet we will work to increase flexibility in resource procurement. Furthermore, by engaging in flexible procurement utilizing not only long-term contracts but also short-term contracts, we are planning to expand shipping operations, including the transport of LNG to third-parties and the leasing of vessels to other companies.



LNG Vessel "Energy Confidence"

Efficiently Managing Our Fleet

The management of our fleet is handled in cooperation with wholly owned subsidiary Tokyo LNG Tanker Co., Ltd. Moreover, in order to further promote efficient utilization, we have entered into basic contracts with the Petronas Group (Malaysia LNG, Malaysia LNG Tiga, and Asean LNG Trading) which is a major LNG vendor, as well as Brunei LNG, Shell Eastern LNG, and the TEPCO Group, with the objective of joint use of LNG vessels.

Spotlight ▶ INFRASTRUCTURE DEVELOPMENT

Position in the LNG value chain

Ensuring both stable supply and safety

Principal operating company

Tokyo Gas Co., Ltd.

Segment

Gas Sales

BASIC STRATEGY

Investing in infrastructure to meet expanding demand

Tokyo Gas receives about 10 million tons of LNG a year at three LNG terminals along the shores of Tokyo Bay. After LNG is received at the terminals, it is regasified to natural gas using vaporizers and LPG is added to adjust the calorific value. The city gas is delivered to customers through a pipeline network of about 57,000 km.

Focus on Future Demand Growth— Starting Construction on the Hitachi LNG Terminal

The Company's LNG terminals are among the largest in the world, and we continue to invest in our facilities in order to enhance our ability to respond to growth in demand for natural gas and to further stabilize supply. In November 2009, we commenced construction of the No. 4 LNG storage tank at the Ohgishima LNG Terminal. In addition, we are forecasting further growth in demand for

city gas in a 200-kilometer radius around Kanto from 2010, and accordingly we have planned to build our fourth LNG terminal, the Hitachi LNG Terminal. In consideration of growing social need for global warming countermeasures and of strong regional demands, we have accelerated this plan and are targeting the start of operations in fiscal 2015.



Tokyo Gas Sodegaura LNG Terminal

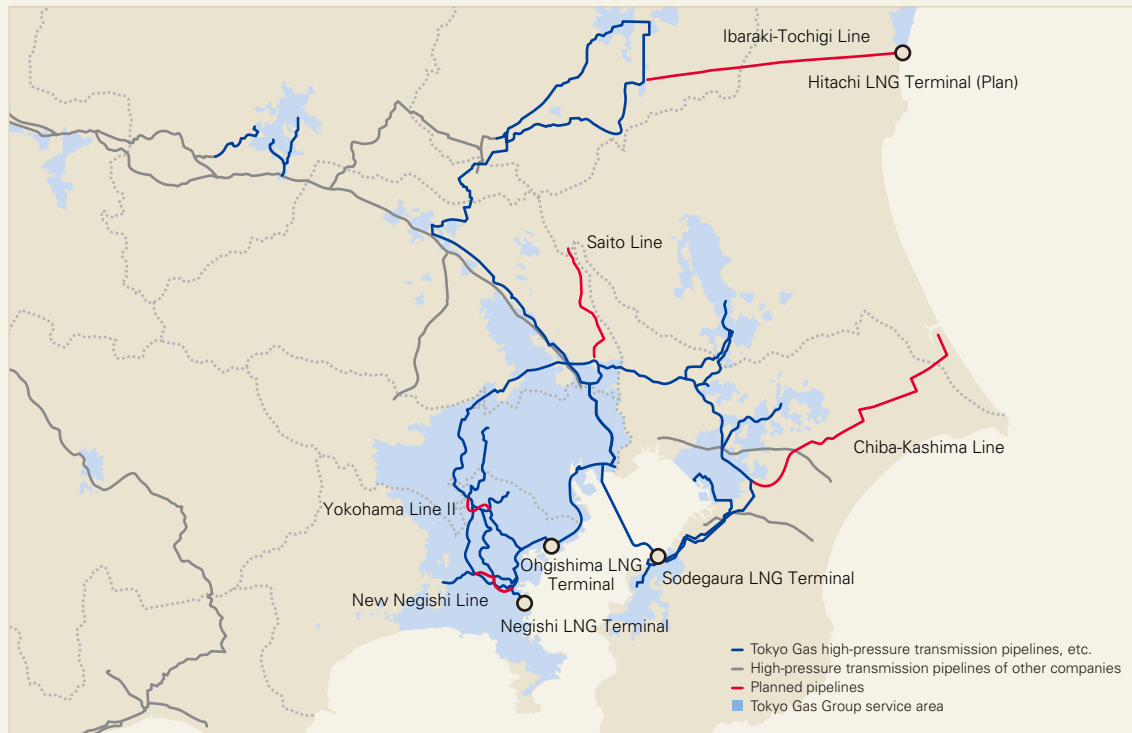
Pipeline Maintenance Investment and Facility Investment Plan

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. In May 2010, construction was completed on Central Line II, which made Central Line complete, running north to south through the loop trunk lines, and has strengthened the trunk line network. In addition, to acquire demand in the period after 2015 and to expand our operations, we will bolster our wide-area trunk infrastructure during the period covered by the medium-term management plan.

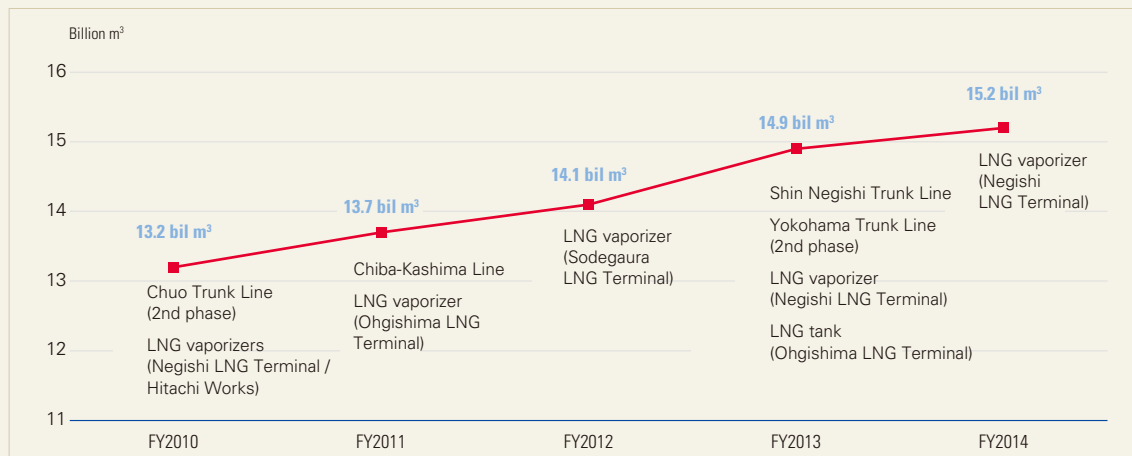
Facility Investment Plans (non-consolidated)

Billions of yen	FY2009 Result	FY2010 Outlook	FY2010-2014 Total
Gas Business Facilities			
LNG facilities	8.7	4.7	99.4
Other	5.3	6.2	24.8
Production facilities	14.0	10.9	124.2
Trunk line investment	19.4	12.9	70.6
Other	59.2	58.1	272.9
Supply facilities	78.6	71.0	343.5
Business facilities	18.9	24.1	122.1
Subtotal	111.5	106.0	589.8
Incidental facilities	0.8	0.7	3.0
Total	112.3	106.6	592.7

Major Infrastructure Formation Plan



Demand Outlook and Facility Formation Plans (non-consolidated)



Spotlight ▶ GAS SALES (RESIDENTIAL SECTOR)

Position in the LNG value chain

Maintaining and expanding the number of customers through community-based marketing

Principal operating companies

LIFEVAL companies

Segment

Gas Sales, Gas Appliance Sales, and Installation Work

Basic Strategy

In the residential market, we are working to provide customers with the pleasant, comfortable lifestyles that can be enjoyed with the use of city gas for such applications as hot water, heating, and cooking appliances. We are also working to offer new lifestyle value by developing products and services that meet diversifying customer needs. Furthermore, in October 2009 we completed Tokyo Gas LIFEVAL community-based marketing systems. Leveraging these systems, we have been working to further enhance communications with each individual customer.

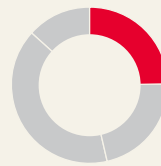


Construction of Community-based Marketing Systems through Tokyo Gas LIFEVAL

In order to build close ties with our customers, we commenced the step-by-step introduction of the community-based marketing system, Tokyo Gas LIFEVAL, in April 2008, and we completed the system in October 2009. The system currently consists of 45 companies and, excluding the wide-area markets, divides our service area in Tokyo, Kanagawa, Chiba, and Saitama prefectures into 63 service blocks.

LIFEVAL facilitates the provision of quick, one-stop responses to the needs of customers that come to our attention during our various business activities, such as maintenance and sales of gas appliances, periodic gas facility safety checks, and meter reading. Our results have

Gas Sales Volume



■ Residential 25.1%
3,437 million m³

been in line with our expectations. For example, LIFEVAL has had the effect of boosting sales of environment-friendly products launched in fiscal 2009, such as solar power generation and “ENE-FARM.”

In order to compete with all-electric housing campaigns, which are being advanced by electric power companies, we have been visiting customer homes and explaining to them the pleasant, comfortable lifestyles that can be enjoyed with the use of gas. We are actively approaching those customers who are especially likely to switch to all-electric and working to sustain and increase the demand for gas.

Building a Market for “ENE-FARM”

The “ENE-FARM” residential fuel cell that we launched in May 2009 has gotten off to a strong start, and we sold 1,500 units in fiscal 2009. We are aiming to sell an additional 2,500 units in fiscal 2010, and our plans call for an installed base of 42,000 units by the end of March 2014.



We are working on a sales initiative to have “ENE-FARM” preinstalled in new residences by leveraging the relationships of trust that we have built with developers and housing companies over many years. Sales to existing dwellings are handled primarily by Tokyo Gas LIFEVAL companies. Additionally, in December 2009 we held the Double Power Generation Campaign to promote the combination of “ENE-FARM” and solar power generation. Through such initiatives, we are contributing to the establishment of a low-carbon society, which is an issue of great social concern. We have also been working to steadily advance the research and development of next-generation fuel cells in cooperation with fuel cell manufacturers. At the same time, we are working to reduce costs by promoting standardized specifications and common parts. Preparations for the introduction of these products are underway, and we are aiming to launch them in the first half of the 2010s.

Spotlight ▶ GAS SALES (COMMERCIAL AND OTHERS, INDUSTRIAL, AND WHOLESALE SECTORS)

Position in the LNG value chain

Proposing tailor-made solutions that match diversified customer needs

Principal operating companies

Tokyo Gas Co., Ltd., ENERGY ADVANCE Co., Ltd.

Segment

Gas Sales, Other Business

Basic Strategy

In the energy market, we are seeing intensifying competition, principally from electrical power. In this setting, Tokyo Gas is enhancing its integrated energy business, focusing on commercial and industrial clients, who have increasingly diverse and sophisticated energy needs. In accordance with those needs, we strive not only to supply energy from a wide range of sources, including gas, electric power, and heat, but also to propose tailor-made, optimal combinations of products and services on a one-stop basis. Furthermore, in addition to engaging in wholesale operations geared toward peripheral gas suppliers, we are expanding the range of our integrated energy business by aggressively working to capture demand, centered on the region extending for a 200-kilometer radius around Tokyo, where latent demand is expanding.

Combating the Shift to Electricity

For commercial customers, we are proposing high-efficiency air conditioning and water heating systems. In addition, we are working together with LIFEVAL to expand sales of Suzuchu*, which reduces the heat that is characteristic of commercial kitchens, and we have had steady success with these initiatives.

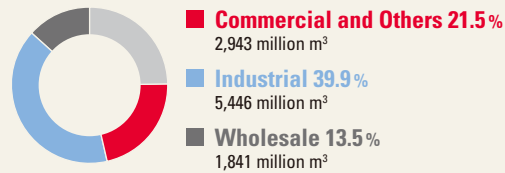
Tokyo Gas is working to counter the use of electric-powered factories by industrial customers. To that end, we are leveraging our engineering capabilities to make solid contributions to the production processes of customers. At the same time, we are continually providing services with reduced energy consumption, lower costs, and high levels of safety. In these ways, we are working to further differentiate our services.

In wholesale operations, an important role is played by the Gas Network Consortium (Gas Net 21), which is composed of 41 general gas suppliers (including Tokyo Gas but mainly comprising our wholesale gas customers). Through Gas Net 21 activities, we have been able to discuss a



The owner of a yakitori restaurant touches the surface of a Suzuchu gas appliance to confirm that it has not gotten hot.

Gas Sales Volume



number of issues, including countering the shift to electricity, strengthening marketing efforts, and increasing management efficiency. As a result, we have established countermeasures targeting the resolution of these issues.

* Suzuchu: A brand of commercial gas appliances that make kitchens cool and comfortable by minimizing the heat from appliances through the use of heat insulation and a concentrated air discharge structure.

Suzuchu is a registered trademark of Osaka Gas Co., Ltd.

Developing Our Integrated Energy Business

Social demands for global warming countermeasures are increasing. In this setting, we are working to provide more customers with natural gas, which is environmentally friendly and has the lowest CO₂ emissions of any fossil fuel. In addition, we are making full use of the Group's advanced engineering capabilities as we strive to provide customers with optimal solutions that incorporate renewable energies, such as solar power, solar heat, wind power, and biomass; contribute to the environment; and provide high levels of customer satisfaction. In fiscal 2009, we made progress in the development of an air conditioning/hot water system that uses solar heating, and we have commenced introduction and demonstration project of these systems, both in the Company's own facilities and in those of customers.

Furthermore, we are working in cooperation with ENERGY ADVANCE Co., Ltd., a wholly owned subsidiary. Together, in line with the needs and specific conditions of customers, we provide customers with one-stop solutions for facility operation and management, including other utility services, such as water and air, in addition to energy.



Heat transfer system at the Company's Kumagaya Branch. Solar heat from a solar heat collector (front) installed on the roof of the Company's Kumagaya Branch is transmitted to a nearby hotel (back) through heat transmission lines. This is the first system in Japan that transmits solar heat among private-sector buildings with different owners.

TECHNOLOGY DEVELOPMENT

Tokyo Gas has always maintained a focus on technical development, and the Company has developed its operations while repeatedly taking on the challenge of new technologies. As we strive to respond rapidly and accurately to changes in the operating environment, we are working to develop technologies that will open up new energy frontiers.

Strategic Direction of Technology Development

In technology development, we focus on three areas: (1) the creation of heart-reverberating 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 31, 2010, the Company allocated about ¥9.2 billion to technology development.

The Technology Development Strategy of Tokyo Gas



Major Outputs and Initiatives in Recent Years

<p>Environmental Technologies</p>	<p>Started general sales in May 2009 of residential polymer electrolyte fuel cell (PEFC) (sales name: "ENE-FARM"). Moving ahead with development to further improve the product, targeting its use in MDUs.</p> <p>Development and demonstration testing of solid oxide fuel cell (SOFC) technologies.</p> <p>Ongoing demonstration testing of CO₂ separation and collection during the production of hydrogen.</p> <p>Started sales in February 2010 of SOLAMO gas hot water system that also uses solar heat and is installed on the railings of MDUs.</p>
<p>Platform Technologies</p>	<p>Ongoing deepening, succession, and utilization of infrastructure construction technologies, maintenance management technologies, combustion engineering-related technologies, and gas quality management technologies, etc.</p>

IN-DEPTH REPORT

THE STORY BEHIND THE DEVELOPMENT OF “ENE-FARM,” THE WORLD’S FIRST RESIDENTIAL FUEL CELL COGENERATION SYSTEM

“ENE-FARM” leverages new technologies to revolutionize energy usage in the home. But the regulatory system had to be revised to accommodate this new technology. This section describes part of the story behind the challenging development of “ENE-FARM.”

Verifying the Safety of an Entirely New Product, Working to Get the Law Revised

In the early stages of “ENE-FARM” development, the Electricity Business Act required fuel cells to have the same safety measures as large-scale power plants. In contrast with solar power generation facilities and other devices in the category of “Electrical Facilities for General Use,” large-scale power plants are required to have chief electricity engineers for supervision and to follow very strict safety standards. If fuel cells were required to meet these same standards, then there was little chance they would be adopted for residential use. Toshiya Omura, from the Fuel Cell Business Development Department, said “We needed to verify the safety of our fuel cells and then work to have the laws and regulations revised.”

First, it was necessary to correct the image of “ENE-FARM” as a large-scale, dangerous device. Omura invited members of the committees that evaluate safety standards and staff from government offices to the test site, where they could observe the quiet, safe operation of these devices. The next issue was to actually verify their safety. However, as entirely new devices, there were no standards for verification methods. “We identified every dangerous event that we could think of and tested them,” said Omura. “We tested power failures and malfunctions when the fuel cell was in operation or in the middle of the shut down process. And we opened up holes in the cell stacks and then operated the units. In these ways, we conducted tests that were certain to make the fuel cells break down.”



Hiroshi Fujiki, Product Development Department

The Passion of the Technical Development Team Made the Impossible Happen

In confirming safety, another task was to verify the safety of the fuel cells without an N₂ purge. Inside the fuel cell, the fuel processor is composed of extremely delicate catalyzers that reform city gas to produce hydrogen and remove the carbon monoxide that is created as a secondary product. In commercial fuel cell systems, to prevent degradation from the residual unreacted gas inside the catalyzer, the inside is purged, typically with an inert gas. Nitrogen is often used for this purpose.

With “ENE-FARM,” however, if nitrogen were used, a large amount would be consumed. “At an early stage of development, we saw that the only choice was to use city gas for purging,” said Hiroshi Fujiki, from the Product Development Department. “That meant we needed to pay careful attention to temperature. If city gas enters the fuel processor when the processor is still hot, the gas will carbonize and soot will clog the catalyzer. And if the temperature is too low, the gas will contract and outside air will be drawn in. The question was, how much city gas should be used for purging, and how long after the fuel cell is stopped. The only way to find out was through trial and error.”

The Idea that It Was Dangerous Was Eliminated with a Simple Image—Two Butane Lighters

We had cleared the technical hurdles, but we still needed to respond to concerns about filling the inside of the fuel processor with combustible gas. In that regard, Toshiya Omura explained that the amount of heat in the residual gas in the unit would be equivalent to what was in “two disposable butane lighters, even with a device that has 10 times the output of ‘ENE-FARM.’” This simple image became a breakthrough in obtaining understanding of the safety of the N₂ purgeless system, and “ENE-FARM” was approved for the category of “Electrical Facilities for General Use,” which does not require the posting of a chief electricity engineer.

The Day that a World-Leading Technology became a World-First Product Known as “ENE-FARM”

In 2005, the first “ENE-FARM” was installed in the official residence of the Prime Minister. Looking back, Toshiya Omura said “I remember hearing the news and thinking, ‘we made it.’ I was very relieved.”



Toshiya Omura,
Fuel Cell Business
Development
Department

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 and prompt decision making, efficient business operations, strengthening of auditing and monitoring functions, and clarification of management and executive responsibilities.

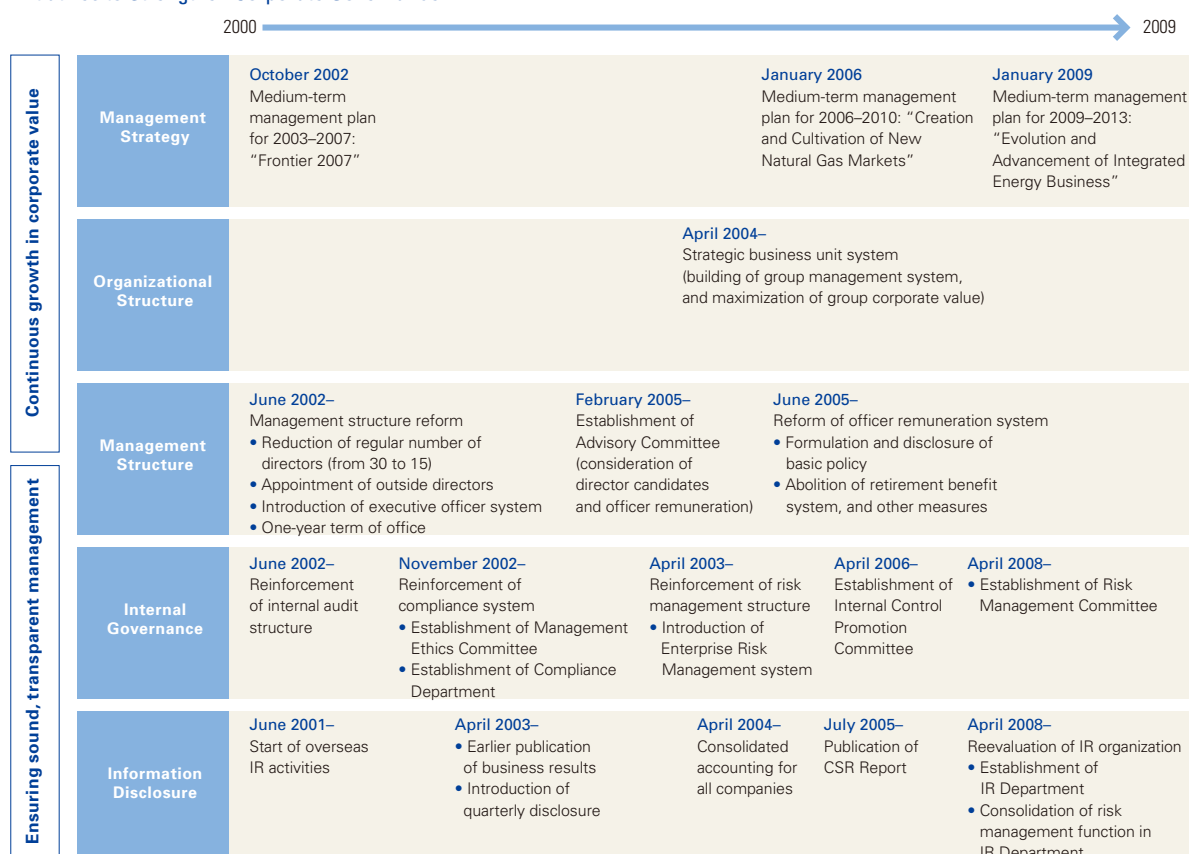
MANAGEMENT STRUCTURE

Management Structure Designed for Objectivity and Swiftness

Tokyo Gas takes a proactive stance in employing outside officers. The Company has created a system featuring multiple auditing and supervisory layers in its aim to achieve highly objective and transparent governance. In 2002, we reduced the maximum number of directors to raise the speed and effectiveness of management decision-making. At the same time, we reinforced and clarified the function for supervising business execution by employing independent outside directors. (As of June 30, 2010, the Board of Directors comprises three outside directors and eight internal directors.) The Advisory Committee, established in 2005, is made up of three internal directors and three representatives from outside directors and outside auditors. This structure aims to ensure that the selection of director candidates is fair and appropriate. The committee also deliberates officer compensation in accordance with the Company’s basic policy (described below). The five corporate auditors, three of whom are outside auditors, strictly audit the legality and appropriateness of the performance of duties of the directors. Furthermore, they proactively make recommendations at Board of Directors, and Corporate Executive Committee meetings to enhance the effectiveness of monitoring.

The Corporate Executive Committee meets once a week, in principle, to deliberate and make decisions on matters of management importance, ensuring accurate and speedy decision-making and the effective execution of operations. The Company employs an executive officer system (with 25 executive officers as of June 30, 2010), to execute operations in accordance with Board of Directors’ resolutions. The system is designed to devolve

Initiatives to Strengthen Corporate Governance



authority and responsibility and foster the rapid execution of operations. Executive officers report on the status of execution to directors and the Board of Directors, and these bodies supervise executive officers' activities on this basis. To clarify the job responsibilities of directors and executive officers, their terms of office have been fixed at 1 year.

To promote transparent management and a flexible and open organization, in fiscal 2002 the Company established a Management Ethics Committee. We also formed in-house committees to address issues that are important from a management perspective, such as compliance, risk management, customer satisfaction, and safety. This structure facilitates the sharing of information within the Group, as well as deliberation of and adjustments to the Group's overall direction.

Toward an Effective 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 resolutions by the Board of Directors, the executive officers act to carry out business operations as well as to develop and operate the internal control system. In addition, we have established the Corporate Executive Committee as a deliberative body to assist the Board of Directors. The committee deliberates provisions stemming from Board of Directors resolutions and important management-related issues.

With regard to auditing, in addition to corporate auditors the Company has established the Internal Audit Department as an internal audit organization. The department 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 established to evaluate the effectiveness of internal control regarding financial reporting.

Objective and Transparent Officer Remuneration

In fiscal 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.

1. Role of executive and remuneration

The role demanded of executive is to seek to enhance short-, medium-, and long-term corporate value, and executive remuneration shall serve as an effective incentive for them to perform that role.

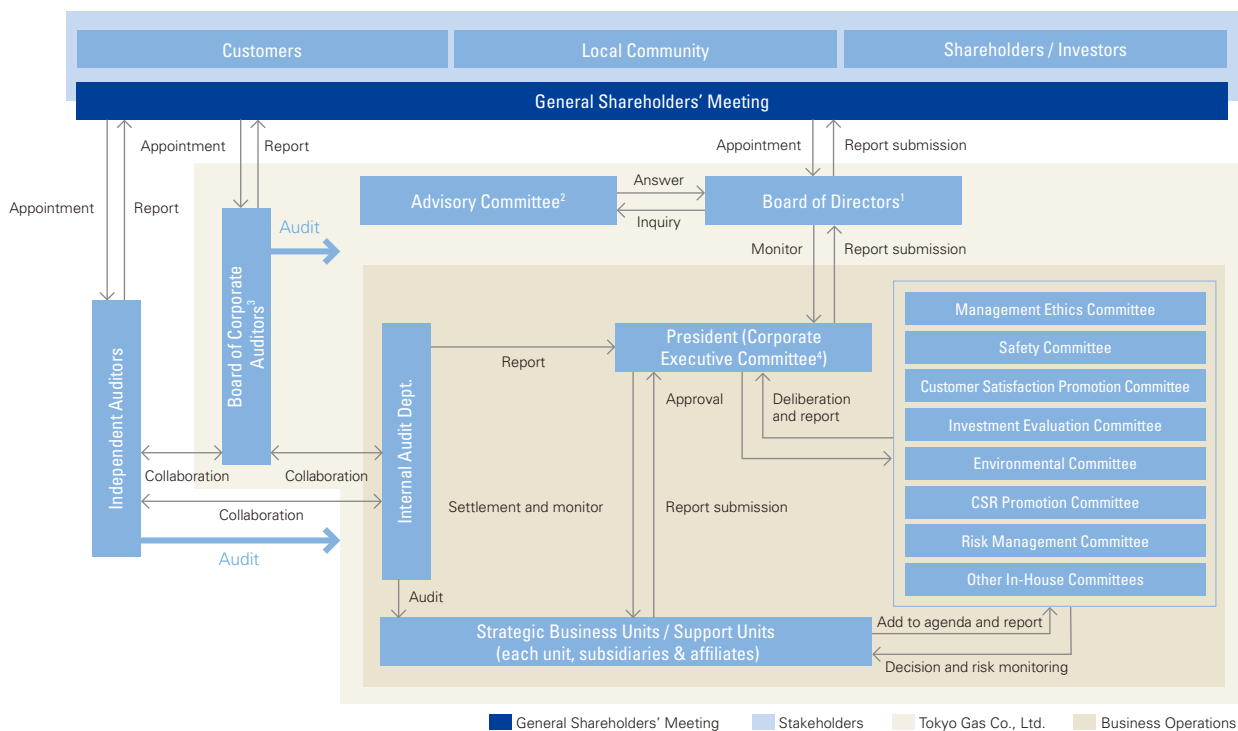
2. Level of remuneration

The level of executive compensation shall be suitable for the role, responsibility, and performance of the executive.

3. Performance-linked remuneration scheme

The performance-linked remuneration scheme is meant to

Corporate Governance Structure



1 Board of Directors: 11 directors (3 outside directors, and 8 internal directors)

2 Advisory Committee: 3 representatives from outside directors and outside auditors, Chairman, Vice Chairman, and President

3 Board of Corporate Auditors: 5 corporate auditors (3 outside auditors, and 2 internal auditors)

4 Corporate Executive Committee: President, 3 Executive Vice Presidents, 9 senior executive officers (3 of the representative directors also serve as President and Executive Vice Presidents.)

Total Remuneration for Directors and Corporate Auditors (Fiscal 2009)

	Millions of yen			Thousands of U.S. dollars		
	Total remuneration	Type of remuneration Base	Bonuses	Total remuneration	Type of remuneration Base	Bonuses
Remuneration for ten directors (excluding outside directors)	¥430	¥374	¥56	\$4,623	\$4,021	\$602
Remuneration for three corporate auditors (excluding outside auditors)	74	74	—	795	795	—
Remuneration for seven outside officers (outside directors and outside auditors)	64	58	6	688	623	64

Compensation for Independent Auditors (Fiscal 2009)

	Millions of yen	Thousands of U.S. dollars
Remuneration for auditing services	¥326	\$3,505
Remuneration for non-auditing services	7	75
Total	¥333	\$3,580

firmly motivate the executives to execute management strategies, and is also meant to reflect their performance clearly on their remuneration.

4. Share-purchase guideline

The establishment of the share-purchase guideline is meant to firmly motivate the executives to reflect the perspective of a shareholder in management and improve shareholder value over the long term.

5. Assurance objectivity and transparency

The Company shall assure objectivity and transparency of remuneration by establishing the "Advisory Committee" comprising outside directors, outside corporate auditors, and the Company's directors to govern the system of remuneration.

Concentrating Group Effort to Survive in the Face of Competition

With the deregulation of the energy industry, 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.

RISK MANAGEMENT

Enterprise Risk Management System Responds to and Discloses Information on Growing Risks

In fiscal 2003, the Company established a groupwide 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 110 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, to improve the level of ERM, in fiscal 2008, the Risk Management Committee was established to review risks, build up the ERM system, and periodically assess and evaluate its operational status. The committee reports to the Corporate Executive Committee and the Board of Directors and secures the necessary approvals.

Major Risks Requiring Management Intervention

Accidents and disasters	Resource procurement supply interruption risk, Natural disaster risk, City gas and electricity production/supply disruption, Ensuring the safety of city gas and quality problems affecting gas equipment, Damage due to reputation resulting from city gas accidents caused by other gas companies
Market risks	Market price and interest rate fluctuation risks
Risks accompanying business execution	Risks faced by existing business (Change in procurement costs, Decline in gas sales volume due to weather fluctuations, Decline in demand due to intensified competition, Demand risk, Delay in the development of new technology, and Changes in laws, regulatory systems, or energy policies of the national governments and local governments), Delayed cultivation of new markets, Inability to recover investments
Risks related to information management and system operation	Outflows of personal information, Failure or malfunction of IT backbone systems, Interruption of communication with call centers
Risks related to corporate social responsibility	Response to new environmental regulations, Compliance violations, Inadequate customer satisfaction or responses to customer needs

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

Crisis Management Responsibility as a Public Company

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 case that a risk-related event actually occurs. Specifically, we have formulated Emergency Response Organization Regulations. In case 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. Periodic training is conducted in relation to major risk response measures. The Company has also formulated a Business Continuity Plan (BCP) outlining its responses in the event of a major earthquake of the magnitude assumed by Japan's Cabinet Office, as well as an outbreak of influenza. This plan is in place to reinforce the Company's risk management system.

COMPLIANCE

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 to lead compliance-related

activities for each unit. These include development of compliance promotion systems, encouraging awareness and educational campaigns about the code of conduct, compliance risk reduction measures, maintenance of advisory systems, and the broad-based distribution of information within and beyond the Tokyo Gas Group companies.

To cultivate an understanding of compliance, we promote a thorough awareness of ongoing activities related to our code of conduct that was revised in 2004. We also 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.

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. The Compliance Audit Group also works steadily to mitigate risks by implementing follow-up audits to verify progress in tackling concerns identified at first auditing.

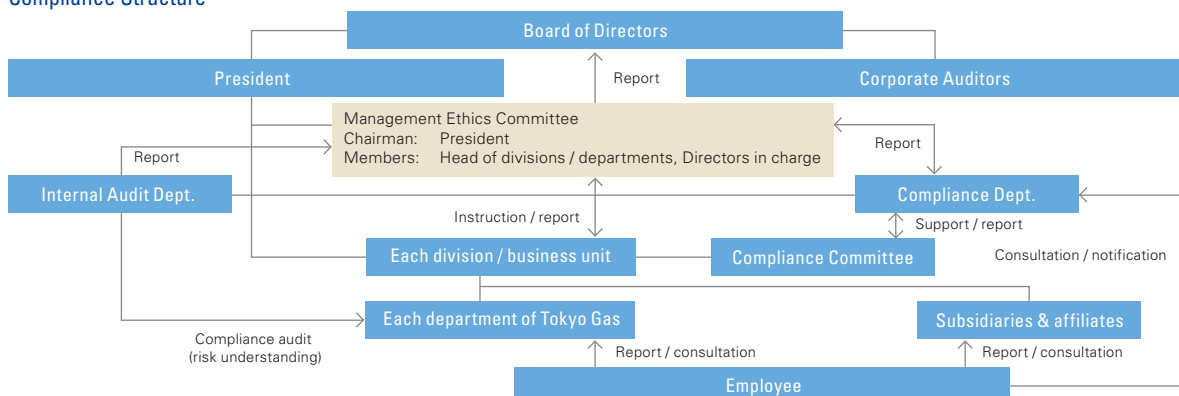
We monitor the effectiveness of Group compliance promotion activities by conducting regular compliance awareness surveys of all employees. The results of these surveys are reflected in initiatives for the following years.

DISCLOSURE

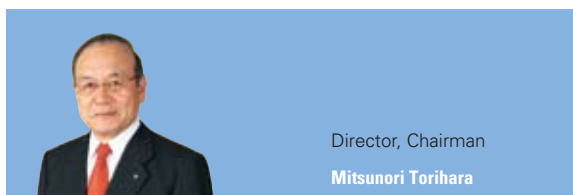
Enhancement of IR Activities

Top management takes an active role in Tokyo Gas IR activities, disclosing such broad-ranging information as management strategies, progress, and performance and engaging in interactive communication with investors. We believe that discussing management's thoughts with investors in this way can help close the gap between our real corporate value and the market assessment of the Company. In particular, during the period following the announcement of our financial results, we engage 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.

Compliance Structure

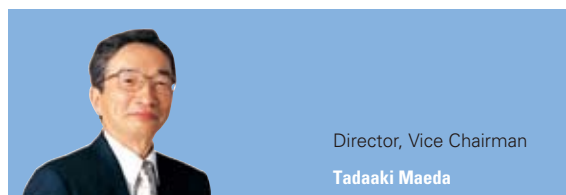


BOARD OF DIRECTORS AND CORPORATE AUDITORS



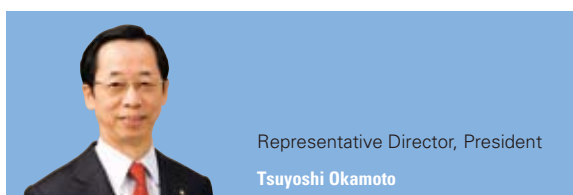
Director, Chairman
Mitsunori Torihara

April 1967 Joined the Company
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
April 2010 Director and Chairman of the Board



Director, Vice Chairman
Tadaaki Maeda

April 1970 Joined the Company
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.
April 2010 Director and Vice Chairman



Representative Director, President
Tsuyoshi Okamoto

April 1970 Joined the Company
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.
April 2010 President, Representative Director, and Executive President



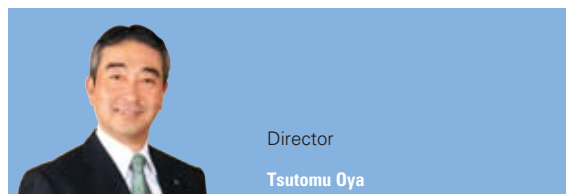
Representative Director
Shigeru Muraki

July 1972 Joined the Company
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.
April 2010 Representative Director, Executive Vice President, Chief Executive of Energy Solutions Div. and General Manager of Volume Sales Dept. of Energy Solution Div.



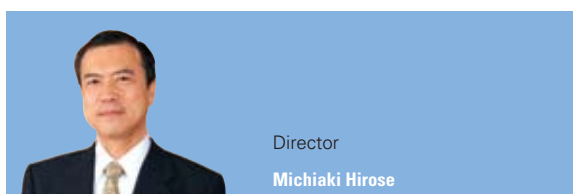
Representative Director
Toshiyuki Kanisawa

April 1972 Joined the Company
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.
April 2010 Representative Director, Executive Vice President, in charge of Personnel Dept., Secretary Dept., General Administration Dept., and Compliance Dept.



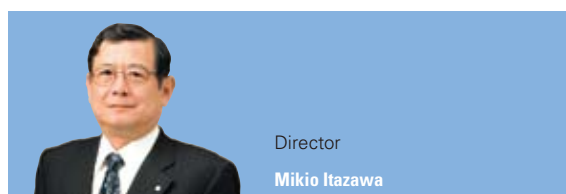
Director
Tsutomu Oya

April 1975 Joined the Company
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.
April 2010 Director and Chief Executive of Energy Production Div., and in charge of Environmental Affairs Dept.



Director
Michiaki Hirose

April 1974 Joined the Company
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.
April 2010 Director, In charge of Corporate Planning Dept., Project Management Dept., Corporate Communication Dept., and Affiliated Companies Dept.



Director
Mikio Itazawa

April 1974 Joined the Company
June 2003 General Manager of West Pipeline Business Dept. of Pipeline and Maintenance Div.
April 2004 Executive Officer and General Manager of Pipeline Dept. of Pipeline Network Div.
April 2007 Senior Executive Officer and Division Manager of Pipeline Network Div.
June 2010 Director, Senior Executive Officer and Division Manager of Pipeline Network Div.

Auditors

Yasunori Takakuwa
Kunihiko Mori

Outside Auditors

Shoji Mori (Vice Chairman, Institute for International Socio-Economics Studies)
Yukio Masuda (Standing Consultant, Mitsubishi Corporation)
Masayuki Osawa (Outside Auditor, PACIFIC CONVENTION PLAZA YOKOHAMA)

Message from Outside Directors



Outside Director
Katsuhiko Honda

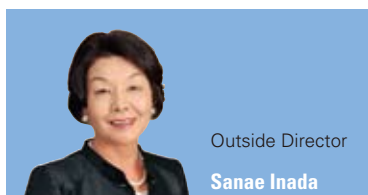
Current position

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

As an outside director, I look at management and operational initiatives from an impartial perspective. I am deeply impressed by the straightforward and steady efforts of managers and employees to enhance the Company's enterprise value, as well as by the high ethical and moral standards that are evident in the execution of business activities.

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. The Company has made customer satisfaction its number one priority, and moving forward I would like to see the Company further enhance service, with all Group employees working together under the leadership of the new president.

As the Company works to move beyond the dramatic changes in the current operating environment while anticipating future changes, I will do my best to make a contribution to sustaining and enhancing the Company's enterprise value.



Outside Director
Sanae Inada

Current position

Attorney
June 2007 Director of the Company

The gas industry faces not only a global economic slowdown but also fierce competition among forms of energy, and Tokyo Gas itself has many challenges in responding to electricity-related campaigns. The Company should strongly emphasize the outstanding environmental friendliness of natural gas, as well as the fact that Tokyo Gas is a very environmentally friendly company. I also think that the Company needs to further enhance the corporate image.

In the midst of today's intense competition, there may be some concerns and disorientation in worksites. It is important for executives to demonstrate strong leadership and clear vision in order to foster a strong feeling of trust among employees.

Further, the Company should implement new operational development, with consideration for global initiatives. I would like to see the Company concentrate the capabilities of All Tokyo Gas, including affiliated companies, without being limited by existing concepts, and aim to be a global, integrated energy enterprise.



Outside Director
Yukio Sato

Current position

Vice Chairman, The Japan Institute of International Affairs
June 2010 Director of the Company

In Japan, the concept of "corporate governance" was originally imported, and Japanese society faces the challenge of how best to systematize and implement corporate governance practices. I think that there are three key points for companies that conduct business operations in society: following rules, self control, and self-awareness regarding the corporate presence in society. For Tokyo Gas, which is a public enterprise that has responsibility for stability and safety in the lives of the public, these are especially important points.

In addition, to respond appropriately to the requests of customers and society as well as those of shareholders and investors, I think it is important not to neglect the enhancement of transparency in business activities. More than anything else, it is important to pay careful attention to outside opinion. Of course, it goes without saying that it is also important to have a solid grasp on international developments that is reflected in decision-making and to maintain a focus on preparedness.

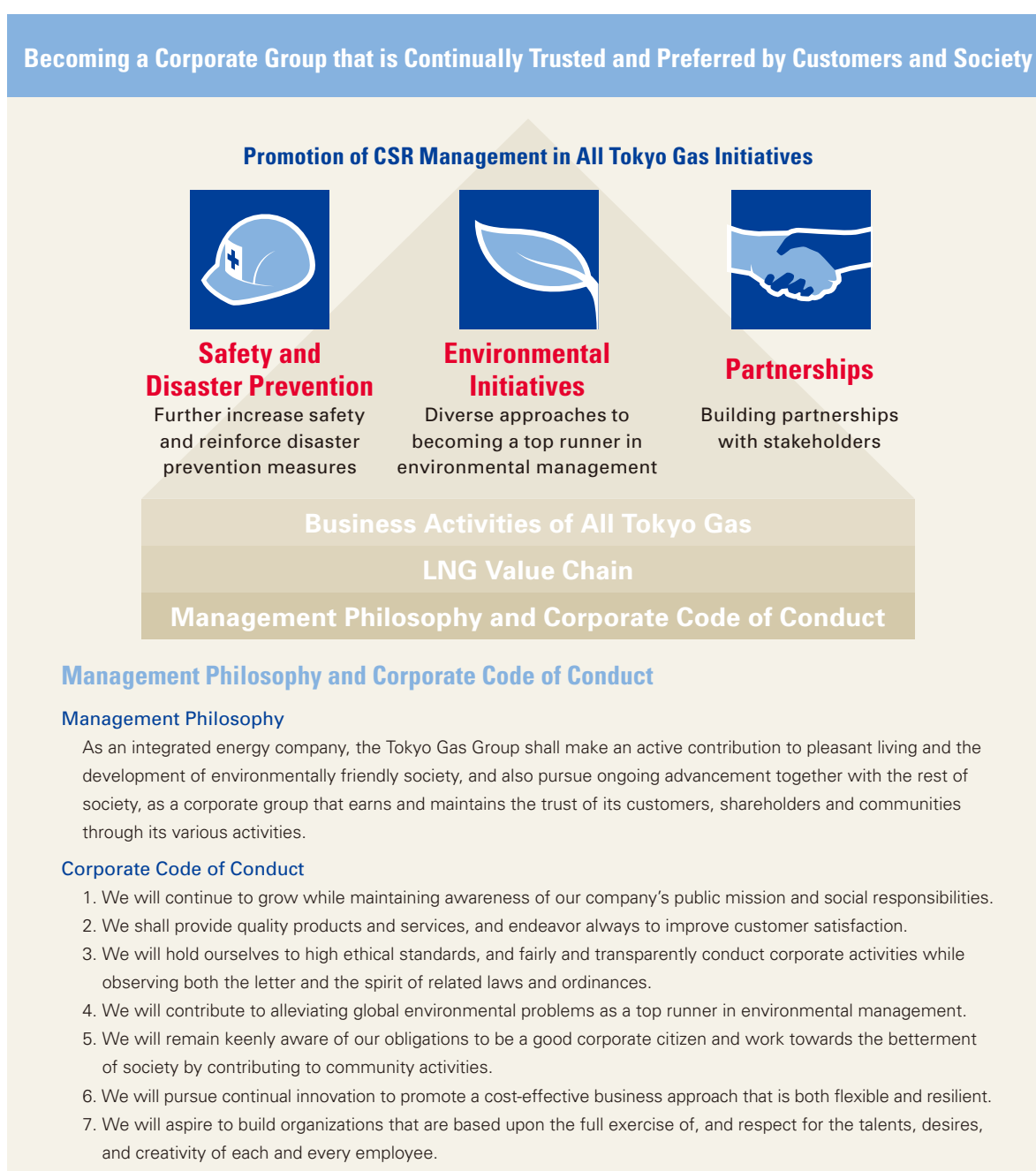
Executive Officers

President	Tsuyoshi Okamoto	
Executive Vice Presidents	Shigeru Muraki	Division Manager of Energy Solution Div., and General Manager of Volume Sales Div.
	Toshiyuki Kanisawa	In charge of Personnel Dept., Secretary Dept., General Administration Dept., and Compliance Dept.
	Hirokazu Hayashi	Division Manager of Regional Development Marketing Div.
Senior Executive Officers	Tsutomu Oya	Division Manager of Energy Production Div., In charge of Environment Dept.
	Michiaki Hirose	In charge of Corporate Planning Dept., Project Management Dept., Corporate Communication Dept., and Affiliated Companies Dept.
	Mikio Itazawa	Division Manager of Pipeline Network Div.
	Norikazu Hoshino	Dispatched to the Japan Gas Association
	Kazuo Yoshino	In charge of Investor Relations Dept., Finance & Managerial Accounting Dept., and Accounting Dept.
	Hisao Watanabe	Division Manager 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.
Executive Officers	Matsuhiko Hataba	Division Manager of Residential Sales Promotion Div.
	Koichi Aonuma	Division Manager of Housing Development Div.
	Yutaka Kunigo	Division Manager of Energy Resources Div.
	Akio Maekawa	Coordinator, Energy Solution Div.
	Masahiro Mikami	General Manager of General Administration Dept.
	Hiroaki Kubota	General Manager of Energy Production Dept., Energy Production Div.
	Hidefumi Takahashi	General Manager of Kanagawa service branch, Residential Sales Promotion Div.
	Hideaki Obana	General Manager of Corporate Communications Dept.
	Hiroaki Kobayashi	General Manager of Customer Safety Dept., Residential Sales Promotion Div.
Yoshihiro Tanabe	Deputy Chief Executive of Energy Solution Div. and General Manager of Energy Sales & Service Planning Dept.	
Fumio Murazeki	General Manager of Residential Sales Planning Dept., Residential Sales Promotion Div.	
Takashi Uchida	General Manager of Corporate Planning Dept.	
Hideaki Arai	General Manager of Pipeline Dept. Pipeline Network Div.	
Satoru Yasuoka	General Manager of Gas Resources Dept. Energy Resources Div.	

CORPORATE SOCIAL RESPONSIBILITY

Tokyo Gas Group CSR

The Tokyo Gas Group has declared its commitment to promoting CSR management that facilitates the realization of its CSR objectives and its public mission. These objectives are achieved through the Group's daily business activities. On that basis, we will continue to work earnestly in such areas as corporate governance, compliance, and risk management. As a public institution, we will strive to earn the continued trust of our stakeholders. Specifically, the Group's number one priorities will be to continue to advance "safety and disaster prevention," "environmental initiatives," and "building partnerships" as its focus CSR activities and to establish relationships of trust with local communities. In these ways, we will endeavor to make an ongoing contribution to society through our daily business activities.



SAFETY AND DISASTER PREVENTION

Our Responsibility

Our customers have provided valuable feedback in regard to the use of gas, such as “I would like you to develop safe gas appliances,” “I want you to figure out a way to prevent careless mistakes in using gas appliances,” and “After your work is done, I would like you to explain what you did.” At the Tokyo Gas Group, we have three key themes in promoting the safe use of gas. The first is promoting the utilization of facilities that decrease the likelihood of accidents, gas leaks, or damage and of functions to control such incidents (tangible countermeasures). The second is fostering knowledge of correct usage and implementing periodic inspections (intangible countermeasures). The third is establishing an emergency response system for use in the unlikely event of a gas leak (emergency response countermeasures). To foster prompt gas supply in the event of an earthquake or other natural disaster, we are implementing “prevention,” “emergency,” and “restoration” initiatives. We continue working to minimize the influence of such an event on the lives of our customers.

Initiatives

To promote the early replacement of water heaters and bathtub water heaters that have not been equipped with incomplete combustion avoidance devices, since January 2007 we have instituted a “replacement promotion campaign,” which incorporates special visits, free inspections, and replacement support. As of the end of March 2010, we had invested about ¥5.5 billion and replaced about 180,000 devices out of a total of 300,000 that need replacement. In particular, we have replaced about 74% of small water heaters that lack incomplete combustion avoidance devices and about 62% of CF devices*. The campaign has ended, but we continue to provide support for replacement. Through such opportunities as “periodic gas facility safety checks” and “gas valve opening,” we will continue working toward the reduction of these appliances. At the same time, we will endeavor to provide accurate information about the safety, environmental friendliness, and convenience of gas, and to implement enhanced communications so that we can best meet the needs of our customers.

In gas supply, in January 2007 there was an accident in the city of Kitami in Hokkaido. We continue moving forward aggressively with the necessary measures, aiming to replace about 1,200 km of gray cast-iron pipes and galvanized gas pipes. In fiscal 2009, we invested ¥11.1 billion and replaced 166 km of pipe. There are still about 800 km of these gray cast-iron pipes and galvanized gas pipes that need to be replaced, and we plan to complete the replacement work by fiscal 2015. Moreover, the replacement of aged galvanized gas pipes in buildings that is important in terms of public safety is a key safety initiative. We are aiming to finish this task by fiscal 2015, and with the understanding of customers we are striving to advance this deadline as much as possible. In fiscal 2009, we spent about ¥1.8 billion on these measures.

* CF devices: Gas appliances that use indoor air for combustion and emit exhaust through an exhaust duct with the aid of natural ventilation.

TOPICS

SUPREME (Super-dense Real-time Monitoring of Earthquakes)

Under the SUPREME initiative, which began in July 2001, we have installed earthquake sensors (SI sensors) in all district supply governors (regulators)



in approximately 4,000 locations throughout our supply area. With one SI sensor in about every square kilometer, this earthquake damage prevention system has a high level of sensor density. It is unparalleled anywhere in the world. Under SUPREME, our service area is divided into “blocks” of a certain size. In the event of a major earthquake, gas supply will be continued to areas that have not suffered damage to gas facilities. In areas in which gas facilities have suffered substantial damage, gas supply can be rapidly cut off on a block by block basis, making it possible to prevent fires and other secondary damage.

In fiscal 2009, with the objective of decreasing block sizes in order to minimize the area in which supply is interrupted, we increased the number of blocks from 101 to 136. In this way, we are taking steps to facilitate the restoration of gas service as rapidly as possible after an interruption. In the future, Tokyo Gas will continue to move ahead with block size reductions, with a goal of completing this task by the fiscal year ending March 31, 2013 and establishing a system with about 170 blocks. In this way, we will aim for even more rapid restoration of service in times of disaster.



Earthquake sensor (SI sensor)

Distribution of earthquake sensors
(red dots: Tokyo Gas SI sensors; blue frameworks: blocks)

ENVIRONMENTAL INITIATIVES

Our Responsibility

Our environmental philosophy is as follows. The Tokyo Gas Group will promote more positive ways of energy use to contribute to the protection of regional and global environments as well as to the sustainable development of society. Our environmental policies are to (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, and (4) promote environment-related technology R&D programs.

Initiatives

Targeting the realization of a low-carbon and resource-recycling society and the conservation of biodiversity, the Tokyo Gas Group has formulated environmental protection guidelines for six areas, such as global warming prevention. On that basis, the Group is moving forward with the implementation of specific initiatives.

For example, we will continue working in an active and sustained manner to prevent global warming by promoting the use of environmentally friendly natural gas and by providing equipment and systems with high efficiency and low environmental impact. In comparison with the 2005 levels, we will strive to reduce CO₂ emissions at customer sites by 3 million tons by the fiscal year ending March 31, 2016 and by 4.5 million tons by the fiscal year ending March 31, 2021.

In the development of a recycling-oriented society, the Tokyo Gas Group will take a comprehensive approach to reducing environmental burden by implementing efficient, effective environmental management activities; by reducing, reusing, and recycling waste in our operational activities; and by aggressively promoting green purchasing. In addition, targeting the establishment of a society that coexists with nature, we recognize the importance of the benefits of biodiversity, and we are working to track and analyze the influence of our operating activities on biodiversity. Moreover, from a CSR perspective, we are also promoting activities that contribute to the conservation of biodiversity in ways that are unrelated to our business activities.

TOPICS

Power Generation Initiatives

Ogishima Power



Kawasaki Natural Gas Power Generation



In electric power, Kawasaki Natural Gas Power Generation Co., Ltd. (Tokyo Gas: 49%, two 420 MW units) began commercial operation in April 2008. Ogishima Power Co., Ltd. (Tokyo Gas: 75%, three 407 MW units) began commercial operation of its first unit in March 2010 and its second unit in July 2010. Each of these has the latest gas turbine combined-cycle power generation facilities, with peak efficiency of 58% (low heating value (LHV) standard / gross generating efficiency). In these ways, we are working to support the efficient supply of energy.

In addition, Agatsuma Bio Power Co., Ltd. (Tokyo Gas: 4.44%) is a biomass power generation enterprise using wood chips as fuel. Commercial operation is scheduled to start in fiscal 2010. Agatsuma Bio Power is expected to reduce CO₂ emissions by 60,000 tons*¹ through the generation of 85 MWh*² of electricity a year.

*1 Calculated in comparison to an average of 0.69 kg CO₂/kWh for thermal power generation, for which Agatsuma Bio Power's operations will be a substitute.

*2 13.6 MW power generation facility

Overseas Environmental Cooperation

Since October 2004, Tokyo Gas has participated in power generation operations in Bajío, Mexico, which is 260 km north-west of Mexico City, the capital of Mexico. The Bajío power plant is an IPP (Independent Power Producer) natural gas combined cycle plant (Tokyo Gas: 49%). Power is supplied to Mexico's federal electricity commission—Comisión Federal de Electricidad—and to customers in the surrounding area.

In addition, in June 2010, in cooperation with Mitsui & Co., we completed acquisition of five Mexican thermal power generation companies as well as a pipeline company. As a result, we have reinforced our foothold in power generation operations in Mexico. These are gas-fired, combined cycle IPP power plants, with an aggregate total generating capacity of 2,233 MW (Tokyo Gas: 30%). Power will be supplied under 25-year term contracts with the Comisión Federal de Electricidad. Through these projects, Tokyo Gas will have total generating capacity of about 960 MW in Mexico and will play a role in the stable supply of power in Mexico.



Thermal power generation facilities acquired in June 2010 (Rio Bravo II / III / IV)

BUILDING PARTNERSHIPS

Our Responsibility

Tokyo Gas conducts business operations that have a strong public welfare element, and the Group has a social mission. Tokyo Gas endeavors to move forward in tandem with its stakeholders, including not only shareholders but also customers, employees, suppliers and partners, and local communities. Contributing to the development of society is one of our most important tasks. Accordingly, we continue our sincere efforts to build, sustain, and develop relationships with all of our stakeholders.

Initiatives

By enhancing communications in capital markets through our IR activities, we are working to secure management soundness and transparency, to reflect the expectations of capital markets in our management, and to improve the understanding of and the trust in the Tokyo Gas Group.

In our relationships with customers, in order to ensure that All Tokyo Gas continues to be the preferred choice, we emphasize “whether the customer is satisfied” rather than “what we provide to the customer.” In accordance with this approach, we have identified the customer satisfaction (CS) mindset as the fundamental stance of All Tokyo Gas and have documented it in our code of conduct. Moving forward, we will continue working to be a customer-focused Group by thoroughly communicating this fundamental stance to everyone involved with All Tokyo Gas.

For our employees, we are striving to enhance their motivation and to create “workplaces that are easy to work in” and in which employees can exercise their abilities to the fullest extent. Accordingly, we have established a variety of systems and are devoting resources to education so that the systems are used effectively. Furthermore, we are moving ahead with initiatives in the area of healthy, safe work environments.

In our relationships with suppliers and partners, we are taking steps to fulfill our public welfare and social missions, such as formulating action guidelines for purchasing activities and working to build relationships of trust.

In addition, our relationships with local communities involve working toward the realization of a society that is pleasant and comfortable to live in and striving to resolve issues related to our daily lives. In these ways, we are implementing activities that make the most of our strengths.

TOPICS

Tokyo Gas Environment Support Fund



Providing support for Inbanuma water-quality improvement activities through the Inba Yasai Ikada no Kai, an NPO.

With a grant from Tokyo Gas to the Japan Environment Association, this fund was established in December 2007 in commemoration of Tokyo Gas reaching the milestone of 10 million customers in September 2007. Through the fund, we have provided ongoing support for non-profit, private-sector organizations that engage in environmental conservation activities. The objective of this support has been to express our gratitude to a wide range of local communities while at the same time contributing to the resolution of regional and global environmental problems and to the realization of a sustainable society.

In the fiscal year ending March 31, 2011, applications were received from 58 organizations and a total of ¥10 million is to be provided to 14 recipients. Since the fiscal year ended March 31, 2009, a cumulative total of ¥30 million has been provided to 40 organizations.

Overseas Environmental Cooperation



Environmental education activities at the Donguri (Acorn) School

Since 1993, Tokyo Gas has been actively involved in the Donguri (Acorn) Project, working together with the Donguri (Acorn) Club, a non-profit organization (NPO), and with local administrations. In the midst of a trend toward a re-appreciation of the importance of forests and natural woodlands, this project serves as a countermeasure to global warming while facilitating experience-based education. The project encourages participants to think about the natural environment through a cycle of activities—gathering acorns, planting seedlings, and caring for trees.

Since 2005, experience-based environmental educational activities have been conducted at Nagano Tokyo Gas Forest in Kitasaku-gun, Nagano Prefecture, offering participants the opportunity to learn about the relationship between their daily lives and the forest. At the Donguri (Acorn) School, forest management activities are combined with a range of experience-based nature programs in spring, summer, and fall.

In the fiscal year ended March 31, 2010, Donguri (Acorn) School sessions were held in spring, summer, and fall, and a total of about 200 participants gathered and experienced a range of activities. These included animal tracking, where they walked through the forest while looking for animal signs, and carpentry work using thinned wood.

ON-SITE IR REPORT

This section provides responses to questions from investors and explains policies that are important in the conduct of management.

► Q1 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 m³ or more qualified as large-volume customers. Moreover, from April 2007, the designation point for large-volume customers shifted to 100,000 m³ 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 ratebase 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 every month in accordance with the gas resource cost adjustment system. Consequently, the impacts of such fluctuations on revenue and expenditure will be neutral in the medium to long term.

► Q2 What is the GAS RATE ADJUSTMENT SYSTEM?

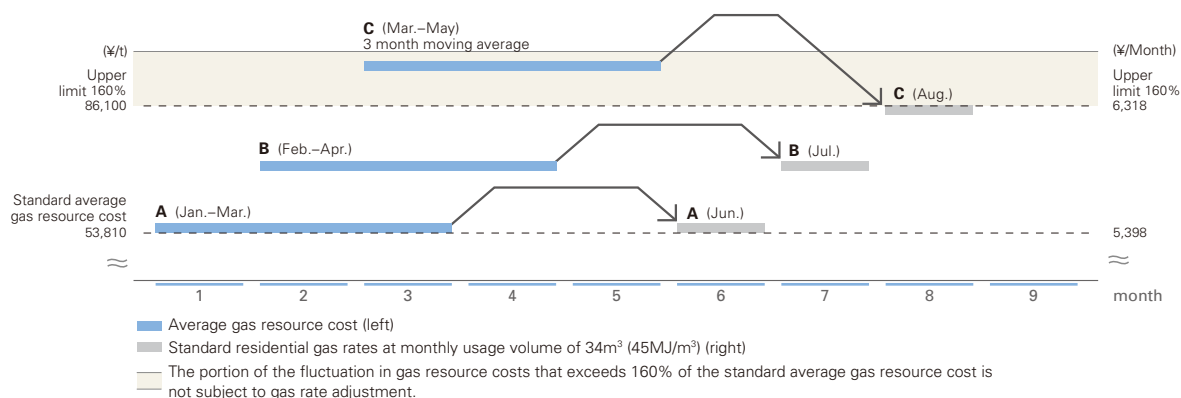
The price of LNG is significantly influenced by crude oil prices and exchange rate fluctuations. Consequently, the gas resource costs borne by city gas suppliers are substantially influenced by changes in these areas. The gas rate adjustment system was introduced to promptly adjust gas rates*1 to reflect 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.



▶ Q3 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. 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.

▶ Q4 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 LNG 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 completed the establishment of in fiscal 2009, 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.

▶ **Q5 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 value added 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 332 contracts at the end of March 2010.

▶ **Q6 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, 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 LNG 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 (420 MW x 2 units)	In operation since April 2008
Ohgishima Power Co., Ltd.	1,220 MW (407 MW x 3 units)	Unit No. 1 in operation since March 2010 Unit No. 2 in operation since July 2010. The timing for the commencement of Unit No. 3 commercial operation has not been determined.

FINANCIAL SECTION

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For purposes of presentation, in 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.

In addition, all graphs and tables represent fiscal years ended March 31 of the respective years.

TWELVE-YEAR SUMMARY

Years ended March 31

	2010	2009	2008	Millions of yen, except per share amounts	
				2007	2006
For the Years					
Net sales	¥1,415,718	¥1,660,162	¥1,487,496	¥1,376,958	¥1,266,501
Gas sales	1,045,535	1,257,574	1,087,044	999,521	910,320
Gas appliance sales	126,088	122,363	132,236	135,407	130,825
Installation work	44,360	49,094	57,325	59,229	59,746
Real estate rental	33,710	35,637	35,169	34,034	34,187
Other business	317,819	363,783	320,361	285,407	252,595
Operating income	85,229	65,204	70,048	162,315	112,345
Net income	53,781	41,708	42,487	100,699	62,114
Depreciation*	146,117	141,083	142,421	133,142	136,376
Capital expenditures**	148,186	145,929	138,006	124,556	119,435
Free cash flow	51,712	36,862	46,902	109,285	79,057
Amounts per share of common stock (Yen)					
Net income	¥ 19.86	¥ 15.63	¥ 15.94	¥ 37.50	¥ 23.48
Diluted net income	—	15.37	15.50	35.69	21.70
Net assets	301.58	284.72	289.49	293.11	270.46
Cash dividends applicable to the year	9.00	8.00	8.00	8.00	7.00

At Year-End

Total assets	¥1,840,972	¥1,764,185	¥1,703,651	¥1,692,635	¥1,693,898
Interest-bearing debt	555,919	593,230	558,716	525,467	559,911
Total net assets	826,291	784,616	780,455	806,045	—
Total shareholders' equity	—	—	—	—	728,231

Ratios

Operating income to net sales	6.0%	3.9%	4.7%	11.8%	8.9%
Net income to net sales	3.8%	2.5%	2.9%	7.3%	4.9%
ROE	6.8%	5.4%	5.4%	13.2%	9.0%
ROA	3.0%	2.4%	2.5%	5.9%	3.7%
Equity ratio	44.2%	43.8%	45.1%	47.0%	43.0%

Notes: 1 Segment sales include intra-group transactions.

2 Free cash flow = net income + depreciation* – capital expenditures**

* including amortization of long-term prepayments

** purchases of tangible fixed assets + purchases of intangible fixed assets + long-term prepayments

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).

4 From the year ended March 31, 2010, diluted net income per share is not presented in the above table because there are no residual securities from the beginning of the fiscal year.

	2005	2004	2003	2002	2001	2000	1999
	¥1,190,783	¥1,151,824	¥1,127,633	¥1,097,589	¥1,086,770	¥ 992,255	¥ 997,766
	834,658	831,114	792,453	750,438	740,731	672,069	674,996
	135,108	133,873	142,635	149,203	146,516	127,916	133,925
	64,794	68,033	70,568	71,337	71,907	68,651	68,817
	34,701	35,443	36,346	37,551	37,601	37,841	37,616
	234,720	172,160	158,326	156,011	159,577	158,819	155,044
	145,349	152,287	123,294	110,607	103,659	69,233	72,302
	84,047	44,787	59,201	51,911	27,595	26,698	17,764
	140,271	146,895	141,027	145,564	150,374	140,306	143,009
	107,529	107,441	111,988	105,296	111,397	124,975	151,126
	116,789	84,241	88,240	92,178	66,572	42,029	9,647
	¥ 31.47	¥ 16.44	¥ 21.18	¥ 18.47	¥ 9.82	¥ 9.50	¥ 6.32
	28.24	14.98	19.11	16.66	9.13	8.84	5.94
	244.73	221.53	208.65	200.75	196.72	172.33	149.98
	7.00	7.00	6.00	6.00	6.00	5.00	5.00
	¥1,668,734	¥1,666,828	¥1,676,064	¥1,702,712	¥1,797,669	¥1,805,086	¥1,707,446
	624,105	682,744	731,301	775,894	870,347	957,085	911,901
	—	—	—	—	—	—	—
	648,766	598,453	579,706	564,077	552,790	484,239	421,443
	12.2%	13.2%	10.9%	10.1%	9.5%	7.0%	7.2%
	7.1%	3.9%	5.3%	4.7%	2.5%	2.7%	1.8%
	13.5%	7.6%	10.4%	9.3%	5.3%	5.9%	4.2%
	5.0%	2.7%	3.5%	3.0%	1.5%	1.5%	1.0%
	38.9%	35.9%	34.6%	33.1%	30.8%	26.8%	24.7%

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY

In the fiscal year ended March 31, 2010, gas sales volume was down 2.0%, to 13,666 million m³, due in part to the extended business recession.

The gas sales volume was down, and as a result of a decline in LNG prices, gas unit prices decreased under the gas rate adjustment system. Consequently, net sales were down 14.7%, to ¥1,415.7 billion. However, operating expenses also decreased, leading to a 30.7% rise in operating income, to ¥85.2 billion. Moreover, due to such factors as foreign exchange gains from overseas subsidiaries, ordinary income rose 43.2%, to ¥83.5 billion. Net income was up 28.9%, to ¥53.7 billion, the first increase in net income in three years.

In regard to the provision of dividends to shareholders, there is no change to our policy of a total payout ratio of 60%. From the fiscal year ended March 31, 2010, we decided to increase the per share dividend by ¥1.00, resulting in dividends of ¥9.00 for the year.

OPERATING ENVIRONMENT IN THE YEAR UNDER REVIEW

Influence of Economic Conditions

In the fiscal year ended March 31, 2010, there were signs that the global economic downturn—which was triggered by the financial market crisis in the United States—was improving. Nonetheless, the Japanese economy was affected by ongoing adverse factors, such as sluggish consumer spending and stagnant capital expenditures, and the future course of business conditions remained difficult to predict. In this setting, energy demand was sluggish under the influence of restrained consumption and contracting corporate activity, and consequently city gas, the Group's core business, was adversely affected. In the second half of the fiscal year, gas sales recovered in nearly all areas of the industrial sector, but sales did not return to the levels seen prior to the financial crisis. Other sectors, such as residential and commercial, were also influenced by the sluggish business environment.

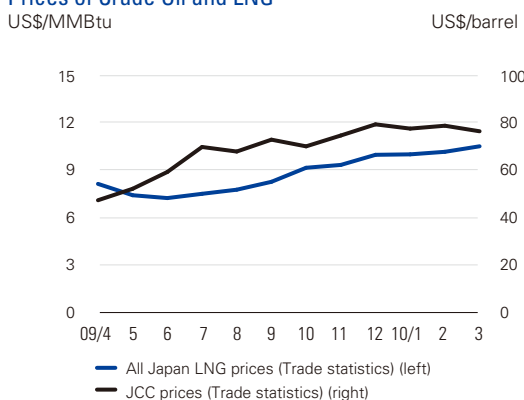
Influence of Fluctuating Oil Prices and Foreign Exchange Rates on the Company's Operations

The purchase price of LNG, which accounts for the majority of the resources used in the Group's core city gas business, is linked to the Japan Customs-cleared Crude price (hereafter JCC). Under the gas rate adjustment system, the Company's gas resource costs are reflected in sales, and the Company's revenues and operating expenses are significantly influenced by fluctuations in crude oil prices.

In the second half of the year under review, the JCC was at a high level, in the US\$70 to US\$80 per barrel range, but for the full fiscal year, it was US\$69.38 per barrel, down US\$21.13 year on year. In foreign exchange rates, the yen remained at a high level, and for the full fiscal year the average yen-dollar exchange rate was ¥92.89, reflecting yen appreciation of ¥7.82 compared with the previous fiscal year.

As a result, the year's trends in crude oil prices and foreign exchange rates had the effect of reducing the Company's LNG purchase price and contributing to declines in sales and gas resource costs.

Prices of Crude Oil and LNG



Yen-Dollar Exchange Rate



ANALYSIS OF THE CITY GAS BUSINESS

Sales down in residential, commercial, and industrial sectors. Slight increase in wholesale sector.

Residential Sector

Due to the growing use of high-efficiency equipment and to an increase in multiple dwelling units with high levels of air-tightness and heat insulation, demand for hot water and indoor heating declined. In addition, due to an expanding focus on energy saving and economizing, residential demand was down 0.9%, or 31 million m³, to 3,437 million m³.

Commercial and Other Sectors

On account of the recession, building occupancy rates were down and customers implemented energy-saving initiatives, leading to lower utilization of existing facilities. As a result, commercial demand declined 4.5%, or 92 million m³. However, public and medical-related demand was up 2.4%, or 23 million m³, due to new customers. As a result, commercial demand overall was down 2.3%, or 68 million m³, to 2,943 million m³.

Industrial Sector

In the second half of the fiscal year, there were signs of improving business conditions in some industries, but due to decreased utilization of existing facilities in the first half, industrial demand was down 3.1%, or 177 million m³, year on year, to 5,446 million m³. Through November 2009, gas sales volume in industrial sector was down year on year for 14 consecutive months, but from December demand once again began to increase.

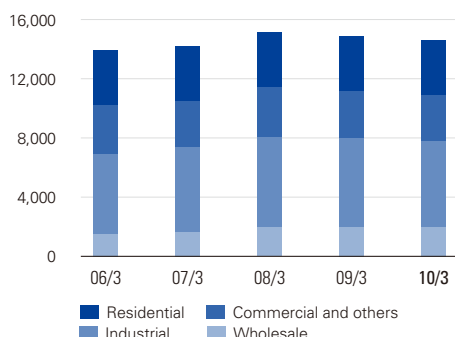
Wholesale Sector

Wholesale supplies to other gas utilities were basically unchanged from the previous year, at 1,841 million m³, up 1 million m³.

Consequently, overall gas sales volume was down 2.0%, or 276 million m³, to 13,666 million m³.

Gas Sales Volume by Sector

Million m³, 45MJ/m³



ANALYSIS OF INCOME AND EXPENSES

Tokyo Gas recorded lower sales and higher profits for the first time in 10 years.

In the fiscal year ended March 31, 2010, gas sales decreased 16.9%, or ¥212.0 billion, to ¥1,045.5 billion, due to lower gas unit prices under the gas rate adjustment system and to a 2.0% decline in gas sales volume. As a result, total net sales decreased 14.7%, or ¥244.4 billion, from the previous year, to ¥1,415.7 billion.

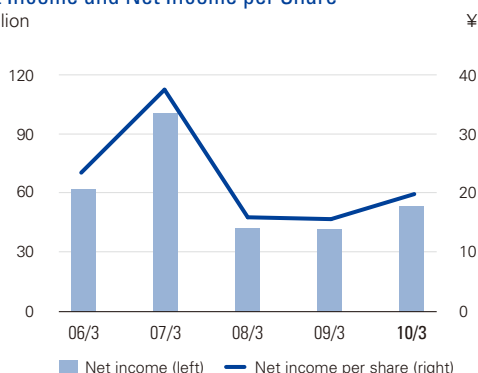
The retirement benefits accounting actuarial difference burden increased in the year under review, and miscellaneous salaries of ¥32.0 billion were recorded. Nonetheless, with contributions from lower crude oil prices and the appreciation of the yen, gas resource costs were down ¥255.0 billion. Consequently, operating expenses declined 16.6%, or ¥264.5 billion, to ¥1,330.4 billion. As a result, operating income increased 30.7%, or ¥20.0 billion, year on year, to ¥85.2 billion.

Ordinary income was up 43.2%, or ¥25.2 billion, to ¥83.5 billion, due in part to foreign exchange gains from overseas subsidiaries.

There were no extraordinary items in the year under review, and net income posted a year-on-year gain of 28.9%, or ¥12.0 billion, to ¥53.7 billion.

Net Income and Net Income per Share

¥ billion



ANALYSIS OF SEGMENTS

Gas Sales Segment

Gas sales declined 16.9%, or ¥212.0 billion, to ¥1,045.5 billion, due to a decline in gas sales volume and to lower gas unit prices under the gas rate adjustment system. However, accompanying lower crude oil prices and the appreciation of the yen, gas resource costs decreased, and consequently operating income rose 14.9%, or ¥16.5 billion, to ¥127.3 billion. As a result, we recorded lower sales and higher profits in this segment.

Gas Appliance Sales Segment

New housing starts were sluggish, and demand for consumer durables was weak. Nonetheless, due to such factors as increased sales from three newly consolidated LIFEVAL companies and the move to mandatory installation of alarms, sales increased 3.0%, or ¥3.7 billion, year on year, to ¥126.0 billion. Operating income was up 12.0%, or ¥0.3 billion, year on year, to ¥2.3 billion.

Installation Work Segment

Sales declined 9.6%, or ¥4.7 billion, year on year, to ¥44.3 billion, due to a decline in the number of new constructions. Operating expenses decreased due to the application of the percentage of completion method to construction works from the fiscal year ended March 31, 2010 and to cost reductions. As a result, operating loss was ¥0.6 billion, an improvement of ¥0.4 billion year on year.

Real Estate Rental Segment

Due in part to a decline in lease income from Shinjuku Park Tower, sales declined 5.4%, or ¥1.9 billion, to ¥33.7 billion. Consequently, operating income was also down 2.0%, or ¥0.2 billion, to ¥7.2 billion.

Other Business Segment

Sales in other business decreased 12.6%, or ¥45.9 billion, to ¥317.8 billion. This decrease was attributable to declines in sales prices accompanying lower fuel expenses and resources costs in energy services, LPG/industry gas sales, and electric power operations. However, due in part to the decline in fuel expenses and resources costs, operating income rose 12.8%, or ¥1.8 billion, to ¥15.2 billion.

Business Results by Segment (¥ million)

Years ended March 31	2010	2009	2008
Sales			
Gas Sales	1,045,535	1,257,574	1,087,044
Gas Appliance Sales	126,088	122,363	132,326
Installation Work	44,360	49,094	57,325
Real Estate Rental	33,710	35,637	35,169
Other Business	317,819	363,783	320,361
Total	1,567,513	1,828,452	1,632,228
Elimination or Corporate	(151,795)	(168,290)	(144,731)
Consolidation	1,415,718	1,660,162	1,487,496

Operating Income (Loss)

Years ended March 31	2010	2009	2008
Gas Sales	127,352	110,857	111,663
Gas Appliance Sales	2,335	2,086	2,909
Installation Work	(650)	(1,099)	828
Real Estate Rental	7,292	7,442	7,963
Other Business	15,210	13,482	12,768
Total	151,539	132,768	136,133
Elimination or Corporate	(66,310)	(67,563)	(66,084)
Consolidation	85,229	65,204	70,048

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

Contribution to Net Sales by Segment

	2010	2009	Change
Gas Sales	66.7%	68.8%	-2.1 point
Gas Appliance Sales	8.0%	6.7%	+1.3 point
Installation Work	2.8%	2.7%	+0.1 point
Real Estate Rental	2.2%	1.9%	+0.3 point
Other Business	20.3%	19.9%	+0.4 point

FINANCIAL POSITION AND LIQUIDITY

Assets

Total assets increased ¥76.8 billion, or 4.4%, year on year, to ¥1,840.9 billion. Total property, plant and equipment declined ¥2.0 billion, to ¥1,108.8 billion. Total intangible assets amounted to ¥27.9 billion, an increase of ¥1.9 billion. In investments and other assets, investment securities increased ¥29.9 billion, to ¥139.0 billion, due to higher stock prices stemming from a rebound in the stock market and from new purchases of securities. Overall, total investments and other assets rose ¥53.2 billion, to ¥268.3 billion.

Total current assets were up ¥23.6 billion, to ¥435.7 billion. Raw materials and supplies decreased ¥19.5 billion, but cash and deposits increased ¥40.4 billion.

Liabilities

Total liabilities rose ¥35.1 billion, to ¥1,014.6 billion. Long-term loans payable declined ¥21.1 billion, but provision for retirement benefits increased ¥30.2 billion. Total non-current liabilities rose ¥21.1 billion, to ¥654.3 billion. Total current liabilities rose ¥14.0 billion, to ¥360.3 billion, due to an increase of ¥31.6 billion in notes and accounts payable-trade.

Net Assets

Total net assets increased ¥41.6 billion, to ¥826.2 billion. Total shareholders' equity was up ¥26.8 billion, to ¥799.3 billion, due to net income of ¥53.7 billion, which exceeded cash dividends paid of ¥21.7 billion. In valuation and translation adjustments, valuation difference on available-for-sale securities was up ¥8.7 billion. Consequently, total valuation and translation adjustments rose ¥14.7 billion, to ¥14.5 billion. Minority interests were up ¥0.2 billion, to ¥12.4 billion.

Changes in Treasury Stock

In the fiscal year ended March 31, 2010, the Company made open market purchases of treasury stock totaling ¥4.9 billion (13.81 million shares), all of which were cancelled during the fiscal year. Consequently, treasury stock declined ¥0.4 billion, to ¥1.9 billion.

Equity Ratio

Retained earnings increased due to the recording of net income, and valuation difference on available-for-sale securities rose. Consequently, total shareholders' equity was up ¥41.5 billion, to ¥813.8 billion. Total assets increased ¥76.8 billion, to ¥1,840.9 billion, and as a result, the equity ratio increased 0.4 point, to 44.2%.

Interest-Bearing Debt

In the fiscal year ended March 31, 2010, due to the redemption of bonds payable at maturity and to the repayment of long-term loans payable, interest-bearing debt declined 6.3%, or ¥37.3 billion, to ¥555.9 billion. As a result, the D/E ratio declined 0.09, to 0.68.

Credit Ratings

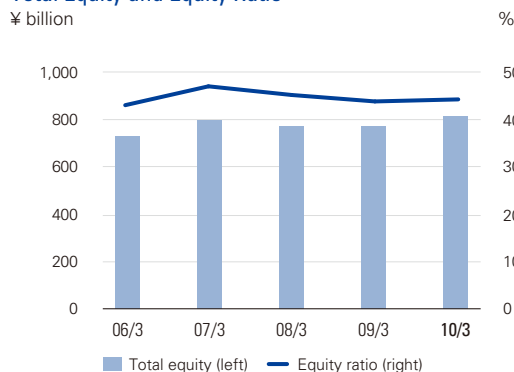
To secure financial flexibility in regard to liquidity on hand and capital policy, and to secure access to financial resources through the capital markets, the Company believes that it is necessary to maintain its credit rating at a certain level. Tokyo Gas has acquired ratings from Standard & Poor's (S&P), Moody's, and Rating and Investment Information Inc. (R&I), a rating agency in Japan. As of March 31, 2010, the ratings were as follows.

S&P	AA	(Very strong capacity to meet obligations. Difference from the highest rating, AAA, is small.)
Moody's	Aa1	(High creditworthiness and very low credit risk. One of the higher rankings for long-term obligations.)
R&I	AA+	(Very high creditworthiness, excellent factors.)

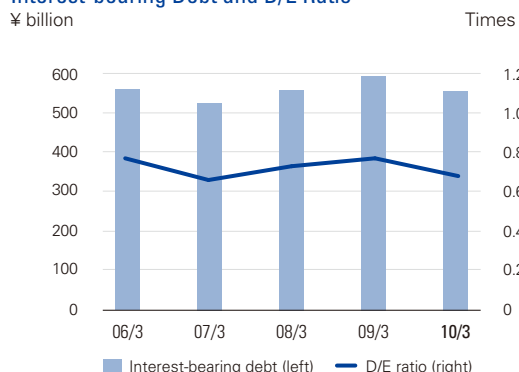
Capital Expenditures and Depreciation

Capital expenditures rose 1.5%, or ¥2.2 billion, to ¥148.1 billion. This increase was principally attributable to higher investment in manufacturing facilities, such as for LNG tanks, and in administrative facilities, such as in IT system development. Depreciation rose 3.6%, or ¥5.1 billion, to ¥146.1 billion.

Total Equity and Equity Ratio



Interest-bearing Debt and D/E Ratio



CASH FLOWS

Cash Flows from Operating Activities

Net cash provided by operating activities increased ¥134.6 billion from the previous year, to ¥294.1 billion. In addition to income before income taxes of ¥83.5 billion, up ¥15.5 billion from the previous fiscal year; increase in provision for retirement benefits was ¥30.1 billion, up ¥23.0 billion; decrease in notes and accounts receivable–trade was ¥15.4 billion, up ¥12.9 billion; and increase in notes and accounts payable–trade was ¥29.4 billion, up ¥23.4 billion. These were the major factors contributing to the increase in cash flows from operating activities.

Cash Flows from Investment Activities

Net cash used in investment activities in the fiscal year under review was ¥177.2 billion, compared with ¥163.5 billion in the previous fiscal year. This change was attributable to the following factors. The total of purchase of property, plant and equipment and purchase of intangible assets rose ¥4.7 billion, to ¥145.4 billion, and payments of long-term loans receivable rose ¥8.9 billion, to ¥17.8 billion.

Cash Flows from Financing Activities

Net cash used in financing activities in the fiscal year under review was ¥69.3 billion, compared with net cash provided by financing activities of ¥30.9 billion in the previous year. Proceeds from issuance of bonds was ¥30.0 billion, and proceeds from long-term loans payable was ¥13.0 billion. However, redemption of bonds was ¥60.2 billion, repayment of long-term loans payable was ¥29.2 billion, and cash dividends paid was ¥21.6 billion.

Operating Cash Flow

Aiming to aggressively invest in the gas business to prepare for future demand growth, Tokyo Gas has made operating cash flow a key management indicator and has disclosed its allocation policy. Operating cash flow is calculated by adding depreciation to net income. Operating cash flow for the fiscal year ended March 31, 2010 amounted to ¥199.8 billion, a year-on-year increase of ¥17.1 billion. The higher figure reflects an increase of ¥12.0 billion in net income, and an increase of ¥5.1 billion in depreciation.

Total Payout Ratio

Tokyo Gas has set an objective 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.

The Company plans dividends of ¥9.0 per share for the fiscal year ended March 31, 2010, and share repurchases of ¥8.0 billion in the fiscal year ending March 31, 2011. As a result, the total payout ratio for the fiscal year ended March 31, 2010 was 60.1%.

In regard to dividends, from the fiscal year ended March 31, 2010, we increased dividends by ¥1.0 per share, to ¥9.0 per share. In the future, our priority is to maintain stable dividends, with consideration for gradual increases over the long term and without reducing dividends.

In regard to share repurchases, our basic principle is to cancel the shares. In the fiscal year ended March 31, 2010, the 13.81 million shares acquired were cancelled in January 2010. The 19,568 thousand shares repurchased in the fiscal year ending March 31, 2011 were cancelled in June 2010, and consequently, the number of shares after the cancellation was 2,684,193,295 shares.

	Millions of yen		
	2010	2009	2008
Net cash provided by operating activities	294,110	159,561	182,204
Net cash used in investment activities	(177,290)	(163,575)	(155,365)
Net cash provided by (used in) financing activities	(69,375)	30,932	(25,189)

KEY MANAGEMENT INDICATORS

ROA and ROE improve due to higher net income

ROA

The average balance of total assets increased, but net income rose 28.9%, to ¥53.7 billion, and as a result ROA improved 0.6 point, to 3.0%.

ROE

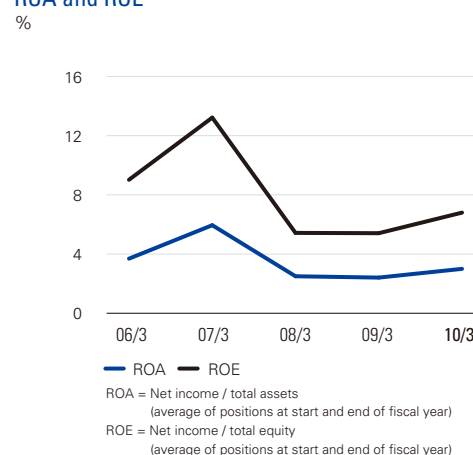
The average balance of total equity increased, but net income rose 28.9%, to ¥53.7 billion, and as a result ROE improved 1.4 point, to 6.8%.

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 operating profit after tax prior to interest payments minus the cost of capital) as one of our main management indicators.

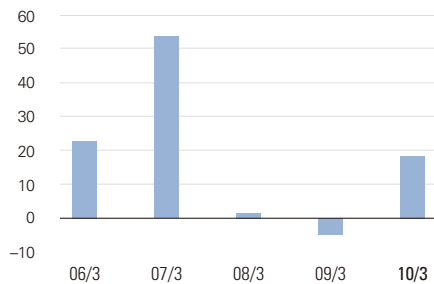
In the fiscal year ended March 31, 2010, improvement in gross profits on gas due to the influence of improvement in the slide time lag was higher than the increase in miscellaneous expenses, such as amortization of retirement benefits accounting actuarial differences, and Net Operating Profit After Tax Prior to Interest Payments (NOPAT) increased ¥21.5 billion year on year, to ¥62.7 billion. However, the Weighted Average Cost of Capital (WACC) fell from 3.4% to 3.2%, and as a result the cost of capital declined ¥1.9 billion, to ¥44.1 billion. Consequently, TEP improved ¥23.4 billion, to ¥18.6 billion.

ROA and ROE



TEP

¥ billion



TEP = NOPAT – cost of capital (Invested capital × WACC)
NOPAT: Net operating profit after tax prior to interest payments

FORECAST

Forecasting higher sales and profits in the fiscal year ending March 31, 2011

In the fiscal year ending March 31, 2011, we expect consolidated sales to increase ¥135.3 billion, or 9.6%, to ¥1,551.0 billion; operating income to increase ¥22.8 billion, or 26.7%, to ¥108.0 billion; and net income to increase ¥11.3 billion, or 20.9%, to ¥65.0 billion.

In the fiscal year ended March 31, 2010, ordinary income amounted to ¥83.5 billion, but in the fiscal year ending March 31, 2011, we are forecasting a year-on-year increase of ¥18.5 billion, or 22.1%, to ¥102.0 billion. Principal factors include the non-consolidated ordinary income of Tokyo Gas (+¥26.1 billion), the ordinary income of consolidated subsidiaries (–¥3.6 billion), and internal offset, etc. (–¥4.0 billion).

On a non-consolidated basis, Tokyo Gas is expected to record an increase of ¥26.1 billion in ordinary income in comparison with the fiscal year ended March 31, 2010.

Gas sales volume and sales revenues are both projected to increase, but we expect the gross profits on gas to decline by ¥23.0 billion because the increase in gas resource costs is expected to exceed the increase in sales revenues.

Among the principal factors, we project that the increase in gas sales volume and differences in customer composition will increase profits by ¥5.3 billion, while under-recovery of gas resource costs due to the slide time lag under the gas rate adjustment system is expected to decrease profits by ¥30.4 billion. Investment to steadily implement the Company's key policies under the medium-term management plan will increase operating expenses by ¥9.0 billion, but due to retirement benefits accounting actuarial differences and other salary expenses, fixed expenses are projected to decrease ¥42.2 billion.

The ordinary income for consolidated subsidiaries is projected to decline by ¥3.6 billion due primarily to lower foreign exchange gain of overseas subsidiaries.

EXTERNAL RISKS AFFECTING BUSINESS ACTIVITIES

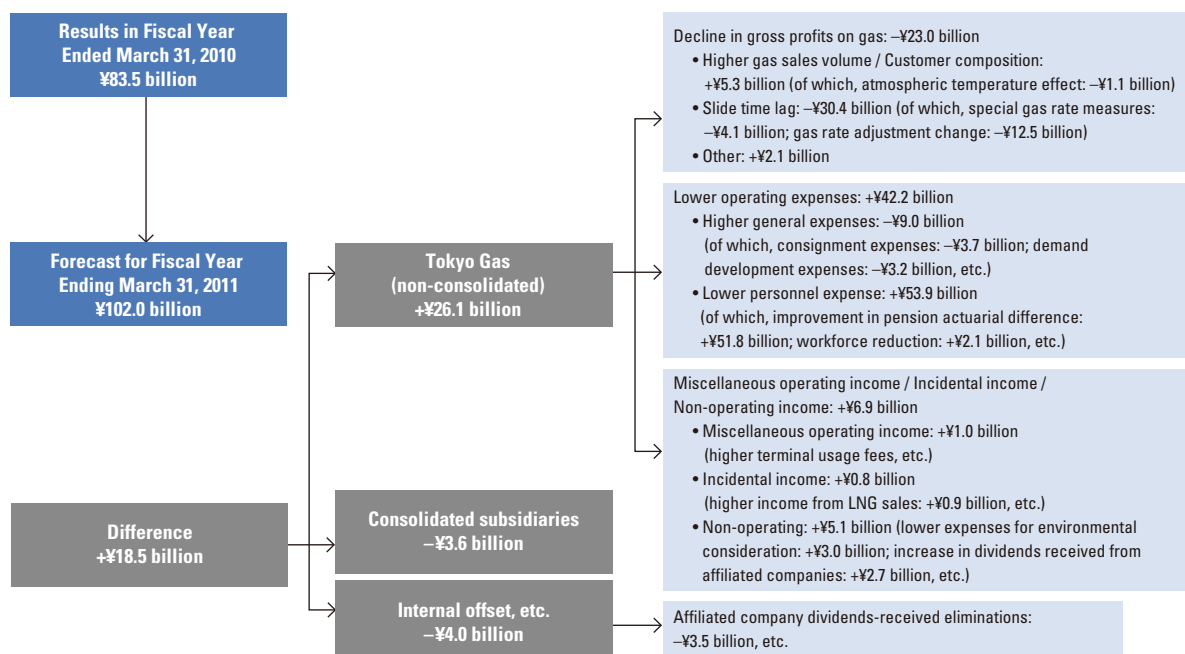
Gas Resource Purchase Price Fluctuation Risk

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.

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. However, over the medium to long term, the effect on income is minimal.

The extent to which fluctuations in exchange rates and crude oil prices will affect gross profit in the fiscal year ending March 31, 2011 is as follows.

Ordinary Income Plan for Fiscal Year Ending March 31, 2011: Analysis of Factors (Year on Year)



Exchange rate Approximately ¥0.9 billion down (up) with depreciation (appreciation) of ¥1/dollar
 Crude oil price Approximately ¥0.9 billion down (up) with an increase (decrease) in crude oil price of US\$1/barrel

In the fiscal year ended March 31, 2010, the average exchange rate was ¥92.89 to one dollar, and the crude oil price averaged US\$69.38 per barrel. Forecasts for the fiscal year ending March 31, 2011 are based on an exchange rate of ¥95 to one dollar and an average crude oil price of US\$80 per barrel.

In regard to the risk of fluctuations in the gas resource purchase price, although there can be under-recovery or over-recovery in a single fiscal year under the gas rate adjustment system, the Company hedges a certain portion of this risk through LNG swaps. In regard to foreign exchange rate fluctuations, meanwhile, the Company hedges a certain portion of the risk through forward exchange contracts.

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 indoor heating. Mild winter weather can erode revenues and income by reducing the volume of gas sold. In the commercial sector, gas is mainly used for air conditioning systems, so if temperatures are low in the summer or high in the winter, the gas sales volume will likely decrease.

The average temperatures in the fiscal year ended March 31, 2010 were 22.4°C in the first half of the year, 10.7°C in the second half, and 16.5°C for the whole year. Forecasts for the fiscal year ending March 31, 2011 are based on an average of 16.8°C for the whole year.

To control the risk of temperature-related fluctuations in earnings, the Company hedges a certain portion of that risk through weather derivatives.

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

	Rate of change
Summer (June–September)	0.0%
Winter (December–March)	-2.2%
Intervening months (April, May, October, November)	-1.7%
Annual	-1.4%

Interest Rate Fluctuation Risk

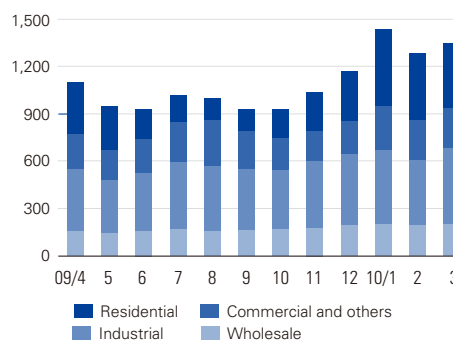
The Company's interest-bearing liabilities mostly carry long-term, fixed interest rates, so there is only a very small interest rate fluctuation risk during the term of an obligation. However, there may be fluctuation risk when loans are refinanced.

Stock Price Fluctuation Risk

The equities held by Tokyo Gas are primarily those of its necessary business partners, which are held with the objective of fostering mutual growth. Among them, 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 Volume for the Fiscal Year Ended March 31, 2010 (non-consolidated)

Million m³, 45MJ/m³



BUSINESS RISKS

Described below are items in the annual *Yuho* securities report concerning the Company's business results and financial condition 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, 2010).

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 fields or LNG liquefaction plants, accidents involving LNG vessels in transit, or other situations preventing the procurement of gas resources may disrupt the supply of natural gas. The Company strives to disperse procurement risks, thereby ensuring its ability to procure LNG in a stable and flexible manner, through supply diversification. These efforts include importing LNG from six countries and through 10 projects and flexibly allocating its own LNG ships.

(2) Natural disaster risk

Tokyo Gas engages in facility-dependent businesses because city gas production and supply facilities are the foundation of its business. The Company therefore enforces measures to minimize the aftermath of natural disasters. Some such measures include provisions to produce and supply city gas even in the event of large-scale earthquakes of a magnitude equivalent to the Great Hanshin-Awaji Earthquake, preparation of a business continuity plan (BCP) that takes into account large-scale earthquakes such as are assumed by Japan's Cabinet Office, the improvement of contingency plans, and regular drills for natural disasters including earthquakes and typhoons. Despite such measures, 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) City gas and electricity production / supply accidents or supply disruption

The production and supply of city gas and electricity that is essential to the life of customers and industry is core to the Company's business activities. For this reason, Tokyo Gas is implementing measures to prevent accidents and supply-side impairments through the systematic implementation of various security measures, preparation of a BCP, and execution of regular drills. However, large-scale leakage, explosions, or supply difficulties in the process of city gas production or supply could result not only in direct damages but also in tangible and intangible losses, including social responsibility. Remedying power supply impairments may result in additional losses.

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

Tokyo Gas has a responsibility to ensure the safe supply of city gas. Accordingly, the Company has in place safety measures that include reinforcing periodic customer safety checks, increasing the number of categories included in checks, and encouraging upgrades to safer appliances. Tokyo Gas sells gas appliances and other equipment under the Tokyo Gas brand through consolidated subsidiaries and related companies and promotes the development of gas appliances with enhanced safety features. Nevertheless, costs accompanying responses to accidents caused by city gas supply, appliances, or other equipment could affect future earnings, and other direct and indirect losses could result.

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

Accidents involving city 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 RISKS

(1) Market price and interest rate fluctuation risks

Tokyo Gas might incur losses in the event of fluctuations in market prices of Company-owned real estate, stocks, pension assets, or other assets. In addition, interest rate fluctuations could raise the Company's interest burden. However, as most of its interest-bearing debts are long-term, fixed-rate debts, Tokyo Gas expects the impact of interest rate fluctuations to be minimal.

3. RISKS ACCOMPANYING BUSINESS EXECUTION

(1) Risks faced by existing business

A. Changes in procurement costs

Changes in terms of contracts and negotiations with suppliers of LNG, from which city gas is produced, may affect profitability. Also, as LNG and crude oil prices are linked, and as crude oil sales contracts are denominated in U.S. dollars, changes in crude oil prices and fluctuations in yen-dollar exchange rates can impact profitability.

Furthermore, 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, revenues may be affected by the cost of procuring spot LNG.

On the other hand, under the provisions for adjusting gas rates to reflect resource costs, fluctuations in gas resource prices are reflected in rates within five months at maximum. However, if such fluctuations exceed 160% of the standard resource price, the excess amount cannot be collected. In the event that such changes are reflected in gas rates beyond the fiscal term, the bottom line may be affected during the following fiscal term as a result of the under-recovery or over-recovery of gas resource costs.

B. Decline in gas sales volume due to weather fluctuations

As sales of city gas accounts for approximately 70% of Group sales, particularly hot summer and unseasonably warm winter weather can reduce residential sales of gas used to supply hot water and heating, as well as commercial sales of gas to air condition buildings, thereby affecting revenues.

C. Decline in demand due to intensified competition

Tokyo Gas strives aggressively to enhance its sales activities through such measures as introducing gas appliances that are environmentally conscious, efficient and convenient. Nevertheless, the Company may face falling demand owing to increasing competition with electric utilities and major companies entering into the gas business, as well as possible loss of LNG competitiveness against other energy sources due to crude oil price fluctuation. Such factors may affect revenues.

D. Decline in existing demand

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, smaller families, changes in lifestyles, the penetration of energy-saving appliances, and other factors may reduce demand from the residential sector.

E. Delay in the development of new technology

Although the Group is developing new products and technologies with enhanced environmental designs and a high level of safety, it may not be able to develop and deliver these products and technologies in a timely manner. This situation could cause competitiveness to fall in comparison with other forms of energy, and affect the Group's execution of business.

F. 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 Companies Act, the Financial Instruments and Exchange Act, and other laws, regulations, and institutions, as well as the energy policies of the national 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) Delayed cultivation of new markets

As described in its medium-term management plan, the Company is cultivating new markets by promoting the adoption of the "ENE-FARM" residential fuel cell and new energy systems incorporating solar light and heat. However, subsequent changes in the operating environment, including changes in energy policy by national or local governments, could delay this cultivation, compel a change in business strategy and prevent the recovery of investment.

(3) Inability to recover investments

Tokyo Gas makes large ongoing investments in keeping with the goal of "advancing and developing the integrated energy business strategy" expressed in its medium-term management plan. The Company evaluates profitability and risks of all investments, capital contributions, loans, and debt guarantees at the Investment Evaluation Committee, and makes investment decisions based on a conclusion from the committee while consulting with the management council and the Board of Directors' meeting, if necessary, from a standpoint of comprehensive management judgment. The targets of these investments include construction of pipelines and reinforcement of foundations for stable supply through the construction of LNG terminals and other facilities, the electric power and energy service businesses, development of gas fields overseas, the LNG transport business, and IT and other elements required for ongoing business, as well as investment related to the use of owned real estate. Changes in the economic situation could render it impossible to recover these investments or to benefit from their intended effects, consequently affecting the Company's balance of payments.

4. RISKS RELATED TO INFORMATION MANAGEMENT AND SYSTEM OPERATION

(1) Outflows of personal information

To conduct its business as a public utility, Tokyo Gas collects and manages personal information on its customers. The Company has implemented measures to prevent leakage of personal information by constructing a groupwide information security system, conducting training on information security, and voluntarily monitoring such information. The Group also performs internal audits to ensure proper construction and operational status. Outflows of customers' personal information despite these efforts may result in direct costs to remedy the situation, as well as tangible and intangible losses, including damage to the trust of customers and other parties, with more serious consequences than for other companies.

(2) Failure or malfunctioning of IT backbone systems

Because the Group relies on IT systems for customer service and the calculation of gas rates, it has implemented measures to minimize the impact on operations of unexpected events. Tokyo Gas employs a robust data center with superior fault resilience and disaster tolerance. The Company also prepares and implements various security measures and regular drills to ensure stable operation of the systems. The shutdown or malfunction of these systems could delay customer response, as well as cause tangible and intangible losses, such as reputational loss.

However, such IT system malfunctions are unlikely to have any serious impact on the production and supply of city gas because the IT system for adjusting the production and supply of city gas has its independent security measures in place. These include a backup system and wireless network operated by the Group.

(3) Interruption of communication with call centers

Most communications between Tokyo Gas and its customers take place via call centers. Interruptions to telephone service to call centers would disrupt service to customers over wide areas, and could incur serious tangible and intangible losses, including damage to the Tokyo Gas Group's brand image.

5. RISKS RELATED TO CORPORATE SOCIAL RESPONSIBILITY

(1) Response to new environmental regulations

The need to comply with new environmental laws or additional obligations to improve the environment might affect business operations, and it could affect revenues.

(2) Compliance violations

As compliance is fundamental to its operations, the Group has established the Management Ethics Committee, chaired by the president. This committee sets out the basic policies under which the Group executes actions to improve compliance, and internal audits confirm the Group's compliance with laws and regulations and corporate ethics. Any violations of laws, rules, and regulations or inappropriate responses to information disclosure that contravene corporate ethics that occur despite these efforts may result in direct costs to remedy the situation, as well as in tangible and intangible losses, including social sanctions.

(3) Inadequate customer satisfaction or responses to customer needs

The Group considers customer satisfaction a key management priority. Accordingly, the Group is pursuing a CS improvement program under the basic policies set out by a CS improvement committee chaired by the president. Inadequate customer satisfaction or inappropriate customer service may result in declining corporate competitiveness and in tangible and intangible losses, including damage to the Tokyo Gas Group's brand image.

CONSOLIDATED BALANCE SHEETS

March 31, 2010 and 2009

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Noncurrent assets			
Property, plant and equipment (Note 10)			
Production facilities	¥ 186,467	¥ 193,613	\$ 2,005,021
Distribution facilities (Note 3)	475,932	490,809	5,117,548
Service and maintenance facilities (Note 3)	59,169	60,510	636,225
Other facilities (Notes 3 and 14)	295,494	297,643	3,177,354
Inactive facilities	742	316	7,978
Construction in progress	91,037	67,957	978,892
Total property, plant and equipment	1,108,843	1,110,852	11,923,043
Intangible assets			
Goodwill	1,460	1,233	15,698
Other (Note 14)	26,517	24,816	285,129
Total intangible assets	27,977	26,049	300,827
Investments and other assets			
Investment securities (Notes 3, 4 and 5)	139,052	109,173	1,495,182
Long-term loans receivable (Note 3)	40,996	24,839	440,817
Deferred tax assets (Note 9)	53,087	46,212	570,827
Other	36,350	35,847	390,860
Allowance for doubtful accounts	(1,130)	(906)	(12,150)
Total investments and other assets	268,357	215,166	2,885,559
Total noncurrent assets	1,405,178	1,352,068	15,109,440
Current assets			
Cash and deposits (Notes 3, 4 and 12)	107,391	66,905	1,154,741
Notes and accounts receivable – trade (Note 4)	156,398	166,542	1,681,698
Lease receivables and lease investment assets (Note 14)	25,888	25,594	278,365
Merchandise and finished goods	3,291	3,807	35,387
Work in process	16,388	43	176,215
Raw materials and supplies	37,412	56,905	402,279
Deferred tax assets (Note 9)	16,606	13,461	178,559
Other (Note 3)	73,034	79,431	785,311
Allowance for doubtful accounts	(619)	(574)	(6,655)
Total current assets	435,794	412,117	4,685,956
Total assets	¥1,840,972	¥1,764,185	\$19,795,397

Accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS	2010	Millions of yen	Thousands of U.S. dollars (Note 1)
		2009	2010
Noncurrent liabilities			
Bonds payable (Notes 4 and 6)	¥ 301,491	¥ 291,490	\$ 3,241,838
Long-term loans payable (Notes 3, 4 and 6)	186,681	207,741	2,007,322
Deferred tax liabilities (Note 9)	4,448	3,654	47,827
Provision for retirement benefits (Note 8)	130,903	100,734	1,407,559
Provision for gas holder repairs	3,597	3,555	38,677
Provision for safety measures	184	1,450	1,978
Other	27,012	24,597	290,451
Total noncurrent liabilities	654,319	633,223	7,035,688
Current liabilities			
Current portion of noncurrent liabilities (Notes 3, 4 and 6)	53,456	88,169	574,795
Notes and accounts payable – trade (Note 4)	134,946	103,319	1,451,032
Short-term loans payable (Note 6)	11,348	5,910	122,021
Income taxes payable	34,945	34,894	375,752
Deferred tax liabilities (Note 9)	8	2	86
Other (Note 3)	125,656	114,048	1,351,139
Total current liabilities	360,362	346,345	3,874,860
Total liabilities	1,014,681	979,568	10,910,548
Net assets (Note 11)			
Shareholders' equity			
Capital stock*	141,844	141,844	1,525,204
Legal capital surplus	2,065	2,065	22,204
Retained earnings	657,387	631,045	7,068,677
Treasury stock**	(1,986)	(2,361)	(21,354)
Total shareholders' equity	799,310	772,594	8,594,731
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	20,175	11,466	216,935
Deferred gains or losses on hedges	1,690	920	18,172
Foreign currency translation adjustment	(7,290)	(12,615)	(78,387)
Total valuation and translation adjustments	14,575	(228)	156,720
Minority interests	12,404	12,250	133,376
Total net assets	826,291	784,616	8,884,849
Total liabilities and net assets	¥1,840,972	¥1,764,185	\$19,795,397

* Capital stock

Common stock

Authorized: 6,500,000,000 shares

Issued: 2,703,761,295 shares as of March 31, 2010 / 2,717,571,295 shares as of March 31, 2009

** Treasury stock: 5,062,893 shares as of March 31, 2010 / 4,884,659 shares as of March 31, 2009

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Net sales (Note 13)	¥1,415,718	¥1,660,162	\$15,222,774
Cost of sales	854,231	1,139,791	9,185,279
Gross profit	561,487	520,371	6,037,494
Selling, general and administrative expenses			
Supply and sales expenses	403,671	381,177	4,340,548
General and administrative expenses	72,586	73,989	780,494
Total selling, general and administrative expenses	476,257	455,166	5,121,043
Operating income	85,229	65,204	916,440
Non-operating income			
Interest income	1,112	1,089	11,956
Dividends income	1,091	1,675	11,731
Equity in earnings of affiliates	3,796	5,529	40,817
Foreign exchange gains	6,175	1,380	66,397
Miscellaneous income	8,450	6,000	90,860
Total non-operating income	20,626	15,675	221,784
Non-operating expenses			
Interest expenses	10,303	10,869	110,784
Adjustments of charges for construction of distribution facilities	3,186	3,257	34,258
Expenses for environmental consideration	3,097	991	33,301
Miscellaneous expenses	5,747	7,423	61,795
Total non-operating expenses	22,336	22,542	240,172
Ordinary income	83,519	58,337	898,053
Extraordinary income			
Gain on adjustment for changes of "Accounting Standard for Lease Transactions"	—	7,846	—
Gain on transfer of benefit obligation relating to employees' pension fund	—	1,570	—
Gain on transfer of business	—	1,359	—
Total extraordinary income	—	10,775	—
Extraordinary losses			
Loss on valuation of investment securities	—	1,076	—
Total extraordinary losses	—	1,076	—
Income before income taxes	83,519	68,037	898,053
Income taxes – current	43,419	27,630	466,870
Income taxes – deferred	(14,552)	(2,366)	(156,473)
Total income taxes	28,866	25,264	310,387
Minority interests in income	871	1,064	9,365
Net income	¥ 53,781	¥ 41,708	\$ 578,290
		Yen	U.S. dollars
	2010	2009	2010
Amounts per share of common stock			
Net income	¥19.86	¥15.63	\$0.21
Diluted net income	—	15.37	—
Cash dividends applicable to the year	9.00	8.00	0.09

Accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended March 31, 2010 and 2009

	2010	2009	Thousands of U.S. dollars (Note 1)
		Millions of yen	
Shareholders' equity			
Capital stock			
Balance at the end of previous period	¥141,844	¥141,844	\$1,525,204
Changes of items during the period			
Total changes of items during the period	—	—	—
Balance at the end of period	141,844	141,844	1,525,204
Legal capital surplus			
Balance at the end of previous period	2,065	2,065	22,204
Changes of items during the period			
Total changes of items during the period	—	—	—
Balance at the end of period	2,065	2,065	22,204
Retained earnings			
Balance at the end of previous period	631,045	634,116	6,785,430
Changes at the beginning of current year due to application of PITF No.18	—	94	—
Changes of items during the period			
Dividends from surplus	(21,701)	(21,200)	(233,344)
Net income	53,781	41,708	578,290
Disposal of treasury stock	(21)	(11,710)	(225)
Retirement of treasury stock	(5,418)	(11,622)	(58,258)
Change of scope of consolidation	(298)	(340)	(3,204)
Total changes of items during the period	26,342	(3,165)	(283,247)
Balance at the end of period	657,387	631,045	7,068,677
Treasury stock			
Balance at the end of previous period	(2,361)	(42,774)	(25,387)
Changes of items during the period			
Purchase of treasury stock	(5,149)	(10,462)	(55,365)
Disposal of treasury stock	105	39,252	1,129
Retirement of treasury stock	5,418	11,622	58,258
Total changes of items during the period	374	40,413	4,021
Balance at the end of period	(1,986)	(2,361)	(21,354)
Total shareholders' equity			
Balance at the end of previous period	772,594	735,251	8,307,462
Changes at the beginning of current year due to application of PITF No.18	—	94	—
Changes of items during the period			
Dividends from surplus	(21,701)	(21,200)	(233,344)
Net income	53,781	41,708	578,290
Purchase of treasury stock	(5,149)	(10,462)	(55,365)
Disposal of treasury stock	84	27,542	903
Retirement of treasury stock	—	—	—
Change of scope of consolidation	(298)	(340)	(3,204)
Total changes of items during the period	26,716	37,247	287,268
Balance at the end of period	799,310	772,594	8,594,731
Valuation and translation adjustments			
Valuation difference on available-for-sale securities			
Balance at the end of previous period	11,466	31,917	123,290
Changes of items during the period			
Net changes of items other than shareholders' equity	8,709	(20,451)	93,645
Total changes of items during the period	8,709	(20,451)	93,645
Balance at the end of period	20,175	11,466	216,935
Deferred gains or losses on hedges			
Balance at the end of previous period	920	424	9,892
Changes of items during the period			
Net changes of items other than shareholders' equity	769	496	8,268
Total changes of items during the period	769	496	8,268
Balance at the end of period	1,690	920	18,172
Foreign currency translation adjustment			
Balance at the end of previous period	(12,615)	1,479	(135,645)
Changes of items during the period			
Net changes of items other than shareholders' equity	5,324	(14,094)	57,247
Total changes of items during the period	5,324	(14,094)	57,247
Balance at the end of period	(7,290)	(12,615)	(78,387)
Total valuation and translation adjustments			
Balance at the end of previous period	(228)	33,820	(2,451)
Changes of items during the period			
Net changes of items other than shareholders' equity	14,803	(34,048)	159,172
Total changes of items during the period	14,803	(34,048)	159,172
Balance at the end of period	14,575	(228)	156,720
Minority interests			
Balance at the end of previous period	12,250	11,382	131,720
Changes of items during the period			
Net changes of items other than shareholders' equity	154	867	1,655
Total changes of items during the period	154	867	1,655
Balance at the end of period	12,404	12,250	133,376
Total net assets			
Balance at the end of previous period	784,616	780,455	8,436,731
Changes at the beginning of current year due to application of PITF No.18	—	94	—
Changes of items during the period			
Dividends from surplus	(21,701)	(21,200)	(233,344)
Net income	53,781	41,708	578,290
Purchase of treasury stock	(5,149)	(10,462)	(55,365)
Disposal of treasury stock	84	27,542	903
Change of scope of consolidation	(298)	(340)	(3,204)
Net changes of items other than shareholders' equity	14,957	(33,180)	160,827
Total changes of items during the period	41,674	4,066	448,107
Balance at the end of period	¥826,291	¥784,616	\$8,884,849

Accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2010 and 2009

	2010	2009	Thousands of U.S. dollars (Note 1) 2010
Net cash provided by (used in) operating activities			
Income before income taxes	¥ 83,519	¥ 68,037	\$ 898,053
Depreciation and amortization	142,110	136,899	1,528,064
Amortization of goodwill	573	610	6,161
Amortization of long-term prepaid expenses	4,007	4,184	43,086
Loss on retirement of property, plant and equipment	3,239	3,561	34,827
Increase (decrease) in provision for retirement benefits	30,168	7,177	324,387
Decrease (increase) in prepaid pension costs	—	9,027	—
Increase (decrease) in provision for safety measures	(1,266)	(1,507)	(13,612)
Interest and dividends income	(2,204)	(2,764)	(23,698)
Interest expenses	10,303	10,869	110,784
Equity in (earnings) losses of affiliates	(3,796)	(5,529)	(40,817)
Decrease (increase) in notes and accounts receivable – trade	15,419	2,585	165,795
Decrease (increase) in inventories	19,740	(21,111)	212,258
Increase (decrease) in notes and accounts payable – trade	29,482	6,005	317,010
Increase (decrease) in accrued consumption taxes	5,106	233	54,903
Decrease (increase) in accounts receivable – other	(6,830)	(12,186)	(73,440)
Loss (gain) on transfer of business	—	(1,359)	—
Gain on adjustment for changes of “Accounting Standard for Lease Transactions”	—	(7,846)	—
Other, net	9,807	(10,823)	105,451
Subtotal	339,380	186,063	3,649,247
Interest and dividends income received	6,249	3,421	67,193
Interest expenses paid	(10,755)	(10,850)	(115,645)
Income taxes paid	(40,763)	(19,073)	(438,311)
Net cash provided by (used in) operating activities	294,110	159,561	3,162,473
Net cash provided by (used in) investment activities			
Payments into time deposits	(8,181)	(6,085)	(87,967)
Proceeds from withdrawal of time deposits	6,625	5,575	71,236
Purchase of investment securities	(13,462)	(15,091)	(144,752)
Proceeds from sales and redemption of securities	794	1,388	8,537
Purchase of property, plant and equipment	(136,511)	(133,629)	(1,467,860)
Purchase of intangible assets	(8,964)	(7,120)	(96,387)
Proceeds from transfer of business	1,680	382	18,064
Purchase of long-term prepaid expenses	(1,599)	(1,479)	(17,193)
Proceeds from sales of noncurrent assets	735	828	7,903
Payments of long-term loans receivable	(17,814)	(8,996)	(191,548)
Collection of long-term loans receivable	1,712	1,505	18,408
Net decrease (increase) in short-term loans receivable	1,168	(1,031)	12,559
Other, net	(3,471)	176	(37,322)
Net cash provided by (used in) investment activities	(177,290)	(163,575)	(1,906,344)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	4,931	(2,468)	53,021
Repayments of lease obligations	(640)	(5)	(6,881)
Proceeds from long-term loans payable	13,066	81,185	140,494
Repayment of long-term loans payable	(29,279)	(31,249)	(314,827)
Proceeds from issuance of bonds	30,000	20,000	322,580
Redemption of bonds	(60,200)	(4,888)	(647,311)
Proceeds from stock issuance to minority shareholders	758	—	8,150
Repayments to minority shareholders	(907)	—	(9,752)
Proceeds from sales of treasury stock	84	235	903
Purchase of treasury stock	(5,149)	(10,462)	(55,365)
Cash dividends paid	(21,695)	(21,208)	(233,279)
Cash dividends paid to minority shareholders	(345)	(205)	(3,709)
Net cash provided by (used in) financing activities	(69,375)	30,932	(745,967)
Effect of exchange rate change on cash and cash equivalents	1,064	(6,570)	11,440
Net increase (decrease) in cash and cash equivalents	48,509	20,347	521,602
Cash and cash equivalents at beginning of year	64,009	43,706	688,268
Increase in cash and cash equivalents from newly consolidated subsidiary	349	1	3,752
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(45)	—
Cash and cash equivalents at end of year (Note 12)	¥ 112,868	¥ 64,009	\$ 1,213,634

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, 2010 and 2009

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 Act (formerly, the 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 Ordinance for Accounting of Gas Business for preparing such financial statements.

The accompanying consolidated financial statements were prepared in accordance with the above-mentioned principles, and a translation was prepared of these consolidated financial statements as filed with the appropriate Local Finance Bureau of the Ministry of Finance and as required by the Financial Instruments and Exchange Act. However, the financial statements, excluding the notes to consolidated financial statements, are not restructured. Furthermore, the information presented herein does not necessarily constitute 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 ¥93 per U.S. dollar, the prevailing exchange rate on March 31, 2010. 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, 2010 and 2009, 61 and 57 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 six companies were newly established and added to the scope of consolidation from the current fiscal year:

Tokyo Gas Lifeval Chiba Co., Ltd.
Tokyo Gas Gorgon Pty Ltd
Tokyo Gas Pipeline Co., Ltd.
Tokyo Gas Lifeval Minami-Setagaya Co., Ltd.
Tokyo Gas Lifeval Higashi-Ohta Co., Ltd.
TGE (SHANGHAI) LNG ENGINEERING CO., LTD.

In addition, Tokyo Gas Techno-Service Co., Ltd., and Tokyo Gas Plant Tech Co., Ltd., were removed from the scope of consolidation, owing to their respective absorption mergers into Tokyo Gas Building Service Co., Ltd. (which changed its name to Tokyo Gas Facility Service Co., Ltd., following the merger) and Tokyo Gas Engineering Co., Ltd.

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, the amount of net income/loss equivalent to the portion of the Company's interests, and the amount of retained earnings, etc., equivalent to the portion of the Company's interests were 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, 2010 and 2009.

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 on the consolidated financial statements and were totally insignificant.

(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
Tokyo Gas Gorgon Pty Ltd
TGE (SHANGHAI) LNG ENGINEERING CO., 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 ¥3,028,281 million (US\$32,562,161 thousand) and ¥2,915,715 million as of March 31, 2010 and 2009, respectively.

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 and its consolidated subsidiaries, the straight-line method is applied based on the period of useful life within the Company and its consolidated subsidiaries.

(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 preceding 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.

(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. The cost of securities sold is determined based on the moving average method. 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) Financial instruments — The Company and its consolidated subsidiaries raise funds as necessary, reflecting their plans for facility investment in their mainstay gas business, and invest temporary surpluses in highly stable financial assets. The Company may procure funds through short-term bond issuance and other measures. The Company and its consolidated subsidiaries use derivative financial instruments to hedge the below-mentioned risks, but do not use derivative financial instruments for speculative trading purposes.

Trade notes and accounts receivable, which are operating receivables, entail credit risks on the part of customers.

A control system is in place to check periodically the outstanding balances for each transaction partner. Investment securities are subject to market price fluctuation risk, so the Company regularly monitors market prices and issuers’ financial conditions. Certain borrowings bear floating rates of interest and are therefore subject to interest rate fluctuation risk. Derivative transactions (interest rate swaps) are used to hedge this risk on a portion of these borrowings.

The Company and its consolidated subsidiaries execute various derivative financial transactions to hedge risks of foreign exchange rate fluctuations, fluctuations in prices of raw materials, interest rate fluctuations and the effects of changes in temperature. The Company and its consolidated subsidiaries manage the credit risk inherent in such transactions by executing them with creditworthy financial institutions. Also, the use of derivative financial instruments is based on internal policies and procedures for risk control. For information on methods of accounting for derivative transactions, please refer to Note 2. (11) Derivatives.

(11) Derivatives — Derivatives are stated at fair 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.

(12) 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.

(13) Revenue from completed works, cost of completed works and partly finished works — With regard to accounting standards for subcontracted works and partly finished works, effective from the fiscal year under review the Company has adopted the “Accounting Standards Concerning Construction Contracts” and the “Application Guidelines for Accounting Standards Concerning Construction Contracts.” Accordingly, beginning with construction contracts initiated during the fiscal year under review, the percentage of completion method is applied to construction works for which substantial progress toward certain results is recognizable by the end of the fiscal year under review. The completed contract method is applied to other construction works. The impact of this change on the income or losses was minimal.

In the past, partly finished works were posted as other current assets in accordance with the provisions of the Ordinance for Accounting of Gas Business. However, as a result of the change in the nature of that accounting, in line with the adoption of the above-mentioned standards, partly finished works are now posted as work in process.

Partly finished works included in other current assets as of the end of the preceding fiscal year was ¥15,984 million.

(14) 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.

(15) 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.

“Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” is applied from the fiscal year under review. However, this application had no effect on operating income, ordinary income and income before income taxes. The balance of actuarial differences arising from the application of this accounting standard that is to be amortized stands at a negative ¥8,344 million (a decrease in retirement benefit expenses in the following fiscal year).

(16) 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.

(17) 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.

(18) Translation of financial statements denominated in foreign currency — The Company’s 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 their year-end date. Profit and loss accounts for the year are translated into Japanese yen at the exchange rates prevailing at their 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.

(19) Income taxes — Income taxes comprise corporation tax, inhabitants’ taxes and enterprise tax (excluding enterprise taxes based on “amount of net sales,” “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.

(20) 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 ¥14,539 million (US\$156,333 thousand) and ¥17,447 million for the years ended March 31, 2010 and 2009, respectively.

(21) 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 ¥9,232 million (US\$99,268 thousand) and ¥9,164 million for the years ended March 31, 2010 and 2009, respectively.

(22) 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. However, from the year ended March 31, 2010, as the Company has no residual securities, this calculation has been omitted.

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.

(23) Reclassifications — Certain prior year amounts have been reclassified to conform to the fiscal year ended March 31, 2010 presentation. These changes had no impact on previously reported results of operations.

3. Pledged Assets

Pledged assets at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Distribution facilities	¥ 6,535	¥ 6,494	\$ 70,268
Service and maintenance facilities	13	13	139
Other facilities	10,370	11,794	111,505
Investment securities	350	355	3,763
Long-term loans receivable	35	36	376
Cash and deposits	1,760	1,907	18,924
Other current assets	5	—	53
	¥19,071	¥20,603	\$205,064

Liabilities secured by the above assets at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Long-term loans payable (including current portion of noncurrent liabilities)	¥8,071	¥9,584	\$86,784
Other current liabilities	56	56	602
	¥8,127	¥9,641	\$87,387

4. Financial Instruments

Effective from the fiscal year under review, the Company and its consolidated subsidiaries have adopted the "Accounting Standard for Financial Instruments" and the "Guidance on Disclosures about Fair Value of Financial Instruments." The table below shows the book values of financial instruments as listed in the consolidated balance sheets dated March 31, 2010, along with the fair values of these instruments and the differences between their fair values and book values.

At March 31, 2010	Millions of yen		
	Book value	Fair value	Difference
(1) Bonds payable	¥321,491	¥336,354	¥(14,862)
(2) Long-term loans payable	220,060	224,155	(4,094)

At March 31, 2010	Thousands of U.S. dollars		
	Book value	Fair value	Difference
(1) Bonds payable	\$3,456,892	\$3,616,709	\$(159,806)
(2) Long-term loans payable	2,366,236	2,410,268	(44,021)

Note: including items due within one year

Method of calculating the fair value of financial instruments, and items related to securities and derivative transactions

- (1) Bonds payable—the fair value is calculated by discounting to their present value the total amount of principal and interest on bonds issued by the Company and consolidated subsidiaries by an interest rate that takes into account the period remaining and credit risk.
- (2) Long-term loans payable—the fair value is calculated by discounting to their present value the total amount of principal and interest by the assumed interest rate on new borrowings of the same type.

The items of which estimated fair value was deemed to be extremely difficult are not included in the above table. Also, the items described below are not included in the above table.

As the terms for cash and deposits (consolidated balance sheet book value of ¥107,391 million (US\$1,154,741 thousand)), notes and accounts receivable—trade (consolidated balance sheet book value of ¥156,398 million (US\$1,681,698 thousand)) and notes and accounts payable—trade (consolidated balance sheet book value of ¥134,946 million (US\$1,451,032 thousand)) are settled in a short time, their fair values and book values are nearly identical. For information about investment securities (consolidated balance sheet book value of ¥69,423 million (US\$746,483 thousand)) and derivative transactions (consolidated balance sheet book value of ¥3,254 million (US\$34,989 thousand) (receivables)), please refer to Note 5. Securities and Note 7. Derivative Transactions, respectively.

Most financial receivables and securities with maturities are redeemed in a short period (within one year).

The maturity amounts of bonds payable, long-term loans and other interest-bearing debt maturing after the balance sheet date are indicated in Note 6. Short-Term Loans Payable, Bonds Payable and Long-Term Loans Payable.

5. Securities

Acquisition costs, book values and fair values of securities with available fair values at March 31, 2010 and 2009 were as follows:

(A) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Securities with fair value exceeding book value:			
Book value	¥45	¥34	\$483
Fair value	46	35	494
Difference	¥ 1	¥—	\$ 10

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Securities with fair value not exceeding book value:			
Book value	¥—	¥10	\$—
Fair value	—	9	—
Difference	¥—	¥—	\$—

(B) Available-for-sale securities with fair value

	Millions of yen	
	2010	2009
Securities with book value exceeding acquisition cost:		
Acquisition cost		¥ 9,148
Book value		31,386
Difference		¥22,237

	Millions of yen	
	2010	2009
Securities with book value not exceeding acquisition cost:		
Acquisition cost		¥16,581
Book value		12,660
Difference		¥ (3,921)

(C) Available-for-sale securities

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Securities with book value exceeding acquisition cost:		
Acquisition cost	¥23,571	\$253,451
Book value	57,438	617,612
Difference	¥33,867	\$364,161

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Securities with book value not exceeding acquisition cost:		
Acquisition cost	¥12,218	\$131,376
Book value	11,939	128,376
Difference	¥ (278)	\$ (2,989)

Available-for-sale securities not included in the above table amounted to ¥35,368 million (US\$380,301 thousand) and ¥24,742 million at March 31, 2010 and 2009, respectively. Investments in unconsolidated subsidiaries and affiliated companies amounted to ¥44,267 million (US\$475,989 thousand) and ¥40,324 million for the years ended March 31, 2010 and 2009, respectively. These items do not have market value and determining their estimated fair value was deemed to be extremely difficult and therefore, they are not included in the above table.

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

The average annual interest rates for short-term loans payable at March 31, 2010 and 2009 were 0.6% and 0.7%, respectively.

Bonds payable and long-term loans payable at March 31, 2010 and 2009 were as follows:

	2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Domestic unsecured bonds			
Due in 2016 at a rate of 4.0%	¥ 27,700	¥ 27,700	\$ 297,849
Due in 2018 at a rate of 2.625%	40,000	40,000	430,107
Due in 2009 at a rate of 1.68%	—	30,000	—
Due in 2009 at a rate of 1.73%	—	30,000	—
Due in 2010 at a rate of 2.01%	20,000	20,000	215,053
Due in 2011 at a rate of 1.39%	30,000	30,000	322,580
Due in 2012 at a rate of 1.35%	20,000	20,000	215,053
Due in 2023 at a rate of 1.01%	20,000	20,000	215,053
Due in 2013 at a rate of 1.41%	30,000	30,000	322,580
Due in 2014 at a rate of 1.59%	20,000	20,000	215,053
Due in 2024 at a rate of 2.29%	10,000	10,000	107,526
Due in 2025 at a rate of 2.14%	10,000	10,000	107,526
Due in 2015 at a rate of 4.1%	13,800	13,800	148,387
Due in 2027 at a rate of 2.29%	19,996	19,996	215,010
Due in 2015 at a rate of 1.4%	9,995	9,994	107,473
Due in 2015 at a rate of 1.658%	20,000	20,000	215,053
Due in 2019 at a rate of 1.405%	30,000	—	322,580
Loans from banks, insurance companies and government agencies due through 2020 at rates of 0.53% to 5.35%:			
Secured	8,071	9,584	86,784
Unsecured	211,989	226,244	2,279,451
	541,552	587,320	5,823,139
Less: amounts due within one year	53,379	88,087	573,967
	¥488,173	¥499,232	\$5,249,172

The annual maturities of bonds payable and long-term loans payable at March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
2011	¥ 53,379	\$ 573,967
2012	47,964	515,741
2013	42,996	462,322
2014	38,320	412,043
2015	45,938	493,956
2016 and thereafter	312,960	3,365,161
	¥541,560	\$5,823,225

Note: The Company has a specific commitment line contract with the main correspondent financial institution of ¥30,000 million (US\$322,580 thousand) in total.

7. 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, 2010 and 2009 were as follows:

	Millions of yen				Thousands of U.S. dollars			
	Contract amounts		Fair value	Recognized gains (losses)	Contract amounts		Fair value	Recognized gains (losses)
	Total	Of which, longer than one year			Total	Of which, longer than one year		
At March 31, 2010								
Commodity derivatives	¥4,438	¥—	¥745	¥745	\$47,720	\$—	\$8,010	\$8,010
Weather derivatives	600	—	—	—	6,451	—	—	—
	¥5,038	¥—	¥745	¥745	\$54,172	\$—	\$8,010	\$8,010

	Millions of yen			
	Contract amounts		Fair value	Recognized gains (losses)
	Total	Of which, longer than one year		
At March 31, 2009				
Commodity derivatives	¥8,876	¥8,876	¥(1,279)	¥(1,279)
Weather derivatives	600	—	—	—
	¥9,476	¥8,876	¥(1,279)	¥(1,279)

The table below indicates hedge accounting methods, main items hedged, contract amounts and fair values as of March 31, 2010, on derivatives transactions to which hedge accounting is applied.

Hedge accounting method	Main items hedged	Millions of yen		
		Contract amounts		Fair value
		Total	Of which, longer than one year	
At March 31, 2010				
Exchange forward contracts				
Deferral hedge accounting	Accounts payable—trade	¥ 1,007	¥ 921	¥ (67)
Deferral hedge accounting on exchange forward contracts, others	Accounts payable—trade	15,790	—	(Note 2)
		¥16,798	¥ 921	¥ —
Commodity derivatives				
Deferral hedge accounting	Accounts payable—trade	¥23,643	¥ —	¥1,651
		¥23,643	¥ —	¥1,651
Interest rate swaps				
Deferral hedge accounting	Bonds and long-term loans payable	¥10,512	¥10,512	¥ 959
Exceptional accounting	Long-term loans payable	10,472	8,414	(Note 2)
		¥20,984	¥18,926	¥ —

Hedge accounting method	Main items hedged	Thousands of U.S. dollars		
		Contract amounts		Fair value
		Total	Of which, longer than one year	
At March 31, 2010				
Exchange forward contracts				
Deferral hedge accounting	Accounts payable—trade	\$ 10,827	\$ 9,903	\$ (720)
Deferral hedge accounting on exchange forward contracts, others	Accounts payable—trade	169,784	\$ —	(Note 2)
		\$180,623	\$ 9,903	\$ —
Commodity derivatives				
Deferral hedge accounting	Accounts payable—trade	\$254,225	\$ —	\$17,752
		\$254,225	\$ —	\$17,752
Interest rate swaps				
Deferral hedge accounting	Bonds and long-term loans payable	\$113,032	\$113,032	\$10,311
Exceptional accounting	Long-term loans payable	112,602	90,473	(Note 2)
		\$225,634	\$203,505	\$ —

(Note 1) Fair values of exchange forward contracts, commodity derivatives and interest rate swaps are calculated at the rates indicated by the financial institutions handling these transactions for the Company. Contract amounts of commodity derivatives are solely nominal values, and are not indicative of the magnitude of market risk or credit risk concerning derivatives transactions. Contract amounts of weather derivatives are stated at the maximum receivable or payable amounts under the contracts. Fair values of weather derivatives are not stated, as their fair values cannot be calculated.

(Note 2) As the accounting for exchange forward contracts employing deferral hedge accounting and interest rate swaps employing exceptional accounting are included in the fair values of the hedged items (accounts payable—trade and long-term loans payable).

8. Provision for Retirement Benefits

Provision for retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2010 and 2009 were as follows:

	2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Projected benefit obligation	¥ 340,792	¥ 352,690	\$ 3,664,430
Unrecognized prior service costs	1,723	1,915	18,526
Unrecognized actuarial differences	16,832	(35,211)	180,989
Less: Fair value of pension assets	(228,447)	(218,660)	(2,456,419)
Prepaid pension costs	—	—	—
Provision for retirement benefits	¥ 130,903	¥ 100,734	\$ 1,407,559

Net periodic retirement benefit expenses for the years ended March 31, 2010 and 2009 were as follows:

	2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Service costs – benefits earned during the year	¥ 9,199	¥ 9,402	\$ 98,913
Interest cost on projected benefit obligation	6,405	6,359	68,870
Expected return on pension plan assets	(4,359)	(5,028)	(46,870)
Amortization of actuarial differences	32,284	20,735	347,139
Amortization of prior service costs	(192)	(192)	(2,064)
Other	4,313	4,608	46,376
Net periodic retirement benefit expenses	47,651	35,885	512,376
Gain on transfer of benefit obligation relating to employees' pension fund	—	(1,570)	—
Net	¥47,651	¥34,315	\$ 512,376

The discount rate and the rate of expected return on plan assets used by the Company and its consolidated subsidiaries are mainly 2.1% and 2.0% for the year ended March 31, 2010, and 1.8% and 2.0% for the year ended March 31, 2009.

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.

9. Income Taxes

The Company is subject to multiple taxes based on taxable income, which, in the aggregate, indicate a statutory tax rate in the Company of approximately 36.2% for the years ended March 31, 2010 and 2009.

Reconciliation of the difference between the statutory

tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2010 and 2009 are not presented as they are negligible.

Significant components of deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

	2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Deferred tax assets:			
Provision for retirement benefits	¥47,778	¥36,847	\$ 513,741
Other	50,889	44,724	547,193
Less: Valuation allowance	(8,469)	(8,471)	(91,064)
Subtotal	90,198	73,101	969,870
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	11,748	6,793	126,322
Other	13,213	10,289	142,075
Subtotal	24,961	17,083	268,397
Deferred tax assets-net	¥65,236	¥56,017	\$ 701,462

10. Investment and Rental Properties

From the year under review, the Company and its consolidated subsidiaries have adopted the "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" and the "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property." Book values in the consolidated balance sheets and the fair values of investment and rental properties owned by the Company and some of its consolidated subsidiaries are indicated below. Book value is determined by subtracting accumulated depreciation from the acquisition cost. Fair value as of March 31, 2010 is based primarily on the real estate appraisal value determined by a real estate appraiser.

		Millions of yen	
	Change during the year	Book value 2010	Fair value as of March 31, 2010
2009			
¥98,150	¥(3,916)	¥94,233	¥378,103
		Thousands of U.S. dollars	
	Change during the year	Book value 2010	Fair value as of March 31, 2010
2009			
\$1,055,376	\$(42,107)	\$1,013,258	\$4,065,623

11. Net Assets

(A) Distribution to shareholders

Under the Japanese Companies Act (“the Act”), 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 Act 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.

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 29, 2010, the Company’s shareholders approved payment of year-end cash dividends of ¥5.0 (US\$0.05) per share aggregating ¥13,493 million (US\$145,086 thousand) to the shareholders of record as of March 31, 2010.

Such appropriations have not been accrued in the consolidated financial statements for the year ended March 31, 2010. 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 Act, 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 Act, 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 Act, 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 Act, 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 Act 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.

12. 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, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and deposits	¥107,391	¥66,905	\$1,154,741
Less: Time deposits with maturities over three months, etc.	(4,522)	(2,896)	(48,623)
Negotiable certificates of deposit included in other current assets	10,000	—	107,526
Cash and cash equivalents	¥112,868	¥64,009	\$1,213,634

Significant non-cash transactions for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Decrease in treasury stock due to the conversion of convertible bonds	¥—	¥ 38,978	\$—
Losses on disposal of treasury stock due to the conversion of convertible bonds	—	(11,671)	—
Decrease in convertible bonds	¥—	¥ 27,306	\$—

13. 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, 2010 and 2009 is as follows:

							Millions of yen
For 2010	Gas sales	Gas appliance sales	Installation work	Real estate rental	Other business	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥1,017,299	¥118,592	¥41,353	¥ 12,397	¥226,073	¥ —	¥1,415,718
Intra group	28,236	7,495	3,006	21,312	91,745	(151,795)	—
Total	1,045,535	126,088	44,360	33,710	317,819	(151,795)	1,415,718
Operating expenses	918,183	123,752	45,011	26,417	302,609	(85,484)	1,330,488
Operating income (loss)	¥ 127,352	¥ 2,335	¥ (650)	¥ 7,292	¥ 15,210	¥ (66,310)	¥ 85,229
Assets	¥1,009,021	¥ 42,187	¥16,121	¥169,034	¥272,050	¥ 332,558	¥1,840,972
Depreciation	113,217	638	93	9,352	21,046	(2,239)	142,110
Impairment losses	—	—	—	—	—	—	—
Capital expenditures	113,697	553	161	3,078	31,807	(2,712)	146,586

							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

							Thousands of U.S. dollars
For 2010	Gas sales	Gas appliance sales	Installation work	Real estate rental	Other business	Elimination or corporate	Consolidated
Net sales:							
Outside customers	\$10,938,698	\$1,275,182	\$444,655	\$ 133,301	\$2,430,892	\$ —	\$15,222,774
Intra group	303,612	80,591	32,322	229,161	986,505	(1,632,204)	—
Total	11,242,311	1,355,784	476,989	362,473	3,417,408	(1,632,204)	15,222,774
Operating expenses	9,872,935	1,330,666	483,989	284,053	3,253,860	(919,182)	14,306,322
Operating income (loss)	\$ 1,369,376	\$ 25,107	\$ (6,989)	\$ 78,408	\$ 163,548	\$ (713,010)	\$ 916,440
Assets	\$10,849,688	\$ 453,623	\$173,344	\$1,817,569	\$2,925,268	\$3,575,892	\$19,795,397
Depreciation	1,217,387	6,860	1,000	100,559	226,301	(24,075)	1,528,064
Impairment losses	—	—	—	—	—	—	—
Capital expenditures	1,222,548	5,946	1,731	33,096	342,010	(29,161)	1,576,193

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 ¥67,302 million (US\$723,677 thousand) and ¥68,664 million for the years ended March 31, 2010 and 2009, 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 amounted to ¥368,107 million (US\$3,958,139 thousand) and ¥259,494 million at March 31, 2010 and 2009, respectively.

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.

14. 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, 2010 and 2009, and future lease payments including interest as of March 31, 2010 and 2009, are shown below.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease payments	¥ 441	¥ 550	\$ 4,741
Depreciation expenses	441	550	4,741
Future lease payments inclusive of interest:			
Current	421	472	4,526
Noncurrent	2,157	2,670	23,193
	¥2,578	¥3,142	\$27,720

Acquisition cost, accumulated depreciation and net book value for property held under the above-mentioned finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis as of March 31, 2010 and 2009 were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2010			
Other facilities	¥4,080	¥1,534	¥2,546
Other intangible assets	163	131	32
	¥4,244	¥1,665	¥2,578
For 2009			
Other facilities	¥4,415	¥1,341	¥3,074
Other intangible assets	178	110	68
	¥4,593	¥1,451	¥3,142

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2010			
Other facilities	\$43,870	\$16,494	\$27,376
Other intangible assets	1,752	1,408	344
	\$45,634	\$17,903	\$27,720

Information as lessor

The breakdown of lease investment assets as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Claims for lease fees	¥21,797	¥22,198	\$234,376
Estimated residual value	116	64	1,247
Equivalent interest received	(3,545)	(3,724)	(38,118)
Lease investment assets	¥18,368	¥18,539	\$197,505

Scheduled recovery amounts of claims for lease fees related to lease receivables and investment assets as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease receivables			
Within 1 year	¥1,177	¥1,050	\$12,655
More than 1 year but within 2 years	1,178	1,044	12,666
More than 2 years but within 3 years	1,134	1,038	12,193
More than 3 years but within 4 years	1,029	1,000	11,064
More than 4 years but within 5 years	959	883	10,311
More than 5 years	3,007	2,988	32,333

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease investment assets			
Within 1 year	¥4,933	¥4,954	\$ 53,043
More than 1 year but within 2 years	4,246	4,305	45,655
More than 2 years but within 3 years	3,568	3,605	38,365
More than 3 years but within 4 years	2,882	2,922	30,989
More than 4 years but within 5 years	2,266	2,242	24,365
More than 5 years	3,899	4,167	41,924

Operating leases
Information as lessee

Future lease payments at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Future lease payments:			
Within 1 year	¥238	¥110	\$ 2,559
Over 1 year	720	331	7,741
	¥959	¥441	\$10,311

Information as lessor

Future lease payments to be received at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Future lease payments:			
Within 1 year	¥ 1,622	¥ 1,952	\$ 17,440
Over 1 year	10,380	11,087	111,612
	¥12,003	¥13,040	\$129,064

15. Commitment and Contingent Liabilities

At March 31, 2010, the Company and its consolidated subsidiaries were contingently liable for (1) debt guarantees in the amount of ¥5,327 million (US\$57,279 thousand) for financial institution loans to companies other than consolidated subsidiaries and (2) ¥38,700 million (US\$416,129 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, 2010, 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.

16. Subsequent Events

(1) Repurchase of treasury stock

The Company acquired TG Enterprise Co., Ltd., in an absorption-type merger employing simplified merger procedures, effective April 1, 2010. As there were requests from opposing shareholders that the Company repurchase their holdings in accordance with the provisions of the Companies Act, the Company repurchased treasury stock as described below.

No. of opposing shareholders: 9

Period in which requests to purchase shares were accepted:

From March 29, 2010, to March 31, 2010

No. of shares requested to be repurchased:

16,537 thousand shares

No. of shares repurchased: 14,037 thousand shares

Note: The reason for the 2,500 thousand shares difference between the number of shares requested to be repurchased and the number of shares repurchased is that requests to repurchase shares were withdrawn by the opposing shareholders.

Value of shares repurchased:

¥5,783 million (US\$62,182 thousand)

Period of acquisition:

From April 16, 2010, to April 21, 2010

Method of acquisition: Off-market transaction

(2) Resolution on acquisition of treasury stock

At a meeting on April 28, 2010, the Board of Directors resolved for the Company to acquire treasury stock, as follows.

No. of shares to be acquired: Limited to 6 million shares

Total value of shares to be acquired:

Limited to ¥2,200 million (US\$23,655 thousand)

Period of acquisition:

From April 30, 2010 to March 31, 2011

In accordance with this resolution, the Company purchased treasury stock, as follows.

Period of acquisition: From May 7, 2010 to May 13, 2010

(commitment basis)

No. of shares acquired: 5,531 thousand shares

Total value of shares acquired:

¥2,199 million (US\$23,645 thousand)

Method of acquisition: Market acquisition through a specified fund trust on the Tokyo Stock Exchange

(3) Cancellation of treasury stock

At a meeting on May 21, 2010, the Company's Board of Directors resolved the cancellation of treasury stock, as follows.

Type of shares to be cancelled:

Common stock in the Company

Number of shares to be cancelled: 19,568 thousand shares

Cancellation date: June 7, 2010

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, 2010 and 2009, 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, 2010 and 2009, 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:

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".

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2010

CONSOLIDATED SUBSIDIARIES AND EQUITY-METHOD AFFILIATES

As of March 31, 2010

MAIN CONSOLIDATED SUBSIDIARIES

Company	Business	Capital (¥ million)	Equity owned by Tokyo Gas (%)	FY2009 Net sales (¥ million)		Operating income (¥ million)
				[% of outside sales]		
Tokyo Gas Urban Development Co., Ltd.	Real estate leasing	11,530	100	31,782	[35.4]	6,534
Tokyo Gas Toyosu Development Co., Ltd.	Real estate leasing	5,000	100	498	[100.0]	57
Nagano Toshi Gas Co., Ltd.	City gas business in Nagano Prefecture	3,800	89.2	11,751	[100.0]	781
ENERGY ADVANCE Co., Ltd.	Energy service, district heating and cooling, cogeneration orders, and maintenance	3,000	100	55,277	[94.4]	1,308
Gastar Co., Ltd.	Production, sales, and maintenance of gas appliances	2,450	66.7	28,432	[41.2]	1,649
Tokyo LNG Tanker Co., Ltd.	LNG and LPG transportation and chartering of carriers	1,200	100	16,567	[25.5]	1,307
Tokyo Gas Energy Co., Ltd.	Sales of liquefied petroleum gas (LPG)	1,000	100	29,329	[78.4]	779
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	52,194	[32.8]	1,001
Tokyo Gas Chemicals Co., Ltd.	Sales of gas for industry and chemicals and development of LNG cryogenic utilization technology	1,000	100	15,370	[67.5]	570
Park Tower Hotel Co., Ltd.	Management of "Park Hyatt Tokyo" hotel and restaurants	1,000	100	7,387	[95.7]	-760
Tokyo Gas Yokosuka Power Co., Ltd.	Independent Power Producer for TEPCO	980	75	8,003	[95.3]	446
Chiba Gas Co., Ltd.	Supply of gas to Yachiyo City, Narita City, and surrounding cities	480	100	15,774	[96.7]	1,219
TG Credit Service Co., Ltd.	Leasing of information equipment, gas appliances and office equipment, and credit administration connected with installations	450	100	8,614	[69.4]	542
TG Information Network Co., Ltd.	Information processing services, software development, and sales of computer equipment, etc.	400	100	18,972	[3.8]	-128
Tsukuba Gakuen Gas Co., Ltd.	Supply of gas in Tsukuba City and Tsukuba Mirai City	280	100	7,248	[98.2]	515
Tokyo Gas Engineering Co., Ltd.	Comprehensive engineering services with a particular focus on energy-related work	100	100	40,287	[76.1]	2,487
Capty-Livelic Co., Ltd.	Gas facility construction, gas appliance sales, and maintenance	50	100	8,208	[62.0]	47
Nijio Co., Ltd.	Procurement and sales of natural gas and electricity	47	100	13,275	[75.0]	861

Number of consolidated subsidiaries: 61

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.,
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.,
TGI Financial Solutions Co., Ltd.,
Tosetz Co., Ltd., Tokyo Kiko Co., Ltd.,
Capty Customer Service Co., Ltd.,
Enelife Carrier Co., Ltd., Showa Unyu Co., Ltd.,
Tokyo Rare Gases Co., Ltd., Tokyo Auto Gas Co., Ltd.,
Tokyo Gas Lifeval Kazusa Co., Ltd., Capty Tech Co., Ltd.,
Tokyo Gas Lifeval Higashi-Ohta Co., Ltd.,
Tokyo Gas Lifeval Minami-Setagaya Co., Ltd.,
Tokyo Gas Lifeval Chiba Co., Ltd.,
Tokyo Gas Gorgon Pty Ltd,
TGE (SHANGHAI) LNG ENGINEERING CO., LTD.,
Tokyo Gas Customer Service Co., Ltd.,
Tokyo Gas Yamanashi Co., Ltd.,
Tokyo Gas Pipeline Co., Ltd.,
Tokyo Gas Chemicals Sales, Inc.,
Tokyo Gas Facility Service 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, 2010

TOKYO GAS CO., LTD.

Head Office

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

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Tel: +1-646-865-0577 Fax: +1-646-865-0592

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

Asia Pacific Regional Office
Level 30, Menara Standard Chartered,
No. 30 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Tel: +60-3-2144-2928 Fax: +60-3-2144-2930

Date of Establishment October 1, 1885

Paid-in Capital ¥141,844,398,888

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

Issued Number of Shares 2,703,761,295 shares

Number of Shareholders 156,144

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 15,539
(Consolidated basis, excluding workers on loan
and part-time workers)

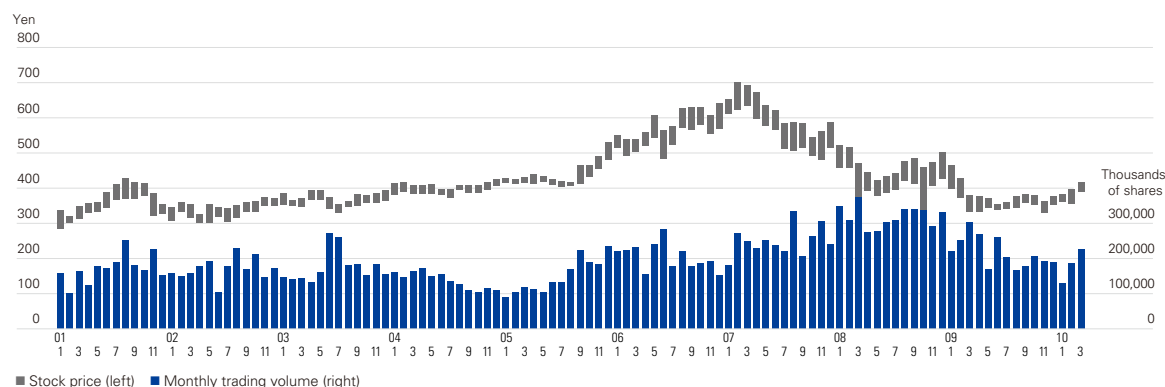
Principal Shareholders

Name	Number of shares held (Thousands)	Percentage of share ownership (%)
Nippon Life Insurance Company	163,000	6.04
Japan Trustee Services Bank, Ltd. (Trust a/c)	149,602	5.54
The Dai-ichi Mutual Life Insurance Company	120,472	4.46
The Master Trust Bank of Japan, Ltd. (Trust a/c)	109,411	4.05
Fukoku Mutual Life Insurance Company	68,504	2.54
Tokyo Gas Employees Shareholding Association	41,619	1.54
Japan Trustee Services Bank, Ltd. (Trust a/c 9)	37,370	1.38
Mizuho Trust & Banking Co., Ltd. Employee Pension Trust Dai-ichi Mutual Life Insurance Company Account Standby Trustee		
Trust & Custody Services Bank, Ltd.	35,490	1.32
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	33,007	1.22
State Street Bank and Trust Company (505225)	31,641	1.17

Notes: Percentage of share ownership is calculated by the number of shares excluding treasury stock (5,062 thousand shares).

The Dai-ichi Mutual Life Insurance Company carried out reorganization on April 1, 2010 and therefore its company name was changed to The Dai-ichi Life Insurance Company, Limited.

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, in 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.

In addition, all graphs and tables represent fiscal years ended March 31 of the respective years.



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