# Financial Statements



## Contents

# Six-Year Summary

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

| | Millions of yen | | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|---|
| | **1999** | 1998 | 1997 | 1996 | 1995 | 1994 | **1999** |
| Net sales | ¥ **997,767** | ¥1,009,155 | ¥ 988,077 | ¥ 958,662 | ¥ 915,862 | ¥ 909,673 | **$ 8,276,790** |
| Gas sales | **674,997** | 686,649 | 663,066 | 633,253 | 601,990 | 622,632 | **5,599,311** |
| Gas appliance sales | **132,749** | 126,840 | 134,174 | 135,669 | 137,209 | 115,158 | **1,101,195** |
| Related construction | **63,630** | 66,695 | 69,966 | 68,825 | 70,034 | 73,158 | **527,831** |
| Real estate rental business | **15,617** | 16,495 | 18,423 | 18,468 | – | – | **129,548** |
| Other | **110,774** | 112,476 | 102,448 | 102,447 | 106,629 | 98,725 | **918,905** |
| Operating income | **72,303** | 76,485 | 62,163 | 67,109 | 60,105 | 59,263 | **599,776** |
| Income before income taxes | **40,964** | 36,261 | 32,601 | 39,473 | 32,858 | 40,467 | **339,809** |
| Net income | **17,764** | 17,241 | 15,432 | 16,762 | 11,072 | 16,173 | **147,358** |
| Depreciation | **132,568** | 114,893 | 123,569 | 120,569 | – | – | **1,099,693** |
| Capital expenditures | **142,030** | 159,433 | 162,282 | 180,080 | – | – | **1,178,183** |
| Per share (Yen and U.S. dollars): | | | | | | | |
| Net income (Basic) | ¥ **6.32** | ¥ 6.14 | ¥ 5.49 | ¥ 5.97 | ¥ 3.94 | ¥ 5.76 | **$ 0.05** |
| Cash dividends applicable to the year | **5.00** | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | **0.04** |



**At Year-end**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total assets | **¥1,707,446** | ¥1,720,684 | ¥1,772,132 | ¥1,657,176 | ¥1,608,244 | ¥1,513,038 | **$14,163,799** |
| Long-term debt due after one year | **820,753** | 765,304 | 878,674 | 743,177 | 724,523 | 721,980 | **6,808,403** |
| Total stockholders' equity | **421,442** | 417,755 | 414,906 | 413,725 | 411,164 | 409,713 | **3,495,993** |

*Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120.55=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 1999.*
*2. Net sales for gas included by-products up to the year ended March 31, 1997. By-products are included in other beginning in the year ended March 31, 1998.*
*3. Net sales for real estate rental business were included in other up to the year ended March 31, 1995.*
*4. Capital expenditures and depreciation figures disclosed up to the year ended March 31, 1995 are not based on the same figures disclosed from the year ended March 31, 1996.*

**Tokyo Gas Co., Ltd. and its 13 consolidated subsidiaries are engaged in four principal fields of business: gas sales, gas appliance sales, related construction, and related businesses, including real estate leasing and others. Please refer to Notes 1 and 2 of the Notes to Consolidated Financial Statements for an explanation of the main accounting policies.**

### OVERVIEW OF CONSOLIDATED BUSINESS RESULTS

#### Gas Sales Volume

The main business of the Tokyo Gas Group is gas operations. In fiscal 1998, the year ended March 31, 1999, the volume of gas sold by Tokyo Gas rose 2.0% to 8,158 million m$^3$. By customer category, residential gas volume increased 1.7% year on year. Although a 0.3°C increase in the average temperature in the Tokyo area compared to the previous fiscal year caused a decrease in per-customer gas consumption, growth in the number of new users and the growing popularity of gas appliances contributed to the volume gains. The volume of gas sold to commercial users increased, too. Efforts to expand demand for gas-fired air conditioning yielded a 6.0% rise in consumption in this category. Industrial use, however, fell 2.1% as the prolonged Japanese recession continued to affect demand. Gas supplied to other gas companies under wholesale contracts rose 6.7% due to increased demand from large-volume users of those companies.

#### Net Sales

Consolidated net sales decreased 1.1% to ¥997.8 billion. Higher gas sales volumes overall could not offset the effect of a reduction in gas rates based on Japan's *"sliding rate"* system that reflected lower crude oil prices (see Page 32 for a detailed explanation of this system).

#### Operating Expenses and Operating Income

Costs and expenses decreased 0.8% to ¥925.5 billion from the previous fiscal year. This was the result of a drop in the cost of raw materials (mainly LNG) due to lower crude oil prices. Partially offsetting these gains were increased depreciation in line with the commencement during the fiscal year of operations at the Ohgishima LNG Terminal and higher remuneration expenses due to such factors as a drop in the applicable discount rate for the funded pension plan (see Page 33). The decrease in costs and expenses, however, could not fully offset the decline in net sales. Operating income dropped 5.5% to ¥72.3 billion.

#### Other Income (Expense)

Other expense improved ¥8.9 billion to ¥31.3 billion. The main factors were the absence of ¥8.4 billion in losses on early retirement of notes that were recorded in the previous fiscal year and a lower interest expense.

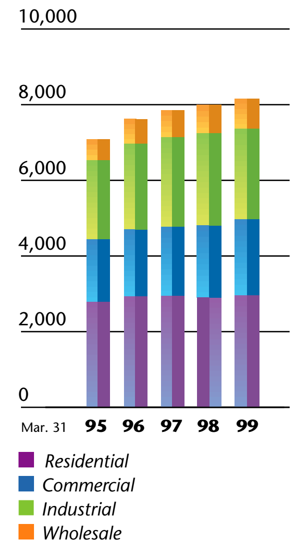
#### Income Before Income Taxes and Income Taxes

Income before income taxes increased 13.0%, or ¥4.7 billion, to ¥41.0 billion. Income taxes were ¥23.5 billion.

#### Net Income

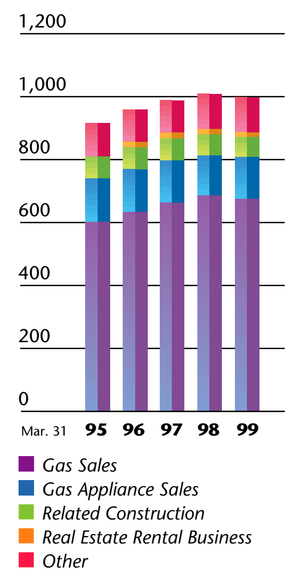
Net income was ¥17.8 billion, 3.0% up from the previous fiscal year, and net income per share increased 2.9% from ¥6.14 to ¥6.32; diluted net income per share rose 3.1% from ¥5.76 to ¥5.94. In June 1999, cash dividends of ¥14.1 billion were paid. The cash dividend applicable to the year was ¥5.00 per share, the same as in the previous fiscal year. Return on equity (ROE) was 4.2% compared with 4.1% a year ago.

**Gas Sales Volume by Sector**
(Million m$^3$, 46.047 MJ/m$^3$)




*Note: Non-consolidated*

**Net Sales by Segment**
(Billion ¥)




*Note: Real Estate Rental Business sales for the year ended March 31, 1995 are included in other.*

### SEGMENT INFORMATION

**Gas Sales**

Gas sales fell 1.7%, or ¥11.7 billion, to ¥675.0 billion due mainly to a reduction in the unit gas rate based on the *"sliding rate"* system that reflected lower crude oil prices. Gas sales accounted for 67.7% of total net sales. On the cost front, depreciation rose in line with the commencement of operations at the Ohgishima LNG Terminal. This was more than offset, however, by a sharp decrease in raw materials (mainly LNG) costs due to a drop in crude oil prices. Due to a time lag in the *"sliding rate"* system between the change in raw material costs and the adjustment of the sales cost of gas, operating income increased 4.4%, or ¥6.5 billion, to ¥156.1 billion as a result.

**Gas Appliance Sales**

Sales in this segment rose 4.7%, or ¥5.9 billion, to ¥132.7 billion on account of increased sales for gas engine driven heat pumps (GHP) and other products, representing 13.3% of total net sales. Higher promotional expenses in line with more intense sales competition, however, negated sales gains. The result was an operating loss of ¥0.7 billion, compared with operating income of ¥0.3 billion in the previous fiscal year.

**Related Construction**

Sales fell 4.6%, or ¥3.1 billion, to ¥63.6 billion due to a decrease in new housing starts. Sales in this segment accounted for 6.4% of total net sales. Operating income increased 203.6%, or ¥0.4 billion, to ¥0.6 billion.

**Real Estate Rental Business**

Sales decreased 5.3%, or ¥0.9 billion, to ¥15.6 billion, accounting for 1.6% of total net sales. Operating income also fell, down 7.6%, or ¥0.7 billion, to ¥8.8 billion. This was mainly attributable to a drop in rental income that accompanied sagging real estate prices.

**Other**

Sales in this segment decreased 1.5%, or ¥1.7 billion, to ¥110.8 billion, representing 11.0% of total net sales, while operating income was 7.8%, or ¥0.7 billion, higher at ¥9.0 billion. This was chiefly due to an increase in profits from district heating and cooling (DHC) systems.

### FINANCIAL POSITION

Total assets as of March 31, 1999 stood at ¥1,707.4 billion, down 0.8%, or ¥13.2 billion, from the previous fiscal year.

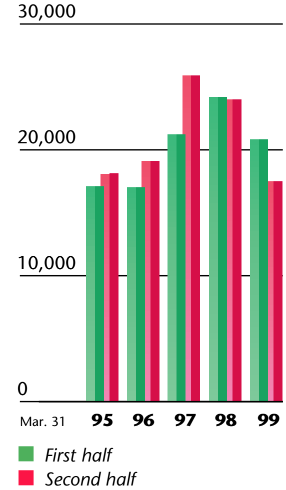
**Fixed Assets**

Fixed assets were ¥1,462.0 billion, a decrease of 0.3%. Property, plant and equipment increased 0.4% due to capital expenditures exceeding depreciation. However, investments and other non-current assets dropped 7.5%, partially due to revaluations of investment securities in line with lower stock prices.

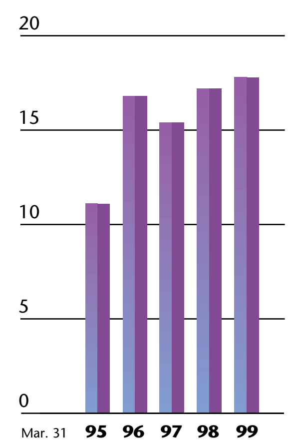
**Current Assets**

Current assets stood at ¥245.5 billion, a drop of 3.7%. This was primarily due to decreased receivables for gas appliances and a decrease in raw materials among inventories as the purchase price of raw materials fell.

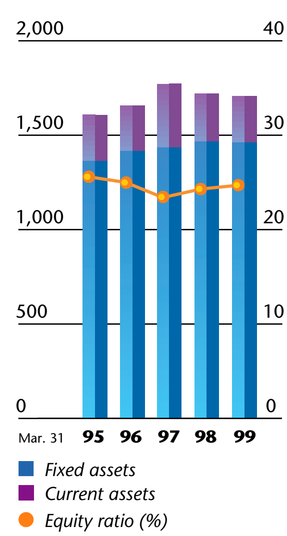
**Average LNG Procurement Cost**
(¥ per ton)




**Net Income**
(Billion ¥)




**Total Assets and Equity Ratio**
(Billion ¥) (%)



### Long-term Liabilities

As of March 31, 1999, long-term debt due after one year increased 7.2% over the previous fiscal year to ¥820.8 billion.

### Current Liabilities

Current liabilities dropped 20.1% to ¥297.4 billion. This was primarily due to the repayment of long-term debt due within one year (unsecured notes and long-term debt) and a decrease in accrued expenses for construction of the Ohgishima LNG Terminal and other projects.

### Interest-bearing Debt

Interest-bearing debt as of March 31, 1999 was ¥912.1 billion, including ¥859.4 billion in long-term debt and ¥52.7 billion in bank loans. The rate of dependence on interest-bearing debt increased from 52.5% to 53.4%. Long-term debt includes long-term debt due within one year, while bank loans consists of short-term notes.

### Stockholders' Equity

Total stockholders' equity increased 0.9% to ¥421.4 billion and the equity ratio rose from 24.3% to 24.7%.

## CAPITAL EXPENDITURES

Tokyo Gas has expanded facilities to put in place a more stable supply system for gas. In respect of production facilities, Tokyo Gas built the Ohgishima LNG Terminal. In regard to supply facilities, capital expenditures focused on the main pipeline network, new pipelines for creating demand, the formation of a network of major pipelines such as the Keihin and Yokohama trunk lines, and the planned replacement of existing pipelines and earthquake-prevention measures. In respect of facilities for auxiliary businesses, Tokyo Gas is constructing DHC facilities in a new city center presently under development in Ohmiya, Saitama Prefecture.

With work on the above-mentioned Ohgishima LNG Terminal and main pipeline being mostly completed, investments in these projects have peaked out. Capital expenditures therefore fell 10.9% to ¥142.0 billion.

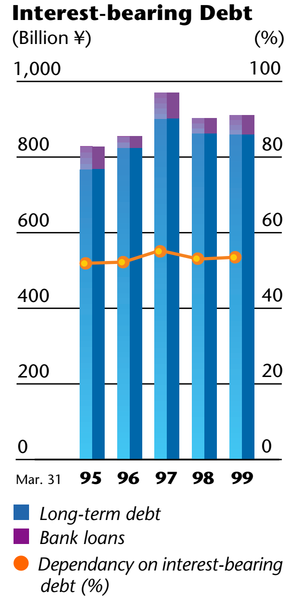
## CASH FLOWS

Net cash provided by operating activities increased ¥5.9 billion to ¥156.3 billion, primarily on account of higher depreciation. Net cash used in investing activities decreased ¥8.3 billion to ¥153.3 billion. This was mainly due to decreased purchases of property, plant and equipment. Net cash used in financing activities was ¥5.5 billion compared with ¥82.4 billion a year earlier. Cash dividends paid were ¥14.1 billion. As a result of the foregoing changes, cash and cash equivalents at end of year was ¥44.2 billion.

## FINANCIAL POLICY

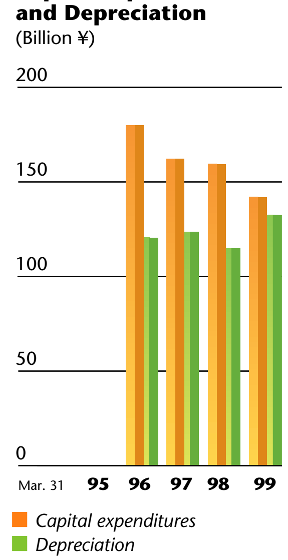
Tokyo Gas has made capital investments in excess of cash flows from operations over the past 10 years to build a comprehensive production and supply infrastructure to respond to an escalation in demand for gas. As a result of those investments, interest-bearing debt has increased on Tokyo Gas' balance sheets.

**Interest-bearing Debt**



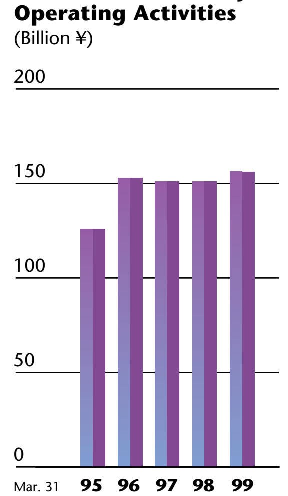

Note: Long-term debt includes long-term debt due within one year, and bank loans refers to short-term notes.

**Capital Expenditures and Depreciation**




Note: Figures not available for 95.

**Net Cash Provided by Operating Activities**



However, Tokyo Gas is now poised to recover on those investments. From fiscal 2000 onward, Tokyo Gas expects that it will be able to conduct capital expenditures within the bounds of depreciation (see table below). By using free cash flows generated from this policy to reduce interest-bearing debt, Tokyo Gas will create a slimmer balance sheet, improving its financial health.

**Tokyo Gas Projected Free Cash Flows** (Billion ¥)

| Years ended March 31, | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|
| Capital expenditures (a) . . . . . . . . | **134.3** | 132.0 | 119.9 | 110.4 | 115.0 | 105.7 |
| Depreciation (b) . . . . . . . . . . . . . . | **119.1** | 117.5 | 134.0 | 124.0 | 124.6 | 135.2 |
| Free cash flows (b-a) . . . . . . . . . . . | **–15.2** | –14.5 | 14.1 | 13.6 | 9.6 | 29.5 |

** Non-consolidated base*

At the same time as reducing interest-bearing debt, Tokyo Gas is placing emphasis on improving the efficiency of its asset deployment. That will include thoroughly examining the profitability of new capital expenditures as well as reviewing the profitability of existing facilities and investments.

**MARKET RISK EXPOSURE**

## Stock Price Risk

Stock held by Tokyo Gas are for the most part those held to maintain necessary corporate relationships. Stock price risk relates to stock of listed companies. Tokyo Gas has formulated a management policy and rules for the handling of such stock.

## Foreign Exchange Risk

LNG, the main raw material used by Tokyo Gas for the supply of gas, is purchased based on U.S. dollar-denominated agreements. As such, these agreements are subject to fluctuations in the yen-dollar exchange rate. Furthermore, because the U.S. dollar-denominated LNG price is determined with reference to crude oil prices, fluctuations in the market price of crude oil is another risk factor. The hypothetical effect of these fluctuations on annual raw materials costs is as follows.

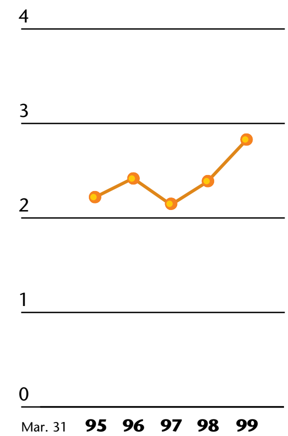
| | |
|---|---|
| Fluctuation of ¥1 to U.S.$1 . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | ¥1 billion |
| Fluctuation of U.S.$1 per barrel in crude oil price . . . . . . . . . . . . . . . . . . . . . . | ¥6 billion |

However, the above fluctuations are automatically passed on to the gas user in the gas purchase price after six months due to the *"sliding rate"* system. Consequently, while this time lag may have a short-term effect on operating income, there is no effect over the medium to long term.

## Interest Rate Risk

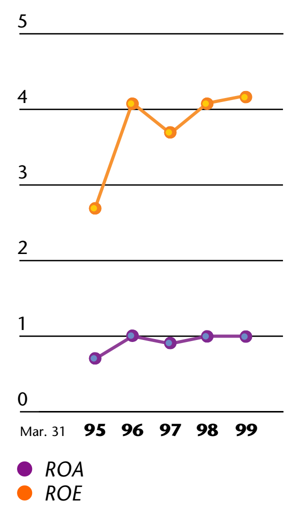
Tokyo Gas has only fixed-rate short- and long-term interest-bearing debt. Therefore, there is no risk of fluctuations in interest rates during the borrowing term. However, Tokyo Gas becomes subject to interest rate risk when refinancing.

**Interest Coverage Ratio**
(times)




*Note: Interest coverage ratio= (net income+income taxes+interest expense)/ interest expense*

**ROE and ROA**
(%)



## THE YEAR 2000 PROBLEM

### Background

The Year 2000 Problem, or Y2K, is related to the processing of two-digit date configurations on a machine, appliance, or any other device with embedded computer chips. Many programs running on such equipment use only the last two digits in a year to perform date-related calculations. Thus the year 2000 may be erroneously interpreted as the year 1900.

### Tokyo Gas' Response

As a public utility company, Tokyo Gas has positioned Y2K as one of its most pressing issues. Reflecting this importance is the fact that Executive Vice President Ichiro Kagiyama heads up the Tokyo Gas Year 2000 Steering Committee. The committee convenes at least once a quarter to oversee a comprehensive and systematic examination of all departments to assess and ensure Y2K readiness.

Even before this committee was established Tokyo Gas recognized the potential consequences and importance of Y2K. Main internal systems, including the customer information and billing systems, which have been developed and/or revamped over the past 10 years, have had Y2K factored in from the design stage. As a result, all of these systems are Y2K compliant.

### Remediation

Y2K is a multifaceted issue. Thus Tokyo Gas has classified internal systems and equipment into two categories in terms of their relative importance: Mission-Critical Systems, defined as gas supply and safety, invoicing and banking systems, and any other systems that could directly affect customers; and Others. Remedial work is proceeding in accordance with this classification. Work had been completed on all Mission-Critical Systems as of the end of June 1999. Plans call for remaining work on Others to be completed by September 1999.

In tandem with these measures, Tokyo Gas is conducting a survey of the Y2K readiness of its suppliers and other business partners. Major business partners have already been surveyed and Tokyo Gas has confirmed that there should be no impact on its operations. Surveys are presently being conducted with other business partners.

### Y2K-related Expenditures

Expenses related to Y2K remediation have been expensed as incurred and have not had a material adverse effect on business results. To date those expenses have totaled ¥800 million, excluding those related to personnel. Tokyo Gas does not expect future Y2K remediation expenditures to have a material adverse effect on business results.

### Contingency Plans

Tokyo Gas has plans and procedures in place to respond to emergencies, including disasters stemming from earthquakes and floods. Tokyo Gas also has been making strenuous efforts to ensure a smooth transition into 2000. As part of Y2K preparations, Tokyo Gas has also formulated a Contingency Plan. This plan is based on existing emergency plans to prepare for possible service disruptions, power cuts, computer system shutdowns, and financial and communications problems, among other potential problems, that may be triggered by Y2K.

## 1. What kind of rate system does Tokyo Gas operate under?

Gas rates are either *"regulated"* or *"unregulated."* Regulated rates require the official approval of the Ministry of International Trade and Industry (MITI), while unregulated rates can be freely set through negotiations with users. In general, Tokyo Gas' rates are of the former type. Up until now, unregulated rates only applied to customers purchasing 2 million $m^3$ or more of gas per year. Amendments that take effect in the fall of this year will lower the threshold to encompass customers purchasing 1 million $m^3$ or more of gas per year.

Regulated rates are calculated using the following basic *"total cost"* formula:

Operating costs + Fair return = Total cost

| | | |
|---|---|---|
| Cost of raw materials<br>Labor costs<br>Administrative costs<br>Depreciation<br>Corporate taxes | Dividends<br>Cost of debt | Represents an appropriate profit added to an appropriate cost under efficient management |

Officially approved rates are adjusted every three months in accordance with the raw materials cost *"sliding rate"* system. This system adjusts the unit rate per cubic meters ($m^3$) of gas every three months in line with changes in raw material costs which are affected by foreign exchange rates and crude oil prices. There is also a six-month time lag between the date of calculation and the date the adjustment is reflected in gas rates.



## 2. Are any gas rate revisions planned in the next few years?

Yes. Tokyo Gas has announced plans to reduce its rates twice: once in fiscal 1999 and again in fiscal 2000. The exact extent and timing of the reductions, however, have not been fixed. Importantly, the cost of making these reductions will be offset by savings from structural changes being implemented now. Consequently, rate reductions will not result in lower profits. Tokyo Gas has decided to reduce rates partly in response to criticism of the discrepancy between domestic and foreign gas rates. There is another, strategic reason. Rate reductions are being made in order to compete under deregulation with electricity and oil, and to create new market demand for gas.

## 3. What changes will deregulation bring to Japan's gas industry?

Deregulation of Japan's gas industry is based on the following goals and principles: (1) to create a more open gas market, (2) to further the interests of gas users and expand the opportunities for selecting gas suppliers, (3) to give greater management independence to gas suppliers, and (4) to reduce government intervention and regulation to a minimum.

Regarding specific deregulation moves in the future, the Interim Report by the Sub-Committee on Policy for Gas Utility Industry of Advisory Committee for Energy issued on February 1, 1999 included the following measures:

- Present regulations permit gas companies to compete outside of their service area for large-volume users who buy 2 million or more cubic meters of gas per year. This bar will be lowered to include users who buy 1 million or more cubic meters of gas per year.
- Gas companies will be allowed to reduce their rates by simply filing a report with MITI.
- The three major gas companies in Japan will be required to file copies of *'wholesale wheeling'* agreements regarding gas transmission.
- Gas companies will be free to set wholesale gas rates and need only file a report.

The same interim report clearly stated that henceforth management should not be required to apply all excess profits to the reduction of gas rates. Under the principle of respecting management independence, gas companies will be free to use part of such profits for other purposes, such as for improving their balance sheets.

### 4. What are Tokyo Gas' plans for entering the IPP market?

Basically, Tokyo Gas envisions two ways of entering the IPP business. Either we will become an IPP ourselves, or we will supply gas to IPPs. At present, Tokyo Gas has not made any direct moves to become an IPP, but we started supplying two IPP customers with gas in 1999. We have not discarded the idea of becoming an IPP ourselves and will continue to examine the merits of doing so at regular intervals.

### 5. What are Tokyo Gas' liabilities with regard to severance and retirement benefits?

Any shortfall in corporate pension funds (referred to as Past Service Liabilities) is recognized as a liability when incurred and provided for on an accrual basis. As the total amount has been expensed and accrued expenses for pensions accounted for as "Retirement benefits" in the parent company's balance sheets, there are no hidden liabilities.

Furthermore, the applicable discount rate for pension funds was reviewed in March 1999 and reduced from 5.5% to 4.0%. As a result, Tokyo Gas' obligation was increased by ¥22 billion. Plans call for this amount to be amortized over three fiscal years, ¥9.0 billion, ¥9.0 billion and ¥4.0 billion in fiscal 1998, 1999 and 2000, respectively.

Shortfalls arising from the method of calculating retirement benefits based on new accounting standards to be introduced in fiscal 2000 will vary considerably according to the applicable discount rate and PBO method employed. Tokyo Gas will provide this information after details regarding the new standards are announced. Nevertheless, we can say that since all pension fund-related Past Service Liabilities have been fully amortized, and since all lump-sum severance payment expenses required at the end of the fiscal year have been accounted for as liabilities, we do not expect any shortfalls under the new accounting rules to be material.



### 6. What are Tokyo Gas' arrangements for procuring LNG in terms of pricing, contracts and sources?

LNG competes with petroleum, the world's main source of energy, and so the price of LNG is largely determined by that of petroleum. Furthermore, most of the LNG that Tokyo Gas purchases is closely linked to the price of oil imported by Japan.

All our contracts are long-term contracts and fall into two categories regarding ownership of LNG cargoes. Under Ex-Ship contracts we receive LNG from Alaska, Qatar, Brunei, Malaysia, and Australia when it is unloaded in Japan. Under FOB contracts we receive the LNG when it is loaded at the source-country port. This is the arrangement we have for LNG from Indonesia. Tokyo Gas plans to continue procuring LNG on the basis of long-term contracts, but we will consider new contract opportunities, offering different terms with respect to minimum quantities, contract period and price, as deregulation progresses and the energy market becomes further liberalized.

As for sources of LNG, we will make our selections based on stability of supply, taking into account economic feasibility and flexibility of terms, while maintaining a basic policy of procuring LNG from diverse sources. As a general policy, Tokyo Gas maintains stockpiles sufficient for 30 days. In the event that any particular source of supply is interrupted, we have plans to respond. Our response options include the use of inventory, alternate sources of natural gas, increased production from other sources, assistance from other LNG importers and other measures. We believe that these plans are sufficient to deal with any foreseeable situation.

# Consolidated Balance Sheets

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
March 31, 1999 and 1998

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| ***ASSETS*** | **1999** | 1998 | **1999** |
| Property, plant and equipment (Note 3): | | | |
| Production facilities | **¥ 669,814** | ¥ 448,725 | **$ 5,556,317** |
| Distribution facilities | **1,595,849** | 1,537,158 | **13,238,067** |
| Service and maintenance facilities | **214,167** | 270,417 | **1,776,582** |
| Other | **562,735** | 544,391 | **4,668,063** |
| Construction in progress | **144,853** | 265,217 | **1,201,601** |
| | **3,187,418** | 3,065,908 | **26,440,630** |
| Accumulated depreciation | **(1,844,624)** | (1,728,270) | **(15,301,733)** |
| | **1,342,794** | 1,337,638 | **11,138,897** |
| Intangibles | **4,171** | 3,861 | **34,600** |
| Investments and other non-current assets: | | | |
| Investments in unconsolidated subsidiaries and affiliated companies | **11,715** | 17,482 | **97,179** |
| Investment securities (Note 4) | **20,753** | 24,318 | **172,153** |
| Other investments and non-current assets | **84,023** | 83,753 | **696,997** |
| Allowance for doubtful accounts | **(1,486)** | (1,223) | **(12,327)** |
| | **115,005** | 124,330 | **954,002** |
| Current assets: | | | |
| Cash and cash equivalents | **44,211** | 46,705 | **366,744** |
| Marketable securities | **3,396** | 1,923 | **28,171** |
| Receivables: | | | |
| Trade notes and accounts | **114,804** | 117,228 | **952,335** |
| Allowance for doubtful accounts | **(1,501)** | (1,644) | **(12,451)** |
| Inventories (Note 5) | **27,687** | 29,975 | **229,672** |
| Other current assets | **56,879** | 60,668 | **471,829** |
| Total current assets | **245,476** | 254,855 | **2,036,300** |
| | **¥ 1,707,446** | ¥ 1,720,684 | **$ 14,163,799** |

*See accompanying notes.*

| LIABILITIES AND STOCKHOLDERS' EQUITY | Millions of yen 1999 | Millions of yen 1998 | Thousands of U.S. dollars (Note 1) 1999 |
|---|---|---|---|
| Long-term debt due after one year (Note 6) | **¥ 820,753** | ¥ 765,304 | **$ 6,808,403** |
| Retirement benefits (Note 7) | **105,723** | 105,283 | **877,005** |
| Allowance for repairs of gas holders | **3,330** | 3,633 | **27,623** |
| Other non-current liabilities | **55,633** | 53,018 | **461,494** |
| Current liabilities: | | | |
| Bank loans (Note 6) | **52,693** | 41,248 | **437,105** |
| Long-term debt due within one year (Note 6) | **38,630** | 96,788 | **320,448** |
| Notes and accounts payable: | | | |
| Trade | **54,003** | 52,931 | **447,972** |
| Other | **44,540** | 59,903 | **369,473** |
| Income taxes payable (Note 8) | **18,821** | 18,985 | **156,126** |
| Accrued expenses | **59,906** | 56,717 | **496,939** |
| Other current liabilities | **28,852** | 45,648 | **239,337** |
| Total current liabilities | **297,445** | 372,220 | **2,467,400** |
| Commitment and contingent liabilities (Note 12) | | | |
| Minority interest | **3,120** | 3,471 | **25,881** |
| Stockholders' equity (Note 9): | | | |
| Common stock par value ¥50 per share: | | | |
| Authorized — 6,500,000,000 shares | | | |
| Issued par value — 2,810,012,006 shares in 1999 | | | |
| — 2,810,009,057 shares in 1998 | **141,817** | 141,817 | **1,176,416** |
| Additional paid-in capital | **2,038** | 2,038 | **16,906** |
| Consolidated retained earnings | **277,589** | 273,904 | **2,302,688** |
| | **421,444** | 417,759 | **3,496,010** |
| Treasury stock, at cost | **(2)** | (4) | **(17)** |
| Total stockholders' equity | **421,442** | 417,755 | **3,495,993** |
| | **¥1,707,446** | ¥1,720,684 | **$14,163,799** |

# Consolidated Statements of Income

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 1999 and 1998

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 1999 | 1998 | 1999 |
| Net sales (Note 10) | ¥997,767 | ¥1,009,155 | $8,276,790 |
| Costs and expenses (Note 7 and 10): | | | |
| Cost of sales | 477,284 | 490,693 | 3,959,220 |
| Selling, general and administrative | 448,180 | 441,977 | 3,717,794 |
| | 925,464 | 932,670 | 7,677,014 |
| Operating income (Note 10) | 72,303 | 76,485 | 599,776 |
| Other income (expenses): | | | |
| Interest and dividend income | 1,365 | 1,541 | 11,323 |
| Interest expense | (22,393) | (26,215) | (185,757) |
| Adjustments of charges for construction of distribution facilities | (8,546) | (7,266) | (70,892) |
| Exchange gains (losses) | 1,382 | (813) | 11,464 |
| Loss on restructuring of business of a consolidated subsidiary | (1,556) | – | (12,908) |
| Loss on early retirement of notes | – | (8,438) | – |
| Other, net | (1,591) | 967 | (13,197) |
| | (31,339) | (40,224) | (259,967) |
| Income before income taxes | 40,964 | 36,261 | 339,809 |
| Income taxes (Note 8) | 23,499 | 18,941 | 194,931 |
| | 17,465 | 17,320 | 144,878 |
| Minority interest in net income of consolidated subsidiaries | 299 | (79) | 2,480 |
| Net income | ¥ 17,764 | ¥ 17,241 | $ 147,358 |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| | 1999 | 1998 | 1999 |
| Amounts per share of common stock: | | | |
| Net income | ¥ 6.32 | ¥ 6.14 | $ 0.05 |
| Diluted net income (Note 2) | 5.94 | 5.76 | 0.05 |
| Cash dividends applicable to the year | 5.00 | 5.00 | 0.04 |

*See accompanying notes.*

# Consolidated Statements of Stockholders' Equity

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 1999 and 1998

| | | Millions of yen | | |
|---|---|---|---|---|
| | Shares of common stock (Thousands) | Common stock | Additional paid-in capital | Retained earnings |
| Balance at March 31, 1997 | 2,809,997 | ¥141,815 | ¥2,036 | ¥271,057 |
| Net income | | | | 17,241 |
| Cash dividends paid (¥5.00 per share) | | | | (14,050) |
| Bonuses to directors | | | | (143) |
| Shares issued upon conversion of convertible bonds | 12 | 2 | 2 | |
| Decrease due to additions of consolidated subsidiaries | | | | (201) |
| Balance at March 31, 1998 | 2,810,009 | 141,817 | 2,038 | 273,904 |
| Net income | | | | 17,764 |
| Cash dividends paid (¥5.00 per share) | | | | (14,050) |
| Bonuses to directors | | | | (148) |
| Shares issued upon conversion of convertible bonds | 3 | 0 | 0 | |
| Increase due to merger of consolidated subsidiaries | | | | 119 |
| **Balance at March 31, 1999** | **2,810,012** | **¥141,817** | **¥2,038** | **¥277,589** |

| | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| | Common stock | Additional paid-in capital | Consolidated retained earnings |
| Balance at March 31, 1998 | $1,176,416 | $16,906 | $2,272,128 |
| Net income | | | 147,358 |
| Cash dividends paid ($0.04 per share) | | | (116,549) |
| Bonuses to directors | | | (1,236) |
| Shares issued upon conversion of convertible bonds | 0 | 0 | |
| Increase due to merger of consolidated subsidiaries | | | 987 |
| **Balance at March 31, 1999** | **$1,176,416** | **$16,906** | **$2,302,688** |

*See accompanying notes.*

# Consolidated Statements of Cash Flows

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 1999 and 1998

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 1999 | 1998 | 1999 |
| Cash flows from operating activities: | | | |
| Net income | ¥ 17,764 | ¥ 17,241 | $ 147,358 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation (Note 10) | 132,568 | 114,893 | 1,099,693 |
| Amortization of long-term prepayment | 10,698 | 9,969 | 88,743 |
| Provision for severance and retirement benefits | 6,956 | 5,559 | 57,702 |
| Reversal of retirement benefits | (6,509) | (5,533) | (53,994) |
| Loss on disposals of property, plant and equipment | 3,539 | 3,282 | 29,357 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in notes and accounts receivable | 3,872 | (4,976) | 32,120 |
| Decrease in inventories | 2,296 | 2,254 | 19,046 |
| Increase (decrease) in notes and accounts payable | (18,404) | 9,561 | (152,667) |
| Increase (decrease) in income taxes payable | (172) | 1,875 | (1,427) |
| Increase (decrease) in accrued expenses | 3,144 | (650) | 26,080 |
| Other | 544 | (3,046) | 4,513 |
| Net cash provided by operating activities | 156,296 | 150,429 | 1,296,524 |
| Cash flows from investing activities: | | | |
| Purchases of property, plant and equipment | (149,436) | (154,143) | (1,239,619) |
| Proceeds from disposals of property, plant and equipment | 294 | 471 | 2,439 |
| Decrease in marketable and investment securities — net | 6,485 | 1,786 | 53,795 |
| Increase in other investments and other non-current assets — net | (10,670) | (9,705) | (88,511) |
| Net cash used in investing activities | (153,327) | (161,591) | (1,271,896) |
| Cash flows from financing activities: | | | |
| Proceeds from (payments for) short-term bank loans | 11,445 | (28,350) | 94,940 |
| Proceeds from long-term debt | 101,144 | 46,869 | 839,021 |
| Payments for long-term debt | (103,853) | (86,700) | (861,493) |
| Cash dividends paid | (14,050) | (14,050) | (116,549) |
| Bonuses paid to directors | (149) | (143) | (1,236) |
| Net cash used in financing activities | (5,463) | (82,374) | (45,317) |
| Increase due to addition of consolidated subsidiaries | – | 1,005 | – |
| Net decrease in cash and cash equivalents | (2,494) | (92,531) | (20,689) |
| Cash and cash equivalents at beginning of year | 46,705 | 139,236 | 387,433 |
| Cash and cash equivalents at end of year | ¥ 44,211 | ¥ 46,705 | $ 366,744 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | ¥ 24,102 | ¥ 27,737 | $ 199,934 |
| Income taxes | 23,662 | 17,065 | 196,284 |

*See accompanying notes.*

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries

### 1. Basis of consolidated financial statements

Tokyo Gas Co., Ltd. (the Company ) and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements are not customarily prepared in Japan and are not required to be filed with MOF.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 1999, which was ¥120.55 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### 2. Significant accounting policies

*Consolidation* — The consolidated financial statements of the Company include the accounts of domestic subsidiaries which are significant (13 subsidiaries in 1999 and 1998). Intercompany transactions and accounts have been eliminated.

*Equity method* — Investments in unconsolidated subsidiaries and affiliated companies (20% to 50% owned) are stated at cost and are not accounted for by the equity method, due to their effect being not material in the aggregate to the consolidated net income or retained earnings. Earnings of unconsolidated subsidiaries and affiliated companies are recorded in the Company's books only to the extent that cash dividends are received.

*Property, plant and equipment* — Property, plant and equipment is generally stated at cost. Depreciation is determined mainly by the declining-balance method based on the estimated useful lives. In accordance with revisions of the Corporation Tax Law, buildings acquired after March 31, 1998 are depreciated using the straight-line method. By this change, income before income taxes have increased ¥138 million over the conventional method. The effect of this change was immaterial.

Also effective April 1, 1998, in accordance with revisions referred to above, the Company shortened the estimated useful lives of buildings, excluding building fixtures. The effect of this change was to decrease operating income and income before income taxes by ¥1,699 million.

*Cash and cash equivalents* — Cash and cash equivalents include all cash balance and highly liquid investments with a maturity of three months or less.

*Securities* — Listed equity securities included in current assets and non-current assets are carried at the lower of moving average cost or market value. Other securities are stated at moving average cost. Commencing with the year ended March 31, 1999, the Company records recoveries of write-downs of securities in accordance with a revision in the Corporation Tax Law. There was no effect on net income resulting from adopting this accounting policy.

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

*Allowance for doubtful accounts* — Pursuant to the change in the Corporation Tax Law effective from the year ended March 31, 1999, the Company adopted the policy of providing the allowance for doubtful accounts in an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts. The Company previously provided the allowance using the formula provided by the Corporation Tax Law. (The effect of the change was immaterial.)

*Retirement benefits* — Under the terms of the Company's retirement plan, eligible employees are entitled, under most circumstances, upon mandatory retirement or earlier voluntary severance, to severance payment based on compensation at the time of severance and years of service.

Employees' retirement benefits covering substantially all employees are provided through two arrangements: an unfunded lump-sum benefit plan and a funded pension plan.

The liabilities under the unfunded benefit plan are stated at the amount which would be required, had all eligible employees retired voluntarily at the balance sheet date.

In addition, employees, who are age 30 or more with 5 years or more of service, are covered by the funded pension plan, and receive lifetime pension payments from the age of 60 from the plan when they leave the Company at age 50 or more with 15 years or more of service. They may alternatively elect to receive the current value of their vested benefits in a lump-sum distribution.

With regard to retirement benefits to directors and statutory corporate auditors, certain consolidated subsidiaries have separate unfunded lump-sum benefit plans based on established guidelines subject to stockholders' approval. Liabilities under these plans are provided on an accrual basis and included in "Retirement benefits" in the accompanying balance sheets.

*Allowance for repairs of gas holders* — The Company provides for future repairs of gas holders every ten years 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 repair is completed.

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

*Income taxes* — Taxes on income, which consist of corporation tax and inhabitants taxes, have been provided for the amount currently payable for each year based on taxable income. Deferred income taxes are not recognized.

*Enterprise tax* — Enterprise tax normally constitutes income taxes. However, in the case of companies engaged in gas and certain other businesses, enterprise tax is levied not on income but on net sales. In the accompanying statements of income, enterprise tax is accounted for in "Selling, general and administrative" expenses in the amount of ¥11,257 million ($93,380 thousand) and ¥11,533 million for the years ended March 31, 1999 and 1998, respectively. Enterprise taxes calculated based on profit are included in income taxes. Enterprise taxes calculated based on revenue are included in general and administrative.

*Foreign currency translation* — Current monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet date.

*Amounts per share of common stock* — The computations of net income per share are made based on the weighted average number of shares outstanding during each fiscal year.

Cash dividend per share represents the actual amount declared for the year.

### 3. Property, plant and equipment

Property, plant and equipment is generally recorded at cost. However, in cases where the Company receives contributions towards the cost of construction from customers, such contributed amount is offset against the acquisition cost of the subjected asset. Such offset amount accumulated to March 31, 1999 was ¥219,723 million ($1,822,671 thousand).

### 4. Market value information for securities — parent only

Book value, market value and net unrealized gains of quoted securities included in investments at March 31, 1999 and 1998 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **1999** | 1998 | **1999** |
| Book value | **¥11,670** | ¥ 13,264 | **$ 96,806** |
| Market value | **94,339** | 107,912 | **782,572** |
| Net unrealized gains | **¥82,669** | ¥ 94,648 | **$685,766** |

### 5. Inventories

Inventories at March 31, 1999 and 1998 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **1999** | 1998 | **1999** |
| Finished products | **¥ 2,342** | ¥ 2,882 | **$ 19,428** |
| Raw materials | **10,995** | 16,142 | **91,207** |
| Supplies | **7,764** | 10,882 | **64,405** |
| Work in process | **6,586** | 69 | **54,632** |
| | **¥27,687** | ¥29,975 | **$229,672** |

## 6. Bank loans and long-term debt

At March 31, 1999 and 1998 bank loans consisted of short-term notes, bearing interest at an annual average rate of 0.72% and 0.88%, respectively.

Long-term debt at March 31, 1999 and 1998 comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 1999 | 1998 | 1999 |
| Domestic unsecured notes due 2002 at a rate of 5.6% | **¥ 35,000** | ¥ 35,000 | **$ 290,336** |
| Domestic unsecured notes due 2014 at a rate of 5.1% | **30,000** | 30,000 | **248,859** |
| Domestic unsecured notes due 2015 at a rate of 4.1% | **30,000** | 30,000 | **248,859** |
| Domestic unsecured notes due 2016 at a rate of 4.0% | **30,000** | 30,000 | **248,859** |
| Domestic unsecured notes due 2018 at a rate of 2.625% | **40,000** | – | **331,812** |
| Domestic unsecured convertible bonds: | | | |
| 1st issue due 2003 at a rate of 1.5% | **58,791** | 58,791 | **487,690** |
| 2nd issue due 2000 at a rate of 1.5% | **39,808** | 39,808 | **330,220** |
| 3rd issue due 2005 at a rate of 1.5% | **99,583** | 99,583 | **826,072** |
| 4th issue due 2002 at a rate of 1.5% | **98,958** | 98,958 | **820,888** |
| 5th issue due 2009 at a rate of 1.2% | **49,998** | 49,999 | **414,749** |
| 6th issue due 2007 at a rate of 1.1% | **49,993** | 49,993 | **414,708** |
| U.S. dollar notes due 1998 at a rate of 5.5% | **–** | 37,485 | **–** |
| Swiss franc notes due 2002 at a rate of 4.5% | **14,810** | 14,810 | **122,854** |
| DM bearer bonds due 2005 at a rate of 7.0% | **18,333** | 18,333 | **152,078** |
| Domestic secured notes due 2003 at a rate of 2.0% | **800** | 800 | **6,636** |
| Loans from banks, insurance companies and government agencies due through 2026 at rates of 1.24% to 7.50%: | | | |
| Secured | **6,623** | 7,642 | **54,940** |
| Unsecured | **256,686** | 260,890 | **2,129,291** |
| | **859,383** | 862,092 | **7,128,851** |
| Less amounts due within one year | **38,630** | 96,788 | **320,448** |
| | **¥820,753** | ¥765,304 | **$6,808,403** |

The indentures covering the first through sixth domestic convertible bonds provide, among other conditions, for (1) conversion into shares of common stock at the current conversion prices per share of ¥1,267.90 ($10.52), ¥1,267.90 ($10.52), ¥1,105.70 ($9.17), ¥1,105.70 ($9.17), ¥339.00 ($2.81) and ¥339.00 ($2.81), respectively (subject to adjustment in certain circumstances), (2) conversion periods through September 2003, September 2000, March 2005, March 2002, March 2009 and March 2007, respectively, and (3) redemption at the option of the Company, commencing in October 1996, October 1994, April 1998 and April 1996, respectively, at prices ranging from 106% to 100% of the principal amount except for the fifth and sixth issue convertible bonds.

At March 31, 1999, investment securities and property, plant and equipment at book value amounting to ¥8,723 million ($72,360 thousand) were pledged as collateral for secured loans and bonds issued by consolidated subsidiaries.

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

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

The annual maturities of long-term debt at March 31, 1999 were as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2000 | ¥ 38,630 | $ 320,448 |
| 2001 | 71,086 | 589,681 |
| 2002 | 122,320 | 1,014,683 |
| 2003 | 70,974 | 588,752 |
| 2004 | 97,664 | 810,153 |
| 2005 and thereafter | 458,709 | 3,805,134 |

## 7. Retirement benefits

Charges with respect to employees' and retirement benefits covering employees and directors and statutory corporate auditors of the Company and consolidated subsidiaries included in "Costs and expenses" were ¥25,270 million ($209,623 thousand) and ¥15,419 million for the years ended March 31, 1999 and 1998, respectively.

## 8. Income taxes

Taxes on income consist of corporation and inhabitants taxes. The aggregate normal statutory rate on income before income taxes was 42% and 45% for the years ended March 31, 1999 and 1998, respectively.

Differences between the actual effective tax rate and normal statutory tax rate are attributable primarily to temporary differences in recognizing depreciation charges and other expenses in financial statements and tax returns.

## 9. Stockholders' equity

At the current conversion prices, 552,286 thousand shares of common stock were issuable at March 31, 1999 upon full conversion of the outstanding convertible bonds (see Note 6).

Under the Commercial Code of Japan, the Company is required to appropriate as legal reserve an amount equal to at least 10% of cash dividends and bonuses to directors until the reserve equals 25% of common stock. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the stockholders' meeting or transferred to the common stock by resolution of the Board of Directors. The amount of retained earnings on a non-consolidated basis less the amount required for legal reserve is available for cash dividends.

## 10. Segment information

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

A summary of net sales, cost and expenses, operating income, identifiable assets, depreciation and capital expenditures is as follows:

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gas sales | Gas appliance sales | Related construction | Real estate rental business | Other | Elimination or corporate | Consolidated |
| **For 1999:** | | | | | | | |
| Sales: | | | | | | | |
| Outside customers | **¥ 674,997** | **¥132,749** | **¥63,630** | **¥ 15,617** | **¥110,774** | **¥ –** | **¥ 997,767** |
| Inside group | **–** | **1,177** | **5,188** | **21,999** | **44,270** | **(72,634)** | **–** |
| | **674,997** | **133,926** | **68,818** | **37,616** | **155,044** | **(72,634)** | **997,767** |
| Costs and expenses | **518,899** | **134,625** | **68,235** | **28,826** | **146,021** | **28,858** | **925,464** |
| Operating income | **¥ 156,098** | **¥ (699)** | **¥ 583** | **¥ 8,790** | **¥ 9,023** | **¥(101,492)** | **¥ 72,303** |
| Identifiable assets | **¥1,145,642** | **¥ 52,906** | **¥22,301** | **¥257,963** | **¥216,631** | **¥ 12,003** | **¥1,707,446** |
| Depreciation | **106,481** | **704** | **57** | **13,331** | **12,006** | **(11)** | **132,568** |
| Capital expenditures | **121,695** | **631** | **295** | **2,112** | **18,808** | **(1,511)** | **142,030** |
| For 1998: | | | | | | | |
| Sales: | | | | | | | |
| Outside customers | ¥ 686,649 | ¥126,840 | ¥66,695 | ¥ 16,495 | ¥112,476 | ¥ – | ¥1,009,155 |
| Inside group | – | 1,040 | 4,365 | 22,483 | 42,126 | (70,014) | – |
| | 686,649 | 127,880 | 71,060 | 38,978 | 154,602 | (70,014) | 1,009,155 |
| Costs and expenses | 537,098 | 127,588 | 70,868 | 29,465 | 146,232 | 21,419 | 932,670 |
| Operating income | ¥ 149,551 | ¥ 292 | ¥ 192 | ¥ 9,513 | ¥ 8,370 | ¥ (91,433) | ¥ 76,485 |
| Identifiable assets | ¥1,143,567 | ¥ 58,911 | ¥21,275 | ¥266,026 | ¥215,769 | ¥ 15,136 | ¥1,720,684 |
| Depreciation | 89,775 | 786 | 73 | 12,666 | 12,379 | (786) | 114,893 |
| Capital expenditures | 138,884 | 824 | 42 | 2,443 | 18,369 | (1,129) | 159,433 |

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gas sales | Gas appliance sales | Related construction | Real estate rental business | Other | Elimination or corporate | Consolidated |
| **For 1999:** | | | | | | | |
| Sales: | | | | | | | |
| Outside customers | **$5,599,311** | **$1,101,195** | **$527,831** | **$ 129,548** | **$ 918,905** | **$ –** | **$ 8,276,790** |
| Inside group | **–** | **9,764** | **43,036** | **182,489** | **367,233** | **(602,522)** | **–** |
| | **5,599,311** | **1,110,959** | **570,867** | **312,037** | **1,286,138** | **(602,522)** | **8,276,790** |
| Costs and expenses | **4,304,429** | **1,116,757** | **566,031** | **239,121** | **1,211,290** | **239,386** | **7,677,014** |
| Operating income | **$1,294,882** | **$ (5,798)** | **$ 4,836** | **$ 72,916** | **$ 74,848** | **$(841,908)** | **$ 599,776** |
| Identifiable assets | **$9,503,459** | **$ 438,872** | **$184,994** | **$2,139,884** | **$1,797,022** | **$ 99,568** | **$14,163,799** |
| Depreciation | **883,293** | **5,840** | **473** | **110,585** | **99,593** | **(91)** | **1,099,693** |
| Capital expenditures | **1,009,498** | **5,234** | **2,447** | **17,520** | **156,018** | **(12,534)** | **1,178,183** |

Assets in the corporate column mainly comprise current and non-current securities of the Company.

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

## 11. Information for certain leases

Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases. Under such finance leases, lease payments and lease income, which are charged or credited to income for the year ended March 31, 1999 and 1998 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **1999** | 1998 | **1999** |
| Lease payments | **¥1,267** | ¥1,456 | **$10,510** |
| Lease income | **4,840** | 4,629 | **40,149** |

Future minimum lease payments and future lease payments to be received, inclusive of interest, at March 31, 1999 and 1998 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **1999** | 1998 | **1999** |
| Future minimum lease payments | | | |
| Current | **¥ 943** | ¥1,158 | **$ 7,822** |
| Non-current | **1,282** | 1,690 | **10,635** |
| | **¥2,225** | ¥2,848 | **$18,457** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **1999** | 1998 | **1999** |
| Future lease payments to be received | | | |
| Current | **¥ 3,776** | ¥ 3,959 | **$ 31,323** |
| Non-current | **8,733** | 10,435 | **72,443** |
| | **¥12,509** | ¥14,394 | **$103,766** |

The company leases certain production facilities, distribution facilities, service and maintenance facilities and other assets. An analysis of leased assets under finance leases is as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net book value |
| Production facilities | ¥ 124 | ¥ 30 | ¥ 94 |
| Distribution facilities | 651 | 312 | 339 |
| Service and maintenance facilities | 306 | 205 | 101 |
| Other | 4,900 | 3,208 | 1,692 |
| | ¥5,891 | ¥3,755 | ¥2,226 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net book value |
| Production facilities | $ 1,029 | $ 249 | $ 780 |
| Distribution facilities | 5,400 | 2,588 | 2,812 |
| Service and maintenance facilities | 2,538 | 1,701 | 837 |
| Other | 40,647 | 26,611 | 14,036 |
| | $49,614 | $31,149 | $18,465 |

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Amount representing lease depreciation | ¥1,267 | $10,510 |

The Company has direct finance lease of other assets. An analysis of leased assets under direct finance lease is as follow:

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net book value |
| Other | ¥24,641 | ¥16,614 | ¥8,027 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net book value |
| Other | $204,405 | $137,818 | $66,587 |

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Lease depreciation | ¥2,676 | $22,198 |

Such information was required to be disclosed from 1999.

## 12. Commitment and contingent liabilities

The Company and its consolidated subsidiaries were contingently liable as guarantors for (1) bank loans of unconsolidated subsidiaries and others in the amount of ¥6,825 million ($56,616 thousand) at March 31, 1999 and (2) the in-substance defeasance of domestic unsecured notes in the amount of ¥30,000 million ($248,859 thousand) issued by the Company, which were assigned to certain banks under the debt assumption agreements made through the years ended March 31, 1999. At the same date, some consolidated subsidiaries were contingently liable with respect to trade notes receivable discounted with banks in the amount of ¥219 million ($1,817 thousand).

At March 31, 1999, the Company had several long-term purchase contracts for the supply of LNG. The purchase price determinable under such contracts is contingent upon fluctuations in the market price of crude oil.

## 13. Subsequent events

(A) Issuance of domestic unsecured notes

On May 14, 1999, the Company issued domestic unsecured notes in the amount of ¥30,000 million ($248,859 thousand) due 2009 at a rate of 1.68%.

(B) Appropriation of retained earnings

At the annual meeting held on June 29, 1999, the Company's stockholders approved (1) payment of year-end cash dividends of ¥2.5 ($0.02) per share aggregating ¥7,025 million ($58,275 thousand) to the stockholders of record as of March 31, 1999, and (2) payment of bonuses to directors totalling ¥83 million ($689 thousand).

ASAHI & CO

ARTHUR ANDERSEN

A Member Firm of
Andersen Worldwide SC

To the Stockholders and the Board of Directors of TOKYO GAS CO., LTD.:

We have audited the accompanying consolidated balance sheets of TOKYO GAS CO., LTD. (a Japanese corporation) and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of TOKYO GAS CO., LTD. and subsidiaries as of March 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
June 29, 1999

**Statement on Accounting Principles and Auditing Standards**

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.