Management's Discussion and Analysis of Operations

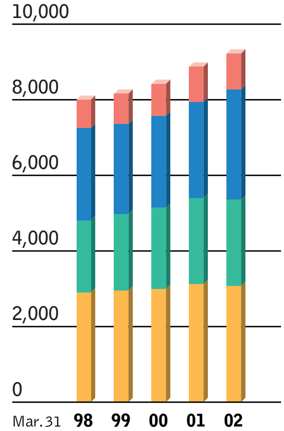
The business activities of Tokyo Gas Co., Ltd. and its 14 consolidated subsidiaries are broken down into 5 categories: gas sales, gas appliance sales, related construction, real estate rental business, and other. Please refer to Notes 1 and 2 of the Notes to Consolidated Financial Statements for an explanation of the main accounting policies.

OVERVIEW OF CONSOLIDATED BUSINESS RESULTS

Gas Sales Volume

The volume of gas sold by Tokyo Gas in fiscal 2001, the year ended March 31, 2002, increased 3.9% to 9,227 million m^3. Growth was attributable mainly to higher demand in the industrial-use sector, where volume climbed 14.5% due to higher capacity utilization rates of existing customers and efforts to secure new customers. Residential gas volume decreased 1.5% year on year as a record-setting warm winter negated efforts to win new customers and to popularize gas appliances. Tokyo Gas also worked to win new customers in the commercial and other business user sectors.

Gas Sales Volume by Sector
(Million m^3, 46.05 MJ/m^3)



Note: Non-consolidated

Net Sales

Consolidated net sales edged up 1.0% over the previous year to ¥1,097.5 billion, reflecting the higher gas sales volume and adjustments to gas rates based on the *"sliding rate"* system, as well as increased sales of gas appliances. Growth was limited by the effect of gas rate reductions.

Operating Expenses and Operating Income

The cost of raw materials rose in fiscal 2001 as raw material usage rose in line with the increase in gas sales volumes. The yen weakened approximately ¥14.5 against the U.S. dollar compared with the previous fiscal year, outweighing a drop of roughly US$4.5 per barrel in the price of crude oil. Costs and expenses, the sum of cost of sales and selling, general and administrative expenses, increased by only 0.4% to ¥986.9 billion thanks to efforts to pare operating, personnel and other expenses through greater efficiency. Operating income rose 6.7% to ¥110.6 billion.

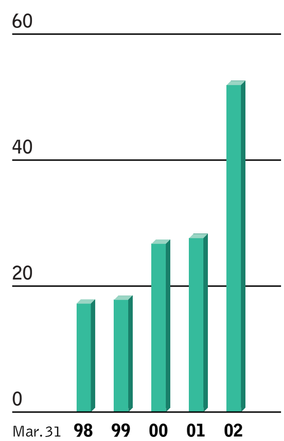
Other Income (Expenses)

Other expenses were ¥27.7 billion, an improvement of ¥30.8 billion on the previous fiscal year. This reflected the absence of a charge for unfunded obligations arising from an amendment of accounting standards for retirement benefits recorded in fiscal 2000 and lower interest expenses resulting from progress made in repaying interest-bearing debt.

Income Before Income Taxes, Income Taxes and Net Income

Income before income taxes and minority interest in net income of consolidated subsidiaries climbed 83.8% to ¥82.8 billion on account of the higher operating income and the significantly lower other expenses. Income taxes were ¥31.5 billion. Net income, after taking into account tax adjustments due to tax-effect accounting, rose 88.1% to ¥51.9 billion. Basic net income per share was ¥18.47 and diluted net income per share was ¥16.66. ROE for fiscal 2001 was 9.3%.

Net Income
(Billion ¥)



SEGMENT INFORMATION (Sales to Outside Customers)

Gas Sales

Gas sales increased 1.3%, or ¥9.7 billion, to ¥750.4 billion, despite the effects of downward rate revisions. The increase was attributable to efforts to expand gas sales volumes and upward adjustments to gas rates based on the *"sliding rate"* system. Gas sales accounted for 68.4% of total net sales. Costs and expenses increased 1.8%, or ¥10.4 billion, due to higher raw materials costs and other factors. Segment operating income was about the same as last year at ¥149.2 billion.

Gas Appliance Sales

Segment sales rose 2.0%, or ¥2.8 billion, to ¥148.2 billion due to strong demand for TES (Thin & Economical System) air-conditioning systems, gas floor heating, GHPs (gas engine-driven heat pumps) and other gas appliances. The segment accounted for 13.5% of total net sales. Costs and expenses increased 1.5%, or ¥2.0 billion, in line with the increase in the number of units sold. But operating income climbed 9.3%, or ¥0.6 billion, to ¥7.2 billion.

Related Construction

Sales were largely the same as in the previous year at ¥67.6 billion, representing 6.2% of total net sales. Costs and expenses were reduced by 0.4%, or ¥0.2 billion, year on year. A decline in intersegment sales, however, led to a 7.7%, or ¥0.3 billion, decrease in operating income to ¥3.6 billion.

Real Estate Rental Business

Sales were largely the same as in the previous year at ¥15.6 billion, representing 1.4% of total net sales. Costs and expenses rose 6.6%, or ¥1.9 billion, as the depreciation method for the Shinjuku Park Tower was changed from straight line to declining balance to make it consistent with other company-owned buildings. Operating income dropped 24.7%, or ¥1.9 billion, to ¥6.0 billion as a result.

Other

Segment sales edged down 1.6%, or ¥1.8 billion, to ¥115.5 billion due mainly to lower demand for district heating and cooling (DHC) systems. Other sales accounted for 10.5% of total net sales. Costs and expenses decreased 2.8%, or ¥4.2 billion, due to factors such as lower depreciation expenses on DHC facilities. Consequently, operating income increased 6.6%, or ¥0.6 billion, to ¥10.7 billion.

FINANCIAL POSITION

Total assets as of March 31, 2002, stood at ¥1,702.7 billion, down 5.3%, or ¥94.9 billion.

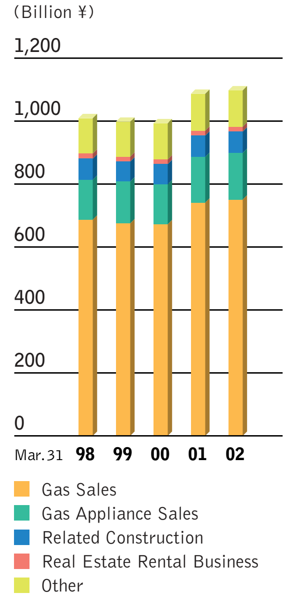
Fixed Assets

Fixed assets decreased 4.4% to ¥1,450.8 billion. Plant, property and equipment declined 3.3% to ¥1,249.9 billion due to depreciation. Investment securities decreased ¥36.8 billion as the stock market dipped, resulting in an 11.8% decline in investments and other non-current assets to ¥181.6 billion.

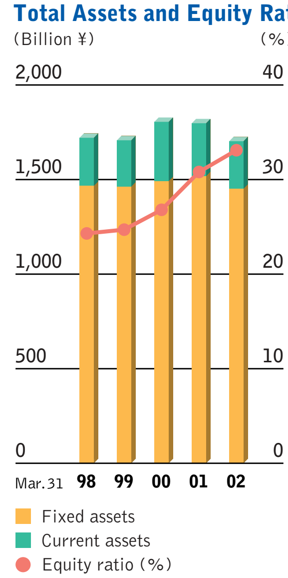
Current Assets

Current assets stood at ¥251.8 billion, a decrease of 10.1%, as of March 31, 2002. This primarily reflected a decline in short-term advances to group members in other current assets.

Net Sales by Segment



Total Assets and Equity Ratio



Long-Term Liabilities

Long-term liabilities decreased 4.3% to ¥836.9 billion. This mainly reflected the repurchase and retirement of convertible bonds, as well as the transfer to current liabilities of long-term debt due within one year.

Current Liabilities

Current liabilities totaled ¥297.8 billion, down 18.8% from a year ago. The decrease reflected progress in repaying debt and redemption of convertible bonds as the company took steps to reduce interest-bearing debt.

Interest-Bearing Debt

As of March 31, 2002, interest-bearing debt was ¥775.8 billion, a decline of 10.9% from a year ago as the company continued efforts from last year to strengthen its balance sheet. The rate of dependence on interest-bearing debt, which is defined as interest-bearing debt as a percentage of total assets, improved from 48.4% to 45.6%.

Stockholders' Equity

Total stockholders' equity increased 2.0% to ¥564.0 billion, mainly because retained earnings rose ¥33.5 billion thanks to the company's strong operating results. Net unrealized holding gains on securities, however, decreased ¥22.3 billion, reflecting the application of accounting standards for financial instruments, which have been applied since fiscal 2000. Efforts to strengthen the balance sheet contributed to a higher equity ratio of 33.1%, up from 30.8% in the previous year.

Capital Expenditures

Tokyo Gas is making investments to expand facilities to put in place a more stable supply system for gas. With respect to production facilities, Tokyo Gas has expanded LNG-related facilities, such as by constructing various facilities at the Ohgishima LNG Terminal, which started operations in October 1998. In regard to supply facilities, Tokyo Gas has made investments in pipelines to develop new sources of demand, to create a trunk network and to replace existing pipelines and take other measures to make the supply system better able to withstand earthquakes. Capital expenditures in fiscal 2001 decreased 5.1% to ¥104.2 billion.

Cash Flows

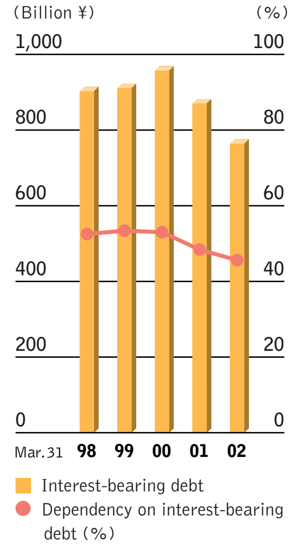
Net cash provided by operating activities rose ¥4.1 billion to ¥191.6 billion, principally reflecting the sharp increase in income before income taxes and minority interest in net income of consolidated subsidiaries.

Investing activities used net cash of ¥111.8 billion, ¥4.0 billion less than in the previous fiscal year. This represented mainly a ¥1.2 billion increase to ¥104.8 billion in purchases of property, plant and equipment, which as it did last year, accounted for the lion's share of cash used by investing activities.

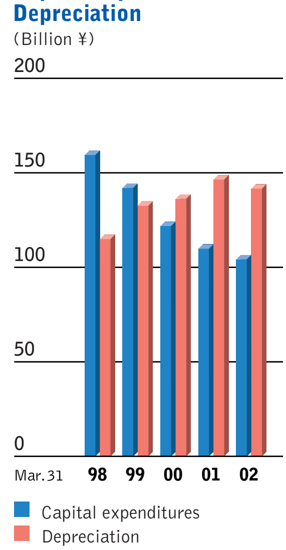
Financing activities used net cash of ¥117.1 billion, ¥12.7 billion more than in the previous fiscal year. Cash was used to repay long-term debt of ¥39.0 billion and redeem ¥120.0 billion in bonds as Tokyo Gas pushed ahead with efforts to reduce interest-bearing debt.

As a result of the foregoing items, cash and cash equivalents at the end of the year were ¥27.2 billion, ¥37.3 billion lower than a year ago.

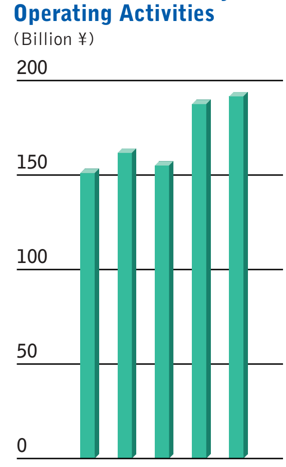
Interest-bearing Debt



Capital Expenditures and Depreciation



Net Cash Provided by Operating Activities



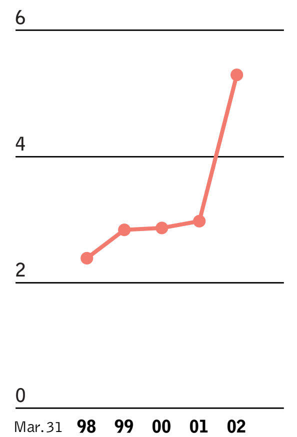
FINANCIAL POLICY

Tokyo Gas has made capital expenditures in excess of the total of net income and depreciation 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, interest-bearing debt increased. However, Tokyo Gas has now entered a period in which past investments are generating returns. Consequently, Tokyo Gas is now able to conduct capital expenditures within the bounds of depreciation. The free cash flows that the company generates will be used to pay dividends and for investments in new businesses, as well as for the repayment of interest-bearing debt. In this way, Tokyo Gas will streamline and strengthen its balance sheet and pare financial expenses.

Tokyo Gas is thus placing emphasis on reducing interest-bearing debt and raising asset efficiency. This will include thoroughly examining the projected returns of new capital expenditures as well as reviewing the profitability of existing facilities and investments to raise ROA.

Interest Coverage Ratio

(times)



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

Medium-Term Plan Projections (Announced in May 2001)

Free cash flows	Average of ¥64.9 billion a year for 5 years
ROA	2.4% (5-year average)
Interest-bearing debt (Non-consolidated)	¥570.0 billion as of March 31, 2005

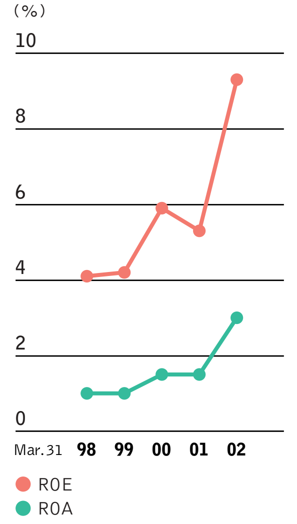
MARKET RISK EXPOSURE

Stock Price Risk

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

ROE and ROA

(%)



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 are another risk factor. The hypothetical effect of these fluctuations on annual raw materials costs is as follows:

Fluctuation of ¥1 to U.S.$1	Approx. ¥1.5 billion
Fluctuation of U.S.$1 per barrel in crude oil price	Approx. ¥4.7 billion (Fiscal year ended March 2002)

However, the above fluctuations are automatically passed on to customers in regulated user categories under the *"sliding rate"* system. First-half crude oil prices are reflected in gas rates in the second half of each fiscal year, while second-half crude oil prices are reflected in gas rates in the first half of the following year. Consequently, changes in crude oil prices have no effect on Tokyo Gas' business over the medium to long term.

Interest Rate Risk

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