FAQ

Q1: TEPCO lowered its electricity rates by an average of 7% in April 2002. Does Tokyo Gas intend to follow suit? Do you plan to depart from your medium-term management plan in which you said you would not lower residential rates further?

Our rate structure consists of three categories: liberalized rates for large-volume customers; optional agreements, essentially special rates and terms for commercial customers; and service agreement "regulated" rates, mainly for residential customers.

In the large-volume sector, there are only a small number of customers, about 500 in total. Tokyo Gas negotiates individual terms with each. The recent rate cut by TEPCO is having a significant effect on approximately 200 of these customers who use cogeneration systems to generate electricity using our gas. We need to keep their cost for gas, used to cogenerate electricity and heat, less expensive than purchasing TEPCO's power and using a boiler for heat. We know which of these users will require rate reductions and by how much. These reductions have been factored into net sales in our revenue plan for the fiscal year ending March 2003.

With respect to commercial customers using gas for cogeneration and air-conditioning under optional agreements, the recent electricity rate cut has placed us in an extremely difficult situation. We plan to restore our competitive edge by setting new optional rates for cogeneration in July this year.

Regarding residential use, Tokyo Gas' rates are lower than electricity rates in terms of the cost per Calorie (a unit of heat). Our rates are also lower than those of other gas companies, 8% lower than Osaka Gas Co., Ltd. and 19% lower than Toho Gas Co., Ltd. As our rates are currently at the lowest level in Japan, we have no plans to reduce them further for residential users.

However, if TEPCO reduces its rates further, as is expected in 2003, or possibly later, we will consider lowering all our rates, including residential, in order to stay competitive.

Q2: What areas in particular have you targeted for cost cutting?

We have focused on three areas: personnel reductions, controlling operating expenses, and keeping capital expenditures within depreciation.

With respect to personnel expenses, the largest cost-cutting area, we are holding down costs by reducing the size of our workforce and outsourcing customer-service duties. We plan to reduce the number of employees by around 300 every year through natural attrition. Recruitment will be held to about 70 people, whereas we expect about 400 retirement each year. We started outsourcing some customer-service duties in July 2002. By outsourcing even more work outside the company, Tokyo Gas will trim personnel expenses by about ¥10 billion over 4 years.

Regarding operating expenses, our aim is to hold these expenses to no more than their current level of ¥220 billion, by absorbing the natural increase in costs that occurs as the number of customers and gas volumes grow each year.

Finally, with major investments in production facilities having been largely completed, we plan to keep annual capital expenditures at about ¥70 billion. This will be achieved by looking closely at specifications and individual investments for maintenance, such as the replacement of gas pipes. We will, however, continue to invest in the pipelines needed to capture new demand.

Q3: How does Tokyo Gas procure LNG?

Tokyo Gas imports LNG from six countries at present (see page 2).

Tokyo Gas signed agreements for the supply of LNG from several projects during the fiscal year under review: the North West Shelf Expansion Project (Western Australia) in October 2001, the Malaysia III (Tiga) Project in February 2002, and the Malaysia I (Satu) Project and Darwin LNG Project (Northern Territory of Australia) the following month. By securing supplies to respond to future increases in gas demand with these agreements, Tokyo Gas is also achieving more competitive contractual conditions, particularly with regard to price.

LNG has been generally procured under long-term contracts, typically of about 20 years in duration. In these most recent arrangements, however, we agreed to introduce short-term volume and option arrangements based on long-term contracts. This gives us greater flexibility in the volume of LNG we receive, allowing us to more flexibly respond to fluctuations in LNG demand. Regarding delivery conditions, though Ex-ship terms have been the majority of cases, Tokyo Gas is increasing the volume on FOB terms, by which Tokyo Gas intends to acquire even greater flexibility in LNG delivery and further reduction of supply cost with the use of two company-owned LNG carriers, scheduled to come into service in 2003 and 2005.

During the fiscal year, Tokyo Gas and TEPCO decided to jointly invest in the development of the Bayu-Undan Gas Field located between Australia and East Timor, and the Darwin LNG Project. Participation in the upstream business, from gas production to liquefaction and sale, is another way Tokyo Gas is enhancing its capability to procure natural gas.

Q4: On what assumptions does Tokyo Gas base its projections for gas sales volumes?

Regarding demand from regulated markets, such as residential accounts, Tokyo Gas estimates the number of customers using macroeconomic indicators, such as population trends, the number of housing starts and building starts. This number is multiplied by the average volume used per customer, factoring in increases from efforts to sell gas appliances. In the deregulated market—large-volume customers consuming one million m^3 or more per year—sales representatives in charge of individual users, such as factories and large buildings, ascertain the facility-operating rate for each location, and determine when customer facilities would be due for replacement. Based on this information, Tokyo Gas compiles a gas sales volume plan for each large-volume customer as well as estimates for sales to new customers. We then obtain our final plan by adding the figures from each market segment.

Q5: Does Tokyo Gas have any plans to absorb local gas companies through mergers and acquisitions?

Tokyo Gas is currently supplying gas on a wholesale basis to 16 city gas companies surrounding its service area. Wholesale sales account for approximately 10% of our gas sales volume and we expect wholesale volumes to rise by an annual average of 8.2% over the next 5 years. We basically see this business as a way of increasing earnings. As hostile takeovers could potentially have a detrimental effect on wholesale supply activities, we do not intend to conduct one-sided acquisitions of city gas companies.

In April this year, Tokyo Gas did, however, purchase the gas operations of Konosu City, Saitama Prefecture, after they were privatized. Thus, we do not completely rule out the possibility of acquiring other companies. We are prepared to explore the possibility in cases where our corporate value and customers can benefit, but only in accordance with the wishes of the other company.

Q6: What is Tokyo Gas' policy on returning profits to shareholders?

Tokyo Gas' medium-term management plan earmarks approximately 20% of free cash flows generated during the course of the plan to be returned to shareholders. Based on the plan, Tokyo Gas increased dividends for the year ended March 31, 2001, and plans to maintain this dividend (an annual distribution of ¥6 per share) in the future.

Tokyo Gas will also consider share buybacks as part of its policy of returning profits to shareholders. In doing so, Tokyo Gas will give due consideration to the dilutive effect of the expected conversion of convertible bonds amounting to ¥100.0 billion—the 5th and 6th issues of convertible bonds issued in 1996 have a conversion price of ¥339.00 and mature in 2007 and 2009, respectively. Measures to return profits to shareholders that factor in this dilution will be included in the Group's new medium-term management plan, which is scheduled to be unveiled in the fall of this year.

Q7: Please tell us about Tokyo Gas' new business activities.

Listed below are new fields of business that Tokyo Gas is currently engaged in. We plan to invest around ¥40 billion in these businesses in the fiscal year ending March 2003.

■ Advancing into upstream areas
- Participation in the Bayu-Undan gas field project and purchase of LNG
- Ownership of LNG carriers

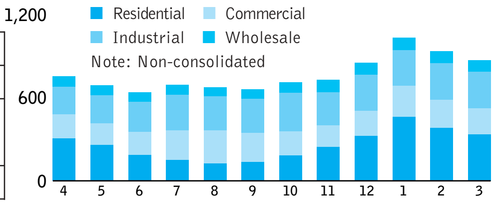
- Expanding the electricity business
  - Electricity retailing business: ENNET Corporation
  - Small distributed power generation: MyEnergy Co.
  - Electricity generation:
    Wholly owned subsidiary Tokyo Gas Bay Power Co., Ltd.—100MW
    Alliance with Nippon Mitsubishi Oil Corporation (now Nippon Oil Corporation)—400MW
    Alliance with Tokyotoshikaihatsu Co., Ltd. and Shell Gas & Power Japan Ltd.—150MW
  - Electricity supply to specific areas: Roppongi redevelopment area business
- Establishment of natural gas sales company that takes advantage of ability to offer stable long-term rates
  - Jointly establish Nijio Co., Ltd. with Shell Gas B.V.
- Energy service business
  - Establish wholly owned subsidiary Energy Advance Co., Ltd.
- Customer-service duties outsourcing
  - Establish Tokyo Gas Customer Service Co., Ltd.

Q8: How are Tokyo Gas' gas sales volumes affected by a 1°C rise in the average temperature?

Sensitivity of Gas Sales Volumes to 1°C Increase in Temperature

	Rate of Change
Summer months (June-September)	0.1%
Winter months (December-March)	-2.8%
Intervening months (April, May, October, November)	-2.0%
Annual	-1.7%

Ref: Monthly Gas Sales Volumes for Fiscal Year Ended March 2002



(Unit: million m^3)

Q9: What effect do fluctuations in foreign exchange rates and the crude oil price have on results?

Because we import LNG, the price of which is linked to the crude oil price, fluctuations in foreign exchange rates and crude oil prices affect our results. In the year ending March 31, 2003, Tokyo Gas estimates that operating income rises or falls ¥4.6 billion for each U.S.$1 movement in the price of a barrel of crude oil and ¥1.7 billion for each ¥1 movement in the yen-U.S.$ exchange rate. Due to the application of the "*sliding rate*" system, any change in the cost of raw materials is reflected in gas rates approximately half a year later. While there may be some temporary effect across two fiscal years because of this time lag, crude oil prices and exchange rates have no net effect on results over the long term.

Q10: What threat do IH cooking heaters, CO_2 heat pump water heaters and other new electrical appliances for home use pose to Tokyo Gas?

Consumers are becoming more aware of induction heating (IH) cooking equipment, which has been aggressively promoted recently by electric utilities and household appliance makers. However, we believe that gas appliances are still the best way to bring out the full flavor of food. We will therefore work continuously to enhance the performance and safety of gas ranges. Tokyo Gas will actively promote the latest gas ranges, making certain that customers understand how gas ranges have improved and by offering a wider range of models to counter competition from IH cooking equipment.

We view CO_2 heat pump water heaters as a potentially serious competitor for gas heaters. We intend to promote the various advantages of our gas water heaters, which have won high marks from customers. These advantages include simple installation and ease of use that is not possible with units that need to store hot water constantly. At the same time, Tokyo Gas will work to popularize energy-efficient and environmentally conscious high-efficiency condensing water heaters. Innovation is also important. We aim to bring home-use fuel cell cogeneration systems to market as quickly as possible.