

Consolidated Balance Sheets

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Property, plant and equipment (Notes 3 and 6):			
Production facilities.....	¥ 688,339	¥ 686,997	\$ 5,736,161
Distribution facilities.....	1,952,210	1,889,145	16,268,415
Service and maintenance facilities.....	194,047	197,532	1,617,060
Other.....	591,542	588,071	4,929,520
Construction in progress.....	75,443	59,200	628,689
	3,501,581	3,420,945	29,179,845
Accumulated depreciation.....	(2,284,116)	(2,171,009)	(19,034,302)
	1,217,465	1,249,936	10,145,543
Intangibles.....	20,610	19,197	171,750
Investments and other non-current assets:			
Investments in unconsolidated subsidiaries and affiliated companies.....	20,271	17,867	168,927
Investment securities (Notes 4 and 6).....	51,274	74,846	427,280
Deferred income taxes (Note 9).....	44,307	30,083	369,224
Other investments and non-current assets.....	59,830	60,546	498,584
Allowance for doubtful accounts.....	(2,244)	(1,660)	(18,697)
	173,438	181,682	1,445,318
Current assets:			
Cash and cash equivalents.....	52,130	27,261	434,416
Marketable securities (Note 4).....	1	21	11
Notes and accounts receivables:			
Trade.....	132,235	128,550	1,101,960
Allowance for doubtful accounts.....	(1,448)	(932)	(12,067)
Inventories (Note 5).....	21,125	28,759	176,045
Deferred income taxes (Note 9).....	11,481	10,049	95,673
Other current assets.....	49,027	58,190	408,555
Total current assets.....	264,551	251,898	2,204,593
	¥ 1,676,064	¥1,702,713	\$13,967,204

Note: See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Long-term debt due after one year (Note 6).....	¥ 598,322	¥ 680,887	\$ 4,986,017
Employees' severance and retirement benefits (Note 8).....	120,896	125,554	1,007,467
Allowance for repairs of gas holders.....	3,457	3,520	28,808
Other non-current liabilities.....	28,897	27,016	240,808
Current liabilities:			
Bank loans (Note 6).....	41,900	42,709	349,167
Long-term debt due within one year (Note 6).....	91,079	40,298	758,992
Notes and accounts payable:			
Trade.....	37,677	38,055	313,971
Other.....	43,486	40,216	362,382
Income taxes payable (Note 9).....	35,058	27,941	292,153
Accrued expenses.....	45,122	45,276	376,020
Other current liabilities.....	46,425	63,366	386,873
Total current liabilities.....	340,747	297,861	2,839,558
Commitment and contingent liabilities (Note 13)			
Minority interest.....	4,039	3,797	33,660
Stockholders' equity (Note 10):			
Common stock:			
Authorized – 6,500,000,000 shares			
Issued – 2,810,171,295 shares in 2003			
– 2,810,165,397 shares in 2002.....	141,844	141,843	1,182,037
Capital surplus.....	2,065	2,064	17,208
Retained earnings.....	429,653	387,315	3,580,438
Net unrealized holding gains on securities.....	17,003	32,836	141,692
Foreign currency translation adjustments.....	4	115	36
	590,569	564,173	4,921,411
Treasury stock, at cost.....	(10,863)	(95)	(90,525)
Total stockholders' equity.....	579,706	564,078	4,830,886
	¥1,676,064	¥1,702,713	\$13,967,204

Consolidated Statements of Stockholders' Equity

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen						
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2001	2,810,012	¥141,817	¥2,038	¥353,794	¥ 55,140	¥ 4	¥ (3)
Net income				51,912			
Net unrealized holding losses on securities.....					(22,304)		
Foreign currency translation adjustments.....						111	
Treasury stock.....							(92)
Cash dividends paid (¥6.50 per share).....				(18,265)			
Bonuses to directors				(126)			
Shares issued upon conversion of convertible bonds.....	153	26	26				
Balance at March 31, 2002	2,810,165	¥141,843	¥2,064	¥387,315	¥ 32,836	¥115	¥(95)
Net income				59,201			
Net unrealized holding losses on securities.....					(15,833)		
Foreign currency translation adjustments.....						(111)	
Treasury stock.....							(10,768)
Cash dividends paid (¥6.00 per share).....				(16,768)			
Bonuses to directors				(95)			
Shares issued upon conversion of convertible bonds.....	6	1	1				
Balance at March 31, 2003	2,810,171	¥141,844	¥2,065	¥429,653	¥ 17,003	¥ 4	¥(10,863)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock	
Balance at March 31, 2002.....	\$1,182,029	\$17,200	\$3,227,624	\$ 273,637	\$ 957	\$ (794)	
Net income			493,343				
Net unrealized holding losses on securities				(131,945)			
Foreign currency translation adjustments.....					(921)		
Treasury stock						(89,731)	
Cash dividends paid (\$0.05 per share)			(139,736)				
Bonuses to directors			(793)				
Shares issued upon conversion of convertible bonds....	8	8					
Balance at March 31, 2003.....	\$1,182,037	\$17,208	\$3,580,438	\$ 141,692	\$ 36	\$(90,525)	

Note: See accompanying notes.

Consolidated Statements of Cash Flows

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes and minority interest in net income of consolidated subsidiaries	¥ 95,883	¥ 82,861	\$ 799,024
Adjustments to reconcile income before income taxes and minority interest in net income of consolidated subsidiaries to net cash provided by operating activities:			
Depreciation (Note 11)	137,300	141,646	1,144,165
Amortization of long-term prepayments	3,728	3,918	31,065
Loss on disposal of property, plant and equipment.....	2,482	3,577	20,682
Gains from disposal of property, plant and equipment	(5,380)	(491)	(44,831)
Loss on reduction of acquisition costs of property, plant and equipment for tax purposes.....	4,416	424	36,799
Gains from sales of securities	(3,196)	(3,457)	(26,633)
Loss on bond redemption	6,328	4,618	52,733
Decrease in employees' severance and retirement benefits	(4,658)	(8,661)	(38,818)
Interest and dividend income	(1,089)	(1,021)	(9,071)
Interest expense	17,472	19,275	145,603
Changes in operating assets and liabilities:			
Increase in notes and accounts receivable	(6,777)	(217)	(56,478)
Decrease (Increase) in inventories.....	7,634	(1,340)	63,617
Decrease in notes and accounts payable.....	(1,785)	(3,674)	(14,872)
Increase (Decrease) in consumption taxes payable	(219)	2,748	(1,826)
Bonuses paid to directors	(95)	(127)	(795)
Other	14,897	(4,592)	124,143
	266,941	235,487	2,224,507
Cash received for interest and dividends	1,166	1,089	9,718
Cash paid for interest	(18,069)	(19,325)	(150,578)
Cash paid for income taxes	(36,505)	(25,575)	(304,205)
Net cash provided by operating activities	213,533	191,676	1,779,442
Cash flows from investing activities:			
Purchases of investment securities.....	(7,297)	(3,712)	(60,811)
Proceeds from sales of securities.....	5,861	5,005	48,843
Purchases of property, plant and equipment	(98,149)	(104,884)	(817,905)
Purchases of intangible fixed assets	(9,015)	(7,791)	(75,123)
Expenditure of long-term prepayment	(1,800)	(1,006)	(14,999)
Proceeds from sale of tangible and intangible fixed assets	6,888	2,528	57,401
Expenditure of long-term loans receivable.....	(4,256)	(1,694)	(35,470)
Increase in other investments and other non-current assets — net	(2,376)	(267)	(19,800)
Net cash used in investing activities	(110,144)	(111,821)	(917,864)
Cash flows from financing activities:			
Proceeds from (Repayments of) short-term bank loans.....	(809)	2,788	(6,743)
Proceeds from (Repayments of) commercial paper.....	(12,000)	12,000	(100,000)
Proceeds from long-term debt.....	37,341	45,486	311,172
Repayments of long-term debt.....	(75,450)	(159,070)	(628,754)
Cash dividends paid	(16,831)	(18,288)	(140,256)
Other	(10,768)	(92)	(89,731)
Net cash used in financing activities.....	(78,517)	(117,176)	(654,312)
Effect of exchange rate changes on cash and cash equivalents.....	(3)	7	(22)
Net increase (decrease) in cash and cash equivalents	24,869	(37,314)	207,244
Cash and cash equivalents at beginning of year	27,261	64,575	227,172
Cash and cash equivalents at end of year	¥ 52,130	¥ 27,261	\$ 434,416

Note: See accompanying notes.

Notes to Consolidated Financial Statements

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

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 ("Japanese GAAP"). The Company, as a regulated company, also follows Gas Business Law and other related accounting regulations for preparing such financial statements.

Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the appropriate Local Finance Bureau of the Ministry of Finance 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 stockholders' equity have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements are not customarily prepared in Japan and are not required to be filed with the regulatory authorities.

The financial statements are stated in Japanese yen. 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, 2003, which was ¥120 to U.S. \$1. 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 include the accounts of the Company and all of its significant subsidiaries. All significant intercompany transactions and account balances are eliminated in consolidation.

Equity method – Investments in unconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for by the equity method.

Property, plant and equipment – Property, plant and equipment is generally stated at cost. Depreciation is determined mainly by the declining-balance method based on estimated useful lives, except that buildings acquired after March 31, 1998 are depreciated using the straight-line method.

Software costs – The Company and its consolidated subsidiaries include software in intangible assets and depreciate it using the straight-line method over the estimated useful lives.

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.

Securities – The Company and its consolidated subsidiaries classify their debt and equity securities in one of 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 which are not accounted for using the equity method are stated at moving-average cost.

(c) Available-for-sale securities, 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 market value, if their fair market values are readily available. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Available-for-sale securities with no available fair market values are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline.

Derivative financial instruments – The Company and its consolidated subsidiaries use interest rate swap and foreign exchange forward contracts only for the purpose of mitigating the risk of fluctuations in interest rates and foreign exchange rates. The Company and its consolidated subsidiaries do not use derivative financial instruments for speculative trading purposes. The derivative financial instruments are executed with creditworthy financial institutions, and the Company's management believes there is little risk of default by counterparties.

Inventories – Inventories are stated at cost, cost being determined by the moving-average method.

Allowance for doubtful accounts – The Company and its consolidated subsidiaries provide for doubtful accounts at an estimated amount of probable bad debts.

Employees' severance and retirement benefits – The Company and its consolidated subsidiaries provide two post-employment benefit plans, an unfunded lump-sum payment plan and a funded non-contributory pension plan, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Company and its consolidated subsidiaries determine allowance and expenses for employees' severance and retirement benefits based on the amounts actuarially calculated using certain assumptions.

Allowance for employees' severance and retirement benefits are provided based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Past service costs are charged to income when incurred, and actuarial gains and losses are recognized as income and expense using the straight-line method over approximately 10 years commencing with the next year.

Allowance for repairs of gas holders – The Company and certain number of its consolidated subsidiaries provide for future repairs of gas holders, which occur approximately once 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 repairs are 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 – Income taxes comprise corporation tax, inhabitants' taxes and enterprise tax. 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.

Enterprise tax – Enterprise tax normally constitutes income taxes. However, in the case of companies engaged in gas businesses, enterprise tax is levied on net sales. In the accompanying consolidated statements of income, enterprise tax levied on net sales is accounted for in "Selling, general and administrative" expenses in the amount of ¥10,633 million (\$88,612 thousand) and ¥10,070 million for the years ended March 31, 2003 and 2002, respectively. Enterprise taxes calculated based on taxable income of the Company and certain consolidated subsidiaries are included in income taxes.

Foreign currency translation – Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Amounts per share of common stock – Effective April 1, 2002, the Company and its consolidated subsidiaries adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002). Earnings per share for the year ended March 31, 2002 would have been ¥18.44, if this new accounting standard were applied retroactively.

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 applicable to the year then ended.

3. Property, plant and equipment

Property, plant and equipment is generally recorded at cost. However, in cases where the Company receives contributions toward the cost of construction from customers, such contributed amount is offset against the acquisition cost of the subject asset. Such offset recorded in the years ended March 31, 2003 and 2002 were ¥236,141 million (\$1,967,842 thousand) and ¥228,023 million, respectively.

4. Securities

The following tables summarize acquisition costs, book values and fair values of securities with fair value as of March 31, 2003 and 2002:

(a) Held-to-maturity debt securities:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Securities with fair value exceeding book value:			
Book value	¥34	¥29	\$283
Fair value	37	31	308
Difference	¥ 3	¥ 2	\$ 25

(b) Available-for-sale securities:

	Millions of yen		
	Acquisition cost	Book value	Difference
For 2003:			
Securities with fair value exceeding book value:			
Equity securities	¥10,692	¥37,910	¥27,218
Bonds	5	6	1
Subtotal	10,697	37,916	27,219
Other securities:			
Equity securities	1,523	1,151	(372)
Total	¥12,220	¥39,067	¥26,847

	Millions of yen		
	Acquisition cost	Book value	Difference
For 2002:			
Securities with fair value exceeding book value:			
Equity securities	¥12,706	¥64,868	¥52,162
Bonds	5	6	1
Subtotal	12,711	64,874	52,163
Other securities:			
Equity securities	1,376	1,107	(269)
Total	¥14,087	¥65,981	¥51,894

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
For 2003:			
Securities with fair value exceeding book value:			
Equity securities	\$ 89,100	\$315,917	\$226,817
Bonds	42	50	8
Subtotal	89,142	315,967	226,825
Other securities:			
Equity securities	12,692	9,592	(3,100)
Total	\$101,834	\$325,559	\$223,725

Available-for-sale securities with no available fair values, which were stated at moving-average costs, amounted to ¥11,840 million (\$98,667 thousand) and ¥8,503 million at March 31, 2003 and 2002, respectively.

5. Inventories

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Finished products	¥ 2,391	¥ 2,584	\$ 19,924
Raw materials	9,762	18,513	81,354
Supplies	7,745	7,489	64,543
Work in process	1,227	173	10,224
	¥21,125	¥28,759	\$176,045

6. Bank loans and long-term debt

At March 31, 2003 and 2002, bank loans consisted of short-term notes, bearing interest at an average annual rate of 0.33% and 0.36%, respectively.

Long-term debt at March 31, 2003 and 2002 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Domestic unsecured notes due 2014 at a rate of 5.1%.....	¥ 10,000	¥ 20,000	\$ 83,333
Domestic unsecured notes due 2015 at a rate of 4.1%.....	23,300	27,900	194,167
Domestic unsecured notes due 2016 at a rate of 4.0%.....	29,000	30,000	241,667
Domestic unsecured notes due 2018 at a rate of 2.625%.....	40,000	40,000	333,333
Domestic unsecured notes due 2009 at a rate of 1.68%.....	30,000	30,000	250,000
Domestic unsecured notes due 2009 at a rate of 1.73%.....	30,000	30,000	250,000
Domestic unsecured notes due 2010 at a rate of 2.01%.....	20,000	20,000	166,667
Domestic unsecured notes due 2011 at a rate of 1.39%.....	30,000	30,000	250,000
Domestic unsecured notes due 2012 at a rate of 1.35%.....	20,000	–	166,667
Domestic unsecured notes due 2004 at a rate of 1.03%.....	3,000	3,000	25,000
Domestic unsecured notes due 2009 at a rate of 1.18%.....	4,000	4,000	33,333
Domestic unsecured convertible bonds:			
1st issue due 2003 at a rate of 1.5%	51,439	51,439	428,658
3rd issue due 2005 at a rate of 1.5%.....	82,877	84,315	690,642
5th issue due 2009 at a rate of 1.2%.....	49,969	49,971	416,408
6th issue due 2007 at a rate of 1.1%.....	49,968	49,968	416,400
Swiss franc notes due 2002 at a rate of 4.5%	–	14,810	–
DM bearer bonds due 2005 at a rate of 7.0%	18,333	18,333	152,775
Domestic secured notes due 2003 at a rate of 2.0%	–	800	–
Loans from banks, insurance companies and government agencies due through 2028 at rates of 0.35% to 6.40%:			
Secured	6,373	6,884	53,108
Unsecured.....	191,142	209,765	1,592,851
	689,401	721,185	5,745,009
Less – Amounts due within one year	91,079	40,298	758,992
	¥598,322	¥680,887	\$4,986,017

The indentures covering the first, third, fifth and 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 (\$10.57), ¥1,105.70 (\$9.21), ¥339.00 (\$2.83) and ¥339.00 (\$2.83), respectively (subject to adjustment in certain circumstances), (2) conversion periods through September 2003, March 2005, March 2009 and March 2007, respectively, and (3) redemption at the option of the Company, commencing in October 1996 for the 1st issue and April 1998 for the 3rd issue, at prices ranging from 106% to 100% of the principal amount.

At March 31, 2003, investment securities and property, plant and equipment at book value amounting to ¥15,042 million (\$125,350 thousand) were pledged as collateral for secured loans and notes issued by consolidated subsidiaries.

As is customary in Japan, a lending 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 offset request has been made to the Company and its consolidated subsidiaries.

Certain number of the loan agreements provide, among other things, that, upon request, the Company and domestic subsidiaries submit to the lenders for approval of their 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, 2003 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 91,079	\$ 758,992
2005	106,758	889,650
2006	45,730	381,083
2007	69,034	575,283
2008	21,747	181,225
2009 and thereafter	355,053	2,958,776
	<u>¥689,401</u>	<u>\$5,745,009</u>

7. Derivative transactions

The Company and its consolidated subsidiaries use interest rate swap and foreign exchange forward contracts only for the purpose of mitigating the risk of fluctuations in interest rates and foreign exchange rates.

Contract amounts, market values and recognized gains on the interest rate swap contracts, except those accounted for using hedge accounting, at March 31, 2003 and 2002 were as follows:

	Millions of yen			
	At March 31, 2003			
	Contract amounts	Beyond one year	Market value	Recognized gains

Currency option contracts:

Purchased cap option.....	¥3,000	¥0	¥0	¥0
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	Millions of yen			
	At March 31, 2002			
	Contract amounts	Beyond one year	Market value	Recognized gains

Currency option contracts:

Purchased cap option.....	¥3,000	¥3,000	¥0	¥0
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	Thousands of U.S. dollars			
	At March 31, 2003			
	Contract amounts	Beyond one year	Market value	Recognized gains

Currency option contracts:

Purchased cap option.....	\$25,000	\$0	\$0	\$0
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8. Employees' severance and retirement benefits

Allowance for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligation	¥ 331,622	¥ 306,912	\$ 2,763,517
Unrecognized prior service cost	178	193	1,483
Unrecognized actuarial differences.....	(64,194)	(27,503)	(534,950)
Less fair value of pension assets.....	(146,710)	(154,048)	(1,222,583)
Employees' severance and retirement benefits	<u>¥ 120,896</u>	<u>¥ 125,554</u>	<u>\$ 1,007,467</u>

Included in the consolidated statements of income for the years ended March 31, 2003 and 2002 were severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service costs – benefits earned during the year.....	¥ 10,132	¥ 9,292	\$ 84,433
Interest cost on projected benefit obligation	9,093	9,049	75,775
Expected return on plan assets	(4,662)	(4,612)	(38,850)
Amortization of prior service costs	(13)	–	(108)
Amortization of actuarial differences	2,825	1,628	23,542
Severance and retirement benefit expenses	¥17,375	¥15,357	\$144,792

The discount rate and the rate of expected return on plan assets used by the Company and its consolidated subsidiaries are approximately 2.5% and 3%, respectively, at March 31, 2003, and approximately 3.0% and 3%, respectively, at March 31, 2002.

9. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rate in Japan of approximately 36.2% for the years ended March 31, 2003 and 2002, respectively.

The differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2003 and 2002 were not significant.

Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Due to the change of income tax rates, at March 31, 2003, certain consolidated subsidiaries changed the tax rates for calculation of deferred taxes assets and liabilities. The effect on net income of the change of effective tax rates is not significant.

Significant components of deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Liabilities for retirement benefits.....	¥36,530	¥35,151	\$304,417
Other – net	33,781	28,512	281,508
Subtotal	70,311	63,663	585,925
Deferred tax liabilities:			
Net unrealized holding gains on securities.....	9,830	19,040	81,917
Reserve for tax-purpose cost reduction of certain pipelines.....	1,883	2,309	15,692
Other – net	3,617	3,852	30,142
Subtotal	15,330	25,201	127,751
Net-total	¥54,981	¥38,462	\$458,174

10. Stockholders' equity

At the current conversion prices, 410,981 thousand shares of common stock were issuable at March 31, 2003 upon full conversion of the outstanding convertible bonds (see Note 6).

Under the Japanese Commercial Code, excess of total of additional paid-in capital and legal reserve over 25% of common stock is available for dividends by resolution of the general meeting of shareholders. Additional paid-in capital is included in capital surplus and legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Japanese Commercial Code.

Effective April 1, 2002, the Company and its consolidated subsidiaries adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002). The effect on net income of adopting the new standard is not significant.

11. Segment information

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

A summary of net sales, costs and expenses, operating income, identifiable assets, depreciation and capital expenditures by business segments is as follows:

	Millions of yen						
	Gas sales	Gas appliance sales	Related construction	Real estate rental	Other	Elimination or corporate	Consolidated
For 2003:							
Sales:							
Outside customers.....	¥ 789,688	¥141,225	¥67,045	¥ 14,944	¥114,732	¥ -	¥1,127,634
Inside group.....	2,766	1,411	3,523	21,402	43,595	(72,697)	-
	792,454	142,636	70,568	36,346	158,327	(72,697)	1,127,634
Costs and expenses.....	632,230	134,794	66,393	28,723	148,701	(6,501)	1,004,340
Operating income.....	¥ 160,224	¥ 7,842	¥ 4,175	¥ 7,623	¥ 9,626	¥ (66,196)	¥ 123,294
Identifiable assets.....	¥1,067,439	¥ 52,532	¥23,058	¥215,197	¥185,981	¥131,857	¥1,676,064
Depreciation.....	111,343	502	141	14,590	12,216	(1,492)	137,300
Capital expenditures.....	88,573	538	276	1,408	21,287	(1,894)	110,188

For 2002:

Sales:

Outside customers.....	¥ 750,439	¥148,271	¥67,633	¥ 15,685	¥115,561	¥ -	¥1,097,589
Inside group.....	-	932	3,705	21,866	40,450	(66,953)	-
	750,439	149,203	71,338	37,551	156,011	(66,953)	1,097,589

Costs and expenses.....	601,229	141,960	67,688	31,460	145,212	(568)	986,981
Operating income.....	¥ 149,210	¥ 7,243	¥ 3,650	¥ 6,091	¥ 10,799	¥ (66,385)	¥ 110,608

Identifiable assets.....	¥1,105,280	¥ 56,547	¥22,932	¥226,981	¥184,473	¥ 106,500	¥1,702,713
Depreciation.....	113,158	608	127	16,000	13,214	(1,461)	141,646
Capital expenditures.....	91,501	314	204	2,190	11,940	(1,858)	104,291

Thousands of U.S. dollars

For 2003:

Sales:

Outside customers.....	\$6,580,733	\$1,176,875	\$558,708	\$ 124,533	\$ 956,101	\$ -	\$ 9,396,950
Inside group.....	23,050	11,758	29,358	178,350	363,292	(605,808)	-
	6,603,783	1,188,633	588,066	302,883	1,319,393	(605,808)	9,396,950

Costs and expenses.....	5,268,583	1,123,283	553,275	239,358	1,239,173	(54,175)	8,369,497
Operating income.....	\$1,335,200	\$ 65,350	\$ 34,791	\$ 63,525	\$ 80,220	\$ (551,633)	\$ 1,027,453

Identifiable assets.....	\$8,895,325	\$ 437,767	\$192,150	\$1,793,309	\$1,549,845	\$1,098,808	\$13,967,204
Depreciation.....	927,858	4,183	1,175	121,583	101,799	(12,433)	1,144,165
Capital expenditures.....	738,108	4,483	2,300	11,733	177,392	(15,783)	918,233

Assets in the corporate column mainly comprise current and noncurrent securities and deferred tax assets 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 immaterial compared to consolidated net sales.

12. Information for certain leases

Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases.

Information as lessee:

Lease payments in the years ended March 31, 2003 and 2002, and future minimum lease payments at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease payments	¥ 972	¥ 816	\$ 8,100
Future minimum lease payments inclusive of interest:			
Current.....	¥ 808	¥ 752	\$ 6,733
Non-current.....	1,685	1,674	14,042
	¥2,493	¥2,426	\$20,775

The Company uses certain production facilities, distribution facilities, service and maintenance facilities and other assets under lease arrangements. An analysis of equivalent amounts of leased assets under non-capitalized finance leases is as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2003:			
Production facilities	¥ 98	¥ 25	¥ 73
Distribution facilities.....	841	397	444
Service and maintenance facilities.....	189	83	106
Other.....	3,655	1,785	1,870
	¥4,783	¥2,290	¥2,493
For 2002:			
Production facilities	¥ 72	¥ 50	¥ 22
Distribution facilities.....	698	321	377
Service and maintenance facilities.....	212	127	85
Other.....	3,592	1,650	1,942
	¥4,574	¥2,148	¥2,426

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2003:			
Production facilities	\$ 817	\$ 208	\$ 609
Distribution facilities.....	7,008	3,308	3,700
Service and maintenance facilities.....	1,575	692	883
Other.....	30,458	14,875	15,583
	\$39,858	\$19,083	\$20,775

Information as lessor:

Lease income in the years ended March 31, 2003 and 2002, and future lease payments to be received at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease income	¥ 4,477	¥ 4,400	\$ 37,308
Future lease payments to be received:			
Current.....	¥ 4,343	¥ 4,035	\$ 36,192
Non-current.....	13,008	12,306	108,400
	¥17,351	¥16,341	\$144,592

Some of the consolidated subsidiaries lease other assets under direct financing leases as lessors. An analysis of leased assets under direct financing lease is as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2003:			
Other assets	¥24,007	¥16,359	¥7,648
For 2002:			
Other assets	¥23,654	¥13,993	¥9,661
	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2003:			
Other assets	\$200,058	\$136,325	\$63,733

13. Commitment and contingent liabilities

The Company and its consolidated subsidiaries were contingently liable (1) to debt guarantee in the amount of ¥2,000 million (\$16,667 thousand) at March 31, 2003 for bank loans that affiliated companies other than consolidated subsidiaries born (2) to banks in the amount of ¥560 million (\$4,667 thousand) at March 31, 2003 with respect to joint and several liabilities upon default of debtors and (3) as guarantors for the in-substance defeasance of domestic unsecured notes in the amount of ¥50,000 million (\$416,667 thousand) issued by the Company, which were assigned to certain banks under the debt assumption agreements made in the years ended March 31, 2003, 2002 and 1999.

At March 31, 2003, 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.

14. Subsequent events

(1) Acquisitions for treasury stock

(a) On April 23, 2003, the Board of Directors resolved the acquisition of treasury stock based on the approval of the General Meeting of Shareholders.

Number of shares: With a limit of 30,267,000 shares

Total value of acquisitions: With a limit of ¥10,000 million (\$83,333 thousand)

Period of acquisitions: May 1, 2003 to May 30, 2003

Method for acquisitions: Market buying

According to the resolution of the Board of Directors Meeting, the Company acquired 26,578,000 shares at the total price of ¥10,000 million (\$83,333 thousand).

(b) On May 26, 2003, the Board of Directors resolved the acquisition of treasury stock based upon the approval of the General Meeting of Shareholders.

Number of shares: With a limit of 50,000,000 shares

Total value of acquisitions: With a limit of ¥20,000 million (\$166,667 thousand)

(2) Issuance of domestic unsecured notes

On June 10, 2003, the Company issued domestic unsecured notes in the amount of ¥20,000 million (\$166,667 thousand) due 2023 at a rate of 1.01%.

(3) Appropriation of retained earnings

At the annual meeting held on June 27, 2003, the Company's shareholders approved (i) payment of year-end cash dividends of ¥3.0 (\$0.03) per share aggregating ¥8,334 million (\$69,449 thousand) to the shareholders of record as of March 31, 2003, and (ii) payment of bonuses to directors totaling ¥61 million (\$508 thousand).

Report of Independent Public Accountants

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries

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, 2003 and 2002, and the related consolidated statements of income, stockholders' equity 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 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 consolidated financial position of TOKYO GAS CO., LTD. and subsidiaries as of March 31, 2003 and 2002, 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 as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to Note 14 (1) to the consolidated financial statements. Subsequent to March 31, 2003, the Company decided the acquisition of treasury stock.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Tokyo, Japan
June 27, 2003

Asahi & Co.