ANNUAL REPORT 2003

For the year ended March 31, 2003

Frontier 2007

Competitive Transformation

2003

TOKYO GAS

Tokyo Gas Co., Ltd. is based in metropolitan Tokyo and the Kanto region, where demand for energy is growing strongly. As Japan's largest gas company, Tokyo Gas serves approximately 9.2 million customers in a service area covering 3,155 km^2.

Progress in energy industry deregulation and expanding gas demand in metropolitan Tokyo are creating business opportunities. With the aim of generating growth, the Tokyo Gas Group implemented a new medium-term management plan, Frontier 2007, in April 2003. Under this plan, Tokyo Gas will work to meet the expectations of its customers and shareholders and increase corporate value as an "Energy Frontier Corporate Group" that achieves sustained growth through businesses that supply energy and energy-related value-added products and services, centered on natural gas.

Financial Highlights

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

	Millions of yen except per share amounts			Thousands of U.S. dollars except per share amounts
	2003	2002	2001	**2003**
For the Year:				
Net sales	**¥1,127,634**	¥1,097,589	¥1,086,771	**$9,396,950**
Operating income	**123,294**	110,608	103,659	**1,027,453**
Net income	**59,201**	51,912	27,595	**493,343**
Depreciation	**137,300**	141,646	146,420	**1,144,165**
Capital expenditures:				
Accounting basis	**110,188**	104,291	109,899	**918,233**
Payment basis	**107,164**	112,675	111,208	**893,033**
Amounts per share of common stock (Yen and U.S. dollars):				
Net income (Basic)	**21.18**	18.47	9.82	**0.18**
Net income (Diluted)	**19.11**	16.66	9.13	**0.16**
Net income and depreciation	**70.4**	68.9	61.9	**0.59**
At Year-End:				
Total assets	**¥1,676,064**	¥1,702,713	¥1,797,669	**$13,967,204**
Long-term debt due after one year	**598,322**	680,887	708,329	**4,986,017**
Total stockholders' equity	**579,706**	564,078	552,790	**4,830,886**
Ratios:				
Net income/Net sales	**5.3%**	4.7%	2.5%	
ROE	**10.4%**	9.3%	5.3%	
ROA	**3.5%**	3.0%	1.5%	
Equity ratio	**34.6%**	33.1%	30.8%	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.

Table of Contents

Forward-Looking Statements

Statements made in this annual report with respect to Tokyo Gas's plans, strategies and beliefs, and other statements that are not expressions of fact are forward-looking statements about the future performance of the company. As such, they are based on management's assumptions and opinions stemming from currently available information, and therefore involve risks and uncertainties, These risks and uncertainties include, without limitation, general economic conditions in Japan, the exchange rate between the yen and the U.S. dollar, and Tokyo Gas's ability to continue to adapt to rapid technological developments and deregulation.

Financial Data and Graphs

For purposes of presentation in this annual report, all amounts less than one billion yen or one million yen, and hundredths of a percentage point, have been rounded to the nearest whole number. In addition, all graphs represent fiscal years ended March 31 of the respective years.

To Our Shareholders

Moving to the Next Stage of Growth

In fiscal 2002, the year ended March 31, 2003, Tokyo Gas put intense emphasis on its marketing efforts to expand the use of natural gas, an environmentally friendly energy source. We also made progress in further improving efficiency and controlling operating expenses under our medium-term plan.

As a result, gas sales increased a solid 5.6 percent year-on-year, supported by factors such as a lower average temperature than in the previous fiscal year. Consolidated net sales increased 2.7 percent year-on-year to a record ¥1,127.6 billion. Operating income increased 11.5 percent to ¥123.3 billion. Supplemented by factors such as gains from the disposal of fixed and intangible assets totaling ¥5.5 billion and gains from the disposal of securities totaling ¥3.1 billion, net income increased 14.0 percent to ¥59.2 billion. Consequently, Tokyo Gas achieved the second highest levels of operating income and net income in its history.

Seated: Kunio Anzai, Chairman
Standing, from left: Hideharu Uehara, Vice Chairman; Norio Ichino, President

With unstable and uncertain conditions both domestically and overseas, the remainder of 2003 has the potential to be a turning point for Japan's energy industry. The regulatory reforms that will set the framework for future competition in the energy market have been determined, along with the revision of the laws that govern both the electricity and the gas sectors. The scope of liberalization will broaden in stages and competition among the energy sectors will intensify. Thus, a new phase has begun in the Japanese energy markets.

Progress in regulatory reform and expansion in the scope of liberalization will affect every aspect of Tokyo Gas's operations. The Company has therefore initiated Frontier 2007, its latest medium-term management plan, to clarify the necessary strategies and policies for the Tokyo Gas Group. While the feature section of Annual Report 2003 covers Frontier 2007 in greater detail, essentially the plan is designed to allow Tokyo Gas to achieve sustained growth as an Energy Frontier Corporate Group by transforming the Company from a natural gas supplier into an integrated energy company providing value added energy services with natural gas as its core energy source.

Fiscal 2003 is the first year of Frontier 2007, and is the crucial first stage in achieving our objectives. The new president of Tokyo Gas, Norio Ichino, will lead Tokyo Gas's new organization in aggressively implementing Frontier 2007 and will diligently work toward the Company's goal of maximizing corporate value. We will be counting on the continued understanding and support of our shareholders and investors as we work to achieve our objectives.

July 2003

Kunio Anzai Chairman	Hideharu Uehara Vice Chairman	Norio Ichino President
Kunio Anzai	Hideharu Uehara	Norio Ichino

An Interview with the President

Japan's energy markets are undergoing rapid and dramatic changes. Tokyo Gas sees the intensifying competition that is resulting from deregulation as a business opportunity. Frontier 2007 is the medium-term management plan covering the fiscal years from 2003 to 2007 that will help the entire Tokyo Gas Group respond accurately to change. In the following interview, Norio Ichino, who became President of Tokyo Gas in June 2003, reports to shareholders on how Tokyo Gas is taking a comprehensive approach to transforming itself into an Energy Frontier Corporate Group.

Q Tokyo Gas achieved the objectives of the medium-term plan, covering the five years to the end of fiscal 2004, two years ahead of schedule. How did this recently concluded plan benefit shareholders?

The overall thrust of the medium-term plan covering the five years through March 2005 was to transform Tokyo Gas into a public utility that serves the interests of not only our customers, but also our shareholders, by increasing our corporate value. The concept of satisfying both our customers and our shareholders has now become an accepted standard for Japanese public utilities. We are proud to say that Tokyo Gas was the first to recognize and pioneer this concept.

The most important components of the medium-term plan were increasing free cash flow, raising corporate value by deploying resources more efficiently and improving asset efficiency as measured by return on assets (ROA). Free cash flow and ROA are closely related to the earnings available to common stock. Greater free cash flow enables stable dividend payments while still allowing investment in new businesses with good potential. Moreover, the city gas business requires substantial infrastructure investment and is therefore asset intensive. Consequently, increasing asset efficiency through effective asset deployment is essential for improved performance.

Another key objective was reducing interest expenses by reducing interest-bearing debt. Tokyo Gas reduced its interest-bearing debt to ¥731.3 billion, as of March 31, 2003. As such, we have already met our target for March 31, 2005, set in November 1999, which was the reduction of interest-bearing debt to ¥786.0 billion. At the same time, we increased free cash flow to ¥88.2 billion and ROA to 3.5 percent, both substantially exceeding our objectives.

Tokyo Gas made outstanding progress in creating the foundation for future growth by achieving the objectives of the medium-term plan ahead of schedule. The most significant results have been that we have created a lean corporate organization that can respond accurately to changing market conditions, and have increased our corporate value as expressed by returns to shareholders through higher dividends and stock price increases.

Q Deregulation has progressed through revisions of the Electricity Utility Industry Law and the Gas Utility Industry Law. How do you evaluate these changes, and how does Tokyo Gas plan to respond to them?

A key element of the recent reforms was expansion in the scope of liberalization. Presently, 30 to 40 percent of total sales volume in the gas and electricity markets has been liberalized. The recent legal revisions will also result in a staged expansion in the scope of the gas and electricity market liberalization. In 2007, 50 percent of the gas market, specifically customers using over 100,000 m^3 annually, will be liberalized.

Deregulation presents both risks and opportunities. Among the risks, electricity companies and other firms are now able to enter the gas business. Appropriate risk management, based on a clear understanding of the potential impact of the risks we face, is therefore essential. Frontier 2007 has been designed to accommodate various risks with the potential to impact cash flow. The effects that new entrants in the gas business will have on demand and the potential for new competition to result in lower rates are both addressed. Yet, these issues do not obscure a key result of deregulation: Tokyo Gas will also be able to take advantage of the many opportunities that deregulation presents, foremost among them being our ability to participate in the electricity and other businesses.

Deregulation will generate major business opportunities.

Tokyo Gas has been competing with other forms of energy, including electricity, oil and liquefied petroleum gas (LPG), since the Company's foundation more than a century ago. Our powerful competitiveness in the gas business is a core competency. Our strengths include ample free cash flow derived from cash generated by returns on our investment in gas business assets, a solid ability to generate sales proposals that meet customer needs, and leading-edge technologies for efficiently utilizing gas that will expand gas usage. These capabilities are producing business opportunities that we expect will allow us to benefit fully from deregulation. We intend to deploy the experience we have acquired over many years to create new corporate value that translates into shareholder returns.

Q Tokyo Gas finalized Frontier 2007 in October 2002 and implemented it in April 2003, for the period through March 2008. What are the primary objectives of this new medium-term plan?

Primary Objectives of Frontier 2007

	FY2002	FY2007
TEP*	¥3.0 billion	¥10.0 billion
ROA	2.8 percent	3.9 percent
Free cash flow	¥61.0 billion	¥105.0 billion
Interest-bearing debt	¥775.0 billion	¥627.0 billion

*TEP: Tokyo Gas Economic Profit, Tokyo Gas's version of EVA. (EVA is a registered trademark of Stern Stewart & Co.)

Figures for fiscal 2002 are projections made when the medium-term management plan was finalized in October 2002, not the actual results.

Tokyo Gas has determined the objectives of Frontier 2007, outlined in the accompanying table, according to four management indicators: Tokyo Gas Economic Profit (TEP), which is a profitability metric that takes cost of capital into account; free cash flow; ROA; and the volume of interest-bearing debt. To achieve our objectives, we must succeed at four key tasks, which are business model innovation, business expansion into energy-related areas, construction of a Group management system, and strengthening our corporate structure.

Frontier 2007 will help Tokyo Gas to prevail in these times of intensifying competition. It will make the next five years a period of innovating our Group structure, business areas and operating framework, in order to achieve growth. We will develop as a corporate group and will make Tokyo Gas the energy supplier of choice among customers. Frontier 2007 will also help Tokyo Gas increase its profitability over the next five years.

Tokyo Gas will increase the pace at which it moves toward its objective of transforming the Tokyo Gas Group into a public utility with emphasis on both its customers and its shareholders, as envisioned in the recently conducted medium-term plan. We intend to focus all of our resources on becoming a corporation that supplies energy and value-added energy-related products and services, with an emphasis on environmentally friendly natural gas, while continually working to be the company customers choose for their energy needs. The following feature section covers the contents of Frontier 2007 and the initiatives that Tokyo Gas is now implementing in greater detail.

Q Your determination to achieve the objectives of Frontier 2007 is readily apparent.

We're not resting on our laurels after achieving the objectives of our previous medium-term plan two years ahead of schedule. Frontier 2007 is an aggressive plan with high but attainable goals, and it incorporates a clear understanding of the risks that we will face. My mission under Frontier 2007 is to facilitate the achievement of our objectives, preferably ahead of schedule, just as was the case of the previous medium-term plan.

Frontier 2007 is an aggressive plan that incorporates risk factors associated with market changes.

One reason for my confidence in the attainability of these goals is that the energetic participation of Tokyo Gas's employees was key to creating Frontier 2007. This is not a top-down management plan. Frontier 2007 was created through the input, and was designed to use the combined strengths, of the employees who will implement it. The role of senior management in this process was to thoroughly consider what the employees had created and to finalize the details. Employee participation in the creation of Frontier 2007 was particularly important because many issues, such as the changes in corporate organization, embodied in the plan will require the understanding and participation of each and every employee of the Tokyo Gas Group.

Another reason for my confidence is that we created Frontier 2007 through exhaustive discussions of the risks and opportunities presented by deregulation. A fact worth noting is that in creating Frontier 2007, we assumed a level of risk that exceeds the speed and scope of deregulation that the recent regulatory reforms will engender. Because we will be able to implement Frontier 2007 with a high level of risk tolerance, I have every confidence that our goals are attainable.

Q The Tokyo Gas brand stands for safety and reliability, which makes the issue of compliance critical. How is Tokyo Gas ensuring appropriate compliance?

Since Tokyo Gas is a public utility, our efforts to ensure compliance are not something we started yesterday. Both management and employees are held to rigorous standards of behavior, and are both aware of and comply with all relevant laws. Compliance is, in fact, a foundation of corporate activities, for without it, a company can neither continue to exist nor develop. Moreover, Tokyo Gas intends to raise compliance to an even higher level as part of the drive to strengthen the Company's organization, which

is a core theme of Frontier 2007. In 2002, Tokyo Gas formulated a basic policy for compliance, establishing an organization with overall responsibility for compliance. The Management Ethics Committee, chaired by the president, and compliance committees within each division were also established. In March 2003, Tokyo Gas also established two Compliance Hot Lines, one in-house and the other to an outside law firm, to assist Tokyo Gas in managing its risk and to increase employee awareness of compliance-related issues. Tokyo Gas's reputation for quality and trustworthiness is an invaluable asset that we will protect through a complete commitment to compliance.

Q Tokyo Gas takes an active approach to corporate governance that responds to the interests of shareholders. How did Tokyo Gas strengthen corporate governance during the past fiscal year?

Tokyo Gas has the highest ratio of foreign shareholders among listed companies in Japan's electricity and gas industries. Consequently, establishing a reputation among global capital markets, as a trustworthy company that acts in the interest of shareholders and investors, is extremely important for us. To do so, we strive to provide fair and timely disclosure of information to all investors, inside and outside Japan, and to maintain a high level of management transparency.

Establishing a reputation as a trustworthy company that acts in the interest of shareholders and investors

During the past fiscal year, Tokyo Gas implemented a number of measures to further strengthen corporate governance. We substantially reduced the number of board members, from 28 to 12 at present. This includes three board members from outside Tokyo Gas's senior management. We feel that this strengthens the checks and balances to which the board is subject and improves management transparency. We also implemented an executive officer system and have appointed 23 executive officers that include myself and business division chief executives, thus creating a system focused on business execution. We expect this system to accelerate decision-making and to raise the efficiency of business execution.

We plan to pay close attention to this area, so that these systemic initiatives will substantively improve our system of corporate governance.

Q How will Tokyo Gas increase shareholder value?

Tokyo Gas recognizes that increased earnings per share and stable dividend distributions are essential to maintaining the trust and confidence of shareholders. A sound financial structure is crucial to maintaining stable dividends, and Frontier 2007 will continue to address this issue through measures such as emphasis on reducing interest-bearing debt.

Tokyo Gas is also implementing a share buyback program to compensate for and thus preclude the dilutive effect of the projected conversion of currently outstanding convertible bonds to common shares. Moreover, during the next five years, we will use the free cash flow we generate to maximize shareholder value, while balancing the Company's need to make new investments.

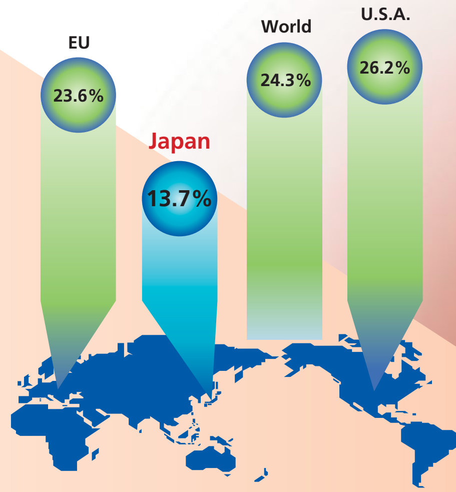
Tokyo Gas begins Frontier 2007 with high hopes and enthusiasm. We are grateful for the trust and support we have received from our shareholders, and intend to devote every effort to achieving our objectives.

Rising Demand for Natural Gas in Japan

Natural gas is the most environmentally sound of the fossil fuels. While roughly 60 percent of the world's oil reserves are concentrated in the Middle East, natural gas reserves are scattered throughout the world. Natural gas reserves are also expected to last longer than oil, making it the energy source for the future. In addition, demand for natural gas is increasing not only for its existing applications as an energy source for city gas supply and large-scale power plants, but also as a result of the rapid spread of cogeneration* systems over the past decade. Demand is also expected to rise further as we enter the age of distributed energy, such as the use of compact residential fuel cells to enable small-scale cogeneration. The share of natural gas in Japan's primary energy supply is relatively low — about half that of Europe and the United States. However, in its report on Japan's long-term energy demand outlook, the Japanese government has identified natural gas as the only fossil fuel for which demand is expected to grow. As such, natural gas is a high-growth business that will play an even greater role in Japan's energy market of the future.

*Cogeneration: An ecologically and economically sound form of distributed generation in which electricity is generated while the waste heat generated in the process is recovered and used as energy, instead of being wasted (as is the usual case in thermal power plants).

■ **Share of Natural Gas in Primary Energy Supply in Japan and Overseas**

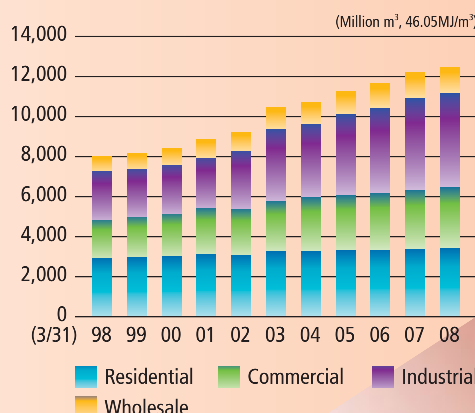


Source: BP Statistical Review of World Energy 2003

Tokyo Gas: Industry Leader

Tokyo Gas is Japan's largest city gas company, with a service area of 3,155 km^2, covering the Tokyo metropolitan area and the Kanto region. The Kanto region is Japan's most densely populated area, with more than forty million residents. Tokyo is the center of the Japanese economy, and the location of many companies' headquarters. In addition, the Kanto region contains Japan's largest industrial area, which produces 40 percent of the country's gross domestic product (GDP). Tokyo Gas, which is based in this area, expects growth to result not only from rising gas demand, but also from the expansion of its energy-related businesses.

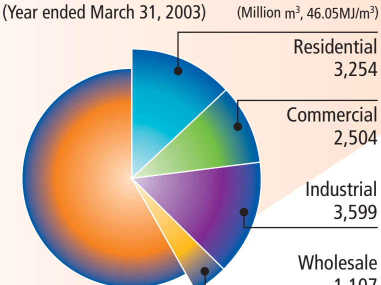
■ **Growth in Tokyo Gas Sales Volume by Sector**



Note: 2004 to 2008 are projected figures.

■ **Gas Sales Volume in Japan and Tokyo Gas by Sector**

(Year ended March 31, 2003) (Million m^3, 46.05MJ/m^3)

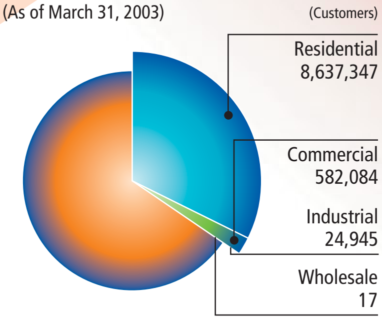


Japan........................ 24,937
Tokyo Gas...................... 10,464

* The above three graphs represent non-consolidated data.

■ **Number of Gas Customers in Japan and Tokyo Gas Customers**

(As of March 31, 2003) (Customers)

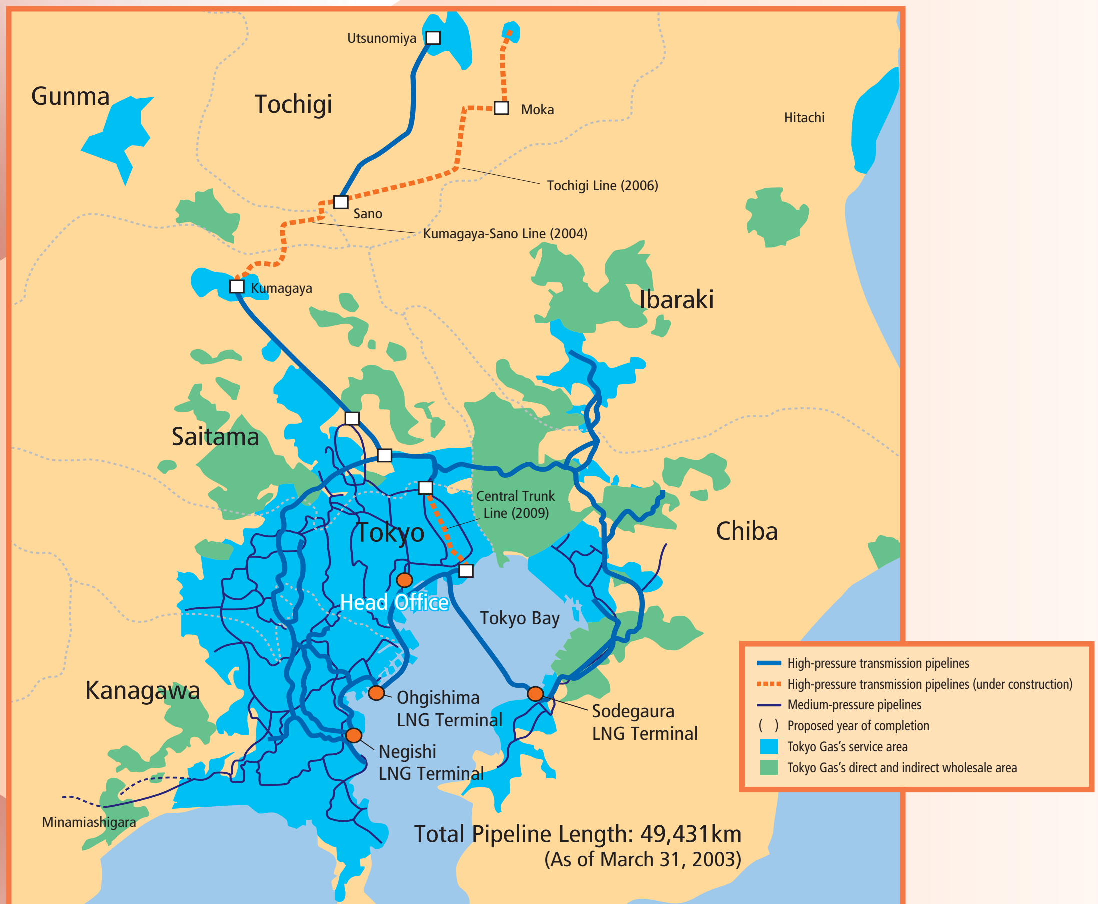


Japan.................. 26,737,527
Tokyo Gas................ 9,244,393

An Expanding Supply Area and Pipeline Network

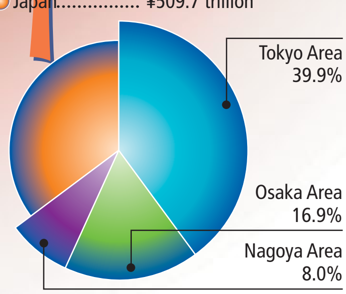
Tokyo Gas, which supplies city gas to 9.2 million customers in the Tokyo metropolitan area and the Kanto region, where demand in Japan is the greatest, has pipeline extending a total of 49,431 km. In order to ensure the long-term, stable supply of natural gas and to accommodate this demand, Tokyo Gas has built a 300-km natural gas supply loop encircling the Tokyo metropolitan area, incorporating three LNG receiving terminals (one of which, the Sodegaura LNG Terminal, is the world's largest).

In addition, Tokyo Gas is moving aggressively into locations where demand for city gas is expected to grow, working to build and expand supply infrastructure based on an assessment of return on investment. Furthermore, the Company is actively cultivating demand in response to the liberalization of supply areas for large-volume customers following the deregulation of the gas industry.



■ Breakdown of GDP of Japan by Major Areas

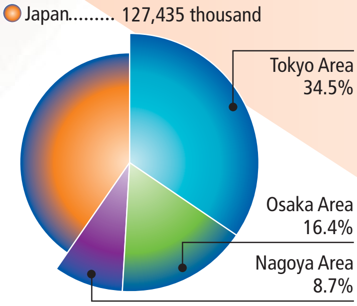
(Year ended March 31, 2000)
Japan................ ¥509.7 trillion



Source: Cabinet Office, Government of Japan

■ Percentage of Tokyo, Osaka and Nagoya Areas in Total Population of Japan

(As of October 2002)
Japan......... 127,435 thousand



Source: Bureau of Statistics, Ministry of Public Management, Home Affairs, Posts and Telecommunications

Notes: 1. The Tokyo area includes Tokyo, plus Kanagawa, Saitama, Chiba, Ibaraki, Tochigi, Gunma, Yamanashi and Nagano prefectures.
The Osaka area includes Osaka, as well as Hyogo, Kyoto, Shiga, Nara and Wakayama prefectures.
The Nagoya area includes Aichi, Gifu and Mie prefectures.
2. GDP of each area is the total of GDPs for the area's major city and its surrounding prefectures, listed above.

Yokohama-Shonan Line and Second Joso Trunk Line Completed

In May 2002, Tokyo Gas completed the Yokohama-Shonan line, which was constructed to accommodate rising demand in the Seisho district of Kanagawa Prefecture, as well as large-scale demand from gas utilities such as Odawara Gas and those in the Minami-Ashigara district. In addition, the Second Joso Trunk Line, which extends through northern Chiba Prefecture and southern Ibaraki Prefecture, was completed in October. The purpose of the Second Joso Trunk Line is to ensure a stable supply by strengthening the transmission of city gas. Actively responding to increases in gas demand, Tokyo Gas is continuing to expand its supply infrastructure with projects such as the Tochigi Trunk Line, scheduled for completion in 2006.

Overview of the City Gas Business in Japan

As of April 2003, Japan had approximately 230 city gas companies. While this number may seem large, three major companies account for approximately 80 percent of total gas sales volume. In addition to these city gas companies, there are about 1,800 specific area gas suppliers and roughly 30,000 liquefied petroleum gas (LPG) companies, most of which are small or medium-sized firms. The industry is thus clearly divided into two well-defined segments — the three large participants and many small and medium-sized firms.

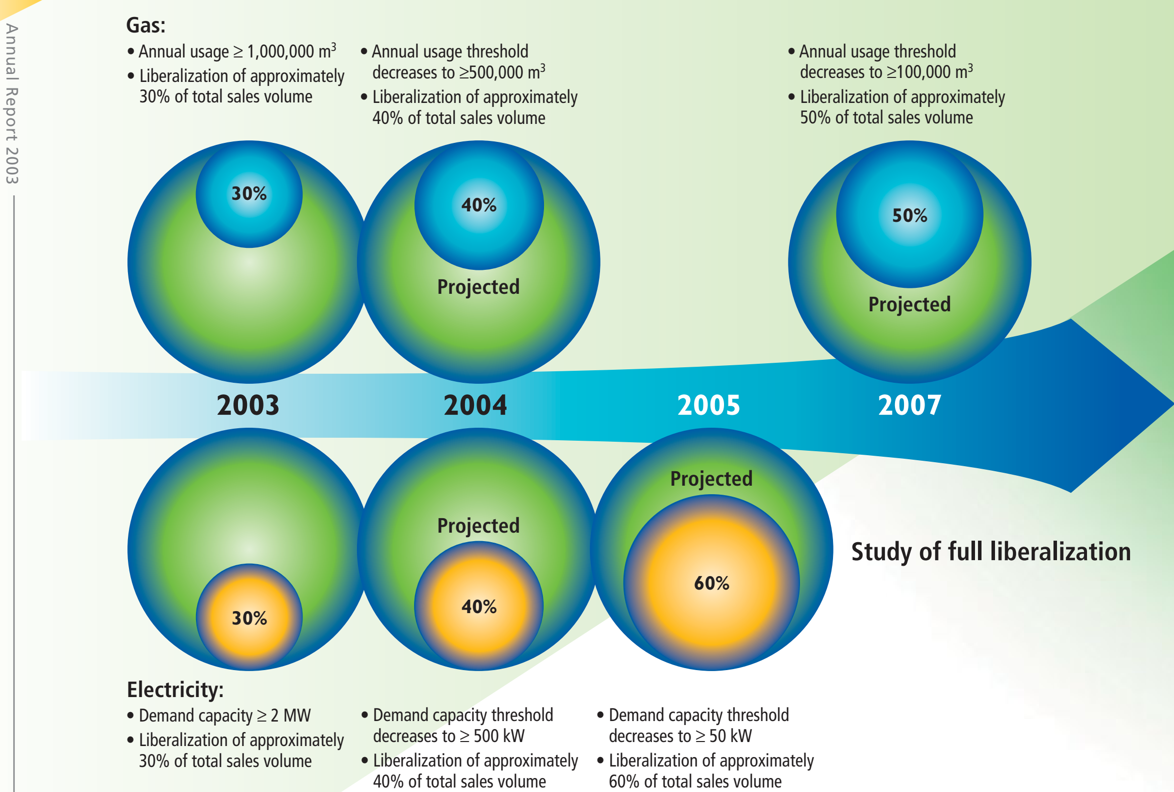
The raw material for approximately 90 percent of city gas used in Japan is natural gas, almost all of which is imported in the form of liquefied natural gas (LNG). Only a limited number of companies take delivery of LNG imports as well as produce and supply city gas. Unlike the United States and Europe, Japan does not have a nationwide pipeline network. Each gas company owns pipelines and supplies and markets gas within its own respective service area.

Continuing Progress in Deregulation

In Japan's energy markets, retail sales of gas to large-scale customers was liberalized in 1995, along with the generation component of the electric power business. Factors such as the partial liberalization of the retail electricity market starting in March 2000 and the shift to the reporting system for rate reductions have increased management autonomy in both industries.

In February 2003, the schedule for regulatory reform through 2007 was determined. In 2007, customers using 100,000 m^3 or more annually will be able to freely select their gas supplier. In the electric power business, the scope of liberalization will expand in 2005 to include customers with a demand capacity of 50 kW or more, and a study of full liberalization, including residential electric power, is slated to begin in 2007.

■ Deregulation Schedule



Major New Business Opportunities

Progress in deregulation is bringing about an era of "mega-competition." On one hand, competition among gas companies will intensify. On the other, heightened competition in the commercial and residential markets resulting from lower electric power rates will add to the intensity of competition between gas and electric power companies. However, while overall energy demand in Japan is not projected to grow strongly, the share of environmentally friendly natural gas is projected to expand.

As the largest city gas company in Japan, Tokyo Gas is implementing a number of initiatives to benefit from the opportunities presented by deregulation. In the gas business, Tokyo Gas has concentrated on expanding its supply network to capture new demand outside of its previous supply area. We have begun marketing natural gas to new entrants in the electric power business, and have initiated a pipeline business for third parties. Moving away from the supply of gas alone, Tokyo Gas is building its energy services business, which entails high value-added energy use proposals. In aggressively entering the electric power business, Tokyo Gas will implement initiatives that include working alone and in alliances to develop its businesses in power generation and electricity retailing, as well as on-site electricity and heat generation in specified areas. Tokyo Gas is also vigorously reducing costs in areas such as procuring LNG, a field in which the Company has a strong competitive advantage.

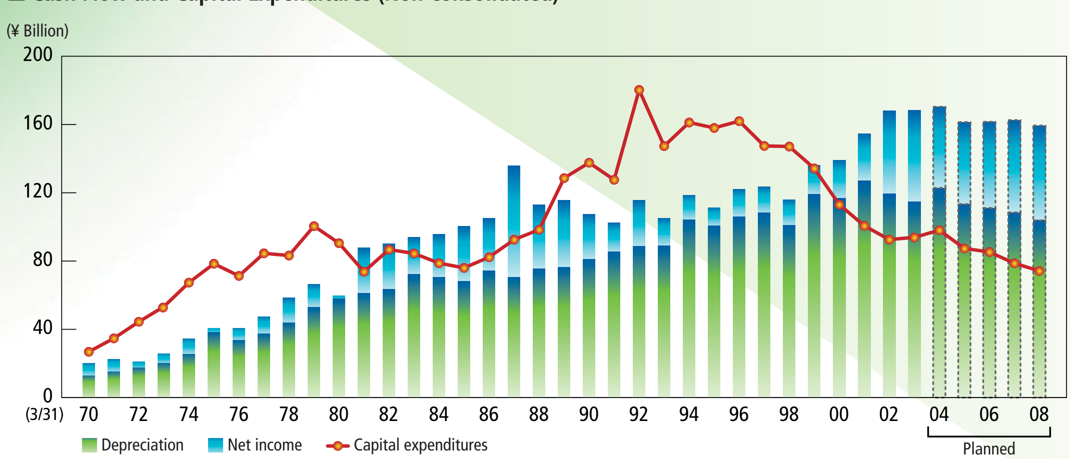
Tokyo Gas has many strengths. Amid increasing emphasis on environmental protection, its business centers on environmentally friendly natural gas. Leading-edge technologies for using natural gas with optimum efficiency have added to our superiority in this area, and Tokyo Gas has an established foundation of sales branches and natural gas infrastructure in the Tokyo metropolitan area and the Kanto region, where demand for energy continues to expand. Moreover, Tokyo Gas's marketing capabilities are based on customer trust acquired over many years, and this will be a significant advantage in making comprehensive energy proposals to industrial and commercial customers. Armed with these strengths, Tokyo Gas is raising its management efficiency, countering the potential risks of reduced demand and lower revenues due to liberalization, and aggressively expanding the businesses of supplying electricity, heat and services with an emphasis on its core city gas business. Tokyo Gas aims to transform itself into an Energy Frontier Corporate Group with natural gas as its core energy source.

TIME

Ample Free Cash Flow Supports Growth

While emphasizing revenue growth, Tokyo Gas exceeded internal capital resources in investing to construct the comprehensive production and supply infrastructure needed to respond to deregulation and meet expanding demand for energy, particularly natural gas, in the Kanto region. As a result, interest-bearing debt on the balance sheets increased. However, this period of massive capital expenditures has given way to a period of return on investment, and Tokyo Gas is now able to restrain capital expenditures within the scope of depreciation. In addition, under the management plan covering the five years from fiscal 2000 to fiscal 2004, Tokyo Gas reduced total assets, raised asset efficiency and made particular efforts to reduce its large volume of interest-bearing debt. In fact, the Company achieved its target for fiscal 2004 of reducing interest-bearing debt to ¥786.0 billion two years ahead of schedule. Tokyo Gas is therefore able to capitalize effectively on the opportunities for growth presented by deregulation, and has the ample cash flow required to aggressively invest in new areas.

■ Cash Flow and Capital Expenditures (Non-consolidated)



Cash flow = Net income + depreciation

Frontier 2007: The Medium-Term Management Plan for the Tokyo Gas Group

In November 1999, Tokyo Gas formulated a five-year medium-term management plan to respond to changes in its operating environment, including the advent of greater competition due to deregulation and the globalization of the economy. This plan covered the five years beginning with fiscal 2000, and the entire Tokyo Gas Group implemented it in concert. As a result, Tokyo Gas achieved the objectives of the plan by the end of fiscal 2002, two years ahead of schedule.

While Tokyo Gas was implementing the recently concluded management plan, further deregulation of Japan's energy markets resulted in increased competition. Although the operating environment has become more challenging, it also presents significant opportunities for growth for companies able to respond appropriately. In the midst of a whirlwind of change, the Tokyo Gas Group created a new Group management plan, Frontier 2007, in response to the changing operating environment with the aim of generating continued growth and development in energy-related areas, the Group's core business domain. Announced in October 2002, Frontier 2007 covers the period from fiscal 2003 to fiscal 2007, and the Group began implementing it in April 2003. Frontier 2007 revolves around the concepts of transformation and innovation. Its aim is to lead the Tokyo Gas Group to the next stage in its development.

Growth and Development as an Energy Frontier Corporate Group that Continues to Earn the Trust of Customers, Shareholders and Society

Under Frontier 2007, Tokyo Gas will expand its participation throughout the natural gas value chain, adding upstream gas field development and LNG transportation to its existing business of gas distribution. We will also expand into new energy-related businesses, including the electric power business, energy services, and new residential services. Our objective is to continue to grow and develop with the trust of customers, shareholders and society by transforming ourselves into an Energy Frontier Corporate Group that supplies energy and value-added energy-related products and services.

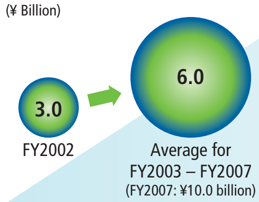
Frontier 2007 has four pillars. Two are business model innovation and business expansion into energy-related areas. The other two, construction of the Group management system and strengthening the corporate structure, support the first two. These specific measures are the key to the sweeping transformation of the Group's business domains and structure necessary to achieve the broader objectives of Frontier 2007.

Primary Management Objectives (Consolidated)

Tokyo Gas will work to broaden its earnings base, aggressively develop demand, and expand into energy-related businesses through steady progress in implementing the four pillars of Frontier 2007. Moreover, the Company intends to achieve positive Tokyo Gas Economic Profit (TEP) by fiscal 2005 for Group companies by implementing structural reform of the business of affiliates. We also intend to reduce fixed costs (per cubic meter of sales volume) by 24 percent from their fiscal 2002 level by reducing the number of employees and controlling overhead expenses. Other points of emphasis include reducing total assets, raising asset efficiency and strengthening the Group's financial structure. These initiatives are geared to achieving the management objectives in the table below.

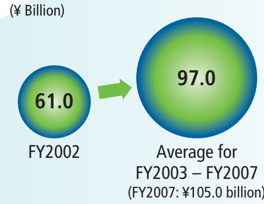
TEP

(¥ Billion)

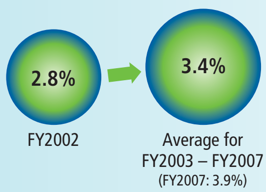


Free Cash Flow

(¥ Billion)

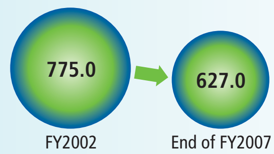


ROA



Interest-Bearing Debt

(¥ Billion)



	FY2002	FY2007	Average for FY2002 – FY2007
Net sales (¥ billion)	1,121.0	1,165.0	1,156.0
ROE (%)	8.5	9.2	9.1
Stockholders' equity/Total assets (%)	34.2	42.4	38.4
Capital expenditures (¥ billion)	128.0	92.0	102.0
Total assets (year-end, ¥ billion)	1,739.0	1,707.0	—

TEP: Tokyo Gas Economic Profit
TEP = Net operating profit after tax prior to interest payments - Cost of capital
Cost of capital = Cost of debt + Cost of equity
Assumptions: Average cost of debt: 2.23% (after tax);
Cost of equity: 6.5%

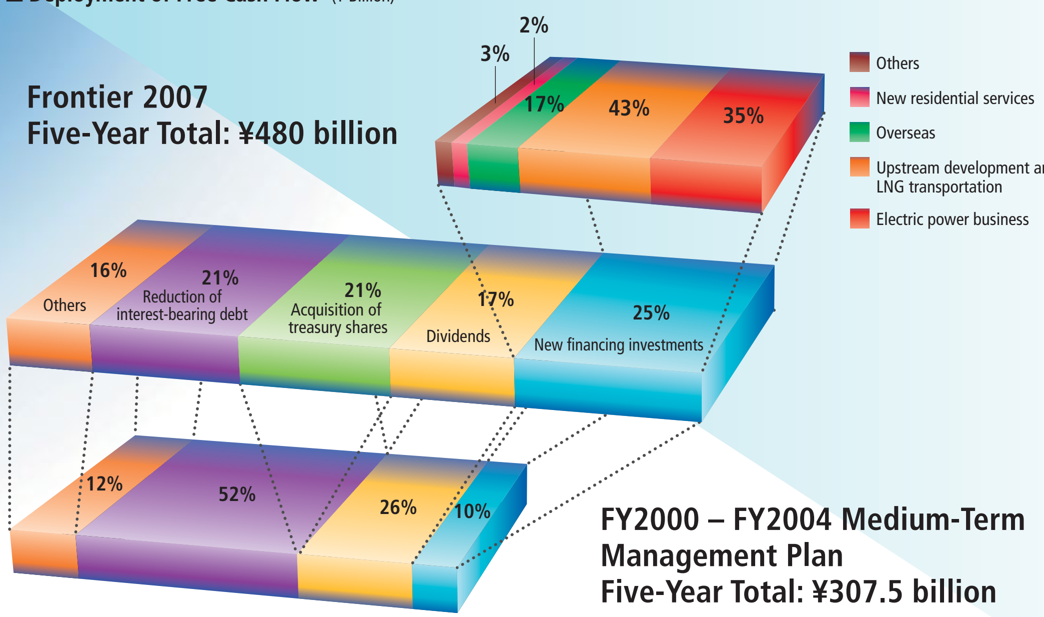
Free cash flow = Net income + Depreciation - Capital expenditures

Figures for fiscal 2002 are projections made when the medium-term management plan was finalized in October 2002, not the actual results.

Generating Free Cash Flow and Using It Effectively

Under Frontier 2007, Tokyo Gas has set a target for free cash flow of ¥480 billion, approximately 1.5 times the amount generated under the previous management plan. We intend to use this free cash flow effectively to maximize the value of the Tokyo Gas Group in ways such as investing in new business areas, as well as reducing liabilities and capital employed. The chart below details specific plans for deploying free cash flow. Primary uses of free cash flow will be ¥120 billion for business expansion investments in new energy-related areas, ¥100 billion for share buybacks and ¥100 billion for reducing interest-bearing debt.

■ **Deployment of Free Cash Flow** (¥ Billion)



PLAN

Business Model Innovation

INNOVATE

Business model innovation is central among the four pillars of Frontier 2007. Until now, Tokyo Gas used a business model that entailed the supply of gas alone, which involved the production of city gas from LNG, its supply and marketing. Under Frontier 2007, Tokyo Gas will expand participation throughout the natural gas value chain in upstream development and LNG transportation, in addition to its existing downstream gas business. We will also expand into new areas such as electricity, energy-related services and new residential services. Thus, Tokyo Gas will transform its business model into one in which we supply energy and value-added energy-related services throughout the entire value chain of the Tokyo Gas Group.

Natural Gas Procurement

Innovating toward a business model that advances into upstream development and LNG transportation to maximize the benefits of participation throughout the LNG value chain

By expanding its participation in the LNG value chain, Tokyo Gas is advancing into upstream development and LNG transportation to build synergies with raw material procurement. Tokyo Gas is participating in the Darwin LNG Project, and the construction of two Tokyo Gas-owned LNG carriers is under way. These initiatives will raise the Company's competitiveness and flexibility.

■ Business Flow and Business Model Innovation

LNG Receiving Terminals

Innovating cost centers into a terminal infrastructure business

Until now, Tokyo Gas viewed LNG terminals as cost centers that focused on producing gas and ensuring safety. Looking forward, Tokyo Gas's objective is to convert its LNG terminals into profit centers. We aim to achieve this objective by increasing revenue from allowing third parties to use our terminals, and to raise terminal efficiency by increasing capacity utilization rates, lengthening the service life of LNG facilities through preventive maintenance, and reducing production costs.

Commercial and Industrial Sales

Innovating our business model to encompass one-stop supply of optimal energy solutions by fully utilizing our network of customers and companies

Tokyo Gas is moving from its previous business model of supplying gas alone to a comprehensive business model of supplying energy-related services that encompass electric power and heat in addition to gas, as well as maintenance and engineering. Tokyo Gas's aim is to transform itself into a one-stop supplier of optimal energy solutions for its customers.

Inter-Regional Sales

Innovating to expand business areas based on the best mix of diverse commercial resources and new management techniques, with a focus on direct supply, wholesaling, energy services, LPG and LNG sales, and alliances with other companies

Key Issues

- Aggressively acquire additional customers on the periphery of pipelines scheduled for construction.
- Strengthen gas wholesale marketing capabilities through steps including strategic rates, stronger sales and technical support, and the provision of energy services in addition to gas.
- Aggressively expand the liquefied petroleum gas (LPG) business as a Group, and cooperate and form alliances with LPG enterprises in response to deregulation.
- Expand into the energy services business.
- Expand LNG sales deliveries with LNG tank lorries and vessels.
- Develop efficient infrastructure through methods such as alliances with other companies.

Pipeline Network

Primary Business Areas

- City Gas Business
- Electricity Business
- Energy-Related Business

Commercial and Industrial Sales

Expand energy services.
Prepare an integrated electric power sales organization.
Expand one-stop energy service capabilities.

Inter-Regional Sales

Residential Sales

Develop residential services including remodeling, insurance, and home security.
Counter the shift from gas to electrical appliances.
Commercialize and widely distribute compact fuel cells for residential use.

Pipelines

Innovating our pipeline business from a cost center into a profit center

Until now, Tokyo Gas viewed pipelines the same way it viewed LNG receiving terminals: as cost centers that focus on stable gas supply and safety assurance. We have adopted more rigorous return on investment criteria, however, and are working to reduce the cost of necessary investments and strengthen their security level. The development of the wheeling business is an effort to raise capacity utilization rates and distribute costs over the added wheeling capacity, thereby lowering the effective cost of gas sold to our customers.

Residential Sales

Innovating our business model to provide customers with comprehensive value encompassing energy, products and services

Tokyo Gas has built a strong relationship of trust over the years with the 8.6 million households it serves. This will serve as the base for developing a residential services business. In addition to remodeling, insurance, home security and other services, we will commercialize and promote the spread of compact fuel cells for residential use, as well as home appliances that use gas instead of electricity, a product area where the pace of growth has been accelerating in recent years.

Technology Development

Innovating technology development into a tool for business model innovation and creation, with an emphasis on fuel cell development

Key Issues

- Popularize residential fuel cells and expand sales channels through continuous technological development. Tokyo Gas is field testing residential fuel cell production prototypes it has developed and expects to commercialize them in fiscal 2004.
- Develop technologies that contribute to the creation of new businesses such as the supply of hydrogen.
- Develop highly efficient cogeneration systems to increase competitiveness.
- Develop and apply trenchless pipe repair methods to improve customer service, mitigate environmental impact and reduce costs.

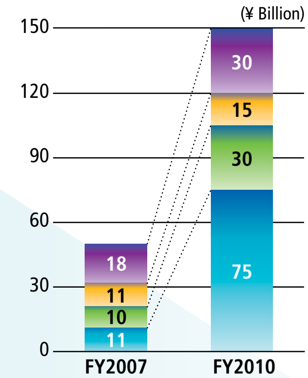
Business Expansion into Energy-Related Areas

Expanding our business into energy-related areas will be a major part of business model innovation. Tokyo Gas plans to take full advantage of the business opportunity represented by the growth in energy-related markets as a result of deregulation, and will expand into new value-added energy business fields in natural gas and related businesses. As a result, we are targeting net sales from new business areas of ¥50 billion in fiscal 2007 and ¥150 billion in fiscal 2010. We will further enhance our competitive edge through the construction of a value chain extending from upstream to downstream areas, consisting of the upstream development and LNG transportation business, the electric power business, energy services, overseas business, and new residential services such as insurance and home security.

EXPAND

■ Targets for Expansion into Energy-Related Areas

	Net Sales (¥ Billion)	
	FY2007	FY2010
Electric Power	11	75
Energy Services	10	30
Overseas	11	15
New Residential Services	18	30
Total	50	150



(1) Electric Power

We are building power plants fueled with our natural gas to provide the foundation for expansion into the electric power business. In accordance with the progress of deregulation as well as power supply and demand trends, generating capacity will be expanded in stages, with an estimated scale of 3,000 mW in the future.

Developing a Power Generation Business

Tokyo Gas has begun working to build its power generation business, a key element of our plan to expand into energy-related areas. We have established subsidiary Tokyo Gas Bay Power Co., Ltd., and built a 100 mW power plant at the Sodegaura Terminal, where final testing is underway and full operations are scheduled to begin in October 2003. In addition to keeping installation costs and operating costs to a minimum by building the plant on our own LNG terminal site, we will use the latest high-efficiency combined-cycle generators to stay fully competitive.

We are also planning to construct a 900 mW power plant jointly with Nippon Oil Corporation (scheduled to begin operations in 2008) and a 1,200 mW power plant with the Shell Group (scheduled to begin operations in 2009).

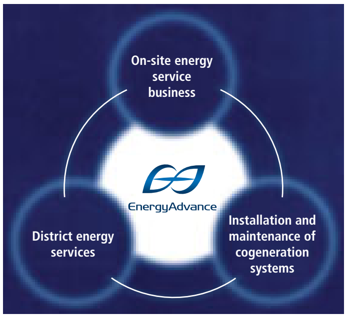
Power plant of Tokyo Gas Bay Power Co., Ltd.

(2) Energy Services

Business development in this area will be led by ENERGY ADVANCE Co., Ltd., which will provide onsite one-stop services covering everything from energy services, gas and electric power supply, and engineering to maintenance.

Establishment of ENERGY ADVANCE Co., Ltd.

In July 2002, Tokyo Gas established ENERGY ADVANCE Co., Ltd., with paid-in capital of ¥3.0 billion, to function as a total energy service provider for the buildings, factories and urban development projects of companies and local governments. The company will concentrate its operations in three business areas: on-site energy services, district energy services, and installation and maintenance of cogeneration systems. It also aims to provide one-stop services that meet diverse customer needs from consulting on energy-saving measures to construction, operation management, maintenance, and financing of projects.

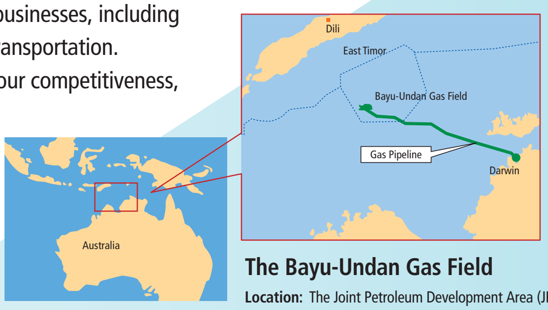


(3) Upstream Development and LNG Transportation

Tokyo Gas is branching out into the areas of upper and midstream LNG businesses, including overseas development of gas fields and liquefaction plants as well as LNG transportation. By participation in the entire LNG value chain, we will gain synergy, ensure our competitiveness, and obtain better terms in feedstock procurement.

Investment in the Darwin LNG Project

In June 2003, Tokyo Gas officially agreed to participate in the Darwin LNG Project, located in the Bayu-Undan Gas Field in the Joint Petroleum Development Area (JPDA) shared by Australia and East Timor. Tokyo Gas and Tokyo Electric Power Co., Inc. have signed a long-term contract for the purchase of the entire yearly production of LNG (3 million tons) projected for the project. This has enabled Tokyo Gas to participate in the entire LNG chain, from gas production and liquefaction to sales and transport using our own LNG carriers and marketing, thus allowing the Company to maximize the total value of its natural gas business.



The Bayu-Undan Gas Field

Location: The Joint Petroleum Development Area (JPDA) of Australia and East Timor 250 kilometers off the south coast of East Timor 500 kilometers offshore from Darwin, Australia

Reserves: Approximately 3.4 trillion cubic feet of natural gas
Approximately 400 million barrels of condensate and LPG

Building Our Own Fleet of LNG Carriers

Tokyo Gas is currently building two LNG carriers, which it will own and operate. The first will be completed in fall 2003 and the second in 2005. The Company will use its new carriers to expand free-on-board (FOB) transactions in order to procure competitive LNG by reducing the freight costs. Furthermore, these two carriers will be used not only for LNG transport under long-term contracts, but also in a new LNG procurement program that includes short-term contracts and spot trading, which will result in further reduction of import prices and greater flexibility in contract terms.

(4) Overseas

Tokyo Gas is moving into gas distribution, power generation and other energy-related areas overseas, increasing earnings through management that leverages our technology and know-how.

Overseas Activities

The Tokyo Gas Group has had numerous successful overseas projects over its long history, including involvement in building and managing gas supply infrastructures. The establishment of Malaysia's first natural gas distribution business and gas-fired district cooling business was the first full-fledged international project by a Japanese energy utility, and has been regarded as a model for other Asian countries.

Tokyo Gas will continue to identify and develop investment opportunities in overseas energy-related businesses such as gas supply and electric power, while focusing closely on profitability.

(5) New Residential Services

In the residential segment, Tokyo Gas is developing businesses for electricity (residential fuel cells) and other utilities besides gas, as well as providing home-related services including remodeling, installation and maintenance of facilities and equipment, insurance, financing, and home security.

Establishment of Tokyo Gas Customer Service Co., Ltd.

Tokyo Gas established Tokyo Gas Customer Service Co., Ltd. in April 2002, and began outsourcing its customer service operations – such as periodic safety checks, meter reading and bill collection – in parts of Tokyo Gas's service area in July 2002. Operations were transferred in all 67 sectors of our service area by July 2003 to provide high-quality service at a lower cost. Support for this outsourcing will come from Enesta*, a group of franchised, community-based outlets for gas-related operations. Enesta companies will acquire equity stakes in a new company that will be established in April 2004, to which some outsourced services will be transferred.

Entering the Non-Life Insurance Business

Aiming to become a company that provides a variety of energy solutions, products and services used in daily life, Tokyo Gas entered the non-life insurance business in January 2003. Tokyo Gas and Enesta became agents of Sompo Japan Insurance Inc. in order to sell a product that insures household effects against fire, which was jointly developed with Sompo Japan. The first step toward business model innovation will be leveraging the power of our brand, which means reliability, safety and trust to our base of loyal customers.

* Enesta: A group of companies that are part of the Tokyo Gas service network, whose customer service outlets already handle home services such as the connection and disconnection of gas service, the sale, installation and repair of gas appliances, and the remodeling of surrounding areas where equipment is installed.

Construction of the Group Management System

In order to move forward with business model innovation and expand our business into energy-related markets, we must build a consolidated operating structure that integrates the management of Tokyo Gas and its Group companies. These Group companies have previously operated independently, but must now work together to maximize the earnings of the Tokyo Gas Group.

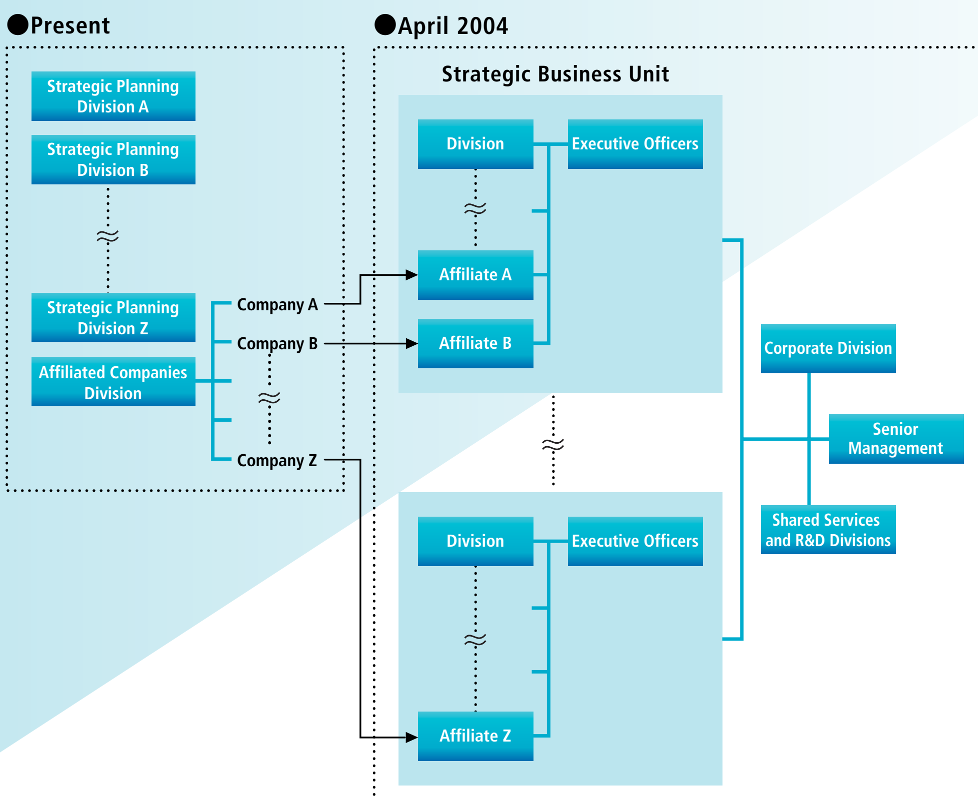
CREATE

Frontier 2007 is a plan for shifting from a business model that revolves exclusively around the supply of gas to one that repositions the Company as a total provider of energy and value-added energy-related services. This new model will improve the competitiveness of the entire Tokyo Gas Group and generate stronger consolidated earnings.

To achieve this objective, we are building a consolidated management system that will centralize the formerly separate and independent business operations of Tokyo Gas and its Group companies. We aim to develop a business strategy reflecting the goals of the entire Tokyo Gas Group, including our affiliates, and establish an organizational structure and a management framework to support it. In centralizing business management functions, it will be particularly important to invest management resources strategically and work toward optimization of the Group as a whole. We will also work to enhance corporate functions to ensure that strategic business units (SBUs) have the freedom and flexibility to develop their operations. This will create a stronger market orientation and deepen our relationship of trust with our base of more than 9.2 million customers, our greatest asset.

Changes to the current management organization are in still in the planning stage, with the new structure scheduled to take effect in April 2004.

■ Organization of the Strategic Business Unit System



Building a Group Management Structure

The core element of the Group management structure is the SBU. The existing divisions, currently organized in terms of function and business area, will be restructured and consolidated into SBUs with a strong customer-centric focus. The business areas of affiliates, which are closely related to Tokyo Gas's operations, will be incorporated into various strategic business units, thereby consolidating the management of the parent company and affiliates. This will encourage mutual cooperation among members of the Tokyo Gas Group that will result in improved competitiveness against and differentiation from our competitors.

In addition, we will clarify functions and roles by dividing Group management into three areas: the corporate division; the SBUs; and divisions for shared services and R&D. Specifically, the corporate division, which is responsible for the management of the entire Group, will define the framework for optimization of the Group as a whole and will formulate and execute Group strategy. Each SBU will work to develop the respective business it is associated with. The shared service divisions and the R&D division will be in charge of providing services and technical support for the entire Group. By ensuring that these three areas function smoothly together in an organic fashion, Tokyo Gas will maximize the power of the Group.

Strengthening the Group Management Structure

As changes in the business environment accelerate, the functions and framework associated with optimizing the Tokyo Gas Group will become increasingly important. As a result, we are focusing on developing stronger business management capabilities.

The corporate division will clearly set forth the direction of the Group, with the responsibility and authority to make adjustments as circumstances demand. SBUs will be given the freedom to carry out plans such as reorganizing or consolidating businesses within units. In addition, we will consolidate all Group management functions under the Strategic Planning Division. This move will replace the current parallel structure where the corporate division is overseen by the Strategic Planning Division and the Affiliated Companies Division is responsible for all Tokyo Gas affiliates. This reorganization will ensure the smooth planning, implementation and management of the Group's strategies.

Under this management structure, we will achieve a dynamic management that uses a process of selection and concentration to focus management resources in highly profitable and competitive areas.

Tokyo Gas Group Companies

(¥ Million)

Company	Business	Capital	FY2002 Net Sales (% of Outside Sales)	Operating Income (Loss)
Tokyo Gas Urban Development Co., Ltd.	Real estate leasing, management, brokerage	8,779	35,539 (39.6)	7,125
ENERGY ADVANCE Co., Ltd.	Energy service business	3,000	17,837 (89.8)	3,708
Gaster Co., Ltd.	Gas appliances production and sales	2,450	29,032 (55.0)	2,539
KANPAI Co., Ltd.	Design and construction of gas pipelines, waste water and air conditioning facilities	1,300	47,202 (32.5)	1,077
Tokyo LNG Tanker Co., Ltd.	LNG and LPG chartering, transport of carriers	1,200	1,711 (0.1)	586
Tokyo Gas Energy Co., Ltd.	Sales of energy LPG and coke	1,000	20,731 (91.7)	275
Tokyo Gas Chemicals Co., Ltd.	Sales of gas for industry and chemicals, R&D of LNG cooling applications	1,000	20,313 (91.3)	641
Park Tower Hotel Co., Ltd.	Hotel (Park Hyatt Tokyo) management	1,000	8,988 (99.9)	764
Tokyo Oxygen and Nitrogen Co., Ltd.	Production and wholesale of liquefied oxygen and nitrogen	800	2,296 (44.9)	258
Chiba Gas Co., Ltd.	Gas business	480	11,174 (99.6)	699
TG Credit Services Co., Ltd.	Financing and leasing related to gas equipment and construction	450	10,940 (47.4)	263
TG Information Network Co., Ltd.	System integration business	400	14,706 (24.8)	(121)
Tsukuba Gakuen Gas Co., Ltd.	Gas business	280	5,025 (98.8)	375
TG Enterprise Co., Ltd.	Group financial administration business	200	817 (52.8)	(27)
Tokyo Gas Engineering Co., Ltd.	Comprehensive engineering services centered on energy	100	31,068 (70.8)	458
TG•IT Service Co., Ltd.	Tokyo Gas systems, network operations	50	8,394 (0.2)	282
Tokyo Gas Customer Service Co., Ltd.	Provision of periodic gas safety checks, meter reading and billing services	50	1,365 (0)	240
KANPAI LIVING SERVICE Co., Ltd.	Sales of gas appliances	50	3,584 (82.8)	(120)

As of March 31, 2003

Strengthening the Corporate Structure

To succeed in this period of "mega-competition" in the energy industry, it is essential to create a stronger and more streamlined corporate organization. To this end, Frontier 2007 will focus on establishing corporate governance, strengthening our financial position, clarifying evaluation standards, and pursuing cost reductions across the board.

Establishing Corporate Governance

The underlying foundation of our business activities is delivering value to our customers. All our activities focus on our customers, as we strive to become a corporate group that is trusted by customers, shareholders, and society as a whole. With this in mind, we are working to further improve compliance while promoting active disclosure of information and stronger corporate governance.

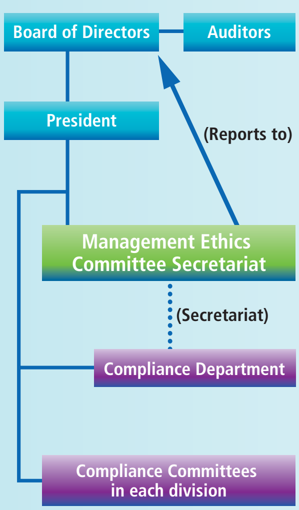
In November 2002, Tokyo Gas established a Compliance Department and a supporting organization to bolster the Company's compliance promotion system. Under the basic guidelines formulated by the Management Ethics Committee, which is chaired by the President, Compliance Committees established in each division are each conducting their own ongoing compliance-related measures, while the Compliance Department is responsible for company-wide educational programs. Through these efforts, we are working to create a corporate culture that encourages all executives and employees to emphasize compliance in their decisions and behavior, thereby continually improving our brand value.

In March 2003, Tokyo Gas set up two Compliance Hot Lines to accept employee questions. Employees are able to consult directly on compliance-related issues through either an in-house or external hotline. This new system enables employees to quickly resolve problems and has strengthened the Company's ability to carry out compliance automatically and independently.

The Audit and Operational Enhancement Department also performs compliance audits to ensure compliance with governmental regulations.

To strengthen corporate governance, Tokyo Gas reorganized its governance system in June 2002. Changes included substantially reducing the number of directors, shortening their terms of service, and appointing outside directors to the board. At the same time, Tokyo Gas was the first in the industry to introduce a corporate executive officer system, which has improved the management of day-to-day operations. In the future, we will continue working to revitalize the board of directors while increasing management transparency.

■ Compliance Organization



■ Management Philosophy

As a total energy industry, the Tokyo Gas Group shall make an active contribution to pleasant living and the development of environmentally friendly cities, and also pursue ongoing advancement together with the rest of society, as a corporate group that earns and maintains the trust of its customers, shareholders and communities through its various activities.

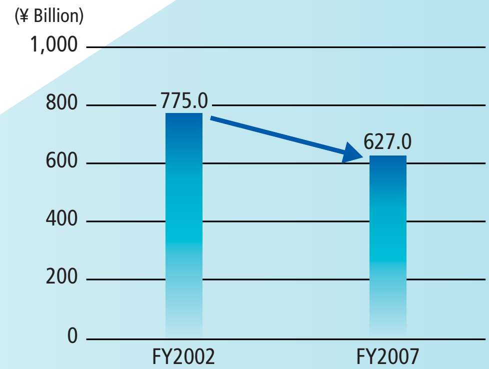
1. Tokyo Gas shall strive to evolve into a new utility that simultaneously satisfies the goals of contribution to customers and communities as a public-minded enterprise and increases its corporate value as a joint-stock corporation.
2. Tokyo Gas shall observe the letter and spirit of laws and regulations, and work for socio-economic advancement through business activities that are both fair and transparent.
3. Tokyo Gas shall contribute to the alleviation of global environmental problems as a leading practitioner of environmental management.
4. Tokyo Gas shall remain keenly aware of its obligations to be a good corporate citizen and assist the emergence of a more fulfilling society through contributing to community activities.
5. Tokyo Gas shall pursue innovation on an ongoing basis to promote a cost effective business approach and a flexible but resilient disposition.
6. Tokyo Gas shall aspire to build organizations that are brimming with vitality based on the full exercise of and respect for the talents, desires, and creativity of each and every employee.

Strengthening Our Financial Position and Clarifying Evaluation Standards

Continued from our previous medium-term management plan, one of the goals of Frontier 2007 is to improve asset efficiency by reducing fixed, financial and other assets. We are aiming to lower the amount of interest-bearing debt by about ¥150 billion, on a consolidated basis (approximately ¥100 billion compared with actual results for fiscal 2002), in order to improve our financial position by minimizing interest-rate risk. In addition, we are establishing uniform standards for entering, maintaining, and withdrawing from businesses, as well as for investment decision-making, in order to develop more efficient and effective operations.

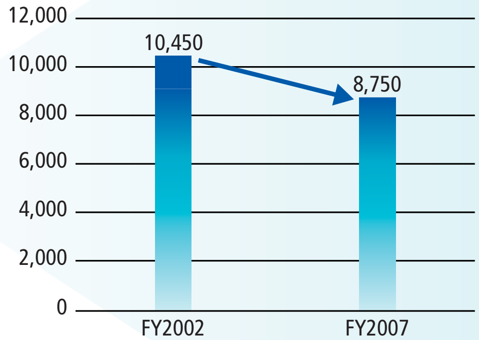
These evaluation standards are Tokyo Gas Economic Profit (TEP), Net Present Value (NPV) and Internal Rate of Return (IRR). TEP is Tokyo Gas's version of Economic Value Added (EVA®), allowing us to meet the expectations of shareholders while looking for ways to generate added value, determining the future direction of our business and optimizing the allocation of management resources.

■ **Interest-Bearing Debt (Consolidated)**



Note: Figures for fiscal 2002 are projections made when the medium-term management plan was finalized in October 2002, not the actual results.

■ **Personnel (Non-consolidated)**



Note: Figures for fiscal 2002 are projections made when the medium-term management plan was finalized in October 2002, not the actual results.

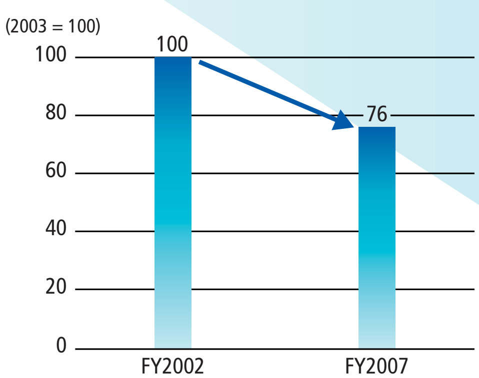
Pursuing Cost Reductions

Tokyo Gas is reducing costs through measures such as making administrative divisions more efficient, which enables increasing cash flow for investment in new businesses.

The introduction of shared services for the Group as a whole will improve the efficiency of administrative operations while reducing staffing requirements and costs at the Tokyo Gas head office. In addition, any increase in fixed costs due to an increase in new customers will be absorbed through our cost cutting efforts, and overhead in fiscal 2007 should be back to fiscal 2002 levels.

Because business model innovation will require improvement in the quality of human resources and a more dynamic organization, we are focusing harder than ever on human resources development and management. At the same time, through reorganization of all businesses, Tokyo Gas will reduce personnel by about 1,700, or 16 percent, compared with the end of fiscal 2002, resulting in a total staff of no more than 8,800 by the end of fiscal 2007. In addition, expanding the merit-based system of annually salary negotiations for managers and other measures will bring compensation more closely in line with performance.

■ **Fixed Expenses per m³ of Gas Sales (Non-consolidated)**



Fixed expenses = Wages + Overhead + Depreciation and Amortization + Non-operating expenses

Research & Development: A Key to the Future

Tokyo Gas has consistently emphasized technology development and the harnessing of new technology to develop business. As deregulation intensifies competition, we will focus on developing technologies that raise the speed and profitability of our operations, differentiate us from other companies, and contribute to business model innovation.

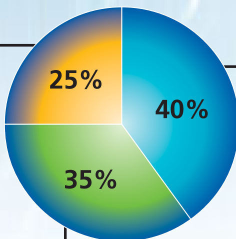
Key R&D Objectives and Development Themes

Tokyo Gas is concentrating on the following three key R&D objectives.

■ R&D Expenses By Objective

Total R&D Expenditures (Consolidated): ¥11.7 billion

(Year ended March 31, 2003)



1. Encouraging natural gas use

Improve the safety and dependability of gas appliances and further raise the superiority of city gas by developing technologies that increase efficiency while reducing space requirements and costs.

2. Strengthening the natural gas business base

Improve existing production and distribution infrastructure and lower the cost of maintenance. Develop technologies required to create a more efficient production, storage, transmission and supply system in order to expand the Company's natural gas business base.

3. Creating profitable new businesses and improving customer satisfaction

Deploy proprietary technologies to create profitable new businesses, and develop technologies to expand the ability to supply high-value-added services that meet customers' needs.

Business Model Innovation through Technology Development

Tokyo Gas is working to commercialize hydrogen energy and fuel cells, with the expected launch of a residential fuel cell cogeneration system in fiscal 2004. In addition, Tokyo Gas is deploying its technologies to contribute to the expansion of the hydrogen infrastructure in ways such as leveraging its city gas infrastructure in the Tokyo metropolitan area. Using its experience in natural gas vehicles and its highly efficient technology to produce hydrogen from city gas, Tokyo Gas is also working to develop a new business model focused on these efforts.

Hydrogen Filling Station

The Senju Hydrogen Station, the first fixed hydrogen filling station in the metropolitan Tokyo area, was constructed as a joint venture between Tokyo Gas and Nippon Sanso Corporation as part of the Japan Hydrogen & Fuel Cell Demonstration (JHFC) Project. Once operations begin, the station will conduct demonstrations of hydrogen production and supply technology and its operating know-how. It will also collect data on factors such as environmental impact, energy efficiency, safety and economic feasibility. This data will support the establishment of standards and regulations, validate the social suitability of hydrogen energy and fuel cells, and provide feedback that Tokyo Gas can use in developing technology and creating a new business model. Fuel cell vehicles and hydrogen filling stations were also the focus of attention at the 22nd World Gas Conference held in Tokyo.

Cogeneration System for Residential Use

The polymer electrolyte fuel cell (PEFC) stationary cogeneration system for residential use features highly efficient power generation, minimal environmental impact and high overall energy efficiency. Using its proprietary technology, Tokyo Gas is pushing ahead with the development of a fuel processor for the PEFC system. Our initiatives, such as conducting field tests at actual homes, will promote the widespread use of this system.

Methane Hydrate

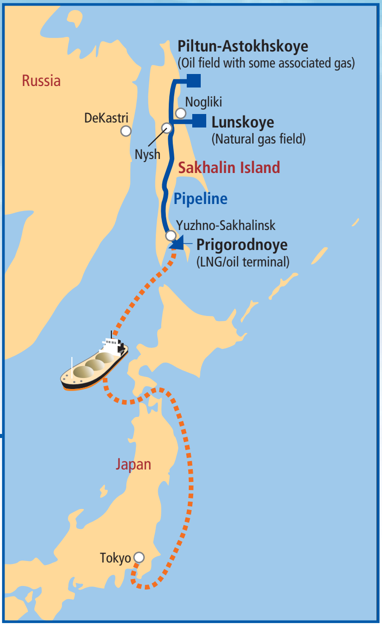
The seabeds around Japan are estimated to hold reserves of methane hydrate – methane and water frozen into a sherbet-like consistency under high pressure – equivalent to Japan's natural gas consumption for a hundred years. For a country like Japan, which is almost totally reliant on imported energy resources, this is an extremely attractive source of energy. Tokyo Gas is continuing research into options for using methane hydrate as a future source of natural gas.

Competitive Feedstock, Stable Supply and Safety Measures

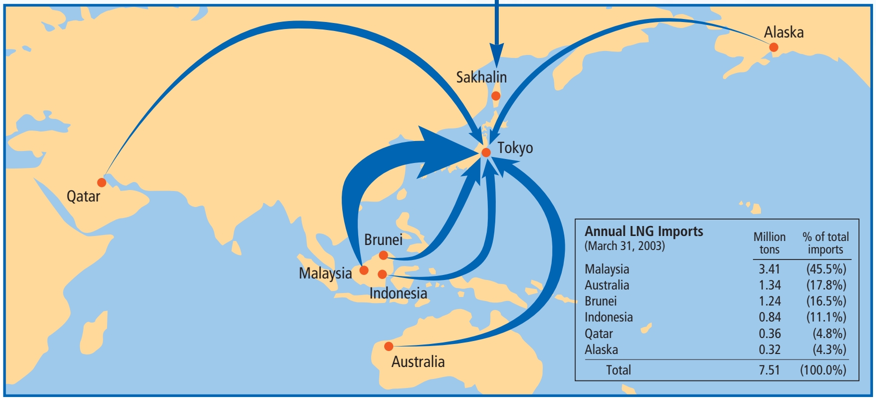
Tokyo Gas stably procures cost-competitive feedstock, while its diversified disaster-prevention system covering every aspect of operations from the production and supply of city gas to its use fully assures safety.

New LNG Contracts Will Improve Competitiveness and Enhance Flexibility

Tokyo Gas currently imports a total of 7.5 million tons of LNG annually from six countries, and continues to study sourcing of additional supply to respond to future increases in gas demand. Supply from the Malaysia III Project, the NWS Expansion Project in Australia, and the Darwin LNG Project should come online in sequence from 2004. Moreover, in May 2003, Tokyo Gas concluded a heads of agreement covering the purchase and sale of LNG produced by the Sakhalin II Project. The Sakhalin II Project is the first Russian project to supply natural gas to Northeast Asia, and its abundant reserves and proximity to the market are significant advantages. Contract terms of these new agreements and the use of Company-owned LNG carriers will add to competitiveness and flexibility in procuring LNG.



■ **Tokyo Gas LNG Imports**



Annual LNG Imports (March 31, 2003)	Million tons	% of total imports
Malaysia	3.41	(45.5%)
Australia	1.34	(17.8%)
Brunei	1.24	(16.5%)
Indonesia	0.84	(11.1%)
Qatar	0.36	(4.8%)
Alaska	0.32	(4.3%)
Total	7.51	(100.0%)

The signing of the heads of agreement covering the purchase and sale of LNG produced by the Sakhalin II Project

Maintaining Stable Supply

In tandem with the objective of a stable and economical feedstock procurement system, Tokyo Gas works to ensure stable supply by employing a thorough array of disaster-prevention facilities covering production, distribution and consumption to guarantee safety. The Center for Supply Control and Disaster Management conducts 24-hour monitoring and control of gas production and supply using the Total Gas Control System (TGCS). This supply control system is designed to assure a stable supply and to take necessary measures quickly and safely in the event of a disaster such as a major earthquake.

Thorough Safety Measures

Disasters caused by earthquakes can threaten the safety of the city gas supply system. Prevention, response and restoration are the three pillars of the Company's comprehensive earthquake countermeasures. Prevention includes the incorporation of the latest earthquake-proof technology in the design of our production and supply facilities to prevent damage. In addition, we have constructed the world's most extensive ultra-high density real-time seismic motion monitoring and disaster mitigation system, which remotely shuts off the supply of gas should a gas leak emergency occur, thus substantially minimizing the threat of secondary damage. We have also developed and are now refining a restoration support system to determine the most efficient plan for safely and quickly restoring service in the event of an interruption in the supply of gas.

Earth-Oriented Environmental Activities and Social Contribution

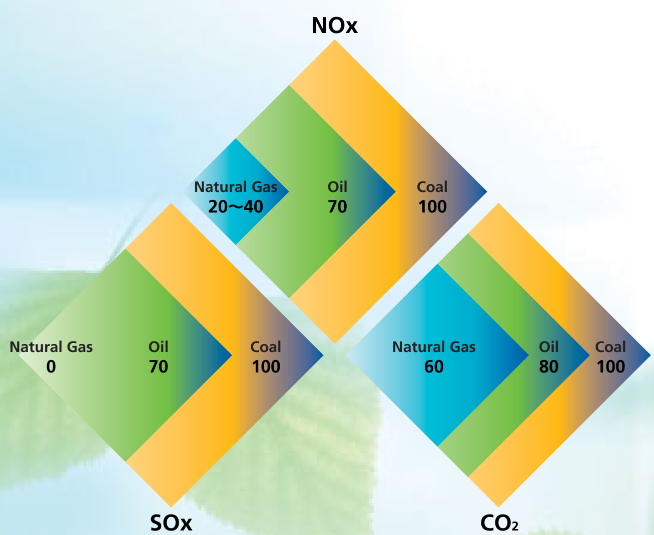
As a leader in environmental management, Tokyo Gas has established a policy that promotes the use of resources and energy in harmony with the environment. The Company actively works to develop technologies that reduce environmental impact, promotes the efficient use of energy, and discloses environmental data. In addition, Tokyo Gas contributes to society as a good corporate citizen.

Environmental Conservation

Natural Gas: A Clean Energy Source

Natural gas, the main feedstock for city gas, is a very clean energy source. Compared to other fossil fuels, natural gas combustion emits less carbon dioxide (CO_2), which is the main cause of global warming, and less nitric oxide (NOx), a source of air pollution. It also emits no sulfur oxide (SOx). The Tokyo Gas Group has positioned natural gas as the core element in its corporate growth.

■ Composition of Emission Levels (Coal = 100)



Source: IEA Natural Gas Prospects (1986), Natural Gas Prospects and Policies (1991)

Measures to Prevent Global Warming

Tokyo Gas has established its own Global Warming Prevention Guidelines, and is promoting energy conservation in its business activities. We also undertake activities to reduce CO_2 emissions by city gas customers. Cogeneration systems using natural gas can play an important role in curtailing CO_2 emissions. These systems feature overall energy efficiency of 70-80 percent, which effectively suppresses CO_2 emissions.

Reducing Waste and Promoting Recycling

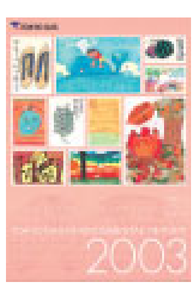
Our "Reduce, Reuse, Recycle" promotion guidelines contribute to the creation of a recycling-oriented society, and promote reduction in the amount of waste produced in the course of our operations. In addition to reducing the amount of waste paper generated, which accounts for most of the trash produced in our offices, we have set targets for the final disposal rate of industrial waste and are energetically working to achieve them. Moreover, Tokyo Gas is working to reduce the amount of residual soil derived from operations such as gas pipeline installation.

We are also vigorously promoting reduction, reuse and recycling of waste among customers. Tokyo Gas was quick to incorporate environmental protection into the design of its products, working to limit emissions from the design phase. The Company also developed and now uses the Saving Recycling Innovative Model System (SRIMS), a proprietary system for the efficient recovery, recycling and disposal of gas appliances, pipeline materials and other industrial waste. Furthermore, Tokyo Gas began collecting and properly disposing of discarded residential gas air conditioners and other appliances in response to the Home Appliance Recycling Law, which went into effect in April 2001.

Head Office Obtains ISO14001 Certification

Tokyo Gas is working to acquire ISO14001 certification, an international standard for environmental management systems. The Company's three LNG terminals, and the Shinjuku and Makuhari District Heating and Cooling Centers*, have received ISO14001 certification, and the head office received this certification in October 2002. Tokyo Gas is aiming to achieve certification companywide by the end of fiscal 2004.

* These centers were spun off as ENERGY ADVANCE Co., Ltd. in July 2002.



Disclosure of Environment Information

Tokyo Gas publishes an annual Environmental Report and discloses environmental information on its website. In addition, we introduced environmental accounting in fiscal 2000 to monitor the benefit of environmental protection by calculating the total investment and expenses allocated to it. The Company also publishes and distributes booklets that feature helpful information on conserving energy, such as the Ultra Energy-Saving Reader.
http://www.tokyo-gas.co.jp/env/index_e.html

Preventing Air Pollution

Tokyo Gas has formulated NOx Reduction Guidelines to encourage the use of natural gas, which produces low emissions of NOx, a cause of air pollution, as well as the development of low-NOx combustion technology and the popularization of more efficient water heaters and cogeneration systems. In particular, there is growing interest in natural gas vehicles (NGV), an environmentally friendly vehicle that not only produces significantly less NOx emissions compared to diesel engines, but also does not emit any suspended particulate matter (SPM) or SOx. Promoting the spread of NGVs is an important part of our environmental protection activities. At present, there are approximately 6,700 NGVs, including city buses, in the Tokyo Gas service area.

Natural gas vehicles, which produce reduced NOx emissions, include this city bus.

Contributing to Society

Committed to social harmony, Tokyo Gas contributes to society in a number of ways under the three types of communication outlined below.

Lifestyle and Culture Communication

Tokyo Gas offers a range of participatory activities centered on food and home that are designed to enrich people's lives. Examples include co-sponsoring the "Mini-University," a series of seminars for housewives, and promoting "Eco-Cooking." Eco-Cooking is based on the concept of using familiar items to learn about environmental issues. Tokyo Gas promotes environmentally friendly ways of shopping, cooking and tidying up after meals.

Eco-Cooking Book

Since 1995, Tokyo Gas has held approximately 700 Eco-Cooking sessions, attracting more than 30,000 participants. The Company continues to develop the program, publishing a collection of recipes in March 2003 and launching a dedicated website.
(Eco-Cooking is a registered trademark of Tokyo Gas.)

Environmental Communication

Recognizing that the global environment closely affects daily life, Tokyo Gas sponsors a variety of activities to provide a chance for people to play a part in its protection, such as the "EARTH VISION Global Environmental Film Festival," acorn-planting and "green" fund raising. Acorn-planting aims to increase environmental awareness through the activities of gathering acorns, raising them into seedlings, and then transporting them to the mountains for planting. Tokyo Gas has been carrying out this activity since its start in 1993 with the help of an environmental non-profit organization.

Children's Educational Communication

For children, Tokyo Gas provides an opportunity to learn and explore by utilizing its know-how, technology and facilities. The Company has been holding pottery contests and a soccer training school for elementary and junior-high school students. It also operates the Gas Science Center, the Energy and Earth Exploratorium and other facilities. As part of an initiative to support education on energy and the environment, since 2002 Tokyo Gas employees have been visiting elementary schools to distribute supplementary materials and conduct hands-on activities.

School Visits

Thirty Tokyo Gas employees responsible for supporting education visit schools to teach classes on eight different topics including cryogenic energy, Eco-Cooking and natural gas vehicles.

Volunteer Activities

In addition to the above communication activities, Tokyo Gas provides its employees with useful information and support for activities to promote volunteerism and a sense of social responsibility. The Company has established the Tokyo Gas Volunteer Network, an employee network for volunteer-related information and support, and also offers leaves of absence for volunteer activities.

Management


Kunio Anzai


Hideharu Uehara


Norio Ichino


Fumio Ohori


Mitsunori Torihara


Shigero Kusano


Kouya Kobayashi


Masahiro Ishiguro


Minoru Yokouchi


Yuzaburo Mogi


Yuri Konno


Yukio Sato

Board of Directors and Corporate Auditors

Chairman

Kunio Anzai

Vice Chairman

Hideharu Uehara

President

Norio Ichino

Executive Vice Presidents

Fumio Ohori
Chief Executive, Production Div.;
Chief Executive, Corporate Communications Div.

Mitsunori Torihara
Chief Executive, Strategic Planning Div.;
Internal Audit Dept.; Compliance Dept.

Shigero Kusano
Chief Executive, Energy Sales and Service Div.;
General Manager, Volume Sales Dept.

Senior Executive Officers

Kouya Kobayashi
Chief Executive, Pipeline and Safety Management Div.

Masahiro Ishiguro
Chief Executive, Affiliated Companies Div.

Minoru Yokouchi
Chief Executive, Inter-Regional Sales and Service Div.

Directors (outside)

Yuzaburo Mogi

Yuri Konno

Yukio Sato

Standing Corporate Auditors

Soichiro Akimoto

Hiroshi Hirai

Corporate Auditors

Shoh Nasu

Kazuo Nemoto

Senior Executive Officers

Takeo Kuno
Chief Executive, Customer Service Div.

Tadashi Zemba
Chief Executive, Corporate Service Div.

Tadaaki Maeda
Chief Executive, R&D Div.

Takashi Kunitomi
Chief Executive, Residential Sales and Service Div.

(As of July 1, 2003)

Executive Officers

Tsunenori Tokumoto
General Manager, Research Dept., R&D Div.

Tokio Imazawa
Coordinator, Energy Sales and Service Div.

Akira Habu
Corporate Communications Div.;
Managing Director, The Japan Gas Association

Toshio Tezuka
General Manager, Air-conditioning and Commercial Customer Development and Service Dept., Energy Sales and Service Div.

Seiichi Nakanishi
General Manager, Residential Sales Promotion Dept., Residential Sales and Service Div.

Masaki Sugiyama
General Manager, Pipeline Dept., Pipeline and Safety Management Div.

Tsuyoshi Okamoto
General Manager, Corporate Planning Dept., Strategic Planning Div.

Taiichi Okuzawa
General Manager, Kanagawa Service Branch, Customer Service Div.

Shigeru Muraki
General Manager, Gas Resources Dept., Strategic Planning Div.

Norikazu Hoshino
General Manager, Personnel Dept., Strategic Planning Div.

Tadashi Kaburagi
General Manager, Industrial Gas Sales Dept.; Deputy General Manager, Volume Sales Dept., Energy Sales and Service Div.

Toshiyuki Kanisawa
General Manager, Service Planning Dept., Customer Service Div.

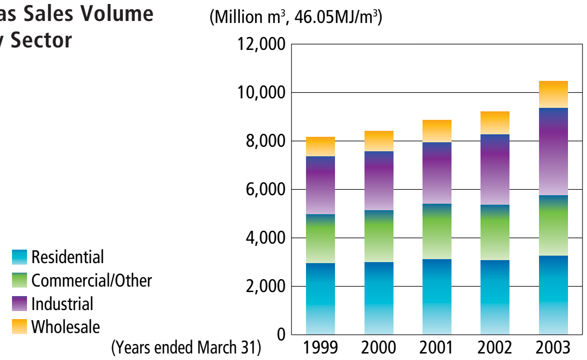
Management's Discussion and Analysis of Operations

Tokyo Gas Co., Ltd. and its 18 consolidated subsidiaries operate in five segments: gas sales, gas appliance sales, related construction, real estate rental, and other.

Gas Sales Volume

For the year ended March 31, 2003, gas sales volume in the residential sector increased 5.9% year-on-year to 3,302 million m^3. Factors in the increase included a lower average temperature than in the previous fiscal year, which increased demand for hot water and heating. An increase in the number of both gas customers and gas appliances in use also supported the gain. Gas sales volume in the commercial and other business user sector, which consists of commercial, public and medical customers, increased 9.7% to 2,592 million m^3. Factors supporting the increase included additional consumption from new customers and the favorable effect of the lower average temperature on demand for hot water and heating. Gas sales volume in the industrial sector increased 23.4% to 3,632 million m^3. Factors in the increase included higher demand in the power generation market and additional consumption from new customers. Gas sales volume in wholesale supply to other gas companies increased 17.6% to 944 million m^3 due to factors including an increase in supply contract volume. As a result, total gas sales volume for the fiscal year increased 13.5% year-on-year to 10,471 million m^3.

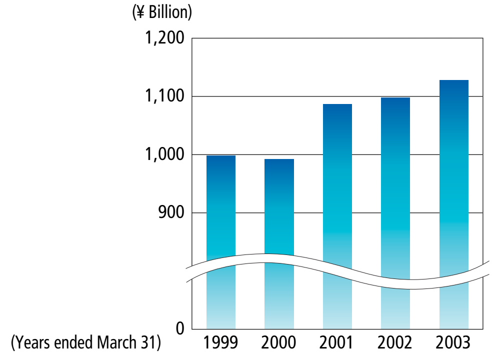
Gas Sales Volume by Sector



Net Sales

Consolidated net sales increased 2.7% year-on-year to ¥1,127.6 billion. Gas sales increased 5.6% year-on-year, supported by the increase in gas sales volume and other factors including gas rate adjustments based on the "sliding rate system." Sales of gas appliances and sales from related construction, however, decreased from the previous fiscal year.

Net Sales



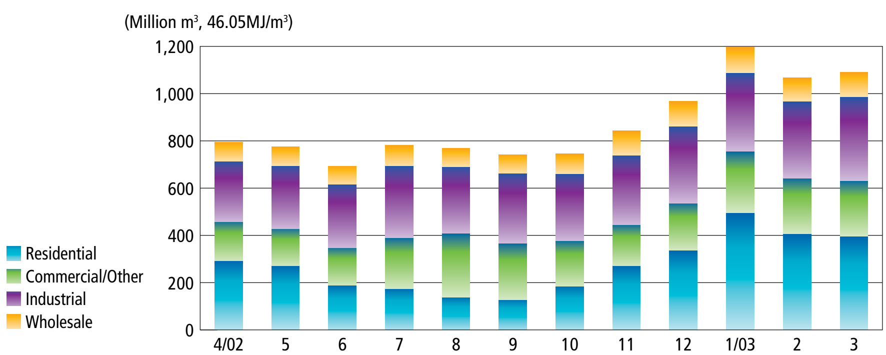
Operating Expenses and Operating Income

Costs and expenses, the sum of cost of sales and selling, general and administrative (SG&A) expenses, increased 1.8% year-on-year to ¥1,004.3 billion. While raw material expenses rose in tandem with the increase in sales volume, costs and expenses increased at a rate below that of net sales due to efforts to further raise efficiency and control overhead, personnel and other expenses. Cost of sales increased 1.8% to ¥571.9 billion, while SG&A expenses increased 1.7% to ¥432.4 billion. Consequently, operating income increased 11.5% year-on-year to ¥123.3 billion.

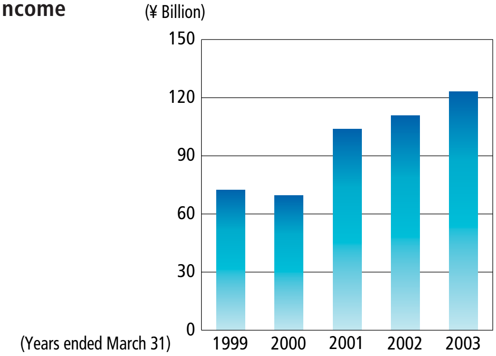
Effect of 1°C Temperature Increase on Gas Sales Volume

	Rate of Change
Summer (June – September)	0.1%
Winter (December – March)	-2.7%
Intervening months (April, May, October, November)	-1.9%
Annual	-1.6%

Monthly Gas Sales Volume by Sector for Fiscal 2002 (Non-consolidated)



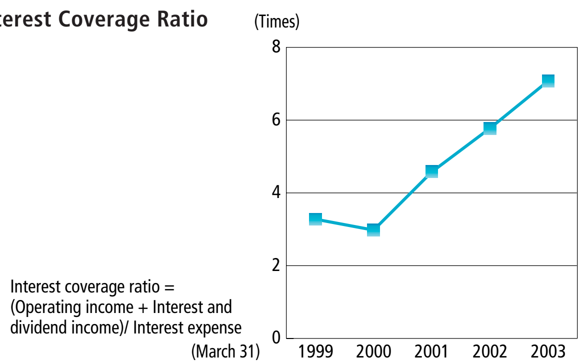
Operating Income



Other Income (Expenses)

Other expenses, net totaled ¥27.4 billion, compared to ¥27.7 billion for the previous fiscal year. Other income totaled ¥5.2 billion, compared to ¥4.9 billion for the previous fiscal year, primarily because Tokyo Gas recorded an exchange gain, as opposed to the exchange loss of the previous fiscal year. Other expenses totaled ¥32.7 billion, compared to ¥32.6 billion for the previous fiscal year. Interest expense decreased 9.4% to ¥17.5 billion, reflecting progress in reducing interest-bearing debt. The interest coverage ratio, which is the sum of operating income and interest and dividend income divided by interest expense, was 7.1 times, compared to 5.8 times for the previous fiscal year. The decrease in interest expense, however, was offset by factors including a year-on-year increase of ¥1.7 billion in loss on unsecured note redemption to ¥6.3 billion, and environmental conditioning costs of ¥5.7 billion, which is included in other, net.

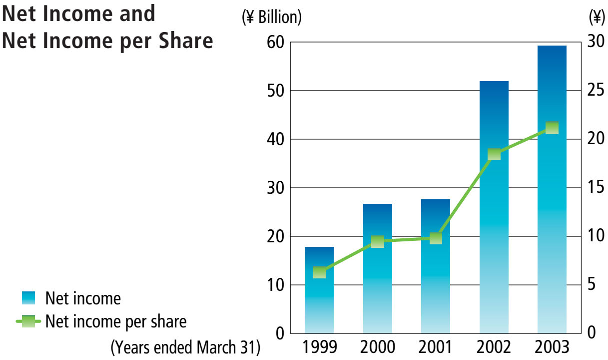
Interest Coverage Ratio



Income before Income Taxes, Income Taxes and Net Income

Improved operating profitability supported a year-on-year increase of 15.7% in income before income taxes and minority interest in net income of consolidated subsidiaries to ¥95.9 billion. Income taxes increased 18.2% to ¥36.4 billion. As a result, net income increased 14.0% year-on-year to ¥59.2 billion. The ratio of net income to net sales was 5.3%, a year-on-year improvement of 60 basis points from 4.7% for the previous fiscal year. Net income per share increased to ¥21.18 from ¥18.47 for the previous fiscal year. Fully diluted net income per share increased to ¥19.11 from ¥16.66 for the previous fiscal year.

Net Income and
Net Income per Share



Dividends

Tokyo Gas's basic policy is to distribute to shareholders approximately 20% of free cash flow generated under Frontier 2007 from fiscal 2003 to fiscal 2007. In addition, Tokyo Gas plans to generate another 20% from free cash flow for the repurchase of its common shares outstanding to counter the dilutive effect of the conversion of convertible bonds into shares. Based on these considerations, the Company declared cash dividends for the fiscal year totaling ¥6.00 per share, the same as in the previous fiscal year.

Segment Information

In this section, segment sales refers to sales to outside customers, excluding inside Group sales. Operating expenses are total expenses associated with sales to outside customers and inside Group sales. Operating income is calculated as the total of sales to outside customers and inside Group sales less operating expenses.

Gas

Gas sales volume increased 13.5% year-on-year. Segment sales increased 5.2% year-on-year, or ¥39.2 billion, to ¥789.7 billion, and accounted for 70.0% of total net sales, compared to 68.4% in the previous fiscal year. Higher gas sales volume and gas rate adjustments based on the "sliding rate system" were primary factors in the increase. Segment operating expenses increased 5.2% to ¥632.2 billion as higher sales volume resulted in higher raw material costs. Segment operating income therefore increased 7.4%, or ¥11.0 billion, to ¥160.2 billion.

Gas Appliances

Segment sales decreased 4.8% year-on-year, or ¥7.0 billion, to ¥141.2 billion, and accounted for 12.5% of total net sales, compared to 13.5% in the previous fiscal year. Segment operating expenses decreased 5.0%, or ¥7.2 billion, to ¥134.8 billion. Segment operating income therefore increased 8.3%, or ¥0.6 billion, to ¥7.8 billion.

Related Construction

Segment sales decreased 0.9% year-on-year, or ¥0.6 billion, to ¥67.0 billion, and accounted for 5.9% of total net sales, compared to 6.2% in the previous fiscal year. Segment operating expenses decreased 1.9%, or ¥1.3 billion, to ¥66.4 billion. Segment operating income therefore increased 14.4%, or ¥0.5 billion, to ¥4.2 billion.

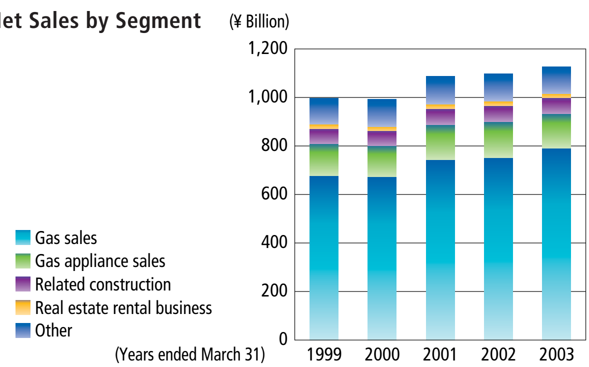
Real Estate Rental

Segment sales decreased 4.7%, or ¥0.7 billion, to ¥14.9 billion, and accounted for 1.3% of total net sales, compared to 1.4% in the previous fiscal year. Segment operating expenses decreased 8.7%, or ¥2.7 billion, to ¥28.7 billion. Segment operating income therefore increased 25.2%, or ¥1.5 billion, to ¥7.6 billion.

Other

This segment consists of businesses including district heating and cooling systems, sales of liquefied petroleum gas (LPG), industrial gases, system engineering and comprehensive engineering. Segment sales increased 0.7% year-on-year, or ¥0.8 billion, to ¥114.7 billion, and accounted for 10.2% of total net sales, compared to 10.5% in the previous fiscal year. The gain in segment sales was supported by factors such as higher sales of LPG. Segment operating expenses increased 2.4%, or ¥3.5 billion, to ¥148.7 billion. Segment operating income therefore decreased 10.9%, or ¥1.2 billion, to ¥9.6 billion.

Net Sales by Segment



Financial Strategy

Tokyo Gas is emphasizing reducing interest-bearing debt and raising asset efficiency. The Company is working to increase overall return on assets (ROA) by rigorously evaluating new capital investments on the basis of projected profitability, while restructuring its existing portfolio of assets and investments for greater profitability.

Liquidity and Capital Resources

Cash Flows

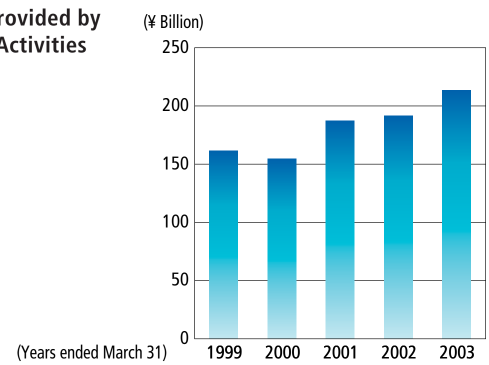
(¥ Billion)

Year ended March 31	2003	2002	2001
Net cash provided by operating activities	**213.5**	191.7	187.5
Net cash used in investing activities	**(110.1)**	(111.8)	(115.8)
Net cash used in financing activities	**(78.5)**	(117.2)	(104.4)

Cash Flows from Operating Activities

Net cash provided by operating activities increased ¥21.9 billion from the previous fiscal year to ¥213.5 billion. The increase in income before income taxes and minority interest was a primary factor in the improvement in net cash provided by operations. Changes in operating assets and liabilities, including a reduction of inventory totaling ¥7.6 billion, used a net ¥1.1 billion of net cash provided by operations, compared to net ¥2.5 billion used in the previous fiscal year. These factors offset a decrease in depreciation to ¥137.3 billion resulting from selection and concentration in deploying capital.

Net Cash Provided by Operating Activities



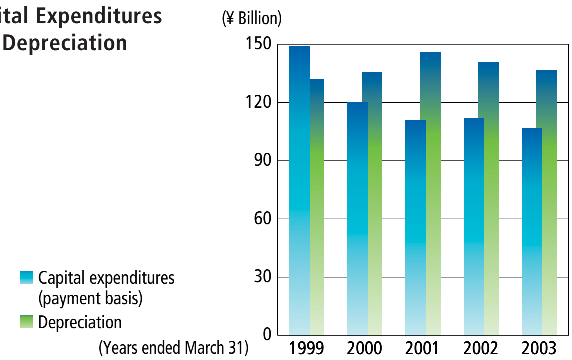
Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥110.1 billion, compared to ¥111.8 billion in the previous fiscal year. Capital expenditures, the sum of purchases of property, plant and equipment and purchases of intangible fixed assets, decreased 4.9%, or ¥5.5

billion, to ¥107.2 billion. Principal capital expenditures included underground liquefied natural gas (LNG) tanks at the Ogishima Terminal and gas pipelines. Proceeds from sale of tangible and intangible fixed assets more than doubled to ¥6.9 billion.

Free cash flow, calculated by subtracting net cash used in investing activities from net cash provided by operating activities, increased 29.5%, or ¥23.5 billion, to ¥103.4 billion.

Capital Expenditures and Depreciation



Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥78.5 billion, compared to ¥117.2 billion for the previous fiscal year. Repayments of long-term debt totaled ¥75.5 billion, compared to ¥159.1 billion for the previous fiscal year, and Tokyo Gas redeemed commercial paper totaling ¥12.0 billion. At the same time, proceeds from long-term debt decreased ¥8.1 billion to ¥37.3 billion, which included an issue of unsecured notes due 2012 totaling ¥20.0 billion.

Consequently, cash and cash equivalents at the end of the year nearly doubled year-on-year to ¥52.1 billion.

Assets, Liabilities and Stockholders' Equity

As of March 31, 2003, total assets amounted to ¥1,676.1 billion, a decrease of 1.6%, or ¥26.6 billion, from a year earlier. Return on average total assets increased to 3.5% from 3.0% for the previous fiscal year.

Property, Plant and Equipment

Property, plant and equipment decreased 2.6% from a year earlier, or ¥32.5 billion, to ¥1,217.5 billion as a result of depreciation. Prior to adjustment for depreciation, production facilities increased 0.2% from a year earlier, or ¥1.3 billion, to ¥688.3 billion. Distribution facilities increased 3.3% from a year earlier, or ¥63.1 billion, to ¥1,952.2 billion, reflecting the Company's pipeline expansion and maintenance program. Construction in progress increased 27.4% from a year earlier, or ¥16.2 billion, to ¥75.4 billion as a result of projects including LNG carrier construction.

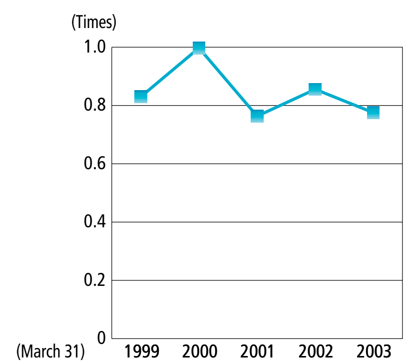
Current Assets

Current assets increased 5.0% from a year earlier, or ¥12.7 billion, to ¥264.6 billion. Cash and cash equivalents increased ¥24.9 billion from a year earlier, and trade receivables increased ¥3.7 billion from a year earlier. Tokyo Gas reduced inventories by 26.5% from a year earlier, or ¥7.6 billion, to ¥21.1 billion. Other current assets also decreased ¥9.2 billion from a year earlier to ¥49.0 billion.

Current Liabilities

As of March 31, 2003, current liabilities totaled ¥340.7 billion, an increase of 14.4% from a year earlier, or ¥42.9 billion. The increase was primarily the result of the shift of ¥50.8 billion from long-term debt to long-term debt due within one year. Income taxes payable increased ¥7.1 billion from a year earlier, while other current liabilities decreased ¥16.9 billion. Working capital deficit totaled ¥76.2 billion, compared to ¥46.0 billion a year earlier. The current ratio was .78 to 1, compared to .85 to 1 a year earlier.

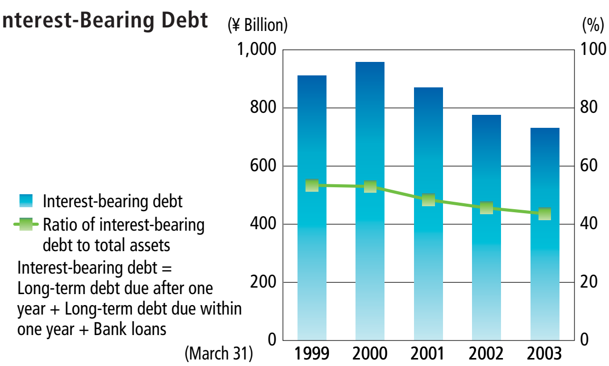
Current Ratio



Interest-Bearing Debt

One of the basic policies of the Company's medium-term management plan is continuous improvement to strengthen the Company's financial structure. As of March 2003, interest-bearing debt decreased 5.7% from a year earlier, or ¥44.6 billion, to ¥731.3

Interest-Bearing Debt

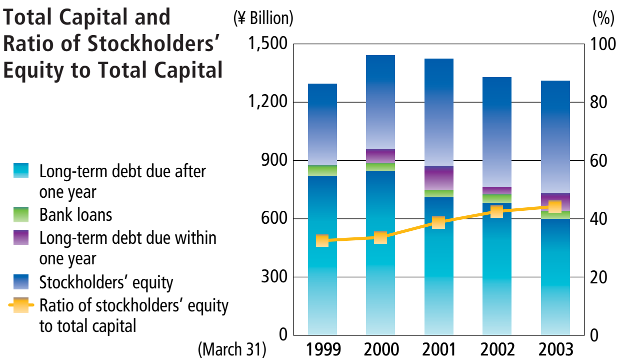


billion. The figure for the previous fiscal year includes ¥12.0 billion in commercial paper accounted for in other liabilities. The rate of dependence on interest-bearing debt, which is defined as interest-bearing debt as a percentage of total assets, improved to 43.6% from 45.6% a year earlier.

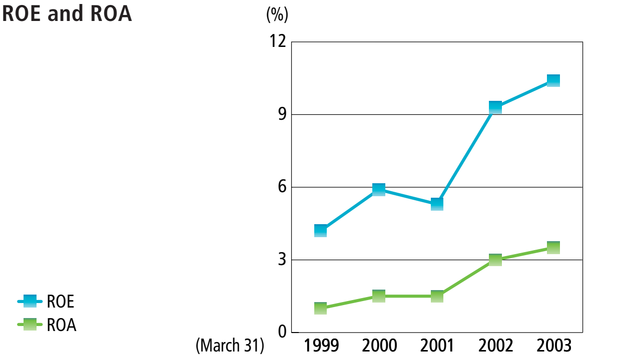
Stockholders' Equity

Stockholders' equity increased 2.8% from a year earlier, or ¥15.6 billion, to ¥579.7 billion. Retained earnings increased ¥42.3 billion, which was offset by a decrease of ¥15.8 billion in net unrealized holding gains on securities. Total capital, defined as the sum of bank loans, long-term debt due within one year, long-term debt due after one year, and stockholders' equity, totaled ¥1,311.0 billion, of which stockholders' equity accounted for 44.2%. The ratio of stockholders' equity to total assets was 34.6%, compared to 33.1% a year earlier. Return on average total stockholders' equity improved to 10.4%, compared to 9.3% for the previous fiscal year.

Total Capital and Ratio of Stockholders' Equity to Total Capital



ROE and ROA



Market Risk Exposure

Gas Rate Decrease Risk

Progress in deregulation will cause competition to intensify among energy suppliers. Tokyo Gas is subject to gas rate decrease risk that may result in order to acquire and retain customers if the Company's primary competitor, Tokyo Electric Power Co., Inc., reduces its rates.

Tokyo Gas has taken rate decrease risk into account in the current medium-term plan in planning a resource reduction from rate decreases totaling ¥180.0 billion.

Foreign Exchange Risk

The primary raw material for the city gas that Tokyo Gas supplies is LNG from overseas. LNG purchase contracts are denominated in U.S. dollars, which exposes the Company to foreign currency exchange rate risk. In addition, dollar-denominated LNG prices are linked to crude oil prices using a sliding scale, which exposes the Company to risk from changes in the market price of raw materials. The effect of such changes on annual raw material costs are as follows:

- Approximately ¥2.0 billion for every ¥1 movement in the yen-dollar exchange rate
- Approximately ¥4.3 billion for every US$1 movement in the per-barrel price of crude oil

Due to the application of the "sliding rate system," any change in the cost of raw materials is reflected in gas rates after approximately six months. While earnings may be subject to temporary increases or decreases, crude oil prices and exchange rates have no net effect on results over the long term.

Interest Rate Risk

Tokyo Gas has both long-term and short-term fixed-rate interest-bearing debt, which precludes interest rate risk during the term of an obligation. However, Tokyo Gas may be subject to interest rate risk when refinancing and in other instances.

Stock Price Risk

Tokyo Gas primarily holds equities to maintain corporate relationships needed to conduct business operations. Equities of publicly listed companies are subject to market risk. Tokyo Gas has formulated a management policy and rules for the handling of such equities.

11-Year Summary

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

	2003	2002	2001	2000
For the Year:				
Net sales	**¥1,127,634**	¥1,097,589	¥1,086,771	¥992,255
Gas sales	**789,688**	750,439	740,731	672,070
Gas appliance sales	**141,225**	148,271	145,435	126,747
Related construction	**67,045**	67,633	67,611	63,949
Real estate rental business	**14,944**	15,685	15,602	14,959
Other	**114,732**	115,561	117,392	114,530
Operating income	**123,294**	110,608	103,659	69,233
Net income	**59,201**	51,912	27,595	26,698
Depreciation	**137,300**	141,646	146,420	136,214
Capital expenditures				
Accounting basis	**110,188**	104,291	109,899	121,806
Payment basis	**107,164**	112,675	111,208	120,501
Per share (Yen):				
Net income (Basic)	**¥21.18**	¥18.47	¥9.82	¥9.50
Net income (Diluted)	**19.11**	16.66	9.13	8.84
Net income and depreciation	**70.4**	68.9	61.9	58.0
Cash dividends applicable to the year	**6.00**	6.00	6.00	5.00
At Year-End:				
Total assets	**¥1,676,064**	¥1,702,713	¥1,797,669	¥1,805,086
Long-term debt due after one year	**598,322**	680,887	708,329	843,634
Total stockholders' equity	**579,706**	564,078	552,790	484,239
Ratios:				
Net income/Net sales	**5.3%**	4.7%	2.5%	2.7%
ROE	**10.4%**	9.3%	5.3%	5.9%
ROA	**3.5%**	3.0%	1.5%	1.5%
Equity ratio	**34.6%**	33.1%	30.8%	26.8%

Note: Capital expenditures (accounting basis) represents the amount of payments for fixed assets in the relevant fiscal year. Capital expenditures (payment basis) represents the net amount of "Purchases of property, plant and equipment" and "Purchases of intangible fixed assets" on the Consolidated Statements of Cash Flows for the relevant fiscal year.

Millions of yen except per share amounts

	1999	1998	1997	1996	1995	1994	1993
	¥997,767	¥1,009,155	¥988,077	¥958,662	¥915,862	¥909,673	¥844,443
	674,997	686,649	663,066	633,253	601,990	622,632	599,820
	132,749	126,840	134,174	135,669	137,209	115,158	103,869
	63,630	66,695	69,966	68,825	70,034	73,158	70,928
	15,617	16,495	18,423	18,468	–	–	–
	110,774	112,476	102,448	102,447	106,629	98,725	69,826
	72,303	76,485	62,163	67,109	60,105	59,263	56,082
	17,764	17,241	15,432	16,762	11,072	16,173	16,368
	132,568	114,893	123,569	120,569	–	–	–
	142,030	159,433	162,282	180,080	–	–	–
	150,202	154,143	–	–	–	–	–
	¥6.32	¥6.14	¥5.49	¥5.97	¥3.94	¥5.76	¥5.82
	5.94	5.76	5.37	–	–	–	–
	53.5	47.0	49.5	–	–	–	–
	5.00	5.00	5.00	5.00	5.00	5.00	5.00
	¥1,707,446	¥1,720,684	¥1,772,132	¥1,657,176	¥1,608,244	¥1,513,038	¥1,436,450
	820,753	765,304	878,674	743,177	724,523	721,980	623,979
	421,442	417,755	414,906	413,725	411,164	409,713	404,848
	1.8%	1.7%	1.6%	1.7%	1.2%	1.8%	1.9%
	4.2%	4.1%	3.7%	4.1%	2.7%	4.0%	4.1%
	1.0%	1.0%	0.9%	1.0%	0.7%	1.1%	1.2%
	24.7%	24.3%	23.4%	25.0%	25.6%	27.1%	28.2%

Consolidated Balance Sheets

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

ASSETS	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 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 2003	 2002	Thousands of U.S. dollars (Note 1) 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 Income

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**
Net sales (Note 11)	**¥1,127,634**	¥1,097,589	**$9,396,950**
Costs and expenses (Notes 8 and 11):			
Cost of sales	**571,930**	561,989	**4,766,082**
Selling, general and administrative	**432,410**	424,992	**3,603,415**
	1,004,340	986,981	**8,369,497**
Operating income (Note 11)	**123,294**	110,608	**1,027,453**
Other income (expenses):			
Interest and dividend income	**1,089**	1,021	**9,071**
Interest expense	**(17,472)**	(19,275)	**(145,603)**
Adjustments of charges for construction of distribution facilities	**(4,649)**	(6,827)	**(38,740)**
Losses on unsecured notes redemption	**(6,328)**	(4,618)	**(52,732)**
Gains from disposal of securities	**3,196**	3,455	**26,634**
Exchange gains (losses)	**737**	(615)	**6,139**
Equity in net income of an affiliated company	**220**	311	**1,835**
Losses on compensation for malfunctioned finished goods	**–**	(1,300)	**–**
Other, net	**(4,204)**	101	**(35,033)**
	(27,411)	(27,747)	**(228,429)**
Income before income taxes and minority interest in net income of consolidated subsidiaries	**95,883**	82,861	**799,024**
Income taxes (Note 9):			
Current	**43,622**	31,507	**363,514**
Deferred	**(7,245)**	(742)	**(60,371)**
	59,506	52,096	**495,881**
Minority interest in net income of consolidated subsidiaries	**(305)**	(184)	**(2,538)**
Net income	**¥ 59,201**	¥ 51,912	**$ 493,343**

	Yen		U.S. dollars (Note 1)
	2003	2002	**2003**
Amounts per share of common stock (Note 2):			
Net income	**¥21.18**	¥18.47	**$0.18**
Diluted net income	**19.11**	16.66	**0.16**
Cash dividends applicable to the year	**6.00**	6.00	**0.05**

Note: See accompanying notes.

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:

For 2003:	Millions of yen Acquisition cost	Book value	Difference
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**

For 2002:	Millions of yen Acquisition cost	Book value	Difference
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

For 2003:	Thousands of U.S. dollars Acquisition cost	Book value	Difference
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
	¥689,401	$5,745,009

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**

	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

	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**

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	**¥ 120,896**	¥ 125,554	**$ 1,007,467**

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						
	Gas sales	Gas appliance sales	Related construction	Real estate rental	Other	Elimination or corporate	Consolidated
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.

Organization

- Executive Management
  - Strategic Planning Division
    - Corporate Planning Dept.
    - Finance & Managerial Accounting Dept.
    - Personnel Dept.
    - Gas Resources Dept.
    - Environmental Affairs Dept.
    - International Affairs Dept.
  - Corporate Communications Division
    - Corporate Communications Dept.
    - General Administration Dept.
    - Secretary Dept.
  - Compliance Dept.
  - Internal Audit Dept.
  - Customer Service Division
    - Service Planning Dept.
    - Service Promotion Dept.
    - 11 Service Branches
  - Residential Sales and Service Division
    - Marketing Dept.
    - Residential Sales Promotion Dept.
    - Residential Market Development Dept.
    - Condominium Remodeling Dept.
    - Residential Facility Sales Dept.
  - Energy Sales and Service Division
    - Energy Sales and Service Planning Dept.
    - Air-conditioning and Commercial Customer Development and Service Dept.
    - Industrial Gas Sales Dept.
    - Energy Solution Business Dept.
    - Natural Gas Vehicle Dept.
    - Volume Sales Dept.
  - Inter-Regional Sales and Service Division
    - Inter-Regional Planning Dept.
    - Inter-Regional Marketing & Sales Dept.
    - 7 Service Branches
  - Pipeline and Safety Management Division
    - Pipeline Dept.
    - Center for Supply Control and Disaster Management
    - 5 Pipeline Regional Offices
  - Production Division
    - Negishi LNG Terminal
    - Sodegaura LNG Terminal
    - Ohgishima LNG Terminal
    - Production Dept.
  - Affiliated Companies Division
    - Affiliated Companies Dept.
    - (Affiliated Companies)
  - R&D Division
    - R&D Planning Dept.
    - Research Dept.
    - Technology Development Dept.
  - Corporate Service Division
    - Service Integration and Promotion Dept.
    - Personnel Support Dept.
    - Accounting Dept.
    - Purchasing Dept.
    - Information and Communication Systems Dept.
    - Real Estate Management Dept.
- Corporate Auditors
  - Corporate Auditors' Office

(As of July 1, 2003)

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Tel: +60-3-2144-2928 Fax: +60-3-2144-2930

Date of Establishment
October 1, 1885

Paid-in Capital
¥141,844,398,888

Authorized Number of Shares
6,500,000,000 shares

Issued Number of Shares
2,810,171,295 shares

(As of March 31, 2003)

Securities Traded
Common stock: Tokyo, Osaka and Nagoya stock exchanges
(Trade Code: 9531)

Independent Auditors
Asahi & Co.

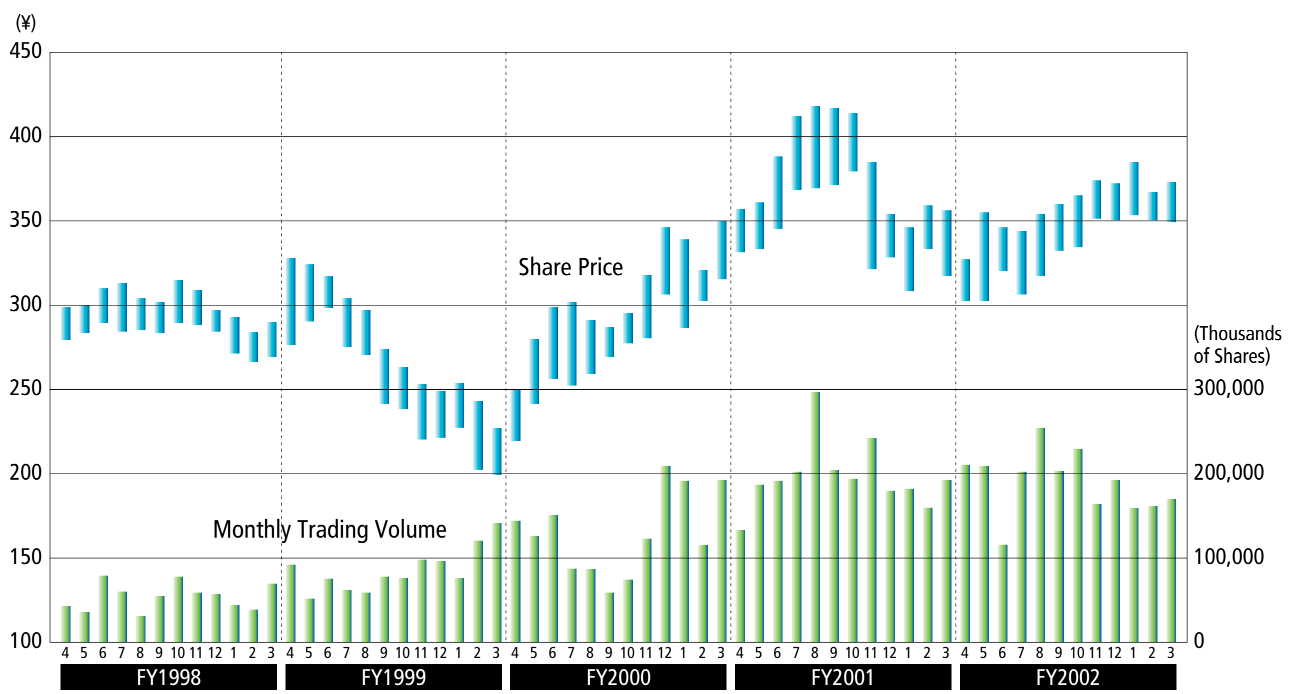
Transfer Agent
Japan Securities Agents, Ltd.
1-2-4, Nihonbashi, Kayabacho, Chuo-ku, Tokyo 103-8202, Japan

Number of Employees
11,338

Principal Shareholders

Name	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding
Japan Trustee Services Bank, Ltd. (Trust Account)	159,278	5.67
The Master Trust Bank of Japan, Ltd. (Trust Account)	159,246	5.67
Nippon Life Insurance Company	151,518	5.39
The Dai-Ichi Mutual Life Insurance Company	135,964	4.84
Fukoku Mutual Life Insurance Company	78,504	2.79
State Street Bank and Trust Company	46,316	1.65
Employees Shareholding Association	43,073	1.53
Mizuho Corporate Bank, Ltd.	43,000	1.53
Mitsubishi Corporation	42,959	1.53
Boston Safe Deposit BSDT Treaty Clients Omnibus	40,925	1.46

Monthly Share Price Range (Tokyo Stock Exchange)



Note: Fiscal years begin in April and end in March of the following calendar year.

FURTHER INFORMATION

Please direct comments regarding the content of this report or requests for other publications to:

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