Financial Statements

Contents

Six-Year Summary

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

	Millions of yen						Thousands of U.S. dollars
	2001	2000	1999	1998	1997	1996	**2001**
Net sales	**¥1,086,771**	¥ 992,255	¥ 997,767	¥1,009,155	¥ 988,077	¥ 958,662	**$ 8,835,537**
Gas sales	**740,731**	672,070	674,997	686,649	663,066	633,253	**6,022,203**
Gas appliance sales	**145,435**	126,747	132,749	126,840	134,174	135,669	**1,182,398**
Related construction	**67,611**	63,949	63,630	66,695	69,966	68,825	**549,683**
Real estate rental business	**15,602**	14,959	15,617	16,495	18,423	18,468	**126,846**
Others	**117,392**	114,530	110,774	112,476	102,448	102,447	**954,407**
Operating income	**103,659**	69,233	72,303	76,485	62,163	67,109	**842,756**
Income before income taxes and minority interest in net income of consolidated subsidiaries	**45,085**	43,738	40,964	36,261	32,601	39,473	**366,545**
Net income	**27,595**	26,698	17,764	17,241	15,432	16,762	**224,350**
Depreciation	**146,420**	136,214	132,568	114,893	123,569	120,569	**1,190,407**
Capital expenditures	**109,899**	121,806	142,030	159,433	162,282	180,080	**893,488**
Per share (Yen and U.S. dollars):							
Net income (Basic)	**¥9.82**	¥9.50	¥6.32	¥6.14	¥5.49	¥5.97	**$0.08**
Net income (Diluted)	**9.13**	8.84	5.94	5.76	5.37	–	**0.07**
Cash dividends applicable to the year	**6.00**	5.00	5.00	5.00	5.00	5.00	**0.05**
At Year-end							
Total assets	**¥1,797,669**	¥1,805,086	¥1,707,446	¥1,720,684	¥1,772,132	¥1,657,176	**$14,615,195**
Long-term debt due after one year	**708,329**	843,634	820,753	765,304	878,674	743,177	**5,758,772**
Total stockholders' equity	**552,790**	484,239	421,442	417,755	414,906	413,725	**4,494,228**

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥123.00=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2001.
2. Net sales for gas included by-products up to the year ended March 31, 1997. By-products are included in "other" beginning in the year ended March 31, 1998.

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

OVERVIEW OF CONSOLIDATED BUSINESS RESULTS

Gas Sales Volume

The volume of gas sold by Tokyo Gas in fiscal 2000, the year ended March 31, 2001, increased 5.4% to 8,879 million m^3. Demand increased steadily in all sectors. Residential gas volume rose 4.2% due to efforts to win new customers and to popularize gas appliances. Industrial use also rose, by 4.5%, due to higher capacity utilization rates of existing customers and efforts to secure new customers. Gas sales volume to commercial and other business users climbed 7.5%, again thanks to efforts to win new customers.

Net Sales

Consolidated net sales increased 9.5% over the previous year to ¥1,086.7 billion. This principally reflected the climb in gas sales volume and adjustments to gas rates based on the *"sliding rate"* system, as well as higher sales of gas appliances.

Operating Expenses and Operating Income

The cost of sales increased 16.0% to ¥561.0 billion due to the higher cost of raw materials. In particular, the price of crude oil was approximately US$7 higher per barrel than the previous year. However, efforts to pare expenses such as operating and personnel expenses yielded a 3.9% decrease in selling, general and administrative expenses, bringing them to ¥422.1 billion. Total costs and expenses thus increased 6.5% to ¥983.1 billion. As a result of the foregoing factors, operating income surged 49.7% to ¥103.6 billion.

Other Income (Expenses)

Other expenses deteriorated by ¥33.0 billion to ¥58.5 billion. The main factors were a ¥21.7 billion charge for unfunded obligations arising from an amendment of accounting standards for retirement benefits, and a ¥5.5 billion charge for environmental conditioning costs to respond to soil contamination at sites of former gas manufacturing plants.

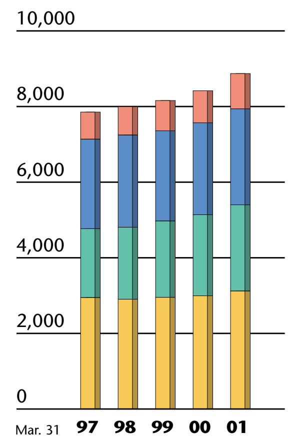
Income Before Income Taxes and Income Taxes

Income before income taxes was held to an increase of 3.1%, to ¥45.0 billion, despite the rise in operating income. This was mainly attributable to the write-off of unfunded obligations arising from the amendment of accounting standards for retirement benefits. Income taxes were ¥25.4 billion.

Net Income

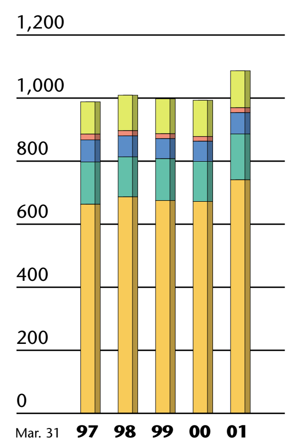
Net income rose 3.4% to ¥27.5 billion due to the above factors as well as a tax adjustment resulting from the adoption of tax-effect accounting. Basic net income per share accordingly increased to ¥9.82 and diluted net income per share rose to ¥9.13. ROE for fiscal 2000 was 5.3%.

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



Note: Non-consolidated

Net Sales by Segment
(Billion ¥)



SEGMENT INFORMATION

Gas Sales

Gas sales increased 10.2%, or ¥68.6 billion, to ¥740.7 billion due to efforts to expand gas sales volume and an increase in gas rates based on the *"sliding rate"* system. These factors were offset somewhat by downward rate revisions implemented in fiscal 1999 and fiscal 2000. Gas sales accounted for 68.2% of total net sales. Costs and expenses increased 11.3%, or ¥60.0 billion, as a result of higher raw materials costs. The net result was that segment operating income climbed 6.1%, or ¥8.5 billion, to ¥149.9 billion.

Gas Appliance Sales

Segment sales increased 14.7%, or ¥18.6 billion, to ¥145.4 billion due to efforts to develop and market gas-fired cooking ranges, water-heating systems and air conditioners. Gas appliance sales accounted for 13.4% of total net sales. Costs and expenses climbed in line with the increase in sales. However, efforts to reduce supply costs, such as by streamlining distribution, and operating expenses held the overall increase to 11.8%, or ¥14.7 billion. Operating income accordingly soared 138.6%, or ¥3.8 billion, to ¥6.6 billion.

Related Construction

Highers numbers of orders for new construction projects and extension projects were the main contributor to a 5.7%, or ¥3.6 billion, increase in segment sales to ¥67.6 billion. Sales in this segment represented 6.2% of total net sales. Costs and expenses increased 1.9%, or ¥1.2 billion. As a result, operating income surged 102.7%, or ¥2.0 billion, to ¥3.9 billion.

Real Estate Rental Business

Sales increased 4.3%, or ¥0.6 billion, to ¥15.6 billion, representing 1.4% of total net sales. Costs and expenses were virtually unchanged from the previous year. A decline in intersegment sales, however, led to a 2.0%, or ¥0.1 billion, decrease in operating income to ¥8.0 billion.

Other

Segment sales climbed 2.5%, or ¥2.8 billion, to ¥117.3 billion. Other sales accounted for 10.8% of total net sales. Costs and expenses rose 1.4%, or ¥2.1 billion, while intersegment sales decreased. The result was a decline of 11.9%, or ¥1.3 billion, in operating income to ¥10.1 billion.

FINANCIAL POSITION

Total assets as of March 31, 2001, stood at ¥1,797.6 billion, down 0.4%, or ¥7.4 billion, from a year ago.

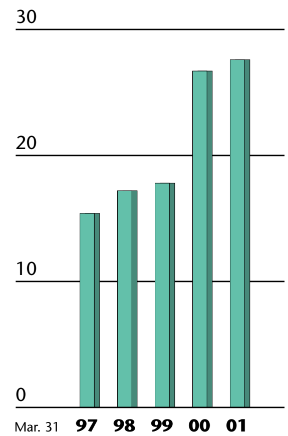
Fixed Assets

Fixed assets increased 1.8% to ¥1,517.3 billion. Plant, property and equipment decreased 3.1% to ¥1,292.1 billion reflecting the peaking out of large-scale capital expenditures by Tokyo Gas, as well as depreciation. Fiscal 2000 saw the introduction of new accounting standards for financial instruments. As such, investment securities with a market value were appraised on the basis of fair value. The resulting increase in investment securities led to a 49.6% rise in investments and other non-current assets to ¥205.9 billion.

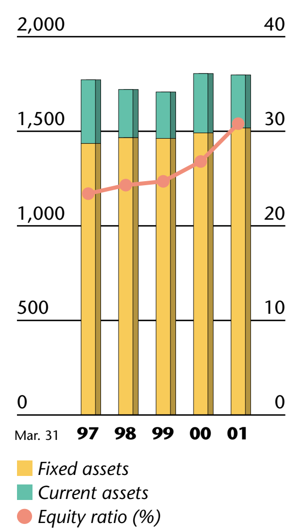
Current Assets

Current assets stood at ¥280.3 billion, a decrease of 10.7%, as of March 31, 2001. This primarily reflected a decline in cash and cash equivalents following redemption of corporate bonds.

Net Income
(Billion ¥)



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



Long-Term Liabilities

As of March 31, 2001, long-term liabilities had decreased 12.8% to ¥874.2 billion. This mainly reflected the redemption of corporate bonds, as well as the transfer to current liabilities of convertible bonds due within one year.

Current Liabilities

Current liabilities totaled ¥366.9 billion as of March 31, 2001, up 16.6% from a year earlier. The increase reflected the transfer of debt from long-term liabilities.

Interest-bearing Debt

As of March 31, 2001, interest-bearing debt was ¥870.1 billion, a 9.1% decline from a year ago. The rate of dependence on interest-bearing debt, which is defined as interest-bearing debt as a percentage of total assets, decreased from 53.0% to 48.4%. These decreases highlight Tokyo Gas' committed efforts to strengthen its balance sheet.

Stockholders' Equity

Total stockholders' equity increased 14.2% to ¥552.7 billion. In addition to an increase in consolidated retained earnings, this also reflected the application of new accounting standards for financial instruments effective fiscal 2000, which generated ¥55.1 billion in net unrealized holding gains on securities. Efforts to strengthen the balance sheet contributed to a higher equity ratio of 30.8%, up from 26.8% in the previous year.

CAPITAL EXPENDITURES

Tokyo Gas has expanded facilities to put in place a more stable supply system for gas. With respect to production facilities, Tokyo Gas built a second tank and an LNG vaporization facility at the Ohgishima LNG Terminal, as well as other facilities. In regard to supply facilities, Tokyo Gas focused capital expenditures on investments in pipelines to accommodate new demand, the planned replacement of existing pipelines, and measures to prevent earthquake damage. Capital expenditures in fiscal 2000 decreased 9.8% to ¥109.8 billion.

CASH FLOWS

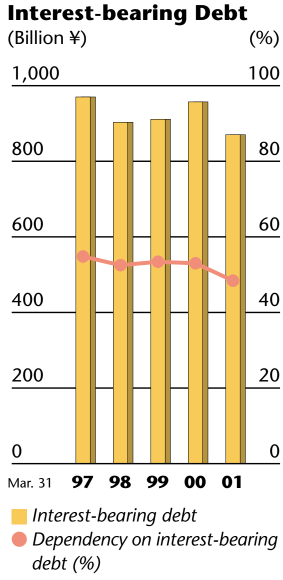
Net cash provided by operating activities increased ¥32.8 billion to ¥187.5 billion. This mainly reflected higher depreciation of property, plant and equipment, as well as an increase in retirement allowance.

Net cash used in investing activities decreased ¥8.4 billion to ¥115.8 billion. This mainly reflected lower capital expenditures, which peaked in the previous term. The company has now entered a period in which it is recovering on its investments.

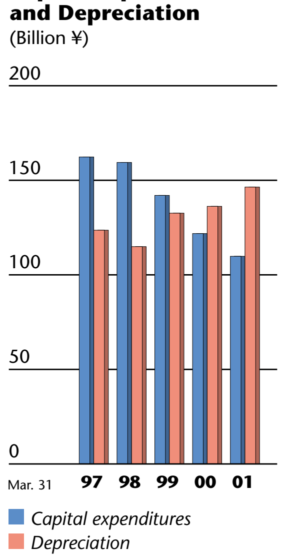
Financing activities, which provided net cash of ¥22.8 billion in the previous fiscal year, used net cash of ¥104.4 billion. This reflected cash used for repayments of long-term debt of ¥53.5 billion and for the redemption of bonds of ¥94.4 billion, as the company pushed ahead with the repayment of interest-bearing debt. Cash of ¥14.0 billion was also used for paying dividends.

As a result of the foregoing items, cash and cash equivalents at the end of the year were ¥64.5 billion, ¥32.7 billion lower than a year ago.

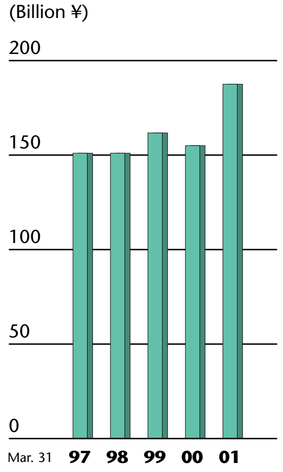
Interest-bearing Debt



Capital Expenditures and Depreciation



Net Cash Provided by Operating Activities



FINANCIAL POLICY

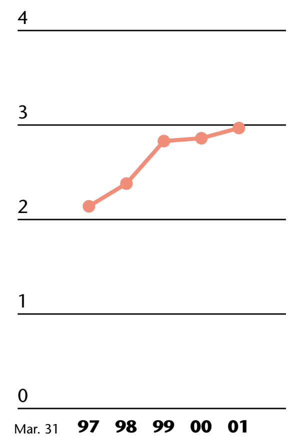
Tokyo Gas has made capital expenditures in excess of the total of net income and depreciation over the past 10 years to build a comprehensive production and supply infrastructure to respond to an escalation in demand for gas. As a result, interest-bearing debt increased. However, Tokyo Gas has now entered a period in which it will recover on past investments. Consequently, Tokyo Gas is now able to conduct capital expenditures within the bounds of depreciation. The free cash flows that the company generates will be used to pay dividends and for investments in new businesses, as well as for the repayment of interest-bearing debt. In this way, Tokyo Gas will streamline and strengthen its balance sheet and pare financial expenses.

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

Mar. 31, 2001 to Mar. 31, 2005 Targets

Free cash flows	Average of ¥64.9 billion a year for 5 years (Total of ¥324.5 billion over 5 years)
ROA	2.4% (5-year average)
Interest-bearing debt (Non-consolidated)	¥570.0 billion as of March 31, 2005

Interest Coverage Ratio
(times)



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

MARKET RISK EXPOSURE

Stock Price Risk

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

Foreign Exchange Risk

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

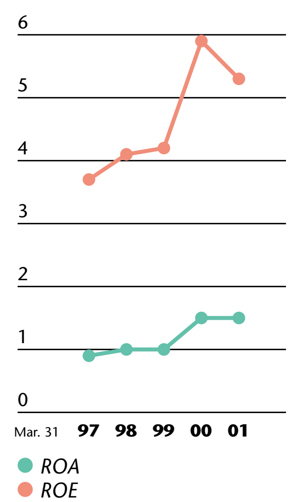
Fluctuation of ¥1 to U.S.$1 . . . . Approx. ¥1.5 billion
Fluctuation of U.S.$1 per barrel in crude oil price . . . . Approx. ¥4.0 billion

However, the above fluctuations are automatically passed on to gas users in regulated areas only, under the "sliding rate" system. First-half crude oil prices are reflected in gas rates in the second half of the year, while second-half crude oil prices are reflected in gas rates in the first half of the following year. Consequently, there is a neutral effect on Tokyo Gas' business over the medium to long term.

Interest Rate Risk

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

ROE and ROA
(%)



Q1: What is Tokyo Gas' policy on future rate reductions?

Tokyo Gas has reduced rates by a total of 5.02% through reductions carried out in December 1999 and February 2001. Tokyo Gas' rates are now among the lowest gas rates for the residential market in Japan. In offering these rates, Tokyo Gas believes that it has sufficiently staved off competition from other forms of energy. Accordingly, additional rate cuts are not planned during the course of Tokyo Gas' medium-term management plan, which runs through to the fiscal year ending March 31, 2005.

However, in the building complex air conditioning and cogeneration markets, where competition with electric power is intense, Tokyo Gas will respond to the future lowering of power charges by electric utilities. This will be achieved by maintaining competitive rates using a rate system that can be strategically and freely set.

Q2: How does Tokyo Gas plan to pare costs?

Tokyo Gas is focusing on three areas: personnel reductions, controlling operating expenses, and internal financing of capital expenditures.

Regarding personnel reductions, Tokyo Gas will lower the company's head count by approximately 1,500 over the next 4 years, from 11,197 people as of March 31, 2001 to approximately 9,700 people at March 2005 year-end. This will be achieved by outsourcing meter-reading, collection and other customer-service duties, stepping up dispatchment of employees, and reducing the number of staff employed in administration by one-fifth. Tokyo Gas' efficiency drive is expected to shave ¥37.0 billion off personnel expenses over this period.

In respect of controlling operating expenses, Tokyo Gas will hold operating expenses to their current level. The company aims to implement streamlining measures to offset the increase in fixed expenses that is expected as the number of customers expands (by 6% over the next 4 years). This discussion excludes a ¥27.0 billion increase in outsourcing costs over the next 4 years as outlined above.

Tokyo Gas will continue to invest in facilities to meet future increases in demand, but these investments will be kept within cash flows from operations (including depreciation expenses). This will strengthen Tokyo Gas' balance sheet.

Tokyo Gas expects the above cost-cutting initiatives to yield a 21% reduction in fixed expenses per 1m^3 of gas, from ¥54.1 at March 31, 2001 to ¥42.6 at March 31, 2005.

Q3: Where do Tokyo Gas' strengths lie as deregulation advances?

Tokyo Gas has four key strengths: leading-edge engineering expertise in the gas field, strong marketing capabilities, a powerful 48,000km-long pipeline network, and a strong relationship built on trust with customers. Each of these has been nurtured over many years. For example, for customers to adopt cogeneration, it is crucial to propose the most appropriate facilities and techniques for achieving efficient use of electricity and heat for each customer. Tokyo Gas' strengths have enabled it to compete effectively with oil and electricity.

The advance of deregulation presents Tokyo Gas with more opportunities to leverage its strengths, including the customer loyalty it has garnered in over a century of business.

In the event that other companies sell gas in the Tokyo metropolitan area, they will use Tokyo Gas' pipeline and Tokyo Gas will accordingly receive a transportation fee. As such, Tokyo Gas will be able to increase its earnings with this gas transportation business.

Q4: How does Tokyo Gas procure LNG?

The price of LNG is determined largely by crude oil prices.

Regarding contracts, Tokyo Gas has in the past procured LNG under long-term contracts, typically of about 20 years duration. Recently, however, Tokyo Gas has also been taking advantage of short-term contracts and spot trading.

Tokyo Gas already has contracts for the LNG it needs through to about 2006. Based on current extrapolations of demand, Tokyo Gas expects to have to participate in new LNG projects from 2007 onward.

On the supply side, new LNG projects are expected. Tokyo Gas signed letters of intent for the Malaysia III Project and Western Australia Expansion Project in June 2000 and September 2000, respectively. With the view to starting purchases in 2004, Tokyo Gas is presently negotiating toward signing sales and purchase agreements. Likewise in other projects, Tokyo Gas places emphasis on the stability of supply, price and contract flexibility. Based on the premise that it is possible to secure more advantageous supply terms, Tokyo Gas is considering a wide range of potential projects, taking into consideration such factors as timing of the start-up of the project and diversification of supply sources.

In addition, Tokyo Gas will actively employ the two LNG carriers that are presently under construction. These new vessels will be instrumental in lowering transportation costs, as well as for increasing the flexibility of LNG contracts, facilitating for example, LNG spot trading.

Q5. What did Tokyo Gas base its gas sales volume plan on?

Regarding regulated fields, such as residential demand, the company used macroeconomic indicators, such as the number of housing starts and building starts. In the non-regulated field, defined as large-volume customers consuming one million m^3 or more per year, sales representatives in charge of individual customers, such as factories and large buildings, ascertained the facility-operating rate for each customer, and determined when facilities would be likely to need renewal. Based on the information gathered, Tokyo Gas compiled a gas sales volume plan for each large-volume customer. Tokyo Gas therefore believes that the target figures have a high degree of accuracy.

Q6: Does Tokyo Gas have any plans to acquire local gas companies through mergers and acquisitions?

Tokyo Gas is currently supplying gas on a wholesale basis to 15 city gas companies surrounding its service area. Wholesale sales account for approximately 10% of Tokyo Gas' gas sales volume. Tokyo Gas expects wholesale volumes to rise by an annual average of 9.2% over the 5-year period from April 1, 2000 through March 31, 2005, the duration of the medium-term management plan. Tokyo Gas does not intend to aggressively merge or acquire such city gas companies for two main reasons:

(1) There is no guarantee that M&As will necessarily result in earnings above those that can be generated from wholesale supply.

(2) Hostile takeovers could potentially have a detrimental effect on wholesale supply activities.

As such, in Tokyo Gas' judgment the best way to maximize shareholder value at present is to continue wholesale activities.

However, Tokyo Gas does not rule out the possibility of M&As. The company is prepared to explore the possibility in optimal cases where corporate value can be increased as a result of an M&A.

Q7: What is Tokyo Gas' policy on returning profits to shareholders?

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

Tokyo Gas will also consider share buybacks as part of its policy of returning profits to shareholders. In doing so, Tokyo Gas will give due regard to the dilutive effect of the conversion of the 5th and 6th issues of convertible bonds at a conversion price of ¥339.00.

Q8: What are the major risk factors in Tokyo Gas' business model?

Deregulation-induced marketplace competition poses the greatest risk. In other words, the risk that new market entrants might lure away existing demand and capture new demand. Tokyo Gas sees its main rivals at present as being electric utilities companies importing LNG. Tokyo Gas will meet the demands of new customers with its sophisticated engineering capabilities, and use its ability to offer competitive rates to cater to existing customers. The company will also aggressively push ahead with its strategy of expanding beyond its present service area to secure more demand than it loses through competitive forces.

Another factor is the risk of falling rates and lower sales due to stiff price competition. Tokyo Gas has lowered general rates in residential and other markets twice over the last few years—once in December 1999 and again in February 2001. Its rates are now among the lowest in Japan. Tokyo Gas considers its rates to be competitive against other forms of energy. The company does not believe that additional rate reductions are necessary.

Cogeneration and air conditioning are two fields in which competition with electricity is becoming severe. Electricity companies are also moving into the gas business. Price competition will thus inevitably stiffen in these fields. By reducing costs as far as possible, Tokyo Gas is resolved to remain price competitive and to maximize earnings.

Q9. Please give an update of Tokyo Gas' new business activities.

Listed below are new fields of business that Tokyo Gas is currently engaged in. The company has earmarked investments totaling ¥48.7 billion over the 5-year period from April 1, 2000 through March 31, 2005 for these businesses.

- **LNG Transportation Business**

Two LNG carriers are being built at consolidated subsidiary Tokyo LNG Tanker Co., Ltd. at a total cost of ¥36.0 billion.

- **Electricity Business**
  - Invested ¥1.89 billion to acquire a 30% interest in ENNET Corporation, an electricity retailing company
  - Invested ¥0.17 billion to acquire a 35% interest in Roppongi Energy Services Co., Ltd., which will supply electricity to specific areas such as redevelopment zones
  - Invested ¥0.15 billion to acquire a 15% stake in MyEnergy Co., a Tokyo Electric Power Co., Inc. subsidiary operating in the field of small distributed power generators
  - Invested ¥0.45 billion in a new company, Tokyo Gas Bay Power Co., Ltd. for electricity generation
- **Communications Business**
  - Invested ¥0.08 billion to acquire a 20% stake in MetroAccess Co., Ltd.
- **Other Businesses**
  - Tokyo Gas invested ¥0.09 billion to acquire a 30% stake in East Japan Housing Evaluation Center Co., Ltd.
  - Tokyo Gas invested ¥0.22 billion to acquire a 41% stake in HomeClip Corp.

Furthermore, Tokyo Gas will aggressively invest in new pipelines to attract emerging demand and expand its gas business. This investment, combined with the ¥48.7 billion investment in new businesses outlined above, is expected to total ¥67.4 billion over the 5-year period from April 1, 2000 through March 31, 2005.

Consolidated Balance Sheets

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2001**	2000	**2001**
Property, plant and equipment (Notes 3 and 6):			
Production facilities	**¥ 702,146**	¥ 669,151	**$ 5,708,504**
Distribution facilities	**1,772,491**	1,696,315	**14,410,496**
Service and maintenance facilities	**203,473**	207,957	**1,654,252**
Other	**587,183**	583,642	**4,773,845**
Construction in progress	**96,121**	123,954	**781,472**
	3,361,414	3,281,019	**27,328,569**
Accumulated depreciation	**(2,069,235)**	(1,947,467)	**(16,823,049)**
	1,292,179	1,333,552	**10,505,520**
Intangibles	**19,252**	19,820	**156,520**
Investments and other non-current assets:			
Investments in unconsolidated subsidiaries and affiliated companies	**14,009**	11,661	**113,894**
Investment securities (Notes 4 and 6)	**111,632**	20,521	**907,577**
Deferred income taxes (Note 9)	**19,359**	41,560	**157,390**
Other investments and non-current assets	**62,068**	65,289	**504,619**
Allowance for doubtful accounts	**(1,145)**	(1,382)	**(9,309)**
	205,923	137,649	**1,674,171**
Current assets:			
Cash and cash equivalents	**64,575**	97,328	**525,000**
Marketable securities (Note 4)	**332**	2,310	**2,699**
Receivables:			
Trade notes and accounts	**127,037**	125,512	**1,032,821**
Allowance for doubtful accounts	**(1,098)**	(1,505)	**(8,927)**
Inventories (Note 5)	**27,419**	27,060	**222,919**
Deferred income taxes (Note 9)	**8,260**	7,560	**67,154**
Other current assets	**53,790**	55,800	**437,318**
Total current assets	**280,315**	314,065	**2,278,984**
	¥ 1,797,669	¥ 1,805,086	**$ 14,615,195**

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Long-term debt due after one year (Note 6)	**¥ 708,329**	¥ 843,634	**$ 5,758,772**
Employees' severance and retirement benefits (Note 8)	**134,216**	106,393	**1,091,187**
Allowance for repairs of gas holders	**3,324**	3,341	**27,024**
Other non-current liabilities	**28,363**	49,162	**230,593**
Current liabilities:			
Bank loans (Note 6)	**39,921**	41,642	**324,561**
Long-term debt due within one year (Note 6)	**121,874**	71,810	**990,846**
Notes and accounts payable:			
Trade	**43,286**	39,285	**351,919**
Other	**44,290**	54,416	**360,081**
Income taxes payable (Note 9)	**22,009**	14,733	**178,935**
Accrued expenses	**45,034**	45,085	**366,130**
Other current liabilities	**50,576**	47,727	**411,187**
Total current liabilities	**366,990**	314,698	**2,983,659**
Commitment and contingent liabilities (Note 13)			
Minority interest	**3,657**	3,619	**29,732**
Stockholders' equity (Note 10):			
Common stock, par value ¥50 per share:			
Authorized — 6,500,000,000 shares			
Issued — 2,810,012,006 shares	**141,817**	141,817	**1,152,984**
Additional paid-in capital	**2,038**	2,038	**16,569**
Retained earnings	**353,794**	340,387	**2,876,374**
Net unrealized holding gains on securities	**55,140**	–	**448,292**
Foreign currency translation adjustments	**4**	–	**33**
	552,793	484,242	**4,494,252**
Treasury stock, at cost	**(3)**	(3)	**(24)**
Total stockholders' equity	**552,790**	484,239	**4,494,228**
	¥1,797,669	¥1,805,086	**$14,615,195**

Consolidated Statements of Income

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Net sales (Note 11)	**¥1,086,771**	¥992,255	**$8,835,537**
Costs and expenses (Notes 8 and 11):			
Cost of sales	**561,006**	483,814	**4,561,025**
Selling, general and administrative	**422,106**	439,208	**3,431,756**
	983,112	923,022	**7,992,781**
Operating income (Note 11)	**103,659**	69,233	**842,756**
Other income (expenses):			
Interest and dividend income	**1,396**	1,283	**11,350**
Interest expense	**(22,867)**	(23,366)	**(185,911)**
Adjustments of charges for construction of distribution facilities	**(6,272)**	(7,838)	**(50,992)**
Amortization of net transition obligation	**(21,777)**	–	**(177,049)**
Exchange gains (losses)	**(1,265)**	2,637	**(10,285)**
Equity in net income of an affiliated company	**349**	393	**2,837**
Other, net	**(8,138)**	1,396	**(66,161)**
	(58,574)	(25,495)	**(476,211)**
Income before income taxes and minority interest in net income of consolidated subsidiaries	**45,085**	43,738	**366,545**
Income taxes (Note 9):			
Current	**25,436**	16,064	**206,797**
Deferred	**(8,027)**	714	**(65,260)**
	27,676	26,960	**225,008**
Minority interest in net income of consolidated subsidiaries	**(81)**	(262)	**(658)**
Net income	**¥ 27,595**	¥ 26,698	**$ 224,350**

	Yen		U.S. dollars (Note 1)
	2001	2000	**2001**
Amounts per share of common stock:			
Net income (Note 2)	**¥9.82**	¥9.50	**$0.08**
Diluted net income	**9.13**	8.84	**0.07**
Cash dividends applicable to the year	**6.00**	5.00	**0.05**

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001 and 2000

		Millions of yen					
	Number of shares of common stock (Thousands)	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 1999	2,810,012	¥141,817	¥2,038	¥277,589	¥ –	¥–	¥(2)
Cumulative effect of adopting deferred income tax accounting				49,233			
Net income				26,698			
Treasury stock							(1)
Cash dividends paid (¥5.00 per share)				(14,050)			
Bonuses to directors				(151)			
Increase due to addition of consolidated subsidiaries				494			
Increase due to addition of company on equity method				574			
Balance at March 31, 2000	2,810,012	141,817	2,038	340,387	–	–	(3)
Net income				27,595			
Adoption of new accounting standard for financial instruments					55,140		
Adjustments from translation of foreign currency financial statements						4	
Treasury stock							0
Cash dividends paid (¥5.00 per share)			(14,050)				
Bonuses to directors				(138)			
Balance at March 31, 2001	**2,810,012**	**¥141,817**	**¥2,038**	**¥353,794**	**¥55,140**	**¥4**	**¥(3)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	$1,152,984	$16,569	$2,767,374	$ –	$ –	$(24)
Net income			224,350			
Adoption of new accounting standard for financial instruments				448,292		
Adjustments from translation of foreign currency financial statements						33
Treasury stock						0
Cash dividends paid ($0.04 per share)			(114,228)			
Bonuses to directors			(1,122)			
Balance at March 31, 2001	**$1,152,984**	**$16,569**	**$2,876,374**	**$448,292**	**$33**	**$(24)**

See accompanying notes.

Consolidated Statements of Cash Flows

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Cash flows from operating activities:			
Income before income taxes and minority interest in net income of consolidated subsidiaries	**¥ 45,085**	¥ 43,738	**$ 366,545**
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)	**146,420**	136,214	**1,190,407**
Amortization of long-term prepayments	**3,955**	4,092	**32,154**
Loss on disposals of property, plant and equipment	**3,348**	4,331	**27,220**
Loss on bond redemption	**3,369**	8	**27,390**
Increase (Decrease) in employees' severance and retirement benefits	**6,463**	(3,748)	**52,545**
Interest and dividend income	**(1,396)**	(1,283)	**(11,350)**
Interest expense	**22,867**	23,366	**185,911**
Changes in operating assets and liabilities:			
Increase in notes and accounts receivable	**(149)**	(10,591)	**(1,211)**
Increase (Decrease) in inventories	**(360)**	657	**(2,927)**
Decrease in notes and accounts payable	**(1,673)**	(10,639)	**(13,602)**
Increase (Decrease) in consumption taxes payable	**(4,562)**	7,397	**(37,089)**
Bonuses paid to directors	**(141)**	(154)	**(1,146)**
Other	**4,245**	3,279	**34,511**
	227,471	196,667	**1,849,358**
Cash received for interest and dividends	**1,465**	1,310	**11,910**
Cash paid for interest	**(23,232)**	(23,149)	**(188,878)**
Cash paid for income taxes	**(18,191)**	(20,187)	**(147,894)**
Net cash provided by operating activities	**187,513**	154,641	**1,524,496**
Cash flows from investing activities:			
Purchases of marketable and investment securities	**(4,580)**	(965)	**(37,236)**
Purchases of property, plant and equipment	**(103,609)**	(115,325)	**(842,350)**
Purchases of intangible fixed assets	**(7,599)**	(5,176)	**(61,780)**
Expenditure of long-term prepayment	**(1,499)**	(3,170)	**(12,187)**
Proceeds from sale of tangible and intangible fixed assets	**926**	227	**7,528**
Increase in other investments and other non-current assets — net	**515**	76	**4,188**
Net cash used in investing activities	**(115,846)**	(124,333)	**(941,837)**
Cash flows from financing activities:			
Repayments of short-term bank loans	**(1,721)**	(10,280)	**(13,992)**
Proceeds from long-term debt	**59,359**	94,699	**482,594**
Repayments of long-term debt	**(147,969)**	(47,525)	**(1,203,000)**
Cash dividends paid	**(14,096)**	(14,092)	**(114,602)**
Net cash provided by (used in) financing activities	**(104,427)**	22,802	**(849,000)**
Effect of exchange rate changes on cash and cash equivalents	**7**	–	**56**
Net increase (decrease) in cash and cash equivalents	**(32,753)**	53,110	**(266,285)**
Increase due to addition of consolidated subsidiaries	**–**	7	**–**
Cash and cash equivalents at beginning of year	**97,328**	44,211	**791,285**
Cash and cash equivalents at end of year	**¥ 64,575**	¥ 97,328	**$ 525,000**

See accompanying notes.

1. Basis of consolidated financial statements

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

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the 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 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, 2001, which was ¥123 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 substantially 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 included software in intangible assets and depreciated 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 — Prior to April 1, 2000 listed equity securities included in current assets and non-current assets were carried at the lower of moving-average cost or market value. Other securities were stated at moving-average cost.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the new Japanese accounting standard on accounting 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 non-consolidated subsidiaries and affiliated companies are stated at moving-average cost. (c) Available-for-sale securities with market value are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Available-for-sale securities with no available fair market value are stated at moving-average cost.

The effect on the consolidated statement of income of adopting the new accounting standard for financial instruments is immaterial. At April 1, 2000, securities in current assets decreased by ¥1,999 million ($16,252 thousand) and investment securities increased by the same amount.

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 Companies 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.

At March 31, 2000, the Company and its consolidated subsidiaries accrued a liability for lump-sum severance payments equal to 100% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Companies recognized pension expense when, and to the extent, payments were made to the pension fund.

Effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, allowance and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of the projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥21,777 million ($177,049 thousand), all of which was recognized as expense in the year ended March 31, 2001.

As a result of the adoption of the New Accounting Standard, in the year ended March 31, 2001, income before income taxes decreased by ¥8,430 million ($68,536 thousand) compared with what would have been recorded under the previous accounting standard.

Allowance for repairs of gas holders — The Company and certain of its consolidated subsidiaries provide for future repairs of gas holders, which occur once approximately every ten years, by estimating future expenditures and charging them to income in equal annual amounts. The difference between the actual expenditure and the amount provided is charged to income in the year repair is completed.

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

Income taxes — Income taxes comprise corporation tax and inhabitants taxes. The Company adopted the accounting standard, which recognizes 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 not only on income but also on net sales. In the accompanying statements of income, enterprise tax levied on net sales is accounted for in "Selling, general and administrative" expenses in the amount of ¥9,923 million ($80,675 thousand) and ¥9,006 million for the years ended March 31, 2001 and 2000, respectively. Enterprise taxes calculated based on profit of 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. Prior to April 1, 2000, long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the Revised Accounting Standard for foreign currency translation.

Due to the adoption of the Revised Accounting Standard, the Company reports foreign currency translation adjustments in shareholders' equity. The prior year's amount, which is included in assets, has not been reclassified.

The effect on the consolidated income statement of adopting the Revised Accounting Standard was immaterial.

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

Cash 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 towards the cost of construction from customers, such contributed amount is offset against the acquisition cost of the subject asset. Such offset amount accumulated to March 31, 2001 was ¥222,972 million ($1,812,780 thousand).

4. Securities

The following tables summarize acquisition costs, book values and fair values of securities with fair value as of March 31, 2001:

(a) Held-to-maturity debt securities:

	Millions of yen	Thousands of U.S. dollars
Securities with fair value exceeding book value:		
Book value	¥29	$236
Fair value	31	252
Difference	¥ 2	$ 16

(b) Available-for-sale securities:

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with fair value exceeding book value:			
Equity securities	¥13,405	¥100,475	¥87,070
Bonds	4	6	2
Subtotal	13,409	100,481	87,072
Other securities:			
Equity securities	1,302	1,251	(51)
Total	¥14,711	¥101,732	¥87,021

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Securities with fair value exceeding book value:			
Equity securities	$108,984	$816,870	$707,886
Bonds	32	49	17
Subtotal	109,016	816,919	707,903
Other securities:			
Equity securities	10,585	10,170	(415)
Total	$119,601	$827,089	$707,488

Cost of sales, sales amount, and gain on sale for held-to-maturity debt securities sold in the year ended March 31, 2001 were ¥100 million ($813 thousand), ¥101 million ($821 thousand) and ¥1 million ($8 thousand), respectively.

Available-for-sale securities with no available fair values were stated at moving-average costs, which amounted to ¥9,271 million ($75,374 thousand) at March 31, 2001.

Book value, market value and net unrealized gains of quoted securities included in current assets and investments at March 31, 2000 were as follows:

	Millions of yen
Book value	¥ 13,726
Market value	131,196
Net unrealized gains	¥117,470

5. Inventories

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Finished products	**¥ 3,127**	¥ 2,434	**$ 25,423**
Raw materials	**16,991**	16,322	**138,138**
Supplies	**7,198**	8,245	**58,520**
Work in process	**103**	59	**838**
	¥27,419	¥27,060	**$222,919**

6. Bank loans and long-term debt

At March 31, 2001 and 2000, bank loans consisted of short-term notes, bearing interest at an average annual rate of 0.64% and 0.52%, respectively.

Long-term debt at March 31, 2001 and 2000 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Domestic unsecured notes due 2002 at a rate of 5.6%	**¥ –**	¥ 35,000	**$ –**
Domestic unsecured notes due 2014 at a rate of 5.1%	**30,000**	30,000	**243,902**
Domestic unsecured notes due 2015 at a rate of 4.1%	**27,900**	30,000	**226,829**
Domestic unsecured notes due 2016 at a rate of 4.0%	**30,000**	30,000	**243,902**
Domestic unsecured notes due 2018 at a rate of 2.625%	**40,000**	40,000	**325,203**
Domestic unsecured notes due 2009 at a rate of 1.68%	**30,000**	30,000	**243,902**
Domestic unsecured notes due 2009 at a rate of 1.73%	**30,000**	30,000	**243,902**
Domestic unsecured notes due 2010 at a rate of 2.01%	**20,000**	–	**162,602**
Domestic unsecured notes due 2004 at a rate of 1.03%	**3,000**	–	**24,391**
Domestic unsecured notes due 2009 at a rate of 1.18%	**4,000**	–	**32,521**
Domestic unsecured convertible bonds:			
1st issue due 2003 at a rate of 1.5%	**55,247**	58,791	**449,163**
2nd issue due 2000 at a rate of 1.5%	**–**	39,808	**–**
3rd issue due 2005 at a rate of 1.5%	**90,207**	97,594	**733,390**
4th issue due 2002 at a rate of 1.5%	**95,736**	98,958	**778,342**
5th issue due 2009 at a rate of 1.2%	**49,998**	49,998	**406,488**
6th issue due 2007 at a rate of 1.1%	**49,993**	49,993	**406,447**
Swiss franc notes due 2002 at a rate of 4.5%	**14,810**	14,810	**120,407**
DM bearer bonds due 2005 at a rate of 7.0%	**18,333**	18,333	**149,049**
Domestic secured notes due 2003 at a rate of 2.0%	**800**	800	**6,504**
Loans from banks, insurance companies and government agencies due through 2028 at rates of 0.88% to 7.80%:			
Secured	**14,695**	15,201	**119,471**
Unsecured	**225,484**	246,158	**1,833,203**
	830,203	915,444	**6,749,618**
Less — Amounts due within one year	**121,874**	71,810	**990,846**
	¥708,329	¥843,634	**$5,758,772**

The indentures covering the first through sixth (except the second) 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 ($10.31), ¥1,105.70 ($8.99), ¥1,105.70 ($8.99), ¥339.00 ($2.76) and ¥339.00 ($2.76), respectively (subject to adjustment in certain circumstances), (2) conversion periods through September 2003, March 2005, March 2002, March 2009 and March 2007, respectively, and (3) redemption at the option of the Company, commencing in October 1996 for the 1st issue, April 1998 for the 3rd and April 1996 for the 4th, at prices ranging from 106% to 100% of the principal amount.

At March 31, 2001, investment securities and property, and equipment at book value amounting to ¥23,685 million ($192,561 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 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, 2001 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥121,874	$ 990,846
2003	41,547	337,780
2004	95,979	780,317
2005	112,280	912,846
2006	48,933	397,829
2007 and thereafter	409,590	3,330,000
	¥830,203	$6,749,618

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 at March 31, 2001 are as follows:

	Millions of yen			
	Contract amounts	Beyond one year	Market value	Recognized gains
Currency option contracts:				
Purchased cap option	**¥3,000**	**¥3,000**	**¥10**	**¥10**
Interest rate swap contracts:				
Floating rate to fixed rate	**3,000**	**3,000**	**11**	**11**

	Thousands of U.S. dollars			
	Contract amounts	Beyond one year	Market value	Recognized gains
Currency option contracts:				
Purchased cap option	**$24,390**	**$24,390**	**$81**	**$81**
Interest rate swap contracts:				
Floating rate to fixed rate	**24,390**	**24,390**	**89**	**89**

Contract amounts, market values and unrealized gains on the interest rate swap contracts at March 31, 2000 were as follows:

	Millions of yen			
	Contract amounts	Beyond one year	Market value	Unrealized gains (losses)
Currency option contracts:				
Purchased cap option	¥3,000	¥3,000	¥93	¥93
Interest rate swap contracts:				
Floating rate to fixed rate	3,000	3,000	(4)	(4)

Prior to April 1, 2000, derivative financial instruments were not stated at fair value, and the changes in fair values were not recognized as gains or losses.

8. Employees' severance and retirement benefits

As explained in Note 2, effective April 1, 2000, the Company and consolidated subsidiaries adopted the new accounting standard for employees' severance and retirement benefits, under which allowance and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

Allowance for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥ 302,989	$ 2,463,325
Unrecognized actuarial differences	(16,595)	(134,919)
Less fair value of pension assets	(152,178)	(1,237,219)
Allowance for severance and retirement benefits	¥ 134,216	$ 1,091,187

Included in the consolidated statement of income for the year ended March 31, 2001 is severance and retirement benefit expense comprised of the following:

	Millions of yen	Thousands of U.S. dollars
Service costs – benefits earned during the year	¥ 9,939	$ 80,805
Interest cost on projected benefit obligation	8,967	72,902
Expected return on plan assets	(4,557)	(37,049)
Amortization of prior service costs	(3,950)	(32,114)
Amortization of actuarial differences	24	195
One-time amortization of all net transition obligation	21,777	177,049
Severance and retirement benefit expense	¥32,200	$261,788

This discount rate and the rate of expected return on plan assets used by the Company are approximately 3%, respectively. 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 recognized as expense in one year, 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.

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, 2001 and 2000, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2001 and 2000:

	2001	2000
Statutory tax rate	**36.2%**	36.2%
Tax rate difference between gas business (36%) and others (42%)	**0.4**	1.2
Unrecognized net operating loss of consolidated subsidiary	**0.4**	–
Other-net	**1.6**	1.0
Effective tax rate	**38.6%**	38.4%

Significant components of deferred tax assets and liabilities as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Liabilities for retirement benefits	**¥36,842**	¥33,637	**$299,528**
Other-net	**26,093**	19,659	**212,138**
Subtotal	**62,935**	53,296	**511,666**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**31,872**	–	**259,122**
Reserve for tax-purpose cost reduction of certain pipelines	**2,508**	2,509	**20,390**
Other-net	**3,604**	1,989	**29,301**
Subtotal	**37,984**	4,498	**308,813**
Net-total	**¥24,951**	¥48,798	**$202,853**

10. Stockholders' equity

At the current conversion prices, 529,762 thousand shares of common stock were issuable at March 31, 2001 upon full conversion of the outstanding convertible bonds (see Note 6).

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum equal to par value thereof, is required to be designated as stated capital. The portion which is not transferred to stated capital is determined by resolution of the Board of Directors. Proceeds not transferred to stated capital are credited to additional paid-in capital.

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

11. Segment information

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

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

	Millions of yen						
	Gas sales	Gas appliance sales	Related construction	Real estate rental business	Other	Elimination or corporate	Consolidated
For 2001:							
Sales:							
Outside customers	**¥ 740,731**	**¥145,435**	**¥67,611**	**¥ 15,602**	**¥117,392**	**¥ –**	**¥1,086,771**
Inside group	**–**	**1,082**	**4,297**	**21,999**	**42,186**	**(69,564)**	**–**
	740,731	**146,517**	**71,908**	**37,601**	**159,578**	**(69,564)**	**1,086,771**
Costs and expenses	**590,785**	**139,889**	**67,952**	**29,515**	**149,451**	**5,520**	**983,112**
Operating income	**¥ 149,946**	**¥ 6,628**	**¥ 3,956**	**¥ 8,086**	**¥ 10,127**	**¥(75,084)**	**¥ 103,659**
Identifiable assets	**¥1,125,541**	**¥ 58,026**	**¥22,713**	**¥240,975**	**¥224,972**	**¥125,441**	**¥1,797,669**
Depreciation	**119,704**	**651**	**138**	**12,727**	**14,320**	**(1,120)**	**146,420**
Capital expenditures	**98,101**	**548**	**104**	**2,049**	**10,181**	**(1,084)**	**109,899**
For 2000:							
Sales:							
Outside customers	¥ 672,070	¥126,747	¥63,949	¥ 14,959	¥114,530	¥ –	¥ 992,255
Inside group	–	1,169	4,703	22,883	44,290	(73,045)	–
	672,070	127,916	68,652	37,842	158,820	(73,045)	992,255
Costs and expenses	530,686	125,139	66,700	29,588	147,323	23,586	923,022
Operating income	¥ 141,384	¥ 2,777	¥ 1,952	¥ 8,254	¥ 11,497	¥ (96,631)	¥ 69,233
Identifiable assets	¥1,148,758	¥ 53,311	¥22,451	¥252,016	¥224,176	¥104,374	¥1,805,086
Depreciation	109,108	754	169	12,991	14,160	(968)	136,214
Capital expenditures	107,388	482	115	2,283	12,741	(1,203)	121,806

	Thousands of U.S. dollars						
	Gas sales	Gas appliance sales	Related construction	Real estate rental business	Other	Elimination or corporate	Consolidated
For 2001:							
Sales:							
Outside customers	**$6,022,203**	**$1,182,398**	**$549,683**	**$ 126,846**	**$ 954,407**	**$ –**	**$ 8,835,537**
Inside group	**–**	**8,797**	**34,935**	**178,853**	**342,976**	**(565,561)**	**–**
	6,022,203	**1,191,195**	**584,618**	**305,699**	**1,297,383**	**(565,561)**	**8,835,537**
Costs and expenses	**4,803,130**	**1,137,309**	**552,455**	**239,959**	**1,215,050**	**44,878**	**7,992,781**
Operating income	**$1,219,073**	**$ 53,886**	**$ 32,163**	**$ 65,740**	**$ 82,333**	**$ (610,439)**	**$ 842,756**
Identifiable assets	**$9,150,740**	**$ 471,756**	**$184,659**	**$1,959,146**	**$1,829,041**	**$1,019,846**	**$14,615,195**
Depreciation	**973,203**	**5,293**	**1,122**	**103,472**	**116,423**	**(9,106)**	**1,190,407**
Capital expenditures	**797,560**	**4,455**	**846**	**16,659**	**82,772**	**(8,813)**	**893,488**

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

	Millions of yen		Thousands of U.S. dollars
Information as lessee:	**2001**	2000	**2001**
Lease payments	**¥ 858**	¥1,053	**$ 6,976**
Future minimum lease payments inclusive of interest:			
Current	**¥ 709**	¥ 776	**$ 5,764**
Non-current	**1,539**	1,032	**12,512**
	¥2,248	¥1,808	**$18,276**

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 2001:			
Production facilities	**¥ 105**	**¥ 75**	**¥ 30**
Distribution facilities	**692**	**370**	**322**
Service and maintenance facilities	**371**	**273**	**98**
Other	**3,488**	**1,690**	**1,798**
	¥4,656	**¥2,408**	**¥2,248**
For 2000:			
Production facilities	¥ 110	¥ 55	¥ 55
Distribution facilities	758	377	381
Service and maintenance facilities	425	261	164
Other	4,415	3,207	1,208
	¥5,708	¥3,900	¥1,808

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2001:			
Production facilities	**$ 854**	**$ 610**	**$ 244**
Distribution facilities	**5,626**	**3,008**	**2,618**
Service and maintenance facilities	**3,016**	**2,219**	**797**
Other	**28,358**	**13,740**	**14,618**
	$37,854	**$19,577**	**$18,277**

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Amount representing lease depreciation	**¥858**	¥1,053	**$6,976**

Information as lessor:	Millions of yen 2001	2000	Thousands of U.S. dollars 2001
Lease income	**¥ 4,326**	¥ 4,359	**$ 35,171**
Future lease payments to be received:			
Current	**¥ 3,847**	¥ 4,243	**$ 31,276**
Non-current	**11,422**	10,107	**92,862**
	¥15,269	¥14,350	**$124,138**

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

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2001:			
Other	**¥23,961**	**¥14,571**	**¥9,390**
For 2000:			
Other	¥24,532	¥16,081	¥8,451

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2001:			
Other	**$194,805**	**$118,463**	**$76,342**

	Millions of yen 2001	2000	Thousands of U.S. dollars 2001
Lease depreciation	**¥2,307**	¥2,684	**$18,756**

13. Commitment and contingent liabilities

The Company and its consolidated subsidiaries were contingently liable (1) to banks in the amount of ¥4,411 million ($35,862 thousand) at March 31, 2001 with respect to joint and several liabilities upon default of debtors and (2) as guarantors for the in-substance defeasance of domestic unsecured notes in the amount of ¥65,000 million ($528,455 thousand) issued by the Company, which were assigned to certain banks under the debt assumption agreements made through the years ended March 31, 2001 and 1999. At the same date, some consolidated subsidiaries were contingently liable with respect to trade notes receivable discounted with banks in the amount of ¥223 million ($1,813 thousand).

At March 31, 2001, 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

(A) Debt assumption agreements

On June 28, 2001, the Board of Directors decided to enter into a debt assumption agreement with certain banks from July 1, 2001 to July 31, 2001 to transfer ¥ 10,000 million ($81,301 thousand) of domestic unsecured notes due 2014 at a rate of 5.1%.

(B) Appropriation of retained earnings

At the annual meeting held on June 28, 2001, the Company's stockholders approved (1) payment of year-end cash dividends of ¥3.5 ($0.03) per share aggregating ¥9,835 million ($79,959 thousand) to the stockholders of record as of March 31, 2001, and (2) payment of bonuses to directors totaling ¥79 million ($642 thousand).

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, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of TOKYO GAS CO., LTD. and subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2001, TOKYO GAS CO., LTD. and subsidiaries adopted new Japanese accounting standards for financial instruments and employees' severance and retirement benefits and the revised accounting standard for foreign currency translation.

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

Tokyo, Japan
June 28, 2001

Asahi & Co.

Statement on Accounting Principles and Auditing Standards

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