TOKYO GAS

At The Frontier Of Change

TOKYO GAS CO., LTD.

Annual Report 2001

For the year ended March 31, 2001

Profile

Tokyo Gas, Japan's largest gas company, is the dominant player in the greater Tokyo/Kanto Plain marketplace, where demand potential is enormous. Capital investments we have made have positioned us to capitalize on this potential as well as on business opportunities being spawned by deregulation in Japan's energy sector. Technology will also drive growth. We intend to actively propose new technologies for using gas to spur demand. Furthermore, Tokyo Gas is striving to transform into a diversified energy services company, supplying heat and electricity as well as gas, with natural gas as the core energy source. "Energy Frontier," the new corporate slogan, embodies this drive. Tokyo Gas believes this strategy is the best way to maximize corporate value and meet the expectations of its customers and shareholders.

Contents

On the cover:

Upper Middle: The Shinjuku Park Tower, located in a Shinjuku redevelopment district, uses a DHC system.
Lower Middle: The flame represents a source of energy.
Left: LNG carriers like this one ensure a stable supply of natural gas.
Right: This artificial diamond was created using natural gas.

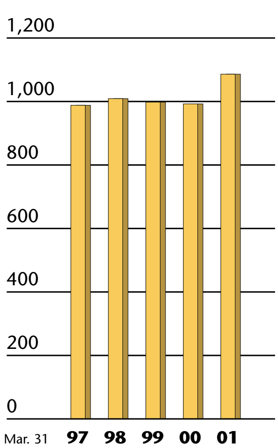
Financial Highlights

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

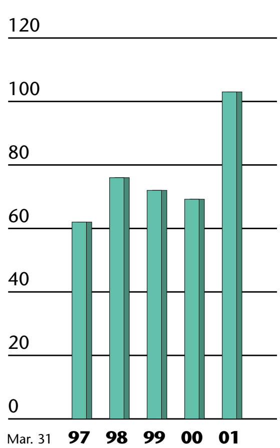
	Millions of yen except per share amounts			Thousands of U.S. dollars except per share amounts
	2001	2000	1999	**2001**
For the Year				
Net sales	**¥1,086,771**	¥ 992,255	¥ 997,767	**$8,835,537**
Operating income	**103,659**	69,233	72,303	**842,756**
Net income	**27,595**	26,698	17,764	**224,350**
Depreciation	**146,420**	136,214	132,568	**1,190,407**
Capital expenditures	**109,899**	121,806	142,030	**893,448**
Amounts per share of common stock (Yen and U.S. dollars):				
Net income (Basic)	**9.82**	9.50	6.32	**0.08**
Net income (Diluted)	**9.13**	8.84	5.94	**0.07**
Net income and depreciation	**61.9**	58.0	53.5	**0.50**
At Year-end				
Total assets	**¥1,797,669**	¥1,805,086	¥1,707,446	**$14,615,195**
Long-term debt due after one year	**708,329**	843,634	820,753	**5,758,772**
Total stockholders' equity	**552,790**	484,239	421,442	**4,494,228**
Ratios				
Net income/Net sales	**2.5%**	2.7%	1.8%	
ROE	**5.3%**	5.9%	4.2%	
ROA	**1.5%**	1.5%	1.0%	
Equity ratio	**30.8%**	26.8%	24.7%	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥123=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2001.

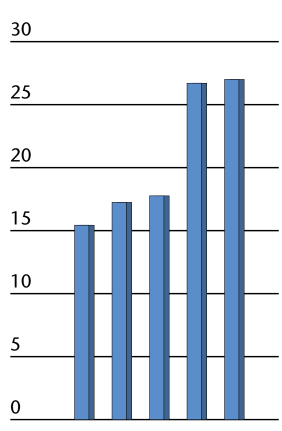
Net Sales
(Billion ¥)



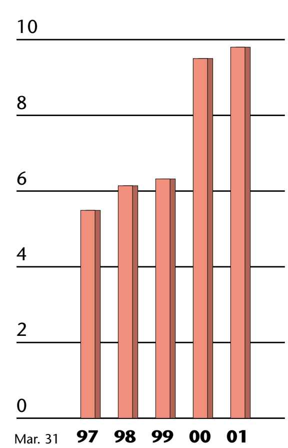
Operating Income
(Billion ¥)



Net Income
(Billion ¥)



Net Income per Share (Basic)
(¥)

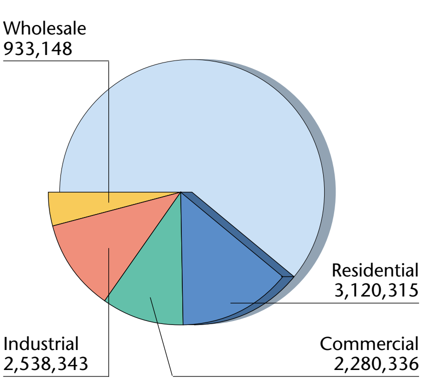


Our Position in the Market

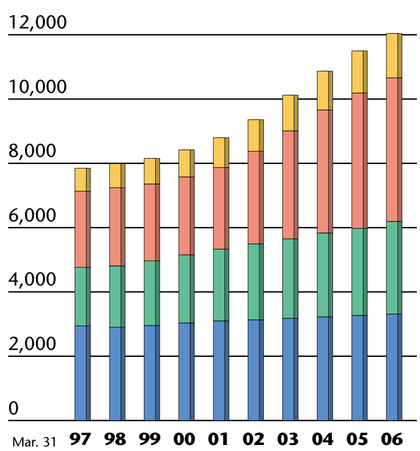
Tokyo Gas is Japan's largest gas company both in terms of the number of customers—roughly 8.9 million in total—and gas sales volume. Our service area covers approximately 3,100 square kilometers in Tokyo and neighboring prefectures. It is located in the heart of the Kanto region, the largest and most densely populated region in Japan with a total of some 40 million people. Tokyo's position as the locus of Japanese commerce—many companies are headquartered here—makes our service area even more vibrant.

What's more, the Kanto region is Japan's most industrialized area, accounting for 38% of Japan's GDP. Gas demand in this enormous and economically diverse service area is expected to increase even in the future.

Gas Sales Volume in Japan and Tokyo Gas by Sector
(Year ended March 31, 2001)
Unit: thousands of m³ (46.047 MJ/m³)

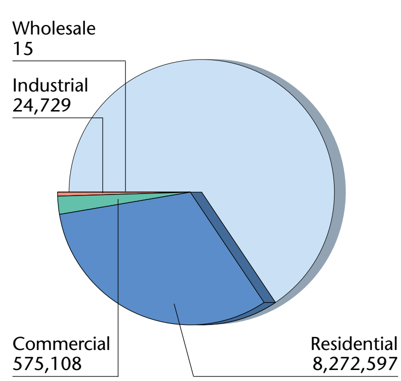


Growth in Tokyo Gas Gas Sales Volume by Sector
Unit: million m³ (46.047 MJ/m³)



Note: 2002~2006 are projected figures.

Number of Gas Customers in Japan and Tokyo Gas Customers
(As of March 31, 2001)



* The above three graphs represent non-consolidated data.

Natural Gas—Energy of the Future

Natural gas has emerged as a main source of energy because it is both environmentally friendly and reserves are spread throughout the world. Compared to oil reserves, roughly 60% of which are concentrated in the Middle East, natural gas is found worldwide, including North America, Southeast Asia, Australia and Russia. Natural gas reserves are also expected to last longer than those of oil.

The Ministry of Economy, Trade and Industry revised its Long-term Energy Demand and Supply Outlook for Japan this year. The new outlook projects that natural gas demand will grow by 10.7%, as compared to the year ended March 2000, by the year ending March 2011. Overall energy demand, by comparison, is predicted to increase by 1.5%. Natural gas continues to play a major role in achieving the basic aim of the Japanese government's energy policy—to attain energy efficiency and promote environmental protection while providing energy security.

Tokyo Gas' Role in the Market

Ensuring a stable, diverse and long-term energy supply centered on natural gas is our main corporate mission. We are presently importing LNG based on long-term contracts from six major natural gas exporting areas: Alaska, Brunei, Malaysia, Australia, Indonesia and Qatar. Tokyo Gas has considerable expertise and knowledge concerning LNG, having been the first Japanese company to import this energy resource from Alaska in 1969. Moving forward, Tokyo Gas intends to continue to supply competitively priced natural gas in response to diversifying market needs.

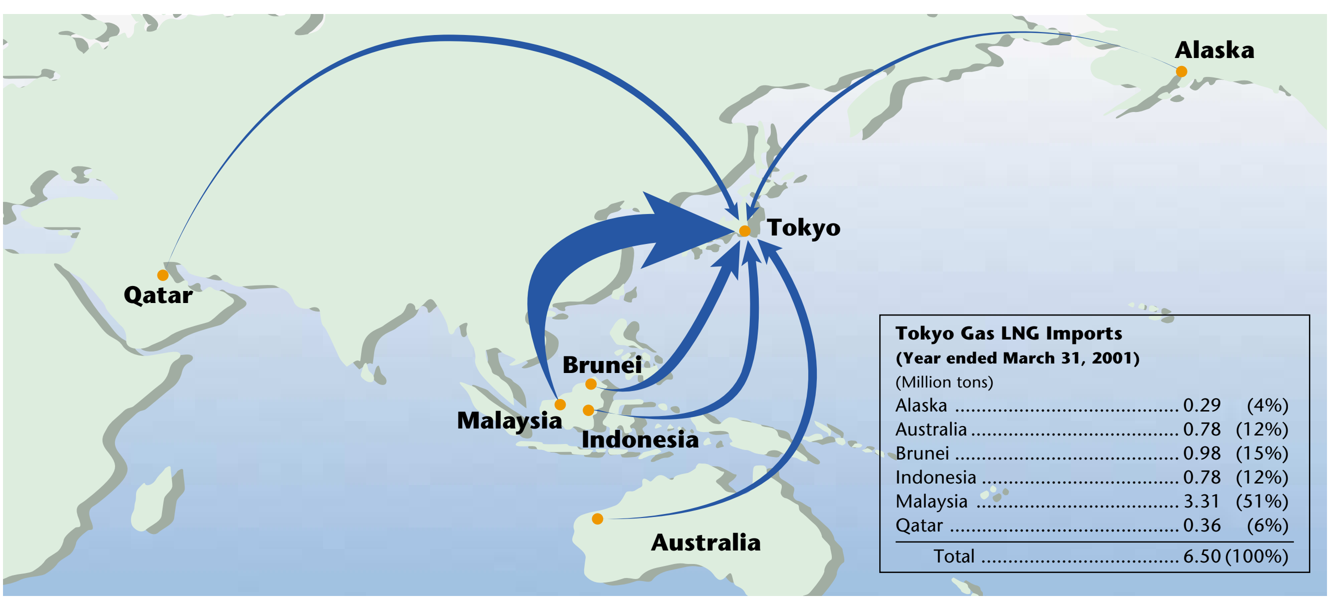
Complementing this procurement capability are our production systems—centering on the world's largest and most technologically advanced LNG receiving terminals—and our transmission and distribution network.

By leveraging the sum of these parts, we aim to carve out an even stronger position in Japan's energy sector. Prospects are bright. Average growth in demand of 6.5% per annum is forecast for Tokyo Gas' gas sales volume until the year ending in March 2006. This represents a high growth rate in comparison to growth forecasts for other energy sources and the Japanese economy as a whole.

At Tokyo Gas, natural gas is positioned as the cornerstone of the company's energy and energy-related operations. Building on this strong foundation, Tokyo Gas is aiming to power steady growth by evolving into a diversified energy services company, supplying heat and electricity as well as gas.

Tokyo Gas LNG Imports

Japan imported approximately 54.1 million tons of LNG in the year ended March 31, 2001. Tokyo Gas accounted for roughly 6.5 million tons of those imports.



Tokyo Gas LNG Imports
(Year ended March 31, 2001)
(Million tons)

Alaska	0.29	(4%)
Australia	0.78	(12%)
Brunei	0.98	(15%)
Indonesia	0.78	(12%)
Malaysia	3.31	(51%)
Qatar	0.36	(6%)
Total	6.50	(100%)

RIGHT: Kunio Anzai
Chairman

LEFT: Hideharu Uehara
President

Full-fledged competition in Japan's energy sector is upon us. Gas and electricity retailing to large-volume customers has been liberalized, and electricity and gas companies are crossing into each other's fields. In this era of full-scale competition, Tokyo Gas has adopted a new corporate slogan called Energy Frontier. This slogan embodies our drive to grow as a diversified energy services company, delivering heat, electricity and gas, with natural gas as our core energy source. Four key strengths underpin our drive: positioning the outwardly expanding greater Tokyo/Kanto plain area as our central sales base; an extensive natural gas infrastructure linking LNG receiving terminals and customers; cutting-edge engineering capabilities; and strong, trusting relationships with our customers. As the 21st century dawns, we are determined to continue to play a leading role at the forefront of Japan's energy sector.

The Year in Review

In February 2001, we reduced our gas rates by an average of 3.02%, bolstering price competitiveness and responding to the needs of our customers. Having also reduced rates in December 1999, our rates have fallen by a total of 5.02% in the last 2 years.

Gas sales volume in the Tokyo Gas Group increased 5.4% to 8,879 million m^3. Gas sales in monetary terms also increased, up ¥68.6 billion to ¥740.7 billion, reflecting the higher gas sales volume and increased gas rates based on the *"gas cost adjustment rate (sliding rate)"* system. Accordingly, consolidated net sales climbed 9.5% to ¥1,086.7 billion and operating income surged 49.7% to ¥103.6 billion. Net income was held to a slight rise of 3.4%, to ¥27.5 billion, principally by the recording of a one-off charge of ¥21.9 billion for the shortfall in Tokyo Gas' corporate pension funds following the adoption of new accounting standards. Return on assets (ROA) was 1.5%. We also generated free cash flows of ¥66.5 billion, up ¥24.5 billion year on year.

Returning value to shareholders is a central element of our medium-term management plan. As such, we are pleased to announce that cash dividends applicable to the year were ¥6.00 per share, a ¥1.00 increase over previous years.

Progress of Deregulation

Japan's gas industry underwent partial deregulation in November 1999, with the lowering of the threshold at which regulations on gas supply areas and rate-setting restrictions for large-volume customers are set, from those consuming 2 million m^3 or more per year to 1 million m^3 or more. March 2000 saw the liberalization of electricity sales to large-volume customers, with revisions to the Electricity Utility Industry Law. The new regulations apply to users with a capacity of over 2,000 kW and using a supply of 20 kV or above. The scope of deregulation in both industries is expected to widen.

In the gas industry, at the end of January 2001, the Agency of Natural Resources and Energy formed a private group for the study of basic issues regarding the condition of the gas market, including LPG, over the next decade. The council will report on its finding later this year.

Tokyo Gas welcomes deregulation. We view it as an excellent opportunity to increase corporate value. Deregulation will allow us to advance into the electricity market. It will also enable us to capture demand beyond our service area. We also want to seize upon other business opportunities, including the natural gas transportation business using our powerful pipelines.

Tokyo Gas' Medium-Term Plan

Our basic strategy is to increase free cash flows and ROA. In the year ended March 2001, the first year of our 5-year medium-term plan, we achieved encouraging results. Based on this progress, we announced new projections in May 2001. By stepping up our drive to raise efficiency, we aim to achieve our goals a year ahead of our initial plan.

1. Increase Free Cash Flows

Our plan initially called for free cash flows totaling ¥250.0 billion over 5 years. We have revised our target upward to ¥287.9 billion. In the year ended March 2001, we generated free cash flows of ¥53.9 billion, far above our initial target of ¥32.0 billion.

2. Raise ROA

Here, we were originally forecasting to raise ROA to an average of 1.9% over the term of the plan. Now we are aiming for an average of 2.6% per year, with ROA of 3.8% in the year ending March 2005, the plan's final year. The result in the year ended March 2001 of 1.8%, on a non-consolidated basis, again exceeded our initial goal of 1.1%.

The actions outlined below will be instrumental to achieving our revised targets.

Stepping Up the Efficiency Drive

Personnel Reductions

We had planned to reduce the parent company head count to 10,000 by the end of March 2006. We now aim to achieve this goal by March 2004, 2 years ahead of schedule, by undertaking a rigorous review of work processes across all operations. We have decided to transfer 1,500 contract employees connected with meter reading, bill collection and other customer-service duties to a new outsourcing company at the end of March 2004. These actions are expected to yield labor cost savings of ¥37.0 billion from the year ending March 2002 through the year ending March 2005.

Controlling Operating Expenses

We have revised our initial goal of holding operating expenses to the level in the year ended March 1999 of ¥224.2 billion, from the year ended March 2001 to the year ending March 2003, through cost cutting and operational reforms. We have lowered our target to an average of under ¥221.0 billion over the 5 years of the plan. This includes the increase in fixed expenses in line with expansion of our customer base, but excludes an increase in outsourcing costs of ¥27.0 billion from the year ending March 2002 to the year ending March 2005.

Internal Financing of Capital Expenditures

We will continue to invest aggressively in new pipelines to boost gas demand and meet rising gas demand in the future. However, we intend to hold capital expenditures to around ¥100 billion, within the limits of internal financing, through cost-cutting measures.

Medium-Term Management Plan Progress Report and Outlook (As of May 2001)

<Non-consolidated>

Mar. 31		00	01	02	03	04	05
Net sales	¥ billion	869.9	965.6	976	1,005	1,036	1,065
Free cash flows	¥ billion	26.0	53.9	51	49	62	72
Total assets	¥ billion	1,493.6	1,490.1	1,450	1,465	1,462	1,460
Interest-bearing debt	¥ billion	761.9	685.5	635	627	610	570
ROA	%	1.5	1.8	2.1	2.4	2.8	3.8
Total asset turnover	times	0.60	0.65	0.66	0.69	0.71	0.73
Equity ratio	%	29.7	34.1	35.9	36.7	38.3	40.9

<Consolidated>

Mar. 31		00	01	02	03	04	05
Net sales	¥ billion	992.2	1,086.7	1,100	1,136	1,167	1,196
Free cash flows	¥ billion	42.0	66.5	67	51	65	75
ROA	%	1.5	1.5	2.0	2.3	2.6	3.5
Consolidated net income to non-consolidated net income	times	1.19	1.01	1.13	1.14	1.12	1.09

Note: Figures for the years ended March 31, 2000 and 2001 represent actual figures. Other figures are estimates.

Structural Reforms (Organizational and System)

In January 2001, we established the Energy Solution Business Department within the Energy Sales and Service Division, to advance into the electricity business. In July 2001, the Inter-Regional Sales and Service Division was launched to augment our sales strategy outside the Tokyo metropolitan area and to develop effective sales activities. In another move, we merged two functions—experimental research and development of product technologies—into the newly formed R&D Division. This division strives to apply in-house developed technologies both in and outside the company. With these actions, we have increased the number of strategic business divisions from 6 to 8. This new framework also heralds the start of a virtual in-house company system, whereby each division has been assigned free cash flow and ROA targets. Each division is striving to maximize profits. We have also carried out reviews of the remuneration system to provide added incentive to employees to improve their performance. Senior managers and above are subject to an annual salary system and regular employees are increasingly compensated by a results-based pay system.

Strategy to Expand Sales Volumes

Gas sales volumes drive sales and earnings. Our medium-term plan calls for an average annual increase in volumes of about 6.4%. To this end, we are executing a detailed strategy to expand sales in each user customer category. Our overwhelming market shares of 95% and 80% in the residential market for water heating and cooking, respectively, underpin our efforts there. Building on this base, we are popularizing gas floor heating for the home, and in the commercial sector, gas-fired air conditioning for office buildings. Furthermore, this year we launched sales of micro turbines for cogeneration for small-scale commercial use. Another focus is development of small-scale fuel cell systems for residential use. Our plan is to begin sales of these systems in 2004 and to make them commonplace by about 2010. Moreover, while expanding demand primarily for cogeneration, a strategic product, we will aggressively enter new fields. Target areas are electricity retailing, electricity and heat supply to specific areas such as redevelopment zones, and power generation businesses.

Expanding and Allocating Free Cash Flows

As highlighted above, we expect to generate free cash flows of ¥287.9 billion during our medium-term plan, ¥38.1 billion above the initial target. Combined with cash on hand, we expect to have total cash of ¥343.8 billion to invest from the year ended March 31, 2001 through the year ending March 31, 2005. Of this cash, roughly 20% is earmarked for new business investments, approximately 20% will be returned to shareholders, and about 60% will be used to strengthen our balance sheet.

Regarding new business investments, when we formulated our plan, we focused on building LNG carriers with a view to entering the LNG transportation business. This area of business has the potential to generate handsome profits. Thereafter, we established a specialist section, responsible for planning and launching new businesses, to oversee the launch of businesses outside the gas field, as well as to forge business alliances. These efforts led us to establish new companies and to take equity stakes in others (See FAQ on page 33). Moreover, in June 2001 we established Tokyo Gas Bay Power to sell electricity generated from a 100,000kW power station to be constructed within the grounds of the Sodegaura LNG Terminal. Operations are slated to start in the year ending March 2004.

Our investment in new businesses does not mean that we are sacrificing our core gas business. We are aggressively investing in new pipelines to capture new demand in the future.

For shareholders, we plan to sustain the dividend in the year ended March 31, 2001 of ¥6.00 per share in the year ending March 31, 2002 and thereafter. We expect there to be a dilutive effect on shares due to the conversion of convertible bonds into shares in line with the strong recovery in our stock price. As such, we are considering share buybacks to create shareholder value.

We hope to quickly strengthen our balance sheet by stepping up the repayment of interest-bearing debt. We aim to achieve our target of bringing interest-bearing debt down to ¥610.0 billion by the end of March 2005, a year ahead of schedule in March 2004. Our new target is to reduce interest-bearing debt to ¥570.0 billion as of March 31, 2005.

Responding to Risk

Our medium-term plan factors in business risk accompanying deregulation. This mainly constitutes the risk of competition, which can be broken down into two categories. One is the risk of losing customers to new players. The other is the risk that sales might fall as a result of having to reduce rates to remain competitive.

With regard to the former, we see our main rivals as electric utility companies. Like gas companies, they have the infrastructure in place, in the form of LNG receiving terminals, and have positioned entry into gas operations as an important strategy. Competition is expected to heat up quickly as electric utility companies attempt to drive expansion in demand by using the pipelines of other companies in addition to their own pipelines. To counter this risk of lost business, we will offer increased value to new and existing customers. For new customers, we will leverage our sophisticated engineering capabilities to cement a strong market position. For existing customers, we will compete on the basis of our price. Price competitiveness is underpinned by cost-reduction efforts. Therefore, we will accelerate cost-containment efforts to achieve cost reductions above those of electric utility companies. To hedge this risk, we aim to unlock new demand by enlarging our service area, taking maximum advantage of our pipeline infrastructure.

Regarding the second risk category, in December 1999 and February 2001 we lowered ordinary gas rates for residential and other customers. As a result, our gas rates are now among the lowest in Japan, and we feel confident that we can hold our own against other forms of energy. As such, we do not plan further rate reductions in this mid-term plan period. However, price competition with new entrants in the large-volume user domain, as well as cogeneration and air conditioning demand, may force us to reduce rates, thereby impacting sales. Reducing costs is the key to remaining price competitive and maintaining and expanding earnings.

Contributing to Local Communities

One of our greatest assets is our broad base of about 8.9 million customers. To enlarge this base we are upgrading customer services and maintaining and enhancing the safety and stability of supply. Furthermore, R&D is being emphasized to respond to diverse customer needs in an aging society which is being fundamentally altered by advances in information technology. IT is an important area of focus.

A Leader in Environmental Management

The 21st century is being hailed as the century of the environment. In the new era, corporations' actions to address environmental issues will fall increasingly under the spotlight. In 2000, Tokyo Gas revised its comprehensive environmental strategy for the first time in eight years. With this review, addressing environmental issues is one of the most important items on our management agenda. Our aim is to be a leader in environmental management. In addition to expanding the use of clean-burning natural gas—a long-standing focus—we are actively promoting environmental protection initiatives across the Tokyo Gas Group. For example, we announced our intention in January 2001 to determine the extent of possible soil contamination at several former gas manufacturing plant sites and to take whatever actions were appropriate. We will report on all our environmental actions, believing that full disclosure is the hallmark of a responsible corporate citizen.

Promoting Activities Overseas

At the threshold of an era of full-scale competition in the energy sector, overseas activities are taking on greater importance for the Tokyo Gas Group. Heretofore, our four representative offices overseas have focused mainly on gathering information and on management and technological exchanges with foreign energy-related companies and institutions. While continuing these activities, we also intend to use these offices as conduits for disseminating information to investors abroad.

Leveraging our experience and successes in overseas projects, we intend to develop overseas operations. In particular, we can point to our joint venture projects in Malaysia to demonstrate our capabilities. These included the construction and operation of a natural gas distribution system. This was the first such overseas project undertaken by a Japanese energy utility company. Gas Malaysia Sdn. Bhd., the joint venture company, started paying dividends in 1999.

In Conclusion

Deregulation heralds the arrival not just of competition, but of business opportunities. It promises to spur growth in natural gas businesses in Japan. With a core business model focused primarily on natural gas, we are well positioned to benefit. Taking on the challenges of deregulation, we aim to expand sales and to maximize earnings through top-line growth, structural reforms and cost cutting.

As always, your support will serve as inspiration and encouragement for our actions.

July 2001

Kunio Anzai

Chairman

Hideharu Uehara

President

Entering New Fields–Toward Becoming a Diversified Energy Services Company

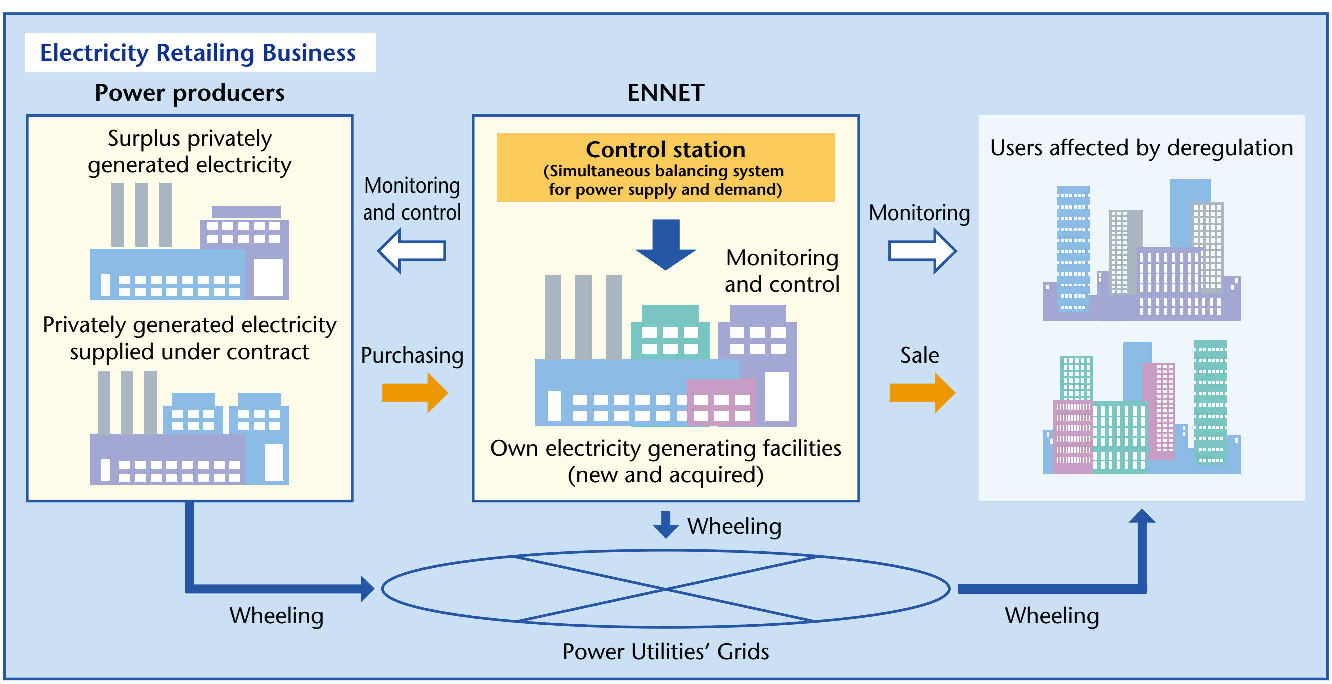
The Japanese energy sector has crossed the threshold into a new era. Liberalization of the energy market, spurred by deregulation, has removed the borders demarcating the territories of electricity and gas companies. In addition, players from other industries are joining the fray. The sector is starting to take on a different look altogether. In response, Tokyo Gas is developing various businesses in the greater Tokyo area, where energy demand is huge. The company sees deregulation as an excellent business opportunity, which it is determined to take advantage of by entering into new businesses, particularly in the electricity domain. This resolve is representative of Tokyo Gas' drive to transform itself into a diversified energy services company with natural gas at its core.

Electricity and Heat Supply in Roppongi Redevelopment Area

Tokyo Gas is making steady progress with a new retail electricity business that will supply heat and electricity for a redevelopment area in Roppongi, a thriving part of central Tokyo. The Roppongi redevelopment project is one of the largest of its kind in Japan, and is attracting considerable attention because it will be the first in a major Japanese city to embrace a retail electricity business. Operations are being carried out by Roppongi Energy Services Co., Ltd., which was jointly established by Tokyo Gas and Mori Building Co., Ltd. This operation will use a large-scale cogeneration system to generate electricity, and will provide heating and cooling by effectively using the exhaust heat from electricity generation. The use of natural gas supplied by Tokyo Gas for generating electricity makes the system ideal from two perspectives: energy conservation and environmental preservation. Moreover, the system could be used to provide electricity in the event of an emergency, such as a natural disaster. System construction is progressing toward a scheduled start up date in the spring of 2003. Redevelopment projects similar to Roppongi are being planned and Tokyo Gas intends to capture these projects, thereby promoting the efficient use of energy.

Expanding Operations by Advancing Into Electricity Retailing

In April 2001, operations commenced at ENNET Corporation, which was established by Tokyo Gas, NTT Facilities Inc. and Osaka Gas Co., Ltd. to develop an electricity retailing business. These three parties bring energy procurement and supply



< Roppongi Redevelopment Project >
This project to redevelop a district of Roppongi, Tokyo, will comprise a broad range of facilities, including offices, housing, hotels, theaters and a broadcasting center. Tokyo Gas will supply the electricity and heating for this district through Roppongi Energy Services Co., Ltd.

capabilities as well as related operational expertise and information technologies to the joint venture. ENNET will capitalize on these synergies to create a business model that will be highly valued in the energy supply marketplace. Electricity will be procured from generating facilities owned by the partners and from Independent Power Producers (IPPs). ENNET will play a key role in assisting customers in the rationalization of their overall energy costs.

In June 2001, Tokyo Gas established Tokyo Gas Bay Power Co., Ltd., a wholly owned subsidiary, to construct a 100,000 kW-class power plant within the grounds of our Sodegaura LNG Terminal to generate electricity for sale to ENNET. The plant is scheduled to come on line in the fall of 2003. The use of company-owned facilities will facilitate the efficient investment of capital, thereby making possible the generation and supply of electricity at competitive prices. Electricity will also be produced at other facilities. One is a 21,000kW power plant owned by ENNET in Ibaraki Prefecture that started operations in July 2001. Furthermore, plans are in hand to purchase electricity from E-Square Co., Ltd., a joint venture established by ENNET and Ebara Corporation, starting in April 2003.

Department Created to Spearhead New Business Drive

Revisions to the Electricity Utility Industry Law have liberalized electricity retailing to large-volume customers. Targeting this strategic area, Tokyo Gas has unified related operations within the company under the newly created Energy Solution Business Dept., which was established in January 2001. The Energy Solution Business Dept. integrates electricity generation and energy service operations, from business planning to operations and management. In this capacity, it is overseeing the operations of ENNET and the supply of heat and electricity in the Roppongi redevelopment area.

Tokyo Gas expects to encounter stiff competition as it enters the electricity marketplace. However, Tokyo Gas has garnered in-depth knowledge of the energy industry, refined its engineering capabilities and developed powerful sales capabilities through its gas operations. Deregulation is creating opportunities for Tokyo Gas to tap these strengths to expand its scope of business to encompass power generation and wholesaling, as well as retailing.

In energy service operations, Tokyo Gas is preparing to use gas cogeneration systems with various exhaust heat recovery devices, gas-fired absorption chillers/heaters and other innovative proposals to provide comprehensive solution packages to meet customers' energy requirements. Such packages will include consultation, financing, engineering, procurement, construction, operation assistance and maintenance of the facilities at a customer's site. In addition, various business mechanisms will be employed to reduce total energy consumption and costs. These range from energy-related Private Finance Initiatives (PFIs)—public works supplying electricity and heat by leveraging capital and expertise contributed by the private sector—to an Energy Service Company (ESCO) and an Energy Service Provider (ESP) business format. Tokyo Gas intends to tap its sophisticated expertise to develop businesses in fields extending from gas, electricity and heat to energy conservation, including emission rights trading.

More Reasons to Choose Tokyo Gas

Tokyo Gas has two fundamental corporate missions. One is to deliver customers the best possible services. The other is to offer customers comfortable living environments by effectively utilizing gas for floor heating, cogeneration and other technologies that are both economically and environmentally sound. To raise the level of customer satisfaction and the competitiveness of natural gas, our core product, Tokyo Gas is enhancing services from various angles and offering customers more options.

Residential Customers—Our Largest Client Category

Numbering more than 8 million, and accounting for 90% of Tokyo Gas' customers, are residential customers. Our 18 branches offer total consulting solutions, including meter reading and inspections of appliances in homes once every 3 years, to ensure that customers are using gas safely. Tokyo Gas aims to spur demand among this massive customer pool and enable residential users to lead more comfortable lives by aggressively promoting gas floor heating. This system circulates hot water beneath the floor to warm a room's occupants from the feet up. Most customers have responded enthusiastically to gas floor heating. Tokyo Gas' goal is to make this system the de facto standard in households in Japan.

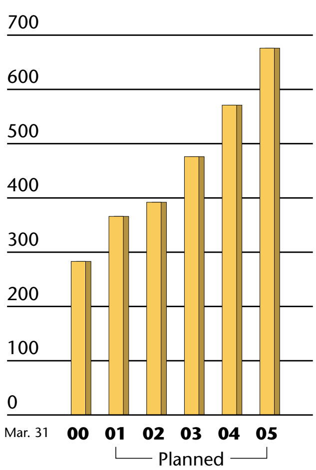
Spurring Commercial and Industrial Demand

As environmental concerns deepen, customers are seeking ways to protect the environment and also reduce their total energy costs. Cogeneration solves both issues. A highly efficient system, cogeneration uses natural gas to simultaneously generate electricity and provide heat.

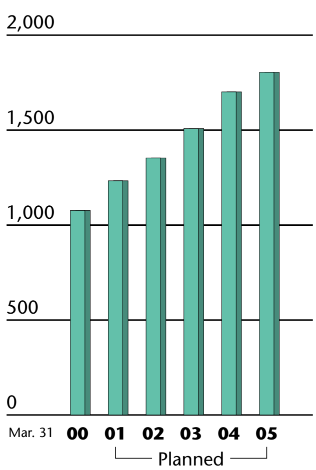
In the gas-fired air conditioning field, Tokyo Gas has a proven track record in GHPs (gas engine-driven heat pumps) and absorption-type gas air conditioning. Gas sales volumes in this field are expected to rise by a yearly average of 6.1% through the year ending March 2006.

Tokyo Gas is conducting aggressive sales activities targeted at hotels, hospitals and other institutions, as well as industrial users, by promoting the advantages of these natural gas systems.

Cumulative number of floor heating systems installed
Unit: thousands of homes



Gas sales volume for cogeneration
Unit: million m³ (46.047 MJ/m³)



Demand for gas floor heating is expanding. Not only is floor heating clean and comfortable, but it boasts superior energy efficiency and cost advantages.

The Saitama New City Center district heating and cooling system covers an area of 27.3 hectares and services 1 cabinet office and 12 ministries. The system supplies heat in an energy-efficient and environmentally friendly manner.

District heating and cooling (DHC) systems, which incorporate cogeneration, have already been installed in well known urban projects in central Tokyo, Yokohama and Chiba. These DHC projects have won plaudits for their environmental friendliness and economic soundness. In April 2000, the Saitama New City Center district heating and cooling system was completed in Saitama Prefecture, becoming Tokyo Gas' 15th DHC operation. We intend to take full advantage of the expertise, technological capabilities and engineering skills we have acquired from such projects to power growth in gas demand.

Power generation is another area where expectations for growth in gas demand are high. Tokyo Gas is working to promote sales in this field while actively proposing energy solutions that incorporate cogeneration systems.

In the Limelight—Micro Turbines

On-site electricity generation systems, particularly that produced by micro turbines, is attracting attention as interest in small, distributed power generation systems grows. Tokyo Gas has already tested the largest number of micro turbines in Japan and in June 2001, the company began sales of 28kW Capstone Turbines.

Tokyo Gas has also successfully developed and tested a dry, low NOx combustor for a 270kW cogeneration system (right) together with Toyota Turbine and System Inc. The turbine is scheduled to go on the market in 2001.

In November 2000, Tokyo Gas invested in MyEnergy Corp., which was established by Tokyo Electric Power Co., Inc. and others. Tokyo Gas aims to champion an on-site energy business using micro turbines.

Building a More Powerful Supply Infrastructure and Strengthening Procurement

Our gas operations are supported by Japan's largest gas supply infrastructure. Terminal and pipeline construction over many years has given us the capability of meeting increases in demand over the next decade. To clinch demand in areas in the Kanto region where demand is expected to increase, we will construct two new pipelines: the Tochigi Pipeline and the Minamiashigara Pipeline. Moreover, the ownership of LNG carriers will facilitate the efficient transportation of feedstock. All our actions are focused on the achievement of the dual goals of ensuring a stable supply and efficient management.

Backed by a Powerful Production and Supply Base

Tokyo Gas' 48,000km pipeline system supplies a customer base of 8.9 million. Our service area, metropolitan Tokyo and neighboring prefectures, has the highest gas demand in Japan.

Tokyo Gas has made strategic investments to bolster its supply capability to cater to this demand. In 1998, the Ohgishima LNG Terminal came on stream, and this was followed in 1999 with the completion of the Keihin Transmission Pipeline and the Yokohama Transmission Pipeline. Today, Tokyo Gas has in place a 300km-long supply loop encircling the greater Tokyo area that is connected by high-pressure pipes to our three LNG terminals: Negishi, Sodegaura and Ohgishima. This loop-system has bolstered our ability to provide customers with a reliable supply of gas.

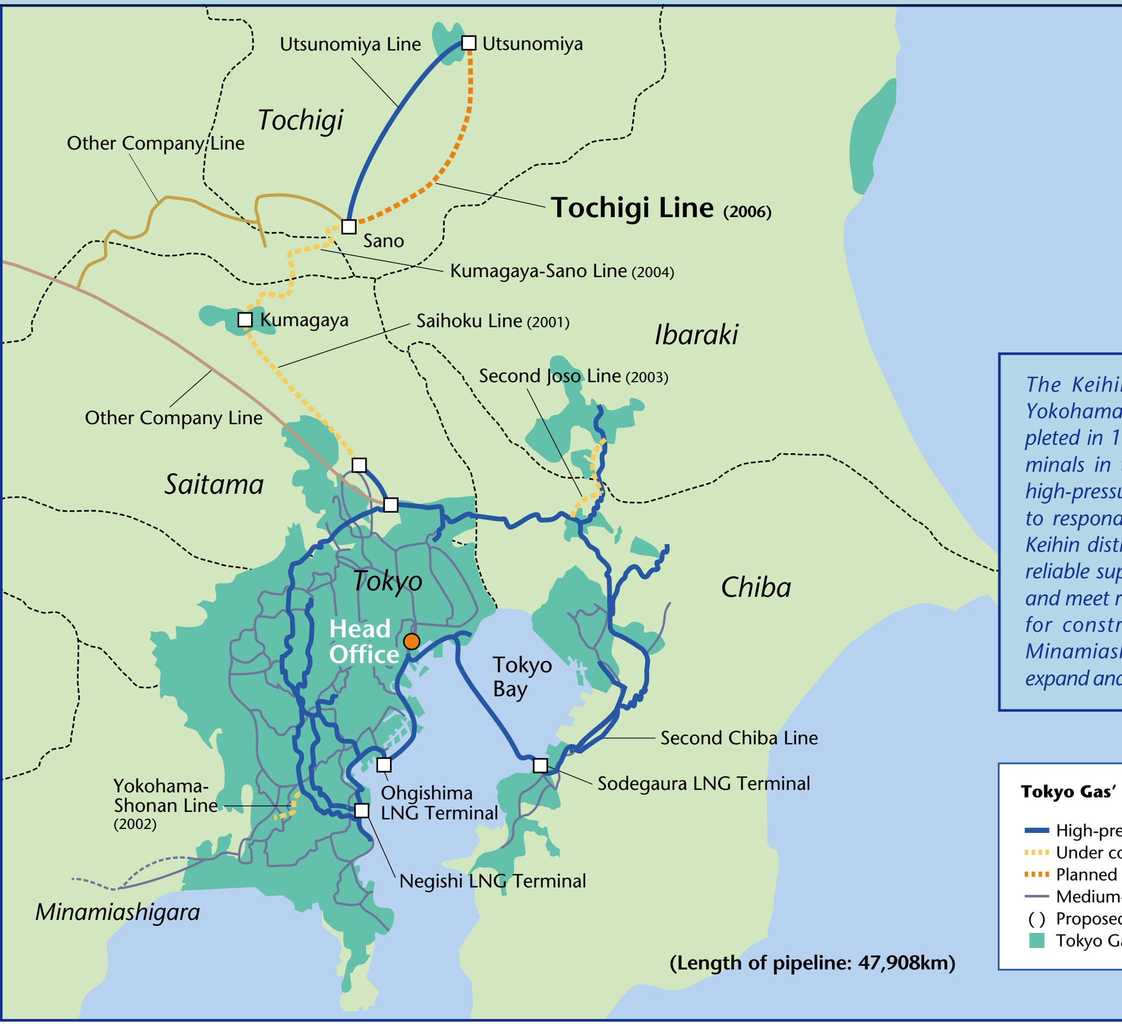
Our pipeline infrastructure will also underpin our expansion beyond our traditional service area, as deregulation opens windows of opportunity. We intend to take maximum advantage of our strengths as a leading presence in the industry to expand our customer base.

New Pipelines to Cater to New Demand

Having evaluated the potential returns on its investment, Tokyo Gas intends to aggressively enter regions where gas demand is expected to increase and to build and extend its supply infrastructure in this vein. Tokyo Gas has been building pipelines to service the northern part of the Kanto region. In the Utsunomiya area of Tochigi Prefecture, a rising population is predicted to spur a further increase in gas demand. Our new Tochigi Pipeline will ensure a stable supply to this area. Currently, domestically

The Sodegaura LNG Terminal is the world's largest LNG receiving terminal.

Tokyo Gas will become the first utility company in Japan's power and gas industry to independently own an LNG carrier.



The Keihin Transmission Pipeline and the Yokohama Transmission Pipeline, both completed in 1999, link Tokyo Gas' three LNG terminals in the Tokyo Bay area with a loop of high-pressure pipes. This has enabled Tokyo Gas to respond to rising industrial demand in the Keihin district near Yokohama, provide a more reliable supply of gas in the greater Tokyo area and meet rising demand in the future. Plans call for constructing new pipelines in Tochigi, Minamiashigara and other areas to further expand and strengthen Tokyo Gas' supply system.

Tokyo Gas' Pipelines

- High-pressure transmission pipelines
- Under construction
- Planned
- Medium-pressure transmission pipelines
- ( ) Proposed year of completion
- Tokyo Gas service area

produced natural gas is used as a feedstock in the Utsunomiya service area. When complete, the new Tochigi Pipeline will sharply increase our transportation capacity to this area, enabling the supply of gas derived using LNG from terminals in Tokyo Bay. Our objective is to also capture large-volume demand from industrial areas neighboring the new pipeline. About 70 km in length, the new pipeline is slated for completion in 2006.

The Minamiashigara area in Kanagawa Prefecture is another service area we will extend our reach to with the new Minamiashigara Pipeline that is scheduled for completion in 2003. Deregulation has opened the way to the start of supplies to large-volume customers in this area. The development of demand through advancement into deregulated areas outside our service area will be a key corporate theme moving forward. We thus intend to continue extending the reach of our pipelines.

On the sales front, July 2001 saw the establishment of the Inter-Regional Sales and Service Division to promote wider-ranging supply and development of demand. An integrated structure will allow us to grasp customer needs and present best-fit proposals for using gas in an expanding service area.

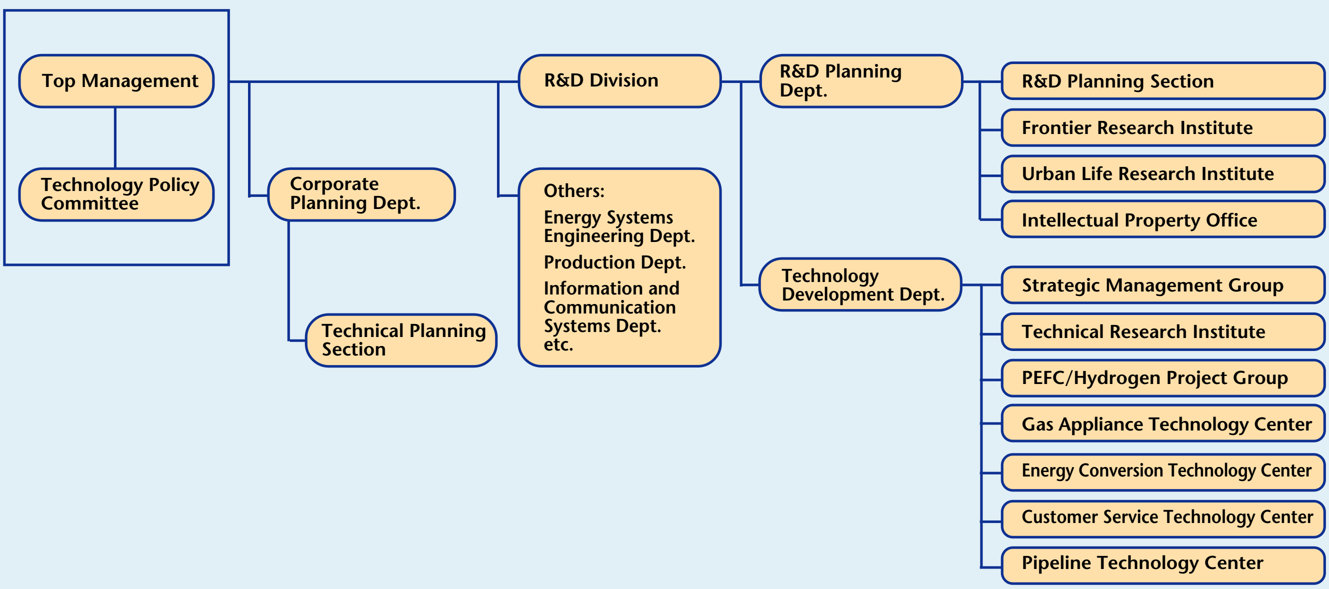
Constructing an Efficient Procurement System Centered on Company-Owned LNG Carriers

As part of our efforts to strengthen procurement, a Tokyo Gas subsidiary, Tokyo LNG Tanker Co., Ltd., is building two LNG carriers. Up to now, Tokyo Gas has jointly owned two LNG carriers with shipping companies and other gas companies. Tokyo Gas will have full ownership of the two new carriers which will lower freight charges and consequently lower feedstock costs. Thus procurement efficiency will be raised and Tokyo Gas' competitiveness bolstered. Tokyo Gas will also be able to take advantage of short-term contracts and spot trading, as well as long-term contracts with the two new LNG carriers. In the future, we plan to expand our scope of operations by offering transportation services to third parties.

A Focus on Technological Innovation

At Tokyo Gas reseach and development is positioned as a major corporate theme as a means of driving growth in existing businesses and creating business opportunities. Our main goal is to ensure that Tokyo Gas maintains its position as the preferred energy supplier. To this end, we must stay on top of a dynamically changing business environment, while placing emphasis on efficiency and profitability through selection and concentration of resources. Three areas have been singled out for R&D in line with this policy.

The Tokyo Gas R&D Organization



Developing PEFC Cogeneration Systems

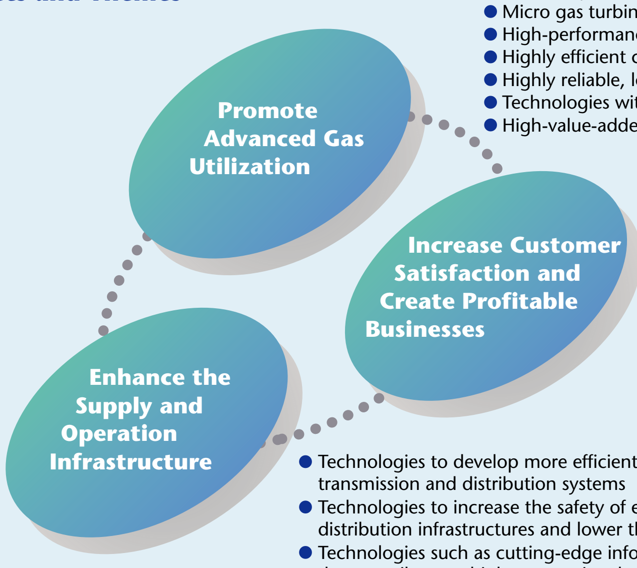
Polymer electrolyte fuel cell (PEFC) cogeneration systems for residential use are seen as a promising new application for natural gas, but raising thermal efficiency has been a stumbling block. Now Tokyo Gas' efforts have resulted in the development of a compact natural gas integrated fuel reformer (a key component of PEFC systems), which achieves extremely high thermal efficiency of 90% (HHV base). This is the highest documented efficiency in the world. Tokyo Gas is already supplying this type of reformer to PEFC system manufacturers.

Tokyo Gas is also working to develop technology that will make possible the supply of hydrogen for fuel-cell powered vehicles of the future.

Handy Remote Methane Detector

Tokyo Gas has developed the world's first remote methane gas detection equipment that uses supersensitive infrared absorption spectrophotometry with a semiconductor laser light source. This sophisticated equipment was developed to make the process of detecting gas leaks more efficient and to raise safety levels. Facilitating simple, instantaneous inspection, this equipment can detect leaks in confined spaces, at high altitudes and in dark areas where detection was previously problematic. Tokyo Gas put this detector into operation in the year ending March 2002.

R&D Targets and Themes



- Fuel cell systems for residential use
- Micro gas turbines technologies
- High-performance, gas-fired air conditioning
- Highly efficient cogeneration systems
- Highly reliable, low-cost, space-saving gas appliances
- Technologies with low environmental impact
- High-value-added engineering technologies

- Enhance customer services by taking advantage of the latest information and communications technologies to enable the delivery of wide-ranging high-value-added services and gas and electricity
- Development of high-value-added technologies such as ^{13}C-Methane and technologies that lead to the creation of new businesses such as hydrogen generators
- Research into pioneering technologies that will drive expansion within the Tokyo Gas Group, including new materials, electronic devices and biotechnology

- Technologies to develop more efficient production, storage, transmission and distribution systems
- Technologies to increase the safety of existing production and distribution infrastructures and lower the cost of maintenance
- Technologies such as cutting-edge information technology (IT) that contribute to higher operational efficiency
- Technologies for constructing efficient production and supply systems to prepare for the possibility of using natural gas sources other than LNG

Promote Advanced Natural Gas Utilization

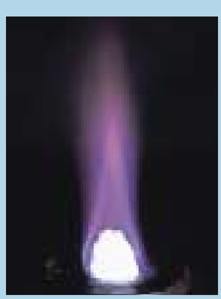
Prevailing in an era of intensifying competition in the energy sector in Japan will require Tokyo Gas to bolster its engineering abilities and technological development to assure the continued loyalty of our customers. This will involve developing technologies to make gas appliances increasingly efficient, compact and reliable, safer, less costly, and more environmentally friendly.

Enhance the Distribution and Operation Infrastructure

Meeting society's demands for the increased use of natural gas as the primary source of energy and strengthening our customer base are our main priorities. To this end, we are developing essential technologies to construct an efficient production, storage, transportation and distribution system.

Increase Customer Satisfaction and Create Profitable New Businesses

In an era of mega-competition in the energy sector, ensuring that customers continue to choose Tokyo Gas as their energy supplier is a key management goal. It is the driving force behind our push to develop essential technologies to make possible the far-reaching delivery not just of electricity and gas but also of value-added services that both anticipate customer needs and satisfy them quicker than other energy providers.



Left

Tokyo Gas is using Walk Map, a cutting-edge gas pipeline mapping system. This system can be used with mobile information terminals.

Right

Tokyo Gas is continuing basic research on methane hydrate as an option for a future natural gas source.

Environmental Conservation

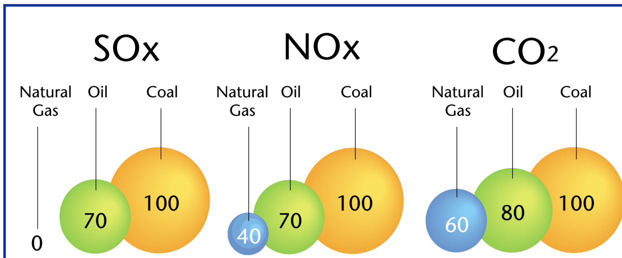
At COP3 held in Kyoto in December 1997, targets were set by industrialized countries for the reduction of greenhouse gas emissions. The Japanese government has embraced Japan's goal of a 6% average cut in emissions between 2008 and 2012, compared with 1990 levels. Natural gas—one of the cleanest burning of all fossil fuels—is seen in many quarters as an important energy source for achieving this. As part of its ongoing environmental stewardship and to show leadership in environmental management, Tokyo Gas formulated a new environmental policy in June 2000. Our basic aim is continuous reduction of the environmental impact of energy use by our customers as well as by our own business activities.

ISO Certification

Obtaining ISO certification has been positioned as a high management priority. In 1997, both the Negishi and Sodegaura LNG terminals obtained ISO 14001 certification; and in 2000, the Ohgishima LNG Terminal obtained the same certification. Also in 2000, the Shinjuku District Heating and Cooling Center became the first supplier of heat in Japan to attain ISO 14001 certification.

Recycling Initiatives

Recycling and decreasing waste volumes are other ways we reduce the environmental impact of our activities. SRIMS (Saving



Source: IEA, *Natural gas prospects to 2010*, 1986.

The Unique Strengths of Natural Gas

Natural gas is a clean energy resource. Compared with oil and coal, natural gas, when burned, produces less carbon dioxide (CO_2) and nitrous oxide (NOx) emissions, both of which are major factors in global warming and acid rain. Furthermore, it produces no sulfur oxides (SOx) whatsoever.

Tokyo Gas Group Environmental Policy (Formulated in June 2000)

Philosophy

The Tokyo Gas Group will promote the harmonious use of energy to contribute to the preservation of regional and global environments as well as to the sustainable development of society.

Policies

Reduce the environmental impact of customers' energy use

Tokyo Gas will actively and on an ongoing basis attempt to reduce the environmental impact of customers' energy use. We will do this by promoting the use of environmentally friendly natural gas and providing highly efficient products and systems with minimal environmental impact.

Reduce the total environmental impact of Tokyo Gas' business activities

Tokyo Gas will continuously reduce per unit energy and resource use in its business activities through the development of increasingly efficient and effective environmental management activities to contribute to the realization of a sustainable society. At the same time, Tokyo Gas will reduce overall environmental impact by aggressively promoting "green" purchasing and the reduction, reuse and recycling of industrial waste.

Strengthen environmental partnerships with local areas and the international community

Tokyo Gas will strengthen its environmental partnerships with both the local areas in which it operates and the international community by engaging in a wide variety of activities. These activities will range from participation in regional environmental activities to international sharing of technological developments, starting with strategies to prevent global warming.

Promote environment-related technology R&D

Tokyo Gas will proactively research and develop environmental technologies, including renewable energy, to preserve regional and global environments.

Overview of Tokyo Gas Environmental Accounting

Investments and Expenses for Environmental Preservation by Tokyo Gas

Tokyo Gas Operation
- Pollution prevention
- Global environmental preservation
- Resource recycling
- Environmental management
- Other measures

Customer Utilization
- Environmental R&D
- Recycling of used gas appliances

Contributions to Society

Environmental Preservation Benefits
- Reduction in substances with environmental impact (emissions in relevant units)
- Reduction of waste
- (Reference) Reduction of substances with an environmental impact at customers' level

Actual Economic Benefits
- Cost savings
- Profits on sale of items of value derived from ordinary business activities

Tokyo Gas has compiled parent-company environmental accounting results for the year ended March 31, 2001, as it did in the previous fiscal year. The figures show that the parent company invested approximately ¥1.1 billion and incurred expenses of roughly ¥4.6 billion for environmental preservation. There are two central features of Tokyo Gas' environmental accounting. One is the extremely low environmental impact of gas production, supply and other activities due to the completion of a switch to natural gas. The other is an emphasis on research into methods to reduce the environmental impact of gas utilization by customers, mainly through the development of highly efficient gas appliances and systems such as micro cogeneration systems. More detailed information concerning Tokyo Gas' environmental accounting is contained in our Environmental Report 2001.

and Recycling Innovative Model System) is at the heart of these efforts. This system facilitates the efficient collection, separation, management and disposal of used gas equipment, pipes and other industrial waste. In a similar vein, we are radically reducing the amount of earth removed from pipeline construction sites.

Countermeasures Against Soil Contamination at Sites of Former Gas Manufacturing Plants

Since fiscal 1999, Tokyo Gas has, in accordance with guidelines stipulated by Japan's Ministry of the Environment, been continuously carrying out voluntary site inspections and surveys of company-owned land, namely sites of former gas manufacturing plants, where there is a possibility of soil contamination. Where it is clear that there is soil contamination, Tokyo Gas has promptly made a full report to the relevant authorities and undertaken whatever measures were necessary.

Development and Application of Technologies to Reduce Environmental Impact

Tokyo Gas feels that it has the responsibility to further reduce the environmental impact of natural gas. That's why we are developing new ways to increase energy efficiency. Gas cogeneration systems and gas-fired air conditioning are just a few of the many technologies that are being widely adopted.

In the fuel cell field, Tokyo Gas is developing an on-site generation system that boasts high generation and energy efficiency and emits almost no atmospheric pollutants. High hopes are held for the use of fuel cells in future residential cogeneration systems.

Natural gas vehicles (NGVs) are also playing an integral role in reducing environmental impact. The Japanese government has set a target of having 1 million NGVs on Japan's roads by 2010. In addition, with an eye on the future, we are also seeking new, environmentally friendly forms of energy, such as methane hydrate.

International Efforts to Improve the Environment

In fiscal 2000, Tokyo Gas was commissioned by the Japan External Trade Organization (JETRO) to conduct feasibility studies in two cities overseas. In Beijing, China, Tokyo Gas studied the feasibility of establishing a high-efficiency, large-scale CHP system, as well as importing LNG. In Tehran, Iran, Tokyo Gas conducted a study on converting city buses to run on CNG.

Safety

Since commencing operations in 1885, we have been steadfast in our commitment to safety. We believe that safety is an important element in increasing the convenience of gas and in winning over customers. Safety is not an issue that one can take for granted, especially in Japan, where earthquakes are common. Consequently, we are striving to raise safety levels even further.

A Total Commitment to Safety

Most gas-related accidents occur not during production or supply, but when gas is being used—often as the result of carelessness. To lower the accident rate to zero, we have implemented a multi-faceted approach. First, we are developing technologies such as Micon Meters. These are safety systems comprising gas meters with embedded microcomputers. Micon Meters enable 24-hour monitoring of gas use and can automatically shut off gas when they detect leaks, earthquakes or irregularities in use. Tokyo Gas is also educating customers about the correct use of gas and carrying out regular inspections. Moreover, an emergency response system to prevent accidents has been set up.

Intelligent Service System

We also have an intelligent service system that links customers' gas meters with Tokyo Gas' monitoring station by telephone lines to monitor gas usage. The system is triggered when sensors detect irregularities, sending a message to Station 24, a 24-hour control center. This network facilitates 24-hour monitoring of gas use.

Gaslight 24—Responding to the Unexpected

Gaslight 24 is a 24-hour emergency response system capable of responding to gas leaks and other situations affecting main gas pipelines and service pipes as well as customers' gas equipment. Using EAGLE24, a mobile computer-based emergency operations support system, emergency vehicles and personnel can be mobilized quickly and accurately in accordance with the type and scale of the problem, as well as other circumstances.

Three-Stage Earthquake Safety System

Tokyo Gas has a three-stage safety system to ensure stable supply in the event of an earthquake. The first stage is prevention to minimize damage. Our production and supply facilities are designed to the latest earthquake-proofing standards. The second stage is our emergency response. The aim here is to prevent secondary damage such as fires and explosions. Finally, we are prepared to move quickly to restore service should it be interrupted and to continue supply to areas largely unaffected. To take our system up to the next level, we will install 3,700 state-of-the-art seismic intensity sensors at locations throughout our roughly 3,100km^2 service area. These sensors will be monitored by SUPREME, the world's most advanced disaster prevention system.

Left
Center for Supply Control and Disaster Management

Right
This compact, sophisticated sensor not only features a highly reliable shut-off mechanism, but also is capable of measuring seismic intensity and rate of acceleration and boasts the world's first liquefaction sensor.

Corporate Citizenship

Tokyo Gas touches the lives of just about everyone living in the greater Tokyo area on a daily basis. Our growth is dependent on deepening this symbiotic relationship with our customers. Based on this fact, we are taking an active—and visible—role in the communities we serve.

Our disparate activities fall into three categories: environmental protection, philanthropic, and cultural and sports. Programs are deeply rooted in our service areas. Activities range from tree planting, recycling programs and seminars that raise environmental awareness to sponsorship of soccer clinics. In this section, some of the major activities undertaken during the year under review are profiled.

Earth Vision Film Festival

Tokyo Gas has been a special sponsor of the Earth Vision Film Festival since 1992. The event raises environmental awareness through films. Submissions are solicited in Japan, Asia and Oceania. The best films are selected for public showing at the festival. The 9th Earth Vision Film Festival was held over three days in Tokyo in March 2001 and was attended by nearly 2,000 people.

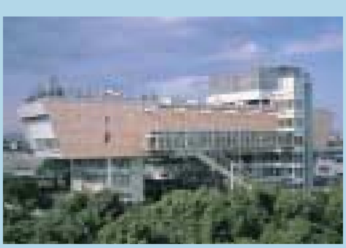
Leave System Encourages Volunteerism

To encourage volunteerism, we have a Volunteer Leave System. Employees are given up to 5 days a year of paid leave to participate in volunteer activities. In the year ended March 31, 2001, 44 employees took advantage of the system.

Promoting Tokyo's First Professional Soccer Team

In November 1999, FC Tokyo, Tokyo's first J League professional soccer team, gained promotion to Japan's "premiership" league. Tokyo Gas is one of the team's main sponsors. FC Tokyo was established in 1998 as the successor to the Tokyo Gas Football Club. Indeed, Tokyo Gas' involvement in supporting soccer in the Tokyo area dates back a number of years. By supporting FC Tokyo and running soccer clinics, Tokyo Gas will continue to encourage regional sports.

© FC Tokyo



Left Above
The FC Tokyo eleven

Left Below
The Earth & Energy Exploratorium was opened in 1998 to promote greater understanding of the environmental issues associated with energy use. In the year ended March 31, 2001, the exploratorium was visited by approximately 100,000 people.

Right
Poster for the 9th Earth Vision Film Festival

International Operations

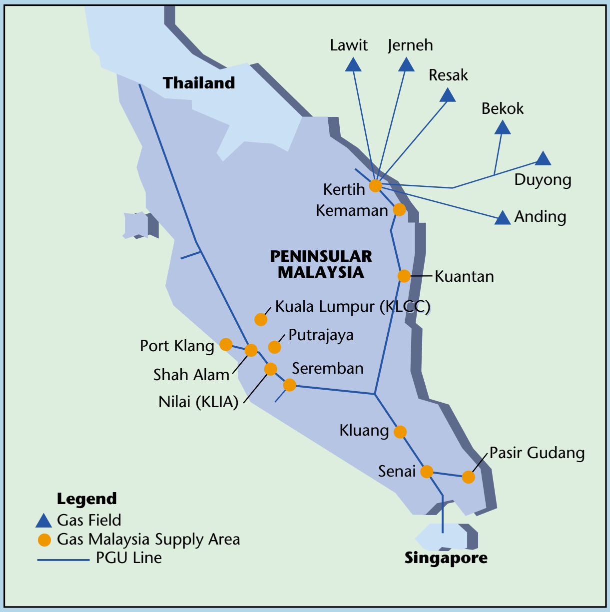
Tokyo Gas is tapping its wealth of knowledge in natural gas and the supply of gas to contribute to the development of gas infrastructures and economic growth in other countries, particularly those in Asia. Additionally, we have forged partnerships with companies similar to our own and with various institutions overseas for the purposes of technological and managerial information exchanges. Coordinating these efforts are our four representative offices in New York, Paris, Kuala Lumpur and Beijing. They are also our contact points for overseas investors.

Tokyo Gas' Overseas Activities

Tokyo Gas has a proud track record of helping other countries to build gas supply infrastructures. Recently, Tokyo Gas and its group companies have been instrumental in a number of successful projects. In Malaysia, we have been active in a natural gas distribution system project and a gas-fired cogeneration district cooling project—both firsts in that country. The former was conducted through a joint venture company, Gas Malaysia Sdn. Bhd., with Petronas, Malaysia's state-owned oil company, and other local partners. Tokyo Gas won the international contract in 1991, its management and technical expertise being highly rated by the project tender committee. The project—the first full-fledged overseas project by a Japanese energy utility company—is now regarded as a model for other Asian countries hoping to build a similar infrastructure. In 1999, Gas Malaysia started paying dividends. The gas-fired cogeneration district cooling project was another joint venture with Petronas through Gas District Cooling (M) Sdn. Bhd. Thanks to this project, Malaysia's Kuala Lumpur International Airport (KLIA), which opened in June 1998, boasts the world's largest class of gas district cooling supply, based on gas absorption chillers. Kuala Lumpur City Center (KLCC), including the Petronas Twin Towers have benefited as well from the company's gas cooling technologies. Meanwhile, Tokyo Gas Engineering Co., Ltd. has been providing technical consultation, for example, for the establishment of LNG receiving facilities in Korea, Taiwan, Thailand, and Portugal. Tokyo Gas is leveraging experience and technology from its Negishi, Sodegaura and Ohgishima LNG terminals. Moving forward, Tokyo Gas intends to identify and develop business

The Petronas Twin Towers, the tallest buildings in the world, are supplied with chilled water by a gas district cooling (GDC) system.

Natural Gas Distribution System in Malaysia



TOKYO GAS' OVERSEAS REPRESENTATIVE OFFICES AND COLLABORATING PARTNERS

opportunities in which it can capitalize on extensive technological expertise built up in Japan in gas production and supply as well as fields such as gas usage technologies and IT.

Information Exchanges Lead to Better Operations

We have four representative offices overseas: New York, Paris, Kuala Lumpur and Beijing. Through these offices we are forging closer ties with energy-related companies and institutions—some we have been associated with for over 20 years—around the globe. Collaboration involves joint research and the exchange of information on managerial and technical issues, as well as staff. Drawing on this information, we are working to improve our operations, including our gas supply facilities and services. As deregulation sweeps through the Japanese energy industry, such tie-ups will take on added meaning. The offices also play a vital role in communicating information to shareholders and in gathering information from the capital markets, which is reflected in management policy.

Left
Malaysian trainees

Right
Mr. Gerald Doucet, Secretary General of the World Energy Council, on a visit to Tokyo Gas.

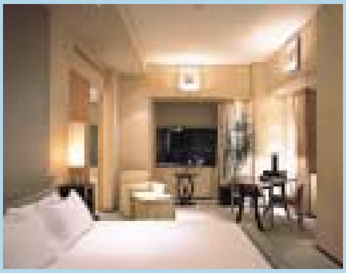
Diversification

The Tokyo Gas Group is determined to increase earnings as a diversified energy services company by carrying out core gas operations as well as operating energy-related businesses that complement and add value to those operations. Furthermore, to respond to the IT revolution and Japan's "graying" society as well as contribute to environmental protection, Tokyo Gas is actively promoting various new businesses such as urban development and information-related businesses that transcend the bounds of the energy sector. In respect of our 49 subsidiaries, we are working to raise their profitability and foster autonomy with a view to taking them public in the future. These actions are being taken in line with our Medium-Term Management Plan. This plan also calls for the streamlining of unprofitable businesses to maximize consolidated earnings.

Subsidiaries and Affiliate

Company	Equity Interest (%)	Area	Business
Tokyo Gas Energy Co., Ltd.	100	Energy sales	Sales of LPG and coke
Tokyo Gas Chemicals Co., Ltd.	100	LNG cryogenic energy	Sales of gas for industry and chemicals, LNG cryogenic energy technologies
Tokyo Oxygen and Nitrogen Co., Ltd.	54	LNG cryogenic energy	Production and wholesale of liquefied oxygen and nitrogen
Tokyo Gas Urban Development Co., Ltd.	100	Urban development	Real estate leasing, management and brokerage, etc.
Park Tower Hotel Co., Ltd.	100	Urban development	Management of Park Hyatt Tokyo
KANPAI CO., LTD.	93.2	General facility construction	Construction of gas, water and air conditioning facilities, as well as gas pipelines
Gastar Co., Ltd.	66.7	Home equipment services	Production and wholesale of gas appliances
TG Credit Service Co., Ltd.	100	Home equipment services	Leasing of gas appliances and information and communications equipment, construction loans
Chiba Gas Co., Ltd.	99.9	Gas distribution	Gas supply for Yachiyo and Narita City and surrounding areas
Tsukuba Gakuen Gas Co., Ltd.	100	Gas distribution	Gas supply for Tsukuba Science City and surrounding areas
Tokyo Gas Engineering Co., Ltd.	100	General engineering	Comprehensive engineering services with a particular focus on Gas production and supply, environmental protection and IT
TG Information Network Co., Ltd.	100	IT	System design; construction, operation and maintenance of networks; and sales of computer equipment, etc.
TG Enterprise Co., Ltd.	100	New businesses	Financial administration and building leasing for Tokyo Gas and related companies
Tokyo LNG Tanker Co., Ltd.	100	LNG transportation businesses	Ownership of LNG and LPG carriers
Gas Malaysia Sdn. Bhd.*	20	Overseas businesses	Supply of gas in Malaysia

* Equity-method affiliate



Left
A room at the Park Hyatt Tokyo, managed by Park Tower Hotel Co., Ltd. The modern interior and superb view of the Shinjuku district make a stay a truly memorable experience.

Right
This ultra-low-temperature, deep-freeze warehouse for tuna is one example of the cryogenic utilization of LNG.

Topics

Branching Out Into the Information & Communications Business

In June 2000, Tokyo Gas reached an agreement with Marubeni Corporation and Vectant, Inc., a wholly owned Marubeni subsidiary, to deliver next-generation high-speed broadband communications over the "last-mile." As part of the agreement, Tokyo Gas acquired an equity stake in MetroAccess Co., Ltd., a Type 1 telecom carrier established by Marubeni and Vectant. Drawing on and fusing their collective infrastructures, expertise and client networks, the three companies expect to derive dramatic synergies in developing infrastructure for broadband networks. Since high-capacity optical fiber cables can be laid in channels owned by Tokyo Gas for district heating and cooling conduits, cost-competitive networks will be realized. In April 2001, MetroAccess launched broadband data communications services for companies in the Shinjuku metropolitan area, Tokyo.

Energy providers in the future must be more dimensional than simply supplying energy. They must also develop innovative business models that harness information and communications technologies. From the perspective of acquiring new expertise, Tokyo Gas' entry into this business marks a first step toward formulating new strategies in the information and communications industry.

Home Reform Agency Services for Comfortable Living Environments

(http://www.homeclip.co.jp)

In April 2001, Tokyo Gas teamed up with INAX Corporation and other companies to establish HomeClip Corp., which offers online home reconstruction agency services. In recent years, there has been a groundswell of interest toward creating comfortable living environments, particularly developing barrier-free housing as Japanese society ages. There is also a need to refurbish antiquated living accommodation. The size of the home reform market is estimated at around ¥10 trillion. Consumers are demanding services that give them easy access to comprehensive information on construction firms, products, price and other areas. HomeClip operates a one-stop portal site that "clips" various information on the "home" onto the Internet. The site allows users to gather information, select construction firms and even request estimates. It plays the instrumental role of introducing consumers to reliable refurbishing companies.

HomeClip's earnings are derived from registration charges and annual fees from refurbishing companies, agency commissions, and advertising revenues. The site aims to register 10,000 firms and serve 200,000 registered members in the next 5 years.

Key Ingredient for Breakthrough Diagnostic Method

Tokyo Gas has been working on the world's first process to separate and condense ^{13}C-Methane from LNG. The first shipments were made in May 2000, following completion of a plant to produce ^{13}C-Methane for commercial use using this technology. The ^{13}C-Methane is being processed into $^{13}CO_2$ by Tokyo Gas Chemicals and sold to Otsuka Pharmaceutical Co., Ltd. for use in a breakthrough drug that we developed with them. The drug diagnoses the existence of Helicobacter pylori, a common cause of gastritis and gastric ulcers, and makes for more patient-friendly diagnosis of these ailments. The drug was awarded the Japanese Prime Minister's Award of the Japan Industrial Technology Grand Prize in fiscal 2000. This drug is currently marketed in Japan, the Republic of Korea, Taiwan, Australia and Spain, and Otsuka Pharmaceutical has obtained sales licenses for at least 10 other countries.

Looking ahead, Tokyo Gas intends to develop diagnostic drug applications using ^{13}C-Methane to detect, for example, diabetes and pancreatic disease. By aggressively promoting ^{13}C-Methane in the pharmaceutical raw materials field, Tokyo Gas will develop new value-added businesses for LNG.

Norio Ichino
Senior Managing Director

Yasuyuki Yamaguchi
Executive Vice President

Soichiro Akimoto
Senior Managing Director

Toshiyuki Takasuna
Senior Managing Director

Haruno Ito
Executive Vice President

Fumio Ohori
Senior Managing Director

Kunio Anzai
Chairman

Hideharu Uehara
President

Managing Directors
Norihiro Takuma
Tohru Itoh
Hideo Nishiwaki
Shouzou Ohno
Kouya Kobayashi
Masahiro Ishiguro
Mitsunori Torihara
Shigero Kusano
Minoru Yokouchi

Directors
Yoshihito Imura
Hiroshi Urano
Takeo Kuno
Takeo Ishikawa
Tadashi Sakurai
Tadashi Zemba
Tadaaki Maeda
Ieaki Uemura
Takashi Kunitomi
Tsunenori Tokumoto
Tokio Imazawa

Corporate Auditors
Akira Ogawa
Shigeru Ogasawara
Kenshiro Koto
Shoh Nasu
Masayuki Sato

(As of June 28, 2001)

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.

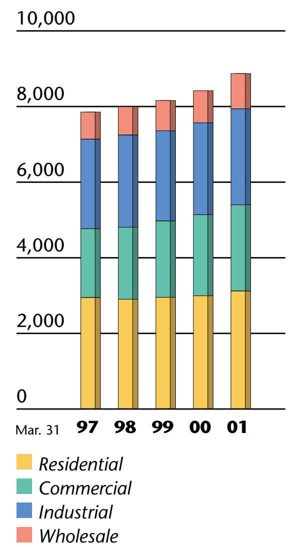
Income Before Income Taxes and Income Taxes

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

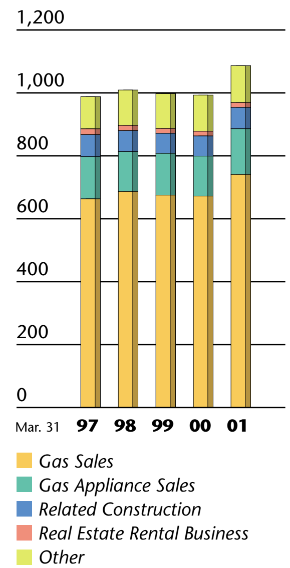
Net income rose 3.4% to ¥27.5 billion due to the above factors as well as a tax adjustment resulting from the adoption of tax-effect accounting. Basic net income per share accordingly increased to ¥9.82 and diluted net income per share rose to ¥9.13. ROE for fiscal 2000 was 5.3%.

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.

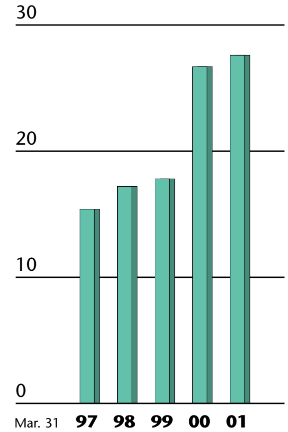
Fixed Assets

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.

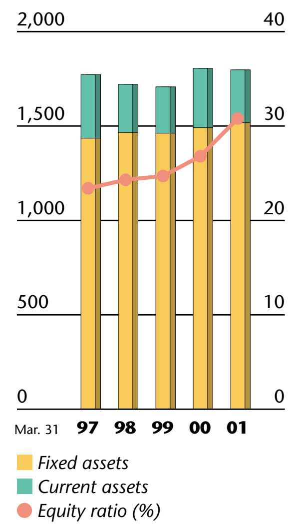
Current Assets

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

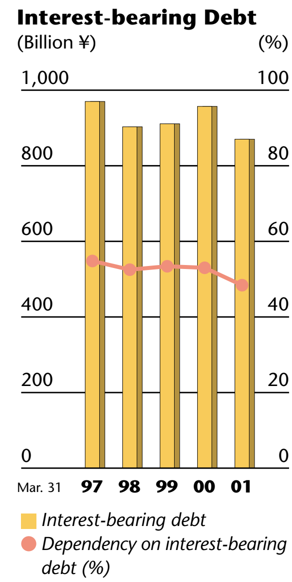
Current liabilities totaled ¥366.9 billion as of March 31, 2001, up 16.6% from a year earlier. The increase reflected the transfer of debt from long-term liabilities.

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.

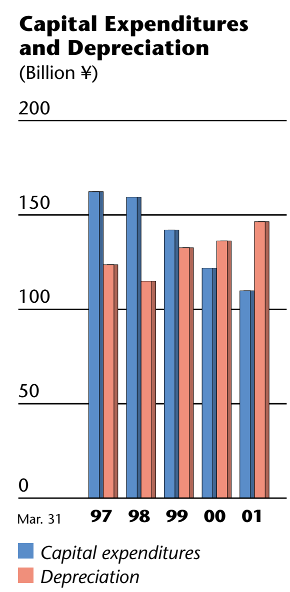
Stockholders' Equity

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.



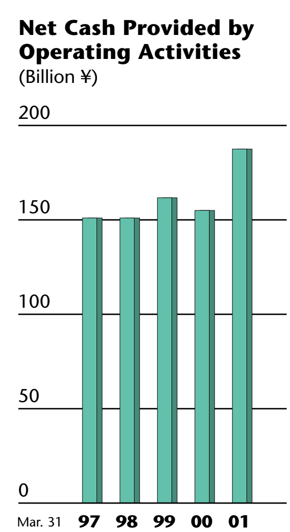
CASH FLOWS

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.



FINANCIAL POLICY

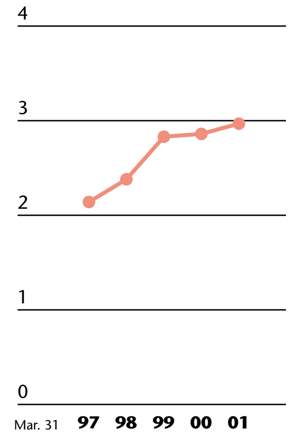
Tokyo Gas has made capital expenditures in excess of the total of net income and depreciation over the past 10 years to build a comprehensive production and supply infrastructure to respond to an escalation in demand for gas. As a result, interest-bearing debt increased. However, Tokyo Gas has now entered 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:

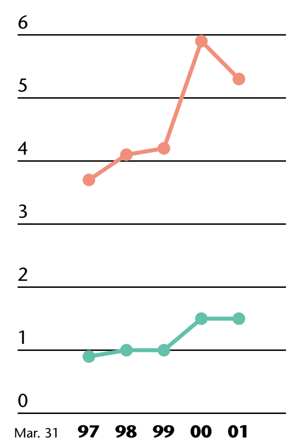
Fluctuation of ¥1 to U.S.$1	Approx. ¥1.5 billion
Fluctuation of U.S.$1 per barrel in crude oil price	Approx. ¥4.0 billion

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	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

	Number of shares of common stock (Thousands)	Millions of yen					
		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).

Report of Independent Public Accountants

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.

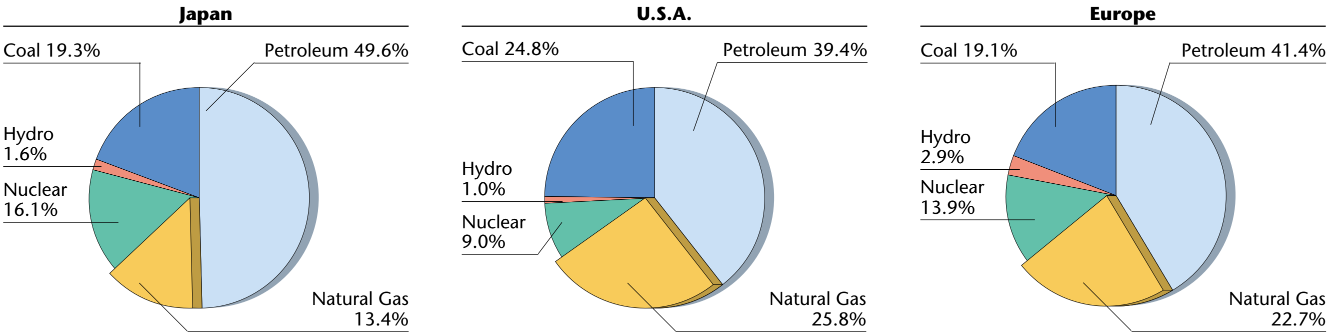
Tokyo, Japan
June 28, 2001

Asahi & Co.

Statement on Accounting Principles and Auditing Standards

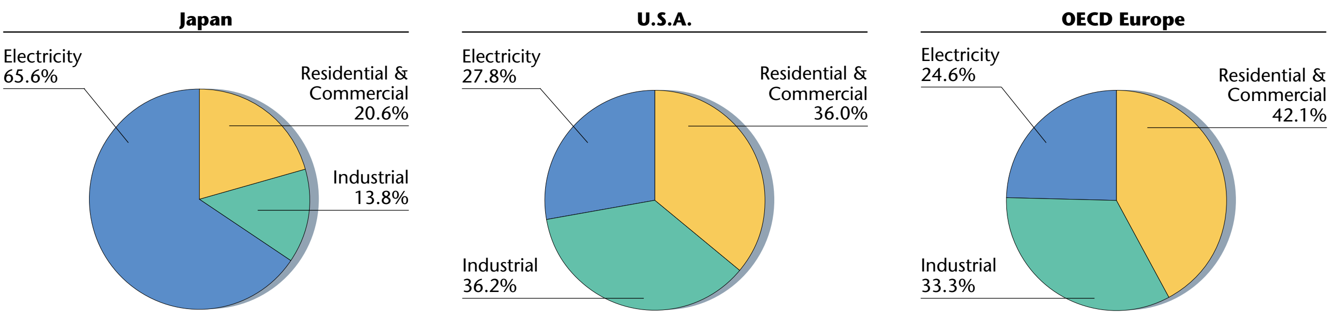
This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based 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.

Share of Natural Gas in Total Primary Energy Supply (2000)



Source: *BP Amoco Statistical Review of World Energy 2001*

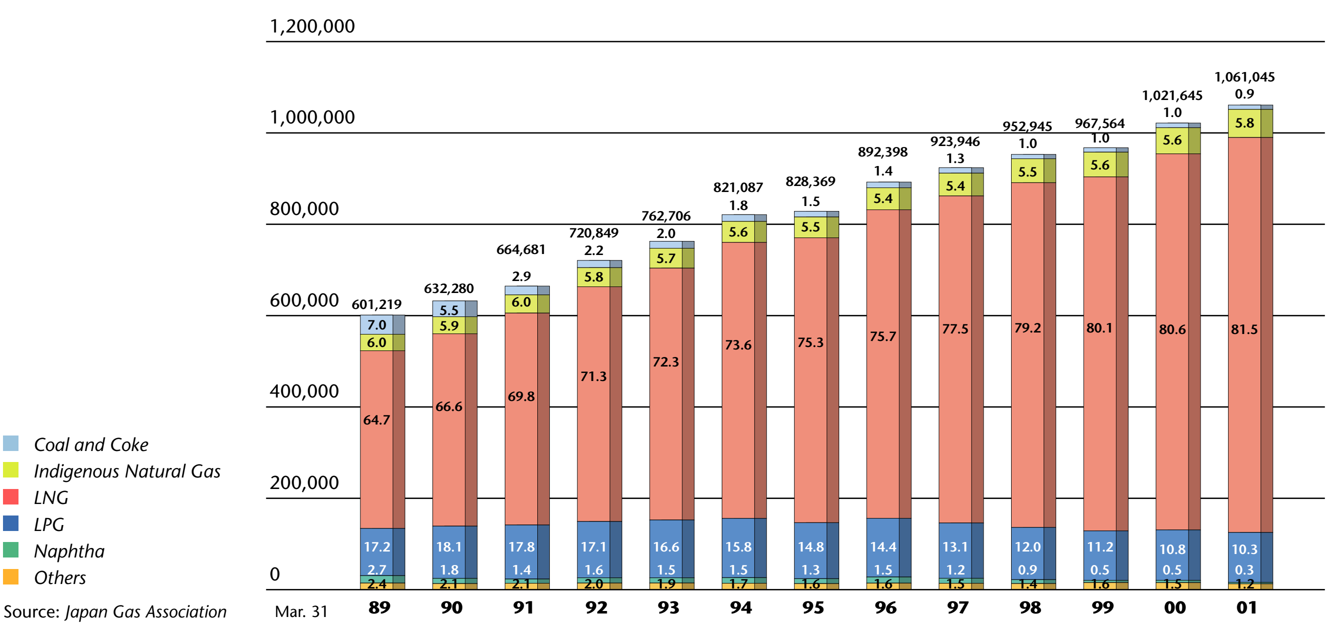
Use of Gas* by Sector (1999)



* Includes manufactured gas
Source: *IEA, Energy Balances of OECD Countries, 1998–1999*

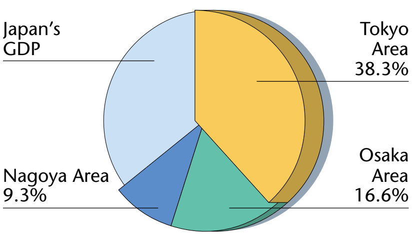
Japan's City Gas Supply by Feedstock Type

Units: million MJ
Figures in vertical bars: % of total



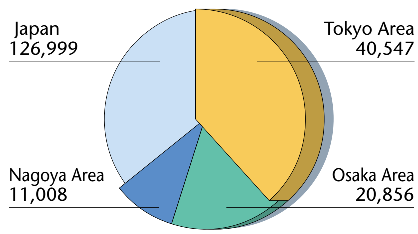
Source: *Japan Gas Association*

Share of Japan's GDP by Area
(For year ended March 31, 1999)



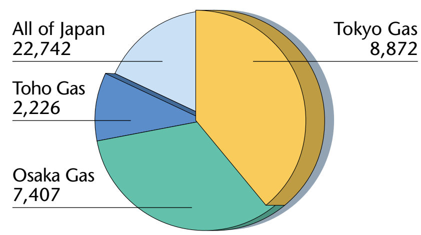
Source: *Cabinet Office*

Population of the Tokyo, Osaka, and Nagoya Areas
(As of October 1, 2000)
(in thousands)



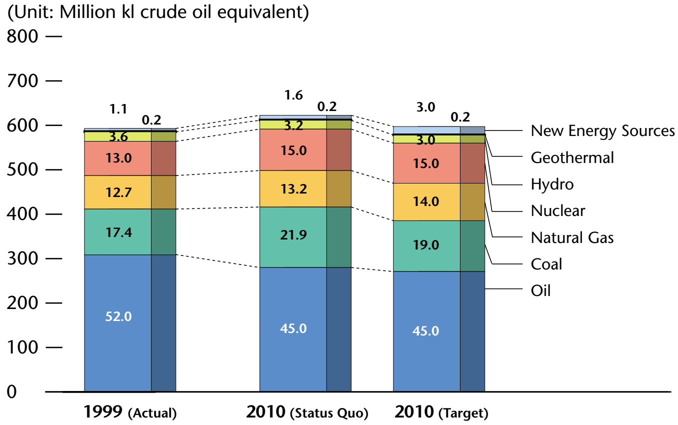
Source: *Ministry of Public Management, Home Affairs, Posts and Telecommunications*

Comparison of Tokyo Gas, Osaka Gas, and Toho Gas Sales Volumes
(For year ended March 31, 2001)
(Millions of m³, 46.047 MJ/m³)



Notes: 1. The Tokyo Area includes Tokyo, Kanagawa, Saitama, Chiba, Ibaraki, Tochigi, Gunma, Yamanashi and Nagano prefectures.
The Osaka Area includes Osaka, Hyogo, Kyoto, Shiga, Nara and Wakayama prefectures.
The Nagoya Area includes Aichi, Gifu and Mie prefectures.
2. The GDP for each of the above areas is the sum of the GDP of the prefectures listed.

METI's Long-term Energy Supply Outlook for Japan (2001)
(Unit: Million kl crude oil equivalent)

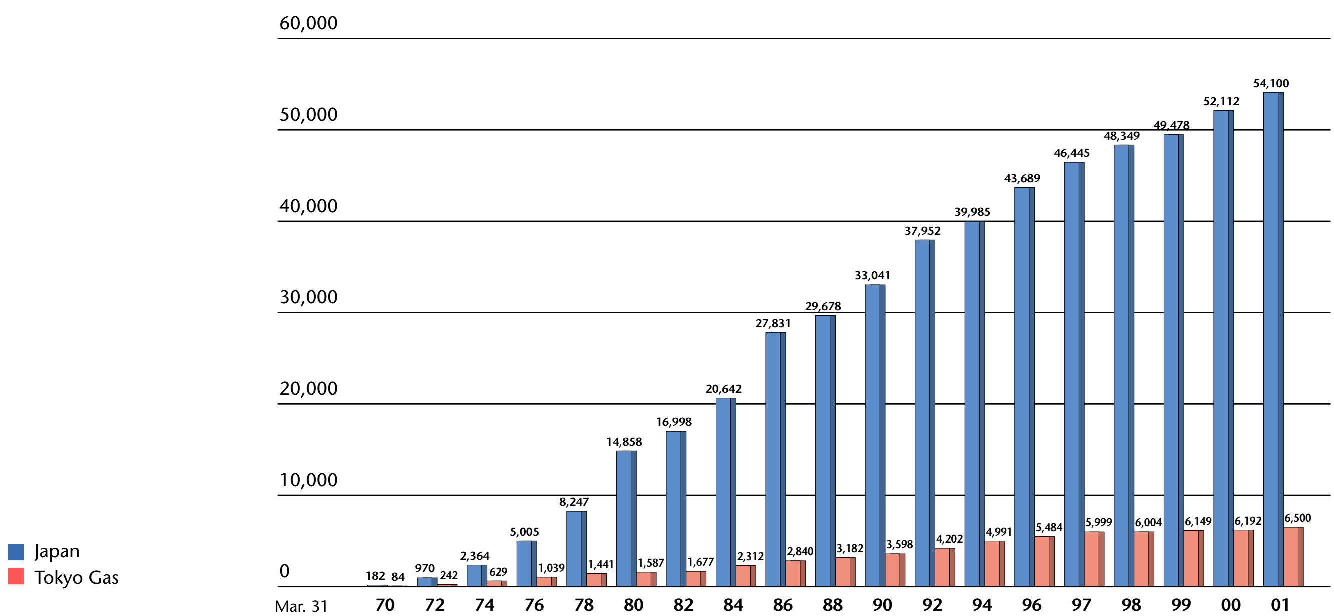


	1999 (Actual)	2010 (Status Quo)	2010 (Target)
Primary Energy Supply	593	622	602
New Energy Sources	7	10	20
Geothermal	1	1	1
Hydro	21	20	20
Nuclear	77	93	93
Natural Gas	75	82	83
Coal	103	136	114
Oil	308	280	271

Source: *Advisory Committee for Natural Resources and Energy Coordination Subcommittee / Energy Supply and Demand Subcommittee*

Status Quo: Current energy policy framework.
Target: The composition of energy sources that will contribute to reduced CO_2 emissions if energy conservation measures are taken and new energy sources developed.

Imports of LNG: Japan and Tokyo Gas
(Units: thousands of tons)



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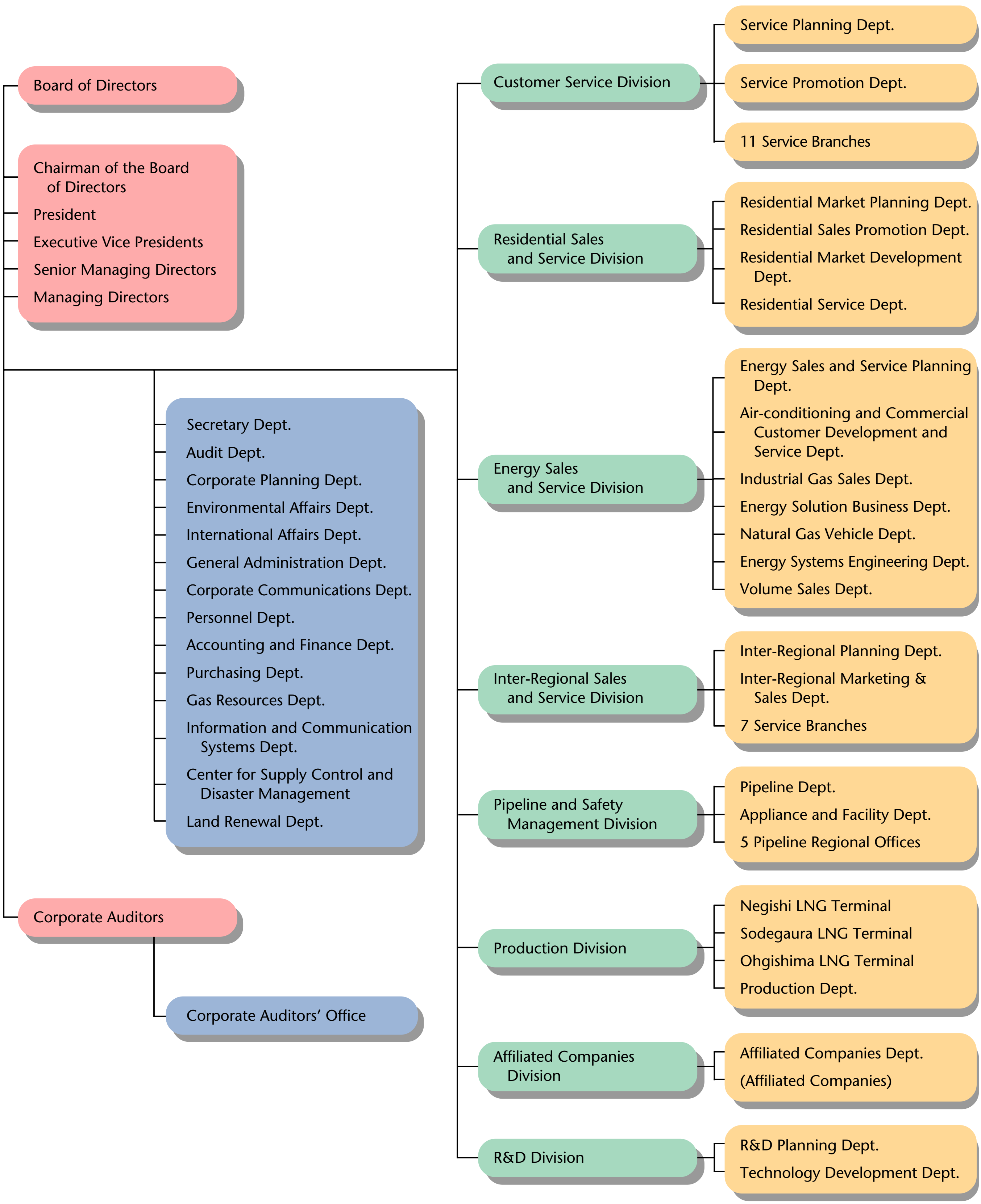
Organization



(As of June 28, 2001)

Corporate Information

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Asia Pacific Regional Office

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Beijing Representative Office

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No. 5 DongSanHuanBei-Lu, Chao Yang-Qu
Beijing 100004, People's Republic of China
Tel: +86-10-6590-8450/8451 Fax: +86-10-6590-8452

Investor Information

Date of Establishment
October 1, 1885

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

Issued Number of Shares (as of March 31, 2001)
2,810,012,006 shares

Number of Stockholders (as of March 31, 2001)
202,328

Cash Dividends Applicable to the Year
¥6.00

Securities Traded
Common stock: Tokyo, Osaka and Nagoya stock exchanges

Independent Auditors
Asahi & Co. (A Member Firm of Andersen Worldwide SC)

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

Publications
The following English-language publications are available:

- Annual Report 1999
- Annual Report 2000
- TG Minutes (Quarterly Newsletter)
- Environmental Report 2001

Internet Address
http://www.tokyo-gas.co.jp/index_e.html

Further Information
For further information and additional copies of this report and other publications, please contact:

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Units
1 metric ton = 2,204.62 lb.
1 kilocalorie (kcal) = 4.187 kJ = 3.968 Btu
1 megajoule (MJ) = 239 kcal = 948 Btu
1 British thermal unit (Btu) = 0.252 kcal = 1.055 kJ
1 kilowatt-hour (kWh) = 860 kcal = 3.6 MJ = 3,412 Btu

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