The Ins and Outs of Growth

TOKYO GAS CO., LTD.
ANNUAL REPORT 2002
For the year ended March 31, 2002

TOKYO 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
	2002	2001	2000	**2002**
For the Year:				
Net sales	**¥1,097,589**	¥1,086,771	¥ 992,255	**$ 8,252,549**
Operating income	**110,608**	103,659	69,233	**831,639**
Net income	**51,912**	27,595	26,698	**390,313**
Depreciation	**141,646**	146,420	136,214	**1,065,009**
Capital expenditures	**104,291**	109,899	121,806	**784,141**
Amounts per share of common stock (Yen and U.S. dollars):				
Net income (Basic)	**18.47**	9.82	9.50	**0.14**
Net income (Diluted)	**16.66**	9.13	8.84	**0.13**
Net income and depreciation	**68.9**	61.9	58.0	**0.52**
At Year-End:				
Total assets	**¥1,702,713**	¥1,797,669	¥1,805,086	**$12,802,350**
Long-term debt due after one year	**680,887**	708,329	843,634	**5,119,453**
Total stockholders' equity	**564,078**	552,790	484,239	**4,241,185**
Ratios:				
Net income/Net sales	**4.7%**	2.5%	2.7%	
ROE	**9.3%**	5.3%	5.9%	
ROA	**3.0%**	1.5%	1.5%	
Equity ratio	**33.1%**	30.8%	26.8%	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥133=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2002.

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Forward-Looking Statements

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

To Our Shareholders

Left: Kunio Anzai
Chairman

Right: Hideharu Uehara
President

Confronting Growing Liberalization

Since its establishment in 1885, Tokyo Gas has been supplying gas, mainly to the greater Tokyo marketplace. Today, we are Japan's largest, and one of the world's leading, gas companies. In the fiscal year ended March 31, 2002, we sold more than 9.2 billion m^3 of gas to over 9 million customers. We have also been at the forefront of efforts to encourage the use of natural gas and in 1969, we were the first Japanese company to import LNG (Liquefied Natural Gas), a relatively environmentally friendly energy resource. The government's Long-term Energy Demand and Supply Outlook for Japan projects that natural gas will account for an increasing proportion of the country's primary energy supply. Together, these trends suggest a greater role for Tokyo Gas in promoting the increasing use of natural gas.

That said, competition has been growing stiffer in the energy sector in recent years, fueled by deregulation and the foray of gas and electricity companies into each other's domains. Heated debate is raging at the government's study group, consisting of businesses and other entities in the gas and electricity industries, as well as experts and consumer groups, about the direction further deregulation should take. A road map should be drawn up by the end of this year.

In 1999, when last deregulation took place in the gas industry, we announced a 5-year medium-term plan covering the period from April 1, 2000 through March 31, 2005 to ensure that we remain a winner and to drive growth. We set free cash flow and ROA targets averaged over five years. By the end of March 31, 2003, we expect to achieve our goals two years ahead of schedule thanks to efforts to expand sales volumes and improve efficiency in our operations.

This has prompted us to announce a new Tokyo Gas Group medium-term plan this fall for the period from April 1, 2003 through March 31, 2008. This plan is premised on the expected effects that further deregulation and liberalization will have on our operations.

The new plan aims to generate free cash flows in excess of those targeted under the current plan. At the same time, our plans call for restructuring of the Tokyo Gas Group through the integration of member companies and withdrawal from non-core, peripheral businesses, as well as the rebuilding of business models. These actions target an increase in the corporate value of the Group as a whole.

Tokyo Gas welcomes deregulation, viewing it as an enormous business opportunity. We aim to grow and evolve as an "Energy Frontier Company," supplying electricity, heat and energy services as well as gas, with natural gas as the core energy source. As we do so, we ask for the continued support and understanding of shareholders and other investors.

July 2002

Kunio Anzai
Chairman

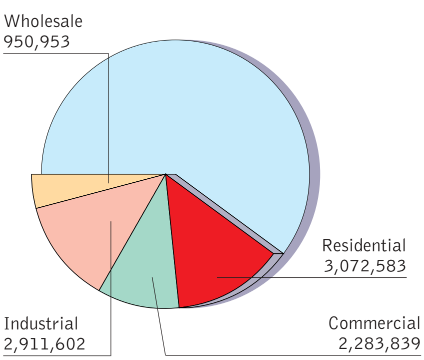
Hideharu Uehara
President

Our Position in the Market

Tokyo Gas is Japan's largest gas company both in terms of the number of customers—roughly 9 million in total—and gas sales volume—more than 9.2 billion m³ of gas was sold in the fiscal year ended March 2002. Our service area covers approximately 3,100 square kilometers in Tokyo and neighboring prefectures. We serve 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 40% of Japan's GDP. Gas demand is expected to increase steadily in this enormous and economically diverse service area.

Gas Sales Volume in Japan and Tokyo Gas by Sector

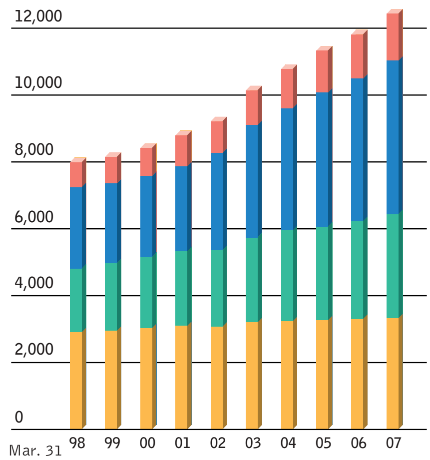
(Year ended March 31, 2002)
Unit: thousands of m³ (46.05 MJ/m³)



Japan 23,095,822
Tokyo Gas 9,218,978

Growth in Tokyo Gas Gas Sales Volume by Sector

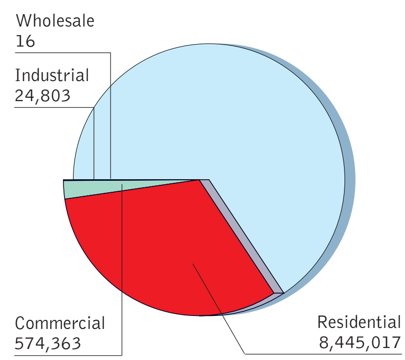
Unit: million m³ (46.05 MJ/m³)



Residential Commercial Industrial
Wholesale

Number of Gas Customers in Japan and Tokyo Gas Customers

(As of March 31, 2002)



Japan 26,368,883
Tokyo Gas 9,044,199

* The above three graphs represent non-consolidated data.

Note: 2003~2007 are projected figures.

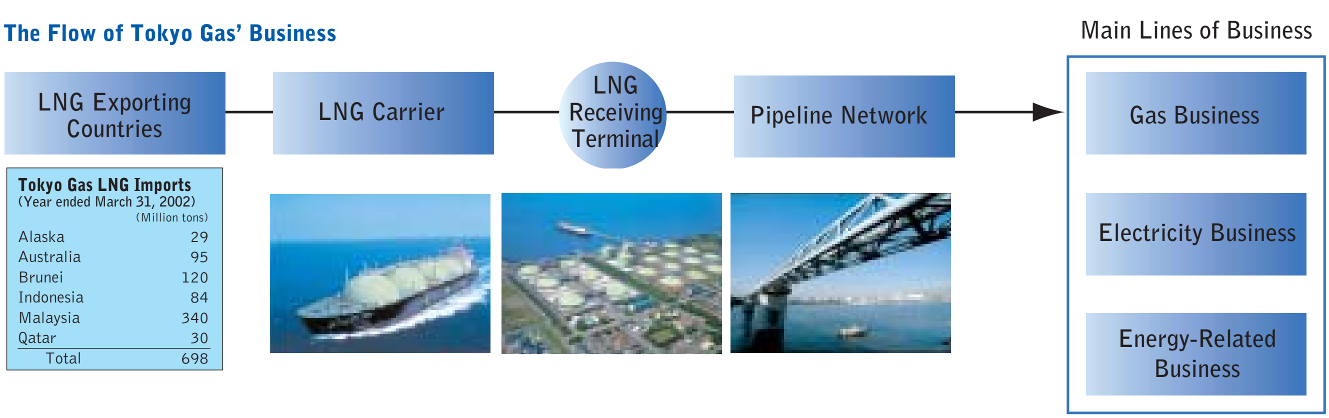
Tokyo Gas' Role in the Market

Ensuring a stable, secure, continuous and diversified energy supply centered on natural gas is our main corporate mission. Tokyo Gas will continue to supply competitively priced natural gas in response to diversifying market needs.

Today, with the importance of clean-burning natural gas increasing amid heightening interest in environmental issues, Tokyo Gas' role is growing all the time. Prospects are bright. Average growth in gas demand of 5.9% per annum is forecast in our service area through the fiscal year ending March 2007. This exceeds 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 evolve as a total energy provider, supplying heat and electricity as well as gas, and value-added energy-related services.

The Flow of Tokyo Gas' Business



Tokyo Gas LNG Imports
(Year ended March 31, 2002)

	(Million tons)
Alaska	29
Australia	95
Brunei	120
Indonesia	84
Malaysia	340
Qatar	30
Total	698

The Nature of the Gas Business in Japan

Japan has around 230 city gas companies, with the three largest accounting for roughly 80% of total gas sales volume. In addition to the small- and medium-sized gas companies, there are roughly 1,800 specific area gas suppliers and approximately 30,000 LPG companies, most of whom are also comparatively small. The industry is thus divided into two clear camps—the three large operators and all the others.

Approximately 90% of the city gas consumed in Japan is made from natural gas, most of which is imported in the form of LNG. Presently, only a few companies receive LNG and produce gas. Gas companies own pipelines as well as supply and sell gas within their own respective service areas. It is also noteworthy to mention that a nationwide pipeline network does not presently exist in Japan.

Tokyo Gas' Service Area and Pipeline Network

An Interview with the President

Operating Environment and Results

In the fiscal year ended March 31, 2002, growing concerns about deflation made for difficult economic conditions in Japan. Nevertheless, the Tokyo Gas Group concentrated on expanding gas demand, aided by the high hopes that are harbored for environmentally friendly natural gas. Concurrently, we worked to curb expenses by stepping up our efficiency drive. These efforts yielded top- and bottom-line increases for the second straight year. Consolidated net sales edged up 1.0% to ¥1,097.5 billion, operating income rose 6.7% to ¥110.6 billion, and net income soared 88.1% to ¥51.9 billion. The large increase in the bottom line reflected such factors as the absence of the ¥21.7 billion charge for unfunded obligations arising from an amendment of accounting standards for retirement benefits recorded in the previous fiscal year, and ¥3.4 billion in capital gains on sale of investment securities.

Q: What makes the gas and energy business an attractive investment?

A: In a word, natural gas. Natural gas is the most environmentally friendly of all fossil fuels. What's more, unlike oil, it can be found throughout the world. For Japan, which lacks its own substantial natural energy reserves, this makes natural gas an extremely important source of energy. Natural gas offers a source of energy security and an environmentally sound energy solution.

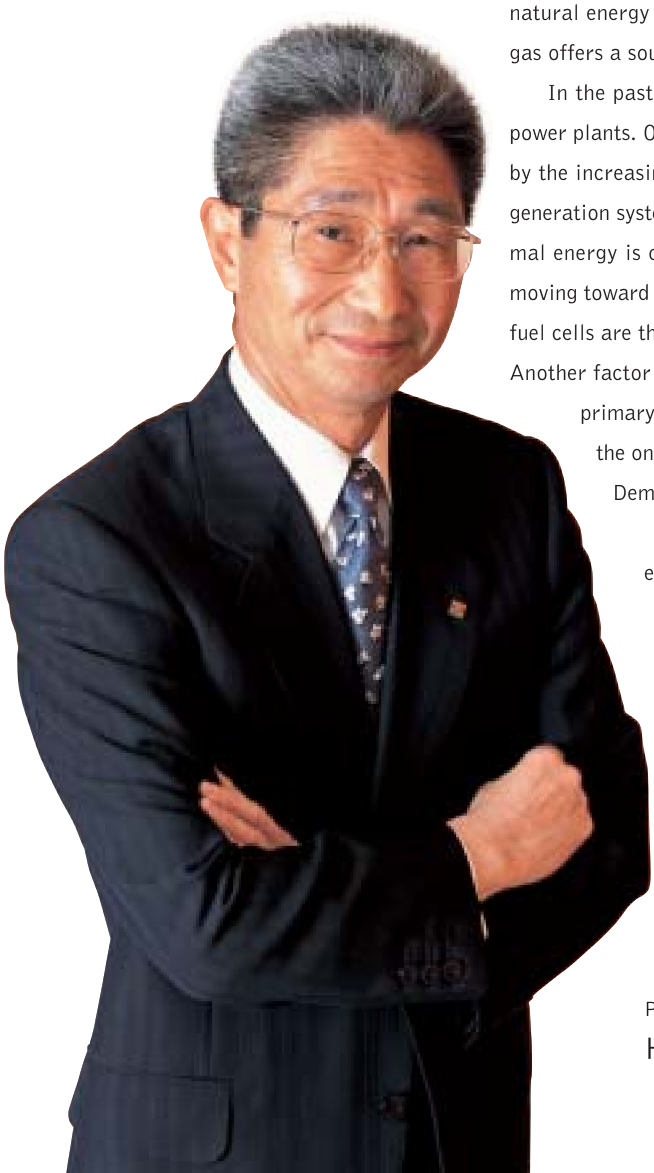
In the past, natural gas was used only for traditional consumption and as fuel at large-scale power plants. Over the last decade, however, demand from other sources has grown rapidly, spurred by the increasing use of natural gas for environmentally and economically superior on-site power generation systems—cogeneration—where electricity is generated at the same time as emitted thermal energy is captured for heating instead of being wasted. Higher demand is expected. We are moving toward the era of on-site power generation. Micro turbine cogeneration and small residential fuel cells are the main applications expected to drive this growth.

Another factor pointing to a strong future is the relatively low share of natural gas among Japan's primary energy supplies, only approximately half that of the U.S. and Europe. Natural gas is the only fossil fuel projected to see growth in the Japanese government's Long-term Energy Demand and Supply Outlook.

Supported by these trends, the natural gas business is expected to see steady expansion.

Q: Your business handles high-growth natural gas, yet you place priority on raising asset productivity as you use ROA and reductions in interest-bearing debt as management indicators. Isn't there a contradiction here?

A: Because our business requires considerable investment in facilities, we emphasize raising asset returns to make ourselves more competitive. That's why we are working to reduce total assets, and above all, interest-bearing debt. These efforts are designed to maintain and enhance our ability to



President
Hideharu Uehara

compete on the basis of price against the new players that we expect to enter our market. Our market is attractive in terms of its potential, making more intense competition inevitable. In November 1999, when we announced our medium-term plan, we set the goal of reducing interest-bearing debt, at the parent company, to no more than ¥610 billion by the end of March 2005. By March 31, 2002, we had already achieved that, three years ahead of schedule.

The strong balance sheet we have molded is a powerful competitive edge. It will underpin our future actions. We are still forecasting high annual growth of around 6% in gas sales volumes, mainly from cogeneration and the electricity business, over the next 5 years, despite the economic sluggishness in Japan. However, the expansion of gas sales isn't our only focus. We intend to strategically channel free cash flows into new businesses built on natural gas as we move onto an offensive footing to accelerate growth.

Tokyo Gas is a company with considerable potential, both in terms of sales and earnings.

Q: What is Tokyo Gas' view on the debate about deregulation in the electricity and gas industries and how do you see it developing?

A: There is considerable debate in Japan about further liberalizing the electricity and gas industries. The Study Group on Gas Market Reforms, a private study group formed by the Ministry of Economy, Trade and Industry, led this debate in the gas industry. The main themes under discussion are widening the deregulated field to include all customers, except residential and small-scale commercial customers, and opening access to pipelines and LNG receiving terminals. Plans call for an official government council to continue discussions based on the findings of the private study group. This type of discussion is also happening in the electricity industry. As with gas industry deregulation, wide-ranging discussions are taking place on issues such as expanding the scope of liberalization and deciding who will pay for maintenance of transmission lines.

Tokyo Gas views deregulation as a major business opportunity that can lead to more ways to increase our corporate value. Throughout our more than a century in business we have encountered competition from other forms of energy—gas lamps versus electric light, gas versus oil for heating, and gas versus LPG. Taking advantage of the initial deregulation in the electricity sector, the Tokyo Gas Group has already made moves to enter the electricity business in several ways—we are selling natural gas to other operators entering the electric power business, constructing power plants either by ourselves or through alliances, and developing an electricity retailing business.

While more deregulation signals the start of new competition, it also spells new opportunity.

Q: What are the risks stemming from deregulation? Electric utilities appear to have an advantage because of their much larger size. How do you intend to compete?

A: One is the risk accompanying deregulation. New market entrants might lure away existing demand in our service area. The high-potential nature of this area, comprising Tokyo and neighboring prefectures, makes it an extremely attractive market for new players. Competition is heating up in this market. Another risk is that we will have to reduce rates as this competition intensifies, dragging down our sales.

Tokyo Gas will limit the extent of lost business, while working to win new customers, by drawing on our competitive advantages—sophisticated engineering capabilities backed by combustion technologies, and a trusted reputation established over many years of dedication to promptly serving customer needs. To counter the risk of falling sales, we will push ahead with our efforts to make the company more efficient, lowering costs to enable Tokyo Gas to successfully compete on price against rival companies while still raising earnings.

Q: Specifically, what is your strategy for combating competition?

A: The lowering of rates by TEPCO in April 2002 has ignited fierce competition in the building air conditioning and cogeneration markets. Furthermore, deregulation in the gas business means that customers will soon be able to choose their gas supplier, thereby pitting gas company against gas company. We are working to ensure that we remain the preferred gas supplier by cutting costs to maintain and enhance our ability to compete on prices. Essentially, we want to offer customers an attractive rate structure. Another element of our strategy is offering high-value-added energy services that go beyond just supplying gas. Providing answers to customers' energy problems will make us more attractive in their eyes. Energy Advance Co., Ltd., which was set up in July of 2002, for example, will meet wide-ranging market needs, from individual buildings and plants to entire districts. In addition to supplying electricity and heat through cogeneration systems, this business unit will offer a full line of services from consulting to design, construction, operation and management, maintenance and finance to help customers conserve energy. In a nutshell, this new company will be a one-stop source of energy-conservation solutions.

Q: What progress have you made in the electricity business?

A: One of the major issues facing new entrants to the electricity business is procuring electricity supplies. Our wholly owned subsidiary, Tokyo Gas Bay Power Co., Ltd., is currently constructing a 100MW-class power plant within the site of our Sodegaura LNG Terminal. Electricity will be sold to an electricity retailer, ENNET Corporation, which we set up jointly with NTT Facilities, Inc. and Osaka Gas Co., Ltd. Alliances are also part of our strategy to advance our electricity business. These include establishing Tokyo City Power Co., Ltd. with the Tokyo Metropolitan Government and Shell Gas & Power Japan Ltd., as well as Kawasaki Natural Gas Generation Co., Ltd. with Nippon Oil Corporation.

Q: Many see your main rival in electricity and gas as TEPCO. Yet at the same time you jointly procure natural gas and cooperate in other ways with them. How should people reconcile these ties?

A: We procure natural gas through various alliances, not just with TEPCO. Alliances enhance our bargaining power, enabling us to procure gas in the most stable and least expensive way possible. This is the most economically sound method for an energy company such as ours to procure natural gas. Cooperating with TEPCO has also allowed us to finally realize our long-cherished goal of participating in an upstream project. Last year, we teamed up with TEPCO to jointly invest in the

Bayu-Undan Project off the coast of East Timor. Our collaboration with TEPCO extends to joint operation of the Sodegaura and Negishi LNG receiving terminals and a weather-risk-hedging contract for the summertime. All cooperative agreements are mutually beneficial for both TEPCO and Tokyo Gas.

Naturally, we recognize that selling energy to customers is a totally different story. There is inevitably going to be escalation in our competition with TEPCO. We plan to continue cooperating with TEPCO in areas where it is advantageous to both sides, while competing head to head in other areas. Ultimately, we feel that this approach is the best way to generate profits for Tokyo Gas shareholders.

Q: How do you intend to use the free cash flows you generate?

A: We plan to invest in new businesses, such as the large-scale investment we made in the previously mentioned Bayu-Undan Project. Specific projects will be incorporated into our new Group Medium-Term Management Plan that is scheduled to be unveiled in the autumn of this year. As suggested by the name of this new plan, the focus is on group-wide strategies. The plan clearly sets out uses of free cash flows for the purpose of maximizing the value of Tokyo Gas and its 54 Group members. Applications will include investments to reorganize business units through withdrawals, integrations and other means. Returning profits to shareholders is another use of cash flows. In the year ended March 31, 2001, we raised the dividend from ¥5 to ¥6 per share. Furthermore, share buybacks are included in the plan.

Q: Finally, what is the stance of Tokyo Gas on corporate governance?

A: As part of the Group Medium-Term Management Plan, we are considering a management strategy that aims to build a new business model. We plan to strengthen our management system to swiftly and resolutely execute the new plan. To that end, and ahead of the announcement of the new plan itself, we reduced the number of directors from 28 to 11 in June 2002 and at the same time established the post of corporate executive officer. These moves to enhance the execution of day-to-day operations were made with corporate governance in mind.

As deregulation advances and competition intensifies, our existing business model probably won't be able to keep pace with changes in the operating environment of the future. Based on this recognition, we established a system of business divisions to decisively overhaul our organization and systems. Each business unit will continue to work exhaustively to create new business models. Our business divisions, which are organized as virtual companies, prepare accounts separately from the head office and have their own missions, as well as free cash flow and ROA targets. Depending on how effective this structure is, we will explore the possibility of giving these divisions in-house company status—they would receive their own capital, pay dividends, extend loans internally, and so on—to maximize profits. These actions aim to produce the highest possible earnings from the Group's total pool of resources.

The 8 Keys to Growth

In June 2002, Tokyo Gas established 3 new divisions at the Head Office—Strategic Planning, Corporate Communications and Corporate Service—bringing the total number of business divisions to 11. This move makes possible more flexible and swifter policy-making, decision-making and business execution.

The Strategic Planning Division will formulate strategies to maximize Tokyo Gas' corporate value. The Corporate Communications Division is charged with creating plans to enhance the value of Tokyo Gas' brand through improved communications with the public. The Corporate Service Division's mission is to coordinate the provision of shared services to members of the Tokyo Gas Group.

The other eight business divisions, effectively virtual companies, are growth drivers. Each is responsible for creating its own demand to spur growth by carving out markets in new businesses. They will target not only the gas business, but also electricity, heat supply and other fields where group resources can be effectively used.

These eight keys to growth will maintain and strengthen the Tokyo Gas Group's ability to compete against other energy suppliers in an era of heightened competition in two mains ways—by cutting costs and offering improved services. Capturing demand will also be important.

Production Division

This strategic business division is responsible for the production of gas at terminals that receive LNG from overseas suppliers. Lowering the cost of producing gas is critical to competing against other energy suppliers as deregulation unfolds in Japan. Another goal is to maintain a stable, safe supply of gas at our present, world-class levels.

Essentially, the raison d'etre of the division is to "outperform the competition." Embracing market-based principles, the Production Division is lowering the cost of operating LNG receiving terminals with the aim of producing gas at a cost the competition can't match. Specific actions include extending the life of LNG facilities, paring operating expenses, and improving the efficiency of business processes and human resource allocation.

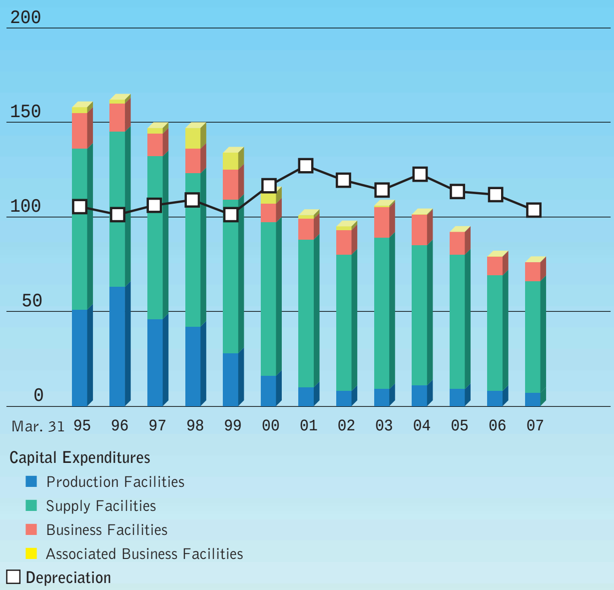
Tokyo Gas' LNG receiving terminals are a prize asset. We believe they also hold the potential to generate new sources of earnings. The Production Division is exploring ways to tap into this potential. There are many opportunities. LNG cryogenic energy technologies, electricity generation, soil purification business, technology consulting in new business domains, and selling our expertise in sophisticated technologies outside the company are examples.

The free cash flows that we generate from cutting costs and new earnings streams will be used to lower gas rates and return profits to shareholders.

The Tokyo Gas Production and Supply Framework

Tokyo Gas has three LNG terminals: the Negishi Terminal, which received Japan's first shipment of LNG; the Sodegaura Terminal, the world's largest LNG receiving terminal (pictured right); and the new, state-of-the-art Ohgishima Terminal. The three terminals are linked by a loop pipeline system, creating a powerful mutual backup structure. This gives us a highly efficient production and distribution system to provide customers with a reliable supply of gas.

Tokyo Gas' Capital Expenditures and Depreciation (billion ¥)



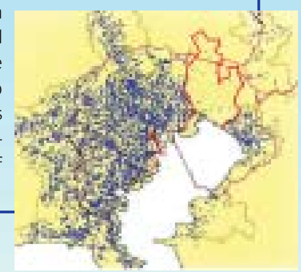
*The above graph represents non-consolidated data.
*2003~2007 are projected figures.

Creating Demand

Tokyo Gas' eight "virtual company" divisions are at the forefront of our efforts to create new demand and business opportunities.

SUPREME

In July 2001, Tokyo Gas brought the world's most advanced real-time disaster prevention system online. Known as SUPREME, the system uses approximately 3,700 of the highest-performing seismic sensors positioned throughout Tokyo Gas' service area to gather data on intensity, soil liquefaction and other parameters during an earthquake. The system is linked to automatic shut off and remote control systems enabling supply to be quickly suspended in areas where there are leaks. This dramatically mitigates the risk of secondary damage.



Pipeline and Safety Management Division

This division is responsible for the construction, operation and safety of the company's pipeline network, and plays a vital role in Tokyo Gas' operations. In the supply of gas to customers, a pipeline network that ensures stable supply and a comprehensive approach to maintaining safety standards is crucial. The Pipeline and Safety Management Division is carrying out these key missions, while restructuring itself into a pipeline business company that will ensure that Tokyo Gas remains the customers' chosen gas supplier as deregulation unfolds in Japan. Two points are key to this:

1) Continuing to make sound investments to create an optimal pipeline network and develop new demand, thereby lifting earnings through sales growth (volumes of gas sold), while maintaining safety and a stable supply—the sources of Tokyo Gas' competitiveness.
2) Conducting gas construction-related work economically, quickly and effectively, and, more than ever, putting the customer first.

Furthermore, with deregulation creating a business opportunity due to increasing demand for the third-party contract transportation of gas, Tokyo Gas sees its pipeline network as having a prominent role to play in meeting this demand. The gas transportation business harbors considerable potential for generating new cash flows.

Pipelines

Tokyo Gas has built a natural gas transportation pipeline configured in a loop encircling the greater Tokyo area that enables the constant and stable supply of gas to our customers. After its completion last year, the Saihoku Line was opened to respond to rising demand in the greater Tokyo area. Tokyo Gas will continue to expand its pipeline network to cater to a more expansive supply area.

Strengthening Competitiveness to Capture Demand

To create a resilient company that can prevail against competition, the eight divisions are reassessing all business processes and pushing ahead with cost-cutting initiatives.

Energy Sales and Service Division

This division has an extremely wide scope of operations—with natural gas as the common denominator. Activities include capturing large-volume industrial and commercial gas customers, developing district heating and cooling projects, as well as promoting natural gas vehicles and the use of natural gas for power generation. To cater to wide-ranging energy needs, the Energy Sales and Service Division is attempting to expand business operations further by proposing total energy solutions. More than just pricing based, these solutions accurately address customer needs by drawing on Tokyo Gas' sophisticated know-how, cutting-edge technologies and in-depth experience.

With no signs of an end to Japan's economic downturn apparent, many Japanese companies are desperately searching for ways to cut their energy costs. Up till now, we have offered corporate customers cogeneration as a solution. Economical and environmentally sound, cogeneration systems use gas to generate electricity and at the same time recover thermal emissions for other applications. This results in an energy efficiency of around 80%. Progress has been made in recent years in making these systems smaller. We are presently testing micro turbine cogeneration systems, since demand for small on-site power generation systems is expected to grow in the future.

Creating new business models is another goal of the Energy Sales and Service Division. One example is to provide comprehensive services including the design, construction, technical support, operation and management and maintenance of heating and electricity facilities. Other examples include services that yield cost and energy savings, and proposals that use financial techniques to mitigate the risk of price fluctuations.

We manage the financial position of the division by keeping a close watch on all their operations, from marketing and equipment sales to maintenance, thus reducing costs. This allows us to offer competitive rates that help to keep our existing customers and win new ones.

The Energy Sales and Service Division is thus working to capture new sources of demand while retaining existing customers. We are doing this by generating detailed, individualized responses to customer needs, using not only our pricing advantage but sales and technological capabilities as well.

Energy Advance Co., Ltd.—Energy Service Business

In July 2002, we established Energy Advance as a one-stop source of energy services that responds to various customer needs. In addition to electricity and heat supply services through cogeneration systems, Energy Advance will offer services extending from consulting on energy conservation to design, construction, operation and management, maintenance and finance. The market for these services is broad, from buildings and plants to entire districts.

Nijio Co., Ltd.—Natural Gas Sales

In May 2002, we teamed up with Shell Gas B.V. to establish Nijio Co., Ltd. to sell natural gas to power generation companies under long-term agreements. The joint venture will leverage both companies' considerable experience in the energy field to provide a stable supply of natural gas to Japan's growing non-utility power generation industry.

Tokyo Gas President Hideharu Uehara (left) and Shell International Gas Limited CEO Linda Cook (right) at the signing ceremony of the agreement to establish Nijio.

Electricity Business

Wholly owned subsidiary Tokyo Gas Bay Power Co., Ltd. is constructing a 100MW-class power plant at our Sodegaura LNG Terminal. The plant is slated to come online in the autumn of 2003. Meanwhile, we are using alliances to aggressively advance our electricity business. Tokyo City Power Co., Ltd., established with the Tokyo Bureau of Waterworks and Shell Gas & Power Japan Ltd., and Kawasaki Natural Gas Generation Co., Ltd., established with Nippon Oil Corporation, plan to construct 150MW-class and 400MW-class power plants, respectively.

Inter-Regional Sales and Service Division

In the past, gas suppliers have had a monopoly on supplying gas within their respective service areas. Deregulation has changed the landscape of the industry somewhat, in that gas companies are now allowed to supply large-volume customers outside of their service areas. This shift in industry dynamics prompted us to form the Inter-Regional Sales and Service Division in July 2001. This division will promote the development of demand to expand Tokyo Gas' business to a wider-ranging supply area. This business division has already achieved success in respect of its three missions: expanding wholesale activities, establishing the necessary pipeline network and growing demand, over a wider area.

As with Tokyo Gas' service area, the prefectures on the periphery of the Tokyo metropolitan area boast many large-volume users. We are laying new pipelines to these areas to capture demand. The new Tochigi Line is an example of a pipeline currently under construction. We have also completed surveys of future demand and other factors in several other areas.

Tokyo Gas supplies gas on a wholesale basis to 16 gas companies in areas surrounding its own service area. These sales account for around 10% of Tokyo Gas' gas sales volume. We expect high average annual growth of 8.2% through the fiscal year ending March 31, 2007 by expanding sales to existing wholesale customers and finding new ones. Efforts to expand demand include assisting these gas companies with activities to sell cogeneration systems.

Another theme for the Inter-Regional Sales and Service Division is promoting the conversion to city gas to customers in areas within Tokyo Gas' service area who are using LPG. In areas where conversion is problematic, our subsidiary Tokyo Gas Energy Co., Ltd. supplies LPG. Looking ahead, we will continue in this way to meet all demand. And we will work in concert with the Pipeline and Safety Management and other divisions to efficiently build pipeline infrastructures based on an accurate understanding of area needs.

The Transfer of Konosu City's Gas Business to Tokyo Gas

April 1, 2002, saw the transfer of Konosu City's gas business to Tokyo Gas under a privatization program implemented by the municipal government. Under the terms of the agreement, Tokyo Gas paid ¥1,260 million for the business. Tokyo Gas expects to recoup its investment as well as expenses for replacing pipes and upgrading other facilities, over the next several years.

Outline of the Konosu City Gas Business

No. of customers: 10,954 (As of March 31, 2001)

Gas sales volume: 5,928,000 m^3 per year (Fiscal year ended March 31, 2001; an equivalent of 46.05MJ/m^3)

Residential Sales and Service Division

Residential users account for around 90% of Tokyo Gas' roughly 9 million customers, making them the bedrock of earnings from gas sales.

In the home heating field, where competition with other forms of energy is particularly intense, our strategy has been to develop demand by expanding sales of high-comfort gas floor heating. Competition in recent years hasn't been restricted to heating. Electricity companies have been actively encouraging customers to switch to electricity by developing products such as induction heating (IH) cooking appliances and heat pump water heaters using CO_2 as a refrigerant. The Residential Sales and Service Division has countered these moves with higher profile advertising and PR to make customers more aware of the latest gas appliances, as well as with product development and sales activities for cooking and water heating equipment.

A central theme is making gas floor heating the de facto standard for new residential buildings. We are promoting the virtues of this heating system among builders of large private- and public-sector housing projects, major homebuilders, local construction companies and other residential construction firms. As a result of these efforts, gas floor heating was installed in a third of the new houses and multi-unit buildings built in the year ended March 31, 2002. Around 70% of new condominiums had this heating system installed during the same period. Ensuring that customers understand such matters as how to use and maintain this heating system will be a focus of our after-sales service.

Owners of existing homes are becoming increasingly aware of the advantages of gas floor heating as this system is installed in a greater number of residences. Seizing on the opportunities this presents, Tokyo Gas is promoting gas floor heating systems that can be easily installed when houses are renovated. Moreover, capturing heating demand in areas of the house other than the living room, such as the bathroom, is another area being investigated. We are also expanding our sales efforts for the latest gas cooking appliances to stave off competition from electrical kitchen appliance manufacturers.

Markets where earnings are growing, such as equipment sales and new business ventures, are focal points, too. With the profitability of the former having risen, boosted by more efficient distribution methods, we are eager to expand sales revenue. To lift earnings even higher, we are selling kitchen systems and other complete systems for the house, in addition to individual gas appliances. What's more, we are considering entering new businesses that capitalize on our close contact with customers, such as nursing care services for the elderly and security services.

Advanced Kitchen Appliances

To counter the threat posed by IH cooking equipment, we are making customers fully aware of the inherent advantages of gas. This is being achieved through advertising and events that raise the profile of gas, and by promoting the latest gas appliances with automatic temperature adjustment functions and other new features.

Gas Floor Heating

With demand for gas floor heating increasing year by year, Tokyo Gas is making proposals for more comfortable living to customers of both new and existing houses.

Customer Service Division

The mission of this division is to provide high-quality services at a lower cost. As competition in the energy sector heats up, it is imperative that we retain customers by offering services that are less expensive and deliver maximum satisfaction. The Service Planning Dept., Service Promotion Dept. and 11 service branches are tackling this difficult challenge, and are aiming to deliver the highest level of customer satisfaction in Japan.

We are confident that our services are already top class, but the Customer Service Division intends to raise the bar even higher. To this end, the division has introduced the JQA (Japanese Quality Award) quality assurance program. Work processes, service details, and quality are being reviewed from the customer's standpoint. With this new perspective, Tokyo Gas will make numerous changes in our operation.

Tokyo Gas established Tokyo Gas Customer Service Co., Ltd., starting to outsource periodic safety checks, and some meter reading and gas bill collection operations in some parts of Tokyo Gas' service area in July 2002. Tokyo Gas Customer Service will become fully operational by July 2003, and will be instrumental in delivering high-quality customer services at a lower cost. Tokyo Gas will continue to assume responsibility for safety, determining gas rates and bill collection, as well as maintaining service quality. Together, Tokyo Gas and Tokyo Gas Customer Service will work to enhance customer satisfaction.

In another move to enhance the quality of our services, in July of last year, we combined 12 contact center locations into two and upgraded their functions. This will better enable us to respond promptly and accurately to customer requests. We will analyze feedback from customers and effectively relay this feedback throughout the organization to improve service quality and customer satisfaction—and ultimately win new customers.

In this way, the Customer Service Division will garner satisfaction through its own services and make customer satisfaction the cornerstone of our company. Achieving a higher level of satisfaction across the whole Tokyo Gas Group will bolster our competitiveness and lead to more business opportunities.

Contact Centers

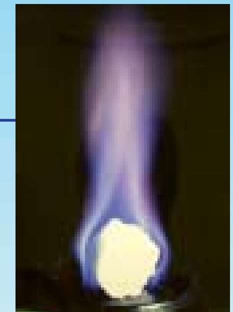
These centers are at the forefront of customer relations in a number of ways. They are an important base for gathering information from and conveying information to our customers. This is made possible by a proprietary system wedding the Internet, phones and computers to ensure a speedy response.

The 8 Keys to Growth

Polymer Electrode Fuel Cells (PEFC)

On-site, residential-use cogeneration systems using PEFCs are energy efficient, economically sound and environmentally friendly, and they increase the demand for gas. Using proprietary technology, Tokyo Gas is pushing ahead with the development of advanced fuel reformers for these systems, and conducting field tests in actual homes.

Methane Hydrate



The seabeds around Japan are estimated to hold reserves of methane hydrate—methane and water frozen into a sherbet-like form under high pressure—equivalent to Japan's natural gas consumption for about 100 years. For a country like Japan that is almost totally reliant on imports of energy, this substance is seen as an extremely exciting potential source of energy. Tokyo Gas is continuing basic research into options for using methane hydrate as a future source of natural gas.

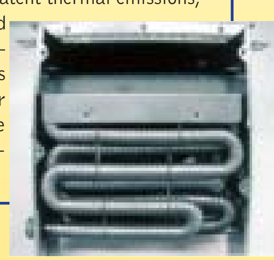
R&D Division

This division, which is the nucleus of Tokyo Gas' R&D activities, conducts wide-ranging research and development into technologies related to the production, supply and use of gas, as well as research aimed at expanding Tokyo Gas' operations into other business fields. As deregulation leads to greater competition, these activities will be vital for developing technologies that win customers in the company's gas and also non-gas businesses, and that raise our corporate value. Indeed, the R&D Division supports the efforts of other strategic business divisions by creating products and technologies that differentiate us from rivals and that facilitate further cost reductions.

This section showcases just a handful of the solutions that will maintain and increase our competitiveness. Others not detailed here include on-site power generation facilities that use Solid Oxide Fuel Cells (SOFCs), ultra-efficient gas-fired air conditioning technologies, increasingly sophisticated safety functions using intelligent gas meters and enhanced value with a more varied rate structure, higher pressure gas pipes that improve facility capabilities, and new safety technologies. The division's activities extend to the development of technologies for the creation of new businesses, such as household refurbishment, home services, facility monitoring and maintenance, and the manufacturing of isotope-related products. Technology for protecting the environment is another key R&D theme.

Highly Efficient Condensing Boilers

Tokyo Gas' condensing boilers, which capture latent thermal emissions, boast a high thermal efficiency of 93%, reduced CO_2 emissions and low running costs, thus adding to the competitiveness of the company's gas boilers. Work continues at Tokyo Gas to further improve the ease of installation and to reduce running costs with a view to promoting their widespread use in businesses and homes.



Techniques for Restoring Pipes

The length of time that existing gas distribution pipes can be used effectively has a huge bearing on Tokyo Gas' capital expenditure plans and thus achieving competitive gas rates. Tokyo Gas is therefore developing techniques for maintaining pipelines without excavation. One example is lining the inside of existing pipes with a protective epoxy resin coating. This technique is far more cost effective than prevailing techniques that involve excavation, thereby helping to make Tokyo Gas more competitive.

Creating Demand

Comprehensive Engineering Services in the Energy Sector

Tokyo Gas Engineering Co., Ltd. is the lynchpin of Tokyo Gas Group's engineering business. It provides technical and consulting services covering all aspects of the production, supply and use of gas. The company's expertise extends from LNG receiving terminals to cogeneration and DHC systems. In Japan and overseas, it has chalked up many successes, earning a solid reputation for its comprehensive engineering excellence.

Affiliated Companies Division

Seeing the advance of deregulation as a business opportunity, the Tokyo Gas Group is aiming to grow steadily as a total energy services provider with natural gas as its core business. This includes entering new business domains such as electricity generation and retailing, and LNG transportation using our own LNG carriers. Furthermore, we are developing energy-related businesses that draw on the strengths of our gas business—including our people, assets and technology—and "lifestyle" businesses that respond to the IT revolution and Japan's "graying" society, as well as those that contribute to environmental protection.

The 54 Tokyo Gas Group member companies are implementing structural reforms designed to raise the value of the Group. They are being guided by their respective missions and by the policy that earnings are the fundamental priority for all affiliated companies. Quick decisions are needed. We won't hesitate to channel resources to businesses with high potential. Equally, we are just as determined to withdraw from unprofitable businesses where we have no expectations for a turnaround. We will use return on capital as our principal yardstick for determining whether a business is worthwhile or not, and if not, reconstituting the group's management to optimally reallocate resources. For this we have established a project team to promote reforms aimed at raising Group profitability.

LNG Transportation Business

Tokyo Gas established Tokyo LNG Tanker Co., Ltd. to lower the cost of importing LNG, and to secure a stable supply of this vital energy source. This subsidiary is presently building two LNG carriers that will help reduce LNG import costs by allowing Tokyo Gas to take advantage of short-term contracts and spot trading. It is also exploring the possibility of supplying LNG to third parties.

Key Ingredient for Breakthrough Diagnostic Method—^{13}C

Tokyo Gas achieved a world first by developing technology to separate ^{13}C-Methane from LNG. The ^{13}C-Methane is being processed and sold by Group member Tokyo Gas Chemicals Co., Ltd. as a key ingredient for a diagnostic reagent to test for the existence of *Helicobacter pylori*, a common cause of gastritis and gastric ulcers. Research is being carried out on ^{13}C-Methane to find uses in other drugs such as for the diagnosis of pancreatic disease.

Strengthening Competitiveness to Capture Demand

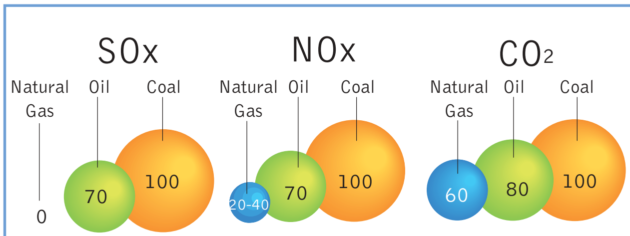
Environmental Conservation

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 the continuous reduction of the environmental impact of energy use by our customers as well as by our own business activities.

The Environment-Friendly Strengths of Natural Gas

Natural gas is a clean energy resource. Compared with oil and coal, natural gas, when burned, produces less emissions of carbon dioxide (CO_2) and nitrogen oxides (NOx), both of which are major factors in global warming, and NOx contributes to acid rain. Furthermore, it produces no sulfur oxides (SOx). Comparatively, this makes our business activities environmentally conscious, as clean-burning natural gas is our primary energy resource. We intend to continue contributing to sustainable progress in society through efforts to promote greater use of natural gas and our wide-ranging environmental conservation activities.

Comparison of Emissions by Fuel (When Burned) Coal=100



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

ISO Certification

Obtaining ISO certification has been positioned as a high management priority. In March 1997, both the Negishi and Sodegaura LNG terminals obtained ISO 14001 certification; these facilities were the first in Japan's gas industry to obtain this international certification, which attests to the high quality of our environmental management systems. The Ohgishima LNG Terminal followed suit in January 2000, meaning all our LNG terminals are ISO 14001 certified. In March 2000, the Shinjuku District Heating and Cooling Center became the first district heat supplier in Japan to attain ISO 14001 certification. The Makuhari District Heating and Cooling Center did likewise in January 2002.

Recycling Initiatives

Recycling and decreasing waste volumes are other ways we reduce the environmental impact of our activities. We are building a proprietary system called SRIMS (Saving Recycling Innovative Model System) to facilitate 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 of 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. Completed in June 2002, the surveys found soil contamination at 26 out of 30 sites. Tokyo Gas is prepared to do the necessary remediation measures in respect of these sites.

Development and Application of Technologies to Reduce Environmental Impact

Tokyo Gas feels that it is our mission to reduce the environmental impact of our customers when they utilize energy. Gas cogeneration systems and

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

Overview of Tokyo Gas' Environmental Accounting

Environmental accounting results for the year ended March 31, 2002 show that the parent company invested approximately ¥1.2 billion and incurred expenses of roughly ¥5.3 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 2002.

gas-fired air conditioning are just a few of the many technologies that are being widely adopted to increase energy efficiency. In the fuel cell field, Tokyo Gas is developing an on-site fuel cell 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 the environmental impact of transportation. 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.

Environmental Communication and Information Disclosure

Since 1994, we have been publishing an environmental report, fulfilling our social responsibility to make public information about our environmental activities. Moreover, in 1996 we started posting environmental information on our website (http://www.tokyo-gas.co.jp/env/index_e.html).

International Operations

Developing operations overseas is part of Tokyo Gas' drive to transform itself into a diversified energy services company with natural gas as our core business. We are actively participating in the development of natural gas projects overseas and expanding the scope of our operations into other fields, including ownership and operation of LNG carriers. Tapping our wealth of knowledge about natural gas and how to supply the gas, we are also contributing to the development of gas infrastructures and economic growth in other countries, particularly those in Asia. Additionally, we have forged partnerships with peer companies and with various institutions overseas for the purposes of technological and managerial information exchanges. The information we gather promotes efficient R&D and the formulation of strategies.

Advancing Upstream—Controlling the Total Energy Value Chain

In August 2001, Tokyo Gas announced that it would participate in the development of a gas project located off the coast of Victoria, Australia, the first such overseas project for the company. Facility construction is proceeding apace, with supply to the Australian market scheduled to start in the latter half of 2002.

In March this year, we announced our participation in the development of a gas field in the Joint Petroleum Development Area of East Timor and Australia, as well as in a gas liquefaction business in Darwin, Australia. Tokyo Gas will also start purchasing LNG from this project in 2006. This development means that Tokyo Gas will have a presence along the entire LNG value chain—from production and liquefaction, through sales and transportation using our own LNG carriers and marketing in the downstream market. This position will make it possible for us to extract maximum value from the natural gas business.

Tokyo Gas will continue to participate in all areas of the LNG value chain where such participation enhances our ability to procure natural gas and raises the competitiveness of the Group.

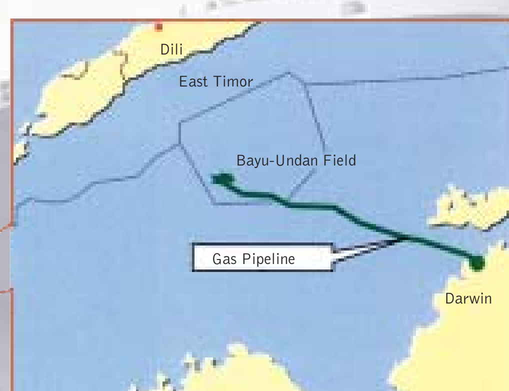
Tokyo Gas' Overseas Activities

Tokyo Gas has a proud track record in building gas supply infrastructures in other countries. Tokyo Gas and its group companies have been instrumental in a number of successful projects. In Malaysia, for example, we have been active in a natural gas distribution system project and a gas-fired cogeneration district cooling project—both firsts in that country. These accomplishments—the first full-fledged overseas projects by a Japanese energy utility company—are regarded as models for other Asian countries. Kuala Lumpur International Airport boasts one of the world's largest gas district cooling systems thanks to Tokyo Gas. Office buildings, hotels, and other facilities in central Kuala Lumpur have benefited as well from our technology. 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. Moving forward, we intend to advance overseas projects that capitalize on our extensive technological expertise gained through our operations in Japan.

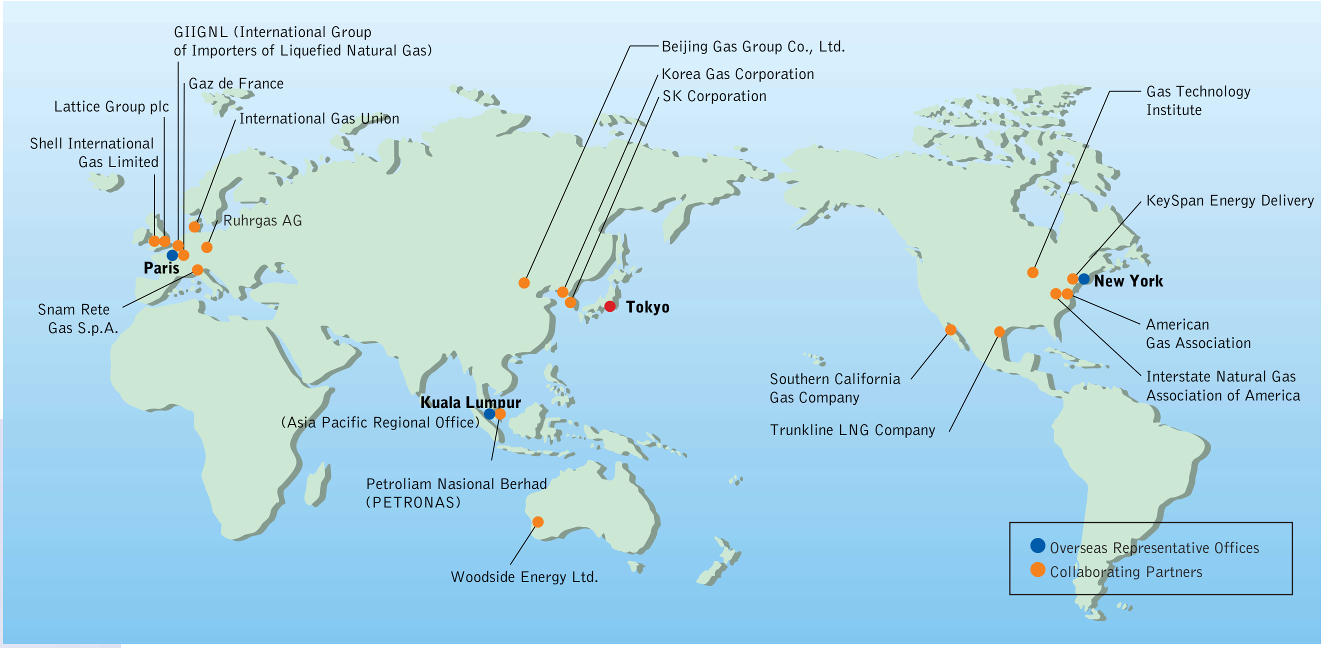
Overview of the Bayu-Undan Project

Location: Within the Joint Petroleum Development Area of East Timor and Australia
250km off the south coast of East Timor,
500km offshore from Darwin, Australia

Proven Natural Gas Reserves:
Approx. 3.4 trillion cubic feet of natural gas
Approx. 400 million barrels of LPG and condensate



Tokyo Gas' Overseas Representative Offices and Collaborating Partners



Information Exchanges Lead to Better Operations

We have three representative offices overseas: New York, Paris and Kuala Lumpur. Through these offices we are forging closer ties with energy-related companies and institutions around the globe. Collaboration involves the exchange of information and staff and contributes to improvements in our operations.

The offices also play a vital role in supplying information to foreign shareholders and in gathering information from the capital markets to help in formulating management policies. As deregulation sweeps through the Japanese energy industry, the importance of these activities is increasing to Tokyo Gas.

Left
Malaysian trainees

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

Management

Board of Directors


Kunio Anzai
Chairman


Hideharu Uehara
President


Norio Ichino
Executive Vice President


Fumio Ohori
Executive Vice President


Kouya Kobayashi
Senior Executive Officer


Masahiro Ishiguro
Senior Executive Officer


Mitsunori Torihara
Senior Executive Officer


Shigero Kusano
Senior Executive Officer


Minoru Yokouchi
Senior Executive Officer


Yuzaburo Mogi
Director (outside)


Yukihiko Inoue
Director (outside)

Standing Corporate Auditors

Soichiro Akimoto
Shigeru Ogasawara
Kenshiro Koto

Corporate Auditors (outside)

Shoh Nasu
Kazuo Nemoto

Senior Executive Officers

Hiroshi Urano
Takeo Kuno
Tadashi Zemba
Tadaaki Maeda
Takashi Kunitomi

Executive Officers

Takeo Ishikawa
Ieaki Uemura
Tsunenori Tokumoto
Tokio Imazawa
Akira Habu
Toshio Tezuka
Seiichi Nakanishi
Masaki Sugiyama
Tsuyoshi Okamoto
Taiichi Okuzawa
Shigeru Muraki

(As of June 27, 2002)

Management's Discussion and Analysis of Operations

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.

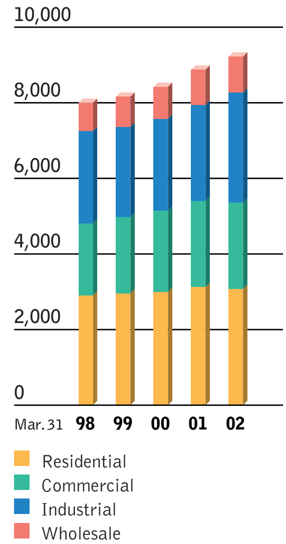
OVERVIEW OF CONSOLIDATED BUSINESS RESULTS

Gas Sales Volume

The volume of gas sold by Tokyo Gas in fiscal 2001, the year ended March 31, 2002, increased 3.9% to 9,227 million m^3. Growth was attributable mainly to higher demand in the industrial-use sector, where volume climbed 14.5% due to higher capacity utilization rates of existing customers and efforts to secure new customers. Residential gas volume decreased 1.5% year on year as a record-setting warm winter negated efforts to win new customers and to popularize gas appliances. Tokyo Gas also worked to win new customers in the commercial and other business user sectors.

Gas Sales Volume by Sector

(Million m^3, 46.05 MJ/m^3)



Note: Non-consolidated

Net Sales

Consolidated net sales edged up 1.0% over the previous year to ¥1,097.5 billion, reflecting the higher gas sales volume and adjustments to gas rates based on the *"sliding rate"* system, as well as increased sales of gas appliances. Growth was limited by the effect of gas rate reductions.

Operating Expenses and Operating Income

The cost of raw materials rose in fiscal 2001 as raw material usage rose in line with the increase in gas sales volumes. The yen weakened approximately ¥14.5 against the U.S. dollar compared with the previous fiscal year, outweighing a drop of roughly US$4.5 per barrel in the price of crude oil. Costs and expenses, the sum of cost of sales and selling, general and administrative expenses, increased by only 0.4% to ¥986.9 billion thanks to efforts to pare operating, personnel and other expenses through greater efficiency. Operating income rose 6.7% to ¥110.6 billion.

Other Income (Expenses)

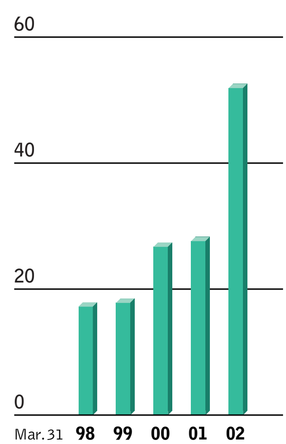
Other expenses were ¥27.7 billion, an improvement of ¥30.8 billion on the previous fiscal year. This reflected the absence of a charge for unfunded obligations arising from an amendment of accounting standards for retirement benefits recorded in fiscal 2000 and lower interest expenses resulting from progress made in repaying interest-bearing debt.

Income Before Income Taxes, Income Taxes and Net Income

Income before income taxes and minority interest in net income of consolidated subsidiaries climbed 83.8% to ¥82.8 billion on account of the higher operating income and the significantly lower other expenses. Income taxes were ¥31.5 billion. Net income, after taking into account tax adjustments due to tax-effect accounting, rose 88.1% to ¥51.9 billion. Basic net income per share was ¥18.47 and diluted net income per share was ¥16.66. ROE for fiscal 2001 was 9.3%.

Net Income

(Billion ¥)



SEGMENT INFORMATION (Sales to Outside Customers)

Gas Sales

Gas sales increased 1.3%, or ¥9.7 billion, to ¥750.4 billion, despite the effects of downward rate revisions. The increase was attributable to efforts to expand gas sales volumes and upward adjustments to gas rates based on the *"sliding rate"* system. Gas sales accounted for 68.4% of total net sales. Costs and expenses increased 1.8%, or ¥10.4 billion, due to higher raw materials costs and other factors. Segment operating income was about the same as last year at ¥149.2 billion.

Gas Appliance Sales

Segment sales rose 2.0%, or ¥2.8 billion, to ¥148.2 billion due to strong demand for TES (Thin & Economical System) air-conditioning systems, gas floor heating, GHPs (gas engine-driven heat pumps) and other gas appliances. The segment accounted for 13.5% of total net sales. Costs and expenses increased 1.5%, or ¥2.0 billion, in line with the increase in the number of units sold. But operating income climbed 9.3%, or ¥0.6 billion, to ¥7.2 billion.

Related Construction

Sales were largely the same as in the previous year at ¥67.6 billion, representing 6.2% of total net sales. Costs and expenses were reduced by 0.4%, or ¥0.2 billion, year on year. A decline in intersegment sales, however, led to a 7.7%, or ¥0.3 billion, decrease in operating income to ¥3.6 billion.

Real Estate Rental Business

Sales were largely the same as in the previous year at ¥15.6 billion, representing 1.4% of total net sales. Costs and expenses rose 6.6%, or ¥1.9 billion, as the depreciation method for the Shinjuku Park Tower was changed from straight line to declining balance to make it consistent with other company-owned buildings. Operating income dropped 24.7%, or ¥1.9 billion, to ¥6.0 billion as a result.

Other

Segment sales edged down 1.6%, or ¥1.8 billion, to ¥115.5 billion due mainly to lower demand for district heating and cooling (DHC) systems. Other sales accounted for 10.5% of total net sales. Costs and expenses decreased 2.8%, or ¥4.2 billion, due to factors such as lower depreciation expenses on DHC facilities. Consequently, operating income increased 6.6%, or ¥0.6 billion, to ¥10.7 billion.

FINANCIAL POSITION

Total assets as of March 31, 2002, stood at ¥1,702.7 billion, down 5.3%, or ¥94.9 billion.

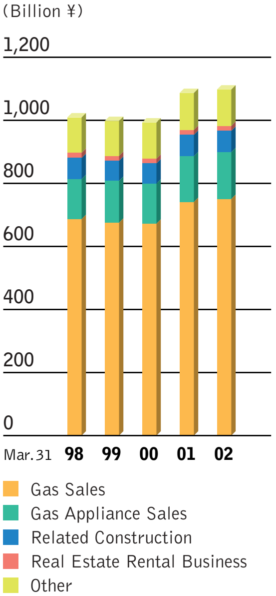
Fixed Assets

Fixed assets decreased 4.4% to ¥1,450.8 billion. Plant, property and equipment declined 3.3% to ¥1,249.9 billion due to depreciation. Investment securities decreased ¥36.8 billion as the stock market dipped, resulting in an 11.8% decline in investments and other non-current assets to ¥181.6 billion.

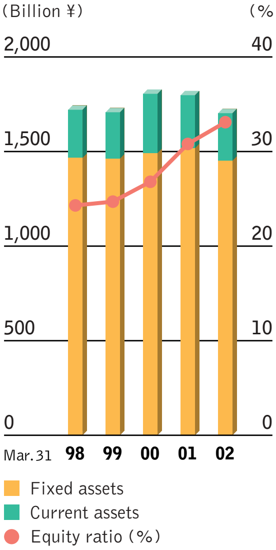
Current Assets

Current assets stood at ¥251.8 billion, a decrease of 10.1%, as of March 31, 2002. This primarily reflected a decline in short-term advances to group members in other current assets.

Net Sales by Segment



Total Assets and Equity Ratio



Long-Term Liabilities

Long-term liabilities decreased 4.3% to ¥836.9 billion. This mainly reflected the repurchase and retirement of convertible bonds, as well as the transfer to current liabilities of long-term debt due within one year.

Current Liabilities

Current liabilities totaled ¥297.8 billion, down 18.8% from a year ago. The decrease reflected progress in repaying debt and redemption of convertible bonds as the company took steps to reduce interest-bearing debt.

Interest-Bearing Debt

As of March 31, 2002, interest-bearing debt was ¥775.8 billion, a decline of 10.9% from a year ago as the company continued efforts from last year to strengthen its balance sheet. The rate of dependence on interest-bearing debt, which is defined as interest-bearing debt as a percentage of total assets, improved from 48.4% to 45.6%.

Stockholders' Equity

Total stockholders' equity increased 2.0% to ¥564.0 billion, mainly because retained earnings rose ¥33.5 billion thanks to the company's strong operating results. Net unrealized holding gains on securities, however, decreased ¥22.3 billion, reflecting the application of accounting standards for financial instruments, which have been applied since fiscal 2000. Efforts to strengthen the balance sheet contributed to a higher equity ratio of 33.1%, up from 30.8% in the previous year.

Capital Expenditures

Tokyo Gas is making investments to expand facilities to put in place a more stable supply system for gas. With respect to production facilities, Tokyo Gas has expanded LNG-related facilities, such as by constructing various facilities at the Ohgishima LNG Terminal, which started operations in October 1998. In regard to supply facilities, Tokyo Gas has made investments in pipelines to develop new sources of demand, to create a trunk network and to replace existing pipelines and take other measures to make the supply system better able to withstand earthquakes. Capital expenditures in fiscal 2001 decreased 5.1% to ¥104.2 billion.

Cash Flows

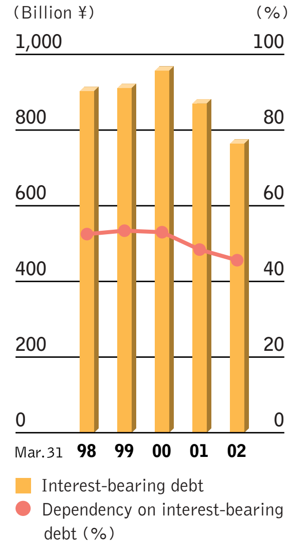
Net cash provided by operating activities rose ¥4.1 billion to ¥191.6 billion, principally reflecting the sharp increase in income before income taxes and minority interest in net income of consolidated subsidiaries.

Investing activities used net cash of ¥111.8 billion, ¥4.0 billion less than in the previous fiscal year. This represented mainly a ¥1.2 billion increase to ¥104.8 billion in purchases of property, plant and equipment, which as it did last year, accounted for the lion's share of cash used by investing activities.

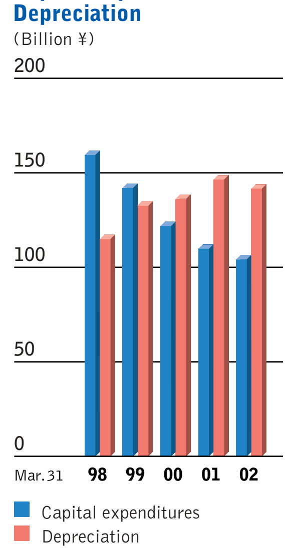
Financing activities used net cash of ¥117.1 billion, ¥12.7 billion more than in the previous fiscal year. Cash was used to repay long-term debt of ¥39.0 billion and redeem ¥120.0 billion in bonds as Tokyo Gas pushed ahead with efforts to reduce interest-bearing debt.

As a result of the foregoing items, cash and cash equivalents at the end of the year were ¥27.2 billion, ¥37.3 billion lower than a year ago.

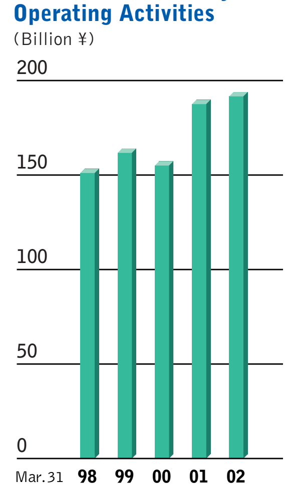
Interest-bearing Debt



Capital Expenditures and Depreciation



Net Cash Provided by Operating Activities



FINANCIAL POLICY

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

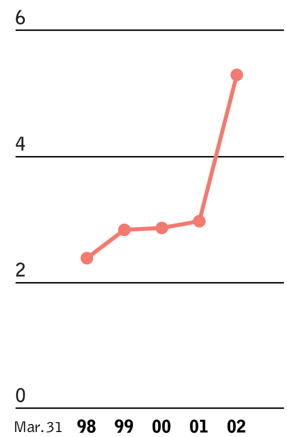
Tokyo Gas is thus placing emphasis on reducing interest-bearing debt and raising asset efficiency. This will include thoroughly examining the projected returns of new capital expenditures as well as reviewing the profitability of existing facilities and investments to raise ROA.

Medium-Term Plan Projections (Announced in May 2001)

Free cash flows	Average of ¥64.9 billion a year for 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

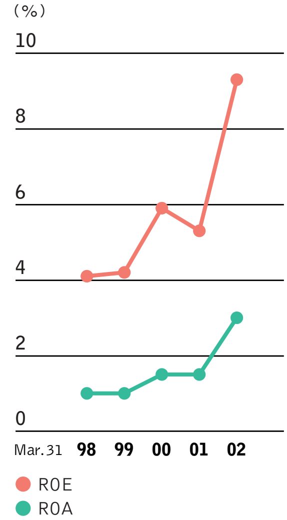
MARKET RISK EXPOSURE

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.

ROE and ROA

(%)



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 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. ¥4.7 billion (Fiscal year ended March 2002)

However, the above fluctuations are automatically passed on to customers in regulated user categories under the *"sliding rate"* system. First-half crude oil prices are reflected in gas rates in the second half of each fiscal year, while second-half crude oil prices are reflected in gas rates in the first half of the following year. Consequently, changes in crude oil prices have no effect on Tokyo Gas' business over the medium to long term.

Interest Rate Risk

Tokyo Gas only has fixed-rate short- and long-term 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.

FAQ

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

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

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

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

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

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

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

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

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

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

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

Q3: How does Tokyo Gas procure LNG?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Expanding the electricity business
  - Electricity retailing business: ENNET Corporation
  - Small distributed power generation: MyEnergy Co.
  - Electricity generation:

    Wholly owned subsidiary Tokyo Gas Bay Power Co., Ltd.—100MW

    Alliance with Nippon Mitsubishi Oil Corporation (now Nippon Oil Corporation)—400MW

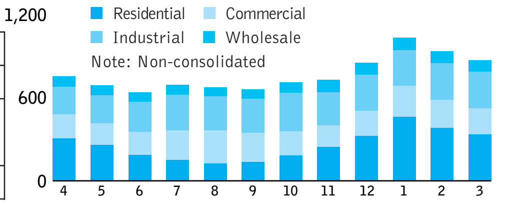
    Alliance with Tokyotoshikaihatsu Co., Ltd. and Shell Gas & Power Japan Ltd.—150MW
  - Electricity supply to specific areas: Roppongi redevelopment area business
- Establishment of natural gas sales company that takes advantage of ability to offer stable long-term rates
  - Jointly establish Nijio Co., Ltd. with Shell Gas B.V.
- Energy service business
  - Establish wholly owned subsidiary Energy Advance Co., Ltd.
- Customer-service duties outsourcing
  - Establish Tokyo Gas Customer Service Co., Ltd.

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

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

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

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



(Unit: million m³)

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

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

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

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

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

11-Year Summary

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

	2002	2001	2000	1999
For the Year:				
Net sales	**¥1,097,589**	¥1,086,771	¥ 992,255	¥ 997,767
Gas sales	**750,439**	740,731	672,070	674,997
Gas appliance sales	**148,271**	145,435	126,747	132,749
Related construction	**67,633**	67,611	63,949	63,630
Real estate rental business	**15,685**	15,602	14,959	15,617
Other	**115,561**	117,392	114,530	110,774
Operating income	**110,608**	103,659	69,233	72,303
Net income	**51,912**	27,595	26,698	17,764
Depreciation	**141,646**	146,420	136,214	132,568
Capital expenditures	**104,291**	109,899	121,806	142,030
Per share (Yen and U.S. dollars):				
Net income (Basic)	**¥18.47**	¥9.82	¥9.50	¥6.32
Net income (Diluted)	**16.66**	9.13	8.84	5.94
Net income and depreciation	**68.9**	61.9	58.0	53.5
Cash dividends applicable to the year	**6.00**	6.00	5.00	5.00
At Year-End:				
Total assets	**¥1,702,713**	¥1,797,669	¥1,805,086	¥1,707,446
Long-term debt due after one year	**680,887**	708,329	843,634	820,753
Total stockholders' equity	**564,078**	552,790	484,239	421,442
Ratios:				
Net income/Net sales	**4.7%**	2.5%	2.7%	1.8%
ROE	**9.3%**	5.3%	5.9%	4.2%
ROA	**3.0%**	1.5%	1.5%	1.0%
Equity ratio	**33.1%**	30.8%	26.8%	24.7%

Millions of yen except per share amounts

1998	1997	1996	1995	1994	1993	1992
¥1,009,155	¥ 988,077	¥ 958,662	¥ 915,862	¥ 909,673	¥ 844,443	¥ 823,761
686,649	663,066	633,253	601,990	622,632	599,820	580,897
126,840	134,174	135,669	137,209	115,158	103,869	104,495
66,695	69,966	68,825	70,034	73,158	70,928	73,514
16,495	18,423	18,468	–	–	–	–
112,476	102,448	102,447	106,629	98,725	69,826	64,855
76,485	62,163	67,109	60,105	59,263	56,082	52,695
17,241	15,432	16,762	11,072	16,173	16,368	26,814
114,893	123,569	120,569	–	–	–	–
159,433	162,282	180,080	–	–	–	–
¥6.14	¥5.49	¥5.97	¥3.94	¥5.76	¥5.82	¥9.54
5.76	5.37	–	–	–	–	–
47.0	49.5	–	–	–	–	–
5.00	5.00	5.00	5.00	5.00	5.00	5.00
¥1,720,684	¥1,772,132	¥1,657,176	¥1,608,244	¥1,513,038	¥1,436,450	¥1,328,038
765,304	878,674	743,177	724,523	721,980	623,979	550,468
417,755	414,906	413,725	411,164	409,713	404,848	399,602
1.7%	1.6%	1.7%	1.2%	1.8%	1.9%	3.3%
4.1%	3.7%	4.1%	2.7%	4.0%	4.1%	–
1.0%	0.9%	1.0%	0.7%	1.1%	1.2%	–
24.3%	23.4%	25.0%	25.6%	27.1%	28.2%	30.1%

Consolidated Balance Sheets

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2002**	2001	**2002**
Property, plant and equipment (Notes 3 and 6):			
Production facilities	**¥ 686,997**	¥ 702,146	**$ 5,165,391**
Distribution facilities	**1,889,145**	1,772,491	**14,204,097**
Service and maintenance facilities	**197,532**	203,473	**1,485,202**
Other	**588,071**	587,183	**4,421,590**
Construction in progress	**59,200**	96,121	**445,114**
	3,420,945	3,361,414	**25,721,394**
Accumulated depreciation	**(2,171,009)**	(2,069,235)	**(16,323,376)**
	1,249,936	1,292,179	**9,398,018**
Intangibles	**19,197**	19,252	**144,336**
Investments and other non-current assets:			
Investments in unconsolidated subsidiaries and affiliated companies	**17,867**	14,009	**134,337**
Investment securities (Notes 4 and 6)	**74,846**	111,632	**562,751**
Deferred income taxes (Note 9)	**30,083**	19,359	**226,190**
Other investments and non-current assets	**60,546**	62,068	**455,233**
Allowance for doubtful accounts	**(1,660)**	(1,145)	**(12,484)**
	181,682	205,923	**1,366,027**
Current assets:			
Cash and cash equivalents	**27,261**	64,575	**204,968**
Marketable securities (Note 4)	**21**	332	**160**
Receivables:			
Trade notes and accounts	**128,550**	127,037	**966,540**
Allowance for doubtful accounts	**(932)**	(1,098)	**(7,010)**
Inventories (Note 5)	**28,759**	27,419	**216,232**
Deferred income taxes (Note 9)	**10,049**	8,260	**75,560**
Other current assets	**58,190**	53,790	**437,519**
Total current assets	**251,898**	280,315	**1,893,969**
	¥ 1,702,713	¥ 1,797,669	**$ 12,802,350**

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen 2002	2001	Thousands of U.S. dollars (Note 1) 2002
Long-term debt due after one year (Note 6)	¥ 680,887	¥ 708,329	$ 5,119,453
Employees' severance and retirement benefits (Note 8)	125,554	134,216	944,016
Allowance for repairs of gas holders	3,520	3,324	26,464
Other non-current liabilities	27,016	28,363	203,126
Current liabilities:			
Bank loans (Note 6)	42,709	39,921	321,121
Long-term debt due within one year (Note 6)	40,298	121,874	302,993
Notes and accounts payable:			
Trade	38,055	43,286	286,131
Other	40,216	44,290	302,373
Income taxes payable (Note 9)	27,941	22,009	210,085
Accrued expenses	45,276	45,034	340,424
Other current liabilities	63,366	50,576	476,433
Total current liabilities	297,861	366,990	2,239,560
Commitment and contingent liabilities (Note 13)			
Minority interest	3,797	3,657	28,546
Stockholders' equity (Note 10):			
Common stock:			
Authorized – 6,500,000,000 shares			
Issued – 2,810,165,397 shares in 2002			
– 2,810,012,006 shares in 2001	141,843	141,817	1,066,492
Additional paid-in capital	2,064	2,038	15,520
Retained earnings	387,315	353,794	2,912,144
Net unrealized holding gains on securities	32,836	55,140	246,884
Foreign currency translation adjustments	115	4	861
	564,173	552,793	4,241,901
Treasury stock, at cost	(95)	(3)	(716)
Total stockholders' equity	564,078	552,790	4,241,185
	¥1,702,713	¥1,797,669	$12,802,350

Consolidated Statements of Income

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Net sales (Note 11)	**¥1,097,589**	¥1,086,771	**$8,252,549**
Costs and expenses (Notes 8 and 11):			
Cost of sales	**561,989**	561,006	**4,225,478**
Selling, general and administrative	**424,992**	422,106	**3,195,432**
	986,981	983,112	**7,420,910**
Operating income (Note 11)	**110,608**	103,659	**831,639**
Other income (expenses):			
Interest and dividend income	**1,021**	1,396	**7,676**
Interest expense	**(19,275)**	(22,867)	**(144,922)**
Adjustments of charges for construction of distribution facilities	**(6,827)**	(6,272)	**(51,332)**
Losses on bond redemption	**(4,618)**	(3,369)	**(34,720)**
Gains from disposal of securities	**3,455**	–	**25,977**
Exchange losses	**(615)**	(1,265)	**(4,624)**
Equity in net income of an affiliated company	**311**	349	**2,337**
Losses on compensation for malfunctioned finished goods	**(1,300)**	–	**(9,774)**
Amortization of net transition obligation	**–**	(21,777)	**–**
Other, net	**101**	(4,769)	**761**
	(27,747)	(58,574)	**(208,621)**
Income before income taxes and minority interest in net income of consolidated subsidiaries	**82,861**	45,085	**623,018**
Income taxes (Note 9):			
Current	**31,507**	25,436	**236,897**
Deferred	**(742)**	(8,027)	**(5,576)**
	52,096	27,676	**391,697**
Minority interest in net income of consolidated subsidiaries	**(184)**	(81)	**(1,384)**
Net income	**¥ 51,912**	¥ 27,595	**$ 390,313**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Amounts per share of common stock (Note 2):			
Net income	**¥18.47**	¥9.82	**$0.14**
Diluted net income	**16.66**	9.13	**0.13**
Cash dividends applicable to the year	**6.00**	6.00	**0.05**

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

	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, 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)
Net income				51,912			
Net unrealized holding losses on securities					(22,304)		
Foreign currency translation adjustments						111	
Treasury stock							(92)
Cash dividends paid (¥6.50 per share)				(18,265)			
Bonuses to directors				(126)			
Shares issued upon conversion of convertible bonds	153	26	26				
Balance at March 31, 2002	**2,810,165**	**¥141,843**	**¥2,064**	**¥387,315**	**¥ 32,836**	**¥115**	**¥(95)**

	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, 2001	$1,066,296	$15,325	$2,660,106	$ 414,586	$ 30	$ (21)
Net income			390,313			
Net unrealized holding losses on securities				(167,702)		
Foreign currency translation adjustments					831	
Treasury stock						(695)
Cash dividends paid ($0.05 per share)			(137,331)			
Bonuses to directors			(944)			
Shares issued upon conversion of convertible bonds	196	195				
Balance at March 31, 2002	**$1,066,492**	**$15,520**	**$2,912,144**	**$ 246,884**	**$861**	**$(716)**

See accompanying notes.

Consolidated Statements of Cash Flows

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Cash flows from operating activities:			
Income before income taxes and minority interest in net income of consolidated subsidiaries	**¥ 82,861**	¥ 45,085	**$ 623,018**
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)	**141,646**	146,420	**1,065,009**
Amortization of long-term prepayments	**3,918**	3,955	**29,458**
Loss on disposals of property, plant and equipment	**3,577**	3,348	**26,893**
Gains from disposal of securities	**(3,457)**	(2)	**(25,994)**
Loss on bond redemption	**4,618**	3,369	**34,725**
Increase (Decrease) in employees' severance and retirement benefits	**(8,661)**	6,463	**(65,123)**
Interest and dividend income	**(1,021)**	(1,396)	**(7,676)**
Interest expense	**19,275**	22,867	**144,922**
Changes in operating assets and liabilities:			
Increase in notes and accounts receivable	**(217)**	(149)	**(1,633)**
Increase in inventories	**(1,340)**	(360)	**(10,073)**
Decrease in notes and accounts payable	**(3,674)**	(1,673)	**(27,625)**
Increase (Decrease) in consumption taxes payable	**2,748**	(4,562)	**20,664**
Bonuses paid to directors	**(127)**	(141)	**(958)**
Other	**(4,659)**	4,247	**(35,031)**
	235,487	227,471	**1,770,576**
Cash received for interest and dividends	**1,089**	1,465	**8,189**
Cash paid for interest	**(19,325)**	(23,232)	**(145,303)**
Cash paid for income taxes	**(25,575)**	(18,191)	**(192,291)**
Net cash provided by operating activities	**191,676**	187,513	**1,441,171**
Cash flows from investing activities:			
Purchases of marketable and investment securities	**(3,712)**	(4,580)	**(27,909)**
Proceeds from sale of securities	**5,005**	277	**37,628**
Purchases of property, plant and equipment	**(104,884)**	(103,609)	**(788,599)**
Purchases of intangible fixed assets	**(7,791)**	(7,599)	**(58,581)**
Expenditure of long-term prepayment	**(1,006)**	(1,499)	**(7,565)**
Proceeds from sale of tangible and intangible fixed assets	**2,528**	926	**19,006**
Expenditure of long-term loans	**(1,694)**	(806)	**(12,734)**
Decrease (Increase) in other investments and other non-current assets — net	**(267)**	1,044	**(2,004)**
Net cash used in investing activities	**(111,821)**	(115,846)	**(840,758)**
Cash flows from financing activities:			
Proceeds from (Repayments of) short-term bank loans	**2,788**	(1,721)	**20,962**
Proceeds from commercial paper	**12,000**	–	**90,226**
Proceeds from long-term debt	**45,486**	59,359	**341,998**
Repayments of long-term debt	**(159,070)**	(147,969)	**(1,196,015)**
Cash dividends paid	**(18,288)**	(14,096)	**(137,500)**
Other	**(92)**	–	**(695)**
Net cash used in financing activities	**(117,176)**	(104,427)	**(881,024)**
Effect of exchange rate changes on cash and cash equivalents	**7**	7	**51**
Net decrease in cash and cash equivalents	**(37,314)**	(32,753)	**(280,560)**
Cash and cash equivalents at beginning of year	**64,575**	97,328	**485,528**
Cash and cash equivalents at end of year	**¥ 27,261**	¥ 64,575	**$ 204,968**

See accompanying notes.

Notes to Consolidated Financial Statements

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

1. Basis of consolidated financial statements

Tokyo Gas Co., Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"). Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with 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 stockholder's equity have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements are not customarily prepared in Japan and are not required to be filed with the regulatory authorities.

The financial statements are stated in Japanese yen. The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2002, which was ¥133 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.

Prior to April 1, 2001, Shinjuku Park Tower which was held by a consolidated subsidiary, Tokyo Gas Urban Development Co., Ltd., was depreciated using the straight-line method. Effective April 1, 2001, the declining balance method was used for depreciation of this building. This change of the method of accounting was made in order to unify the accounting method of the Company and subsidiaries, considering the maintenance expenses in future expected to increase due to "the long-term preservation plan of Shinjuku Park Tower" which was implemented to take countermeasures against physical and functional deterioration of the building and decline of its value.

As a result of this change, in the year ended March 31, 2002, depreciation increased by ¥3,721 million ($27,977 thousand), and operating income and income before income taxes decreased by the same amount compared with what would have been reported under the previous accounting method. The influence of this change to Segment Information is disclosed in Note 11.

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 for financial instruments.

Under the new accounting standard, (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities") are stated at amortized cost. (b) Equity securities issued by unconsolidated subsidiaries and affiliated companies which are not accounted for using the equity method are stated at moving-average cost. (c) Available-for-sale securities with available fair market values 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 stockholders' equity. Available-for-sale securities with no available fair market values are stated at moving-average cost.

The effect on the consolidated statement of income for the year ended March 31, 2001 of adopting the new accounting standard for financial instruments was immaterial. At April 1, 2000, securities in current assets decreased by ¥1,999 million and investment securities increased by the same amount due to the adoption of the new accounting standard.

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

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

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

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

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.

Under the new accounting standard, allowance and expenses for employees' severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provide allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

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, 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 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, inhabitants' taxes and enterprise tax. The Company has 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 ¥10,070 million ($75,711 thousand) and ¥9,923 million for the years ended March 31, 2002 and 2001, respectively. Enterprise taxes calculated based on profit of the 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 stockholders' equity. The effect on the consolidated income statement of adopting the revised accounting standard was immaterial in the year ended March 31, 2001.

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 toward the cost of construction from customers, such contributed amount is offset against the acquisition cost of the subject asset. Such offset amounts accumulated to March 31, 2002 and 2001 were ¥228,023 million ($1,714,459 thousand) and ¥222,972 million, respectively.

4. Securities

The following tables summarize acquisition costs, book values and fair values of securities with fair value as of March 31, 2002 and 2001:

(a) Held-to-maturity debt securities:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Securities with fair value exceeding book value:			
Book value	**¥29**	¥29	**$221**
Fair value	**31**	31	**236**
Difference	**¥ 2**	¥ 2	**$ 15**

(b) Available-for-sale securities:

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

For 2001:	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

For 2002:	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Securities with fair value exceeding book value:			
Equity securities	**$ 95,537**	**$487,729**	**$392,192**
Bonds	**37**	**46**	**9**
Subtotal	**95,574**	**487,775**	**392,201**
Other securities:			
Equity securities	**10,343**	**8,321**	**(2,022)**
Total	**$105,917**	**$496,096**	**$390,179**

Available-for-sale securities with no available fair values, which were stated at moving-average costs, amounted to ¥8,503 million ($63,935 thousand) and ¥9,271 million at March 31, 2002 and 2001, respectively.

5. Inventories

Inventories at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Finished products	**¥ 2,584**	¥ 3,127	**$ 19,425**
Raw materials	**18,513**	16,991	**139,199**
Supplies	**7,489**	7,198	**56,309**
Work in process	**173**	103	**1,299**
	¥28,759	¥27,419	**$216,232**

6. Bank loans and long-term debt

At March 31, 2002 and 2001, bank loans consisted of short-term notes, bearing interest at an average annual rate of 0.36% and 0.64%, respectively.

Long-term debt at March 31, 2002 and 2001 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Domestic unsecured notes due 2014 at a rate of 5.1%	**¥ 20,000**	¥ 30,000	**$ 150,376**
Domestic unsecured notes due 2015 at a rate of 4.1%	**27,900**	27,900	**209,774**
Domestic unsecured notes due 2016 at a rate of 4.0%	**30,000**	30,000	**225,564**
Domestic unsecured notes due 2018 at a rate of 2.625%	**40,000**	40,000	**300,752**
Domestic unsecured notes due 2009 at a rate of 1.68%	**30,000**	30,000	**225,564**
Domestic unsecured notes due 2009 at a rate of 1.73%	**30,000**	30,000	**225,564**
Domestic unsecured notes due 2010 at a rate of 2.01%	**20,000**	20,000	**150,376**
Domestic unsecured notes due 2011 at a rate of 1.39%	**30,000**	–	**225,564**
Domestic unsecured notes due 2004 at a rate of 1.03%	**3,000**	3,000	**22,556**
Domestic unsecured notes due 2009 at a rate of 1.18%	**4,000**	4,000	**30,075**
Domestic unsecured convertible bonds:			
1st issue due 2003 at a rate of 1.5%	**51,439**	55,247	**386,759**
3rd issue due 2005 at a rate of 1.5%	**84,315**	90,207	**633,947**
4th issue due 2002 at a rate of 1.5%	**–**	95,736	**–**
5th issue due 2009 at a rate of 1.2%	**49,971**	49,998	**375,722**
6th issue due 2007 at a rate of 1.1%	**49,968**	49,993	**375,699**
Swiss franc notes due 2002 at a rate of 4.5%	**14,810**	14,810	**111,353**
DM bearer bonds due 2005 at a rate of 7.0%	**18,333**	18,333	**137,842**
Domestic secured notes due 2003 at a rate of 2.0%	**800**	800	**6,015**
Loans from banks, insurance companies and government agencies due through 2028 at rates of 0.77% to 7.80%:			
Secured	**6,884**	14,695	**51,761**
Unsecured	**209,765**	225,484	**1,577,183**
	721,185	830,203	**5,422,446**
Less – Amounts due within one year	**40,298**	121,874	**302,993**
	¥680,887	¥708,329	**$5,119,453**

The indentures covering the first through sixth (except the second and fourth) 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 ($9.53), ¥1,105.70 ($8.31), ¥339.00 ($2.55) and ¥339.00 ($2.55), respectively (subject to adjustment in certain circumstances), (2) conversion periods through September 2003, March 2005, March 2009 and March 2007, respectively, and (3) redemption at the option of the Company, commencing in October 1996 for the 1st issue and April 1998 for the 3rd issue, at prices ranging from 106% to 100% of the principal amount.

At March 31, 2002, investment securities and property, plant and equipment at book value amounting to ¥18,406 million ($138,389 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, 2002 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2003	¥ 40,298	$ 302,993
2004	91,963	691,449
2005	105,881	796,098
2006	46,124	346,800
2007	69,107	519,599
2008 and thereafter	367,812	2,765,507
	¥721,185	$5,422,446

7. Derivative transactions

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

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

	Millions of yen			
	Contract amounts	Beyond one year	Market value	Recognized gains
Currency option contracts:				
Purchased cap option	**¥3,000**	**¥3,000**	**¥0**	**¥0**
Interest rate swap contracts:				
Receive fixed, pay variable	**3,000**	**3,000**	**0**	**0**

	Thousands of U.S. dollars			
	Contract amounts	Beyond one year	Market value	Recognized gains
Currency option contracts:				
Purchased cap option	**$22,556**	**$22,556**	**$0**	**$0**
Interest rate swap contracts:				
Receive fixed, pay variable	**22,556**	**22,556**	**0**	**0**

Contract amounts, market values and unrealized gains on the interest rate swap contracts, except those accounted for using hedge accounting, at March 31, 2001 were as follows:

	Millions of yen			
	Contract amounts	Beyond one year	Market value	Unrealized gains
Currency option contracts:				
Purchased cap option	¥3,000	¥3,000	¥10	¥10
Interest rate swap contracts:				
Receive fixed, pay variable	3,000	3,000	11	11

8. Employees' severance and retirement benefits

Allowance for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Projected benefit obligation	**¥ 306,912**	¥ 302,989	**$ 2,307,609**
Unrecognized prior service cost	**193**	–	**1,452**
Unrecognized actuarial differences	**(27,503)**	(16,595)	**(206,789)**
Less fair value of pension assets	**(154,048)**	(152,178)	**(1,158,256)**
Employees' severance and retirement benefits	**¥ 125,554**	¥ 134,216	**$ 944,016**

Included in the consolidated statements of income for the years ended March 31, 2002 and 2001 were severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Service costs – benefits earned during the year	**¥ 9,292**	¥ 9,939	**$ 69,868**
Interest cost on projected benefit obligation	**9,049**	8,967	**68,035**
Expected return on plan assets	**(4,612)**	(4,557)	**(34,678)**
Amortization of prior service costs	**–**	(3,950)	**–**
Amortization of actuarial differences	**1,628**	24	**12,241**
One-time amortization of the entire of net transition obligation	**–**	21,777	**–**
Severance and retirement benefit expenses	**¥15,357**	¥32,200	**$115,466**

The discount rate and the rate of expected return on plan assets used by the Company are approximately 3%. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Past service costs are charged to income when incurred, and actuarial gains and losses are recognized as income and expense using the straight-line method over approximately 10 years commencing with the next year.

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, 2002 and 2001, respectively.

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

Significant components of deferred tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Deferred tax assets:			
Liabilities for retirement benefits	**¥35,151**	¥36,842	**$264,293**
Other – net	**28,512**	26,093	**214,376**
Subtotal	**63,663**	62,935	**478,669**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**19,040**	31,872	**143,158**
Reserve for tax-purpose cost reduction of certain pipelines	**2,309**	2,508	**17,361**
Other – net	**3,852**	3,604	**28,962**
Subtotal	**25,201**	37,984	**189,481**
Net-total	**¥38,462**	¥24,951	**$289,188**

10. Stockholders' equity

At the current conversion prices, 504,589 thousand shares of common stock were issuable at March 31, 2002 upon full conversion of the outstanding convertible bonds (see Note 6).

Under the Commercial Code of Japan, excess of total of additional paid-in capital and legal reserve over 25% of common stock is available for dividends by resolution of the general meeting of stockholders. 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 by business segments is as follows:

	Millions of yen						
	Gas sales	Gas appliance sales	Related construction	Real estate rental business	Other	Elimination or corporate	Consolidated
For 2002:							
Sales:							
Outside customers	**¥ 750,439**	**¥148,271**	**¥67,633**	**¥ 15,685**	**¥115,561**	**¥ –**	**¥1,097,589**
Inside group	**–**	**932**	**3,705**	**21,866**	**40,450**	**(66,953)**	**–**
	750,439	**149,203**	**71,338**	**37,551**	**156,011**	**(66,953)**	**1,097,589**
Costs and expenses	**601,229**	**141,960**	**67,688**	**31,460**	**145,212**	**(568)**	**986,981**
Operating income	**¥ 149,210**	**¥ 7,243**	**¥ 3,650**	**¥ 6,091**	**¥ 10,799**	**¥(66,385)**	**¥ 110,608**
Identifiable assets	**¥1,105,280**	**¥ 56,547**	**¥22,932**	**¥226,981**	**¥184,473**	**¥106,500**	**¥1,702,713**
Depreciation	**113,158**	**608**	**127**	**16,000**	**13,214**	**(1,461)**	**141,646**
Capital expenditures	**91,501**	**314**	**204**	**2,190**	**11,940**	**(1,858)**	**104,291**
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)	1,086771
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	¥125,442	¥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

	Thousands of U.S. dollars						
	Gas sales	Gas appliance sales	Related construction	Real estate rental business	Other	Elimination or corporate	Consolidated
For 2002:							
Sales:							
Outside customers	**$5,642,396**	**$1,114,819**	**$508,516**	**$ 117,935**	**$ 868,883**	**$ –**	**$ 8,252,549**
Inside group	**–**	**7,009**	**27,857**	**164,407**	**304,133**	**(503,406)**	**–**
	5,642,396	**1,121,828**	**536,373**	**282,342**	**1,173,016**	**(503,406)**	**8,252,549**
Costs and expenses	**4,520,520**	**1,067,366**	**508,933**	**236,542**	**1,091,818**	**(4,269)**	**7,420,910**
Operating income	**$1,121,876**	**$ 54,462**	**$ 27,440**	**$ 45,800**	**$ 81,198**	**$(499,137)**	**$831,639**
Identifiable assets	**$8,310,373**	**$ 425,166**	**$172,419**	**$1,706,622**	**$1,387,017**	**$ 800,753**	**$12,802,350**
Depreciation	**850,811**	**4,575**	**957**	**120,297**	**99,357**	**(10,988)**	**1,065,009**
Capital expenditures	**687,979**	**2,358**	**1,531**	**16,466**	**89,774**	**(13,967)**	**784,141**

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.

The Company changed the depreciation method of Shinjuku Park Tower from the straight-line method to the declining balance method as explained in Note 2. Due to this change, costs and expenses and depreciation of the real estate rental business segment increased by ¥3,721 million ($27,977 thousand), and its operating income and identifiable assets decreased by the same amount compared with what would have been reported under the previous accounting method.

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:	**2002**	2001	**2002**
Lease payments	**¥ 816**	¥ 858	**$ 6,137**
Future minimum lease payments inclusive of interest:			
Current	**¥ 752**	¥ 709	**$ 5,653**
Non-current	**1,674**	1,539	**12,590**
	¥2,426	¥2,248	**$18,243**

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 2002:			
Production facilities	**¥ 72**	**¥ 50**	**¥ 22**
Distribution facilities	**698**	**321**	**377**
Service and maintenance facilities	**212**	**127**	**85**
Other	**3,592**	**1,650**	**1,942**
	¥4,574	**¥2,148**	**¥2,426**
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

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2002:			
Production facilities	**$ 538**	**$ 374**	**$ 164**
Distribution facilities	**5,251**	**2,414**	**2,837**
Service and maintenance facilities	**1,593**	**956**	**637**
Other	**27,008**	**12,403**	**14,605**
	$34,390	**$16,147**	**$18,243**

Information as lessor:	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars 2002
Lease income	**¥ 4,400**	¥ 4,326	**$ 33,086**
Future lease payments to be received:			
Current	**¥ 4,035**	¥ 3,847	**$ 30,338**
Non-current	**12,306**	11,422	**92,526**
	¥16,341	¥15,269	**$122,864**

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

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
For 2002:			
Other assets	**¥23,654**	**¥13,993**	**¥9,661**
For 2001:			
Other assets	¥23,961	¥14,571	¥9,390

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
For 2002:			
Other assets	**$177,850**	**$105,213**	**$72,637**

13. Commitment and contingent liabilities

The Company and its consolidated subsidiaries were contingently liable (1) to banks in the amount of ¥3,541 million ($26,622 thousand) at March 31, 2002 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 ¥75,000 million ($563,910 thousand) issued by the Company, which were assigned to certain banks under the debt assumption agreements made through the years ended March 31, 2002, 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 ¥48 million ($361 thousand).

At March 31, 2002, 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

At the annual meeting held on June 27, 2002, the Company's stockholders approved (1) payment of year-end cash dividends of ¥3.0 ($0.02) per share aggregating ¥8,430 million ($63,381 thousand) to the stockholders of record as of March 31, 2002, and (2) payment of bonuses to directors totaling ¥79 million ($594 thousand).

Report of Independent Public Accountants

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries

To the Stockholders and the Board of Directors of TOKYO GAS CO., LTD. :

We have audited the accompanying consolidated balance sheets of TOKYO GAS CO., LTD. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2002 and 2001, 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 consolidated subsidiaries as of March 31, 2002 and 2001, 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 (Note 1) 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 consolidated 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, TOKYO GAS CO., LTD. and consolidated subsidiaries changed the method of accounting for depreciation of a building, effective April 1, 2001, as referred to in Notes 2 and 11, with which we concur.

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 27, 2002

Asahi & Co.

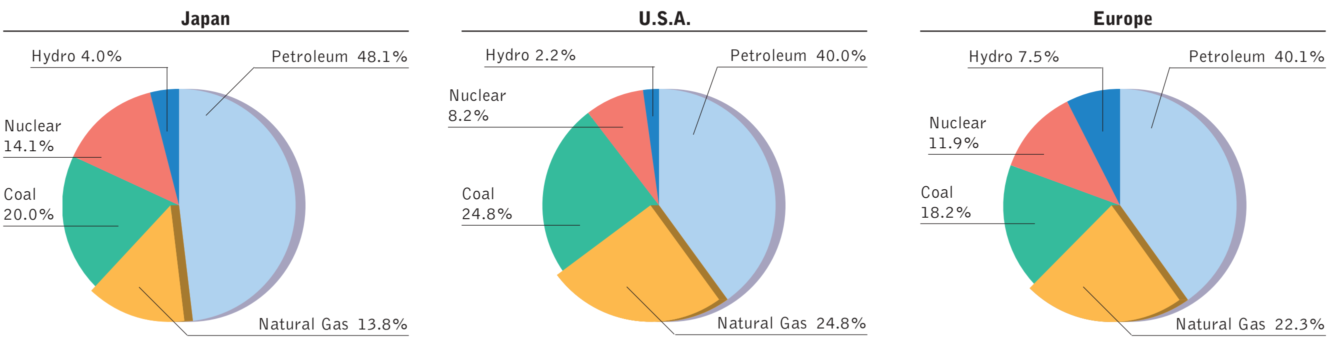
Consolidated Subsidiaries and Equity-Method Affiliate

Company	Shareholding (%)	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 industrial gas 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 pipelines, water supply and drainage facilities, air conditioning systems and new facilities
Gastar Co., Ltd.	66.7	Residential sales and service	Production and wholesale of gas appliances
TG Credit Service Co., Ltd.	100	Residential sales and service	Loans and leases for gas appliances, other leases
Chiba Gas Co., Ltd.	99.9	City gas	Gas supply for Yachiyo and Narita City and surrounding areas
Tsukuba Gakuen Gas Co., Ltd.	100	City gas	Gas supply for Tsukuba Science City and surrounding areas
Tokyo Gas Engineering Co., Ltd.	100	Engineering	Comprehensive engineering services with a particular focus on energy-related areas
TG Information Network Co., Ltd.	100	IT	System development, sales of computer equipment, other activities
TG Enterprise Co., Ltd.	100	New businesses	Financial services for the Tokyo Gas Group
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

Notes: 1. As of March 31, 2002
2. Gas Malaysia Sdn. Bhd. is an equity-method affiliate

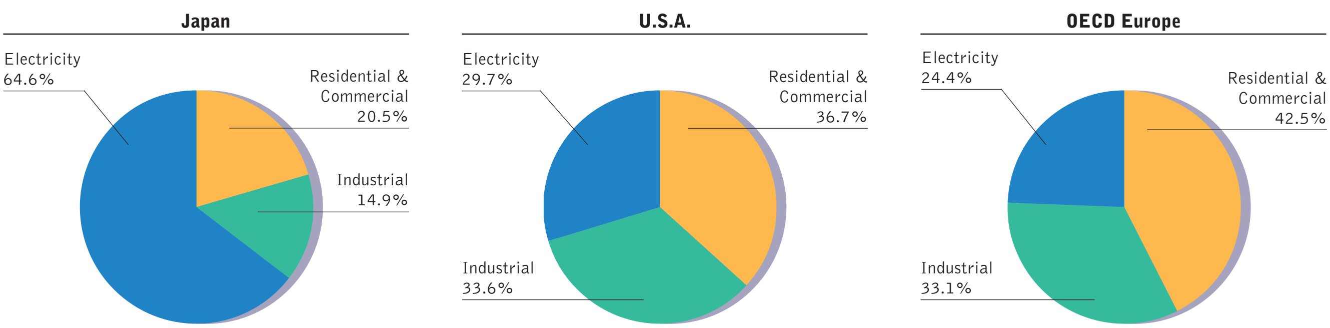
Energy Statistics

Share of Natural Gas in Total Primary Energy Supply (2001)



Source: BP Amoco Statistical Review of World Energy 2002

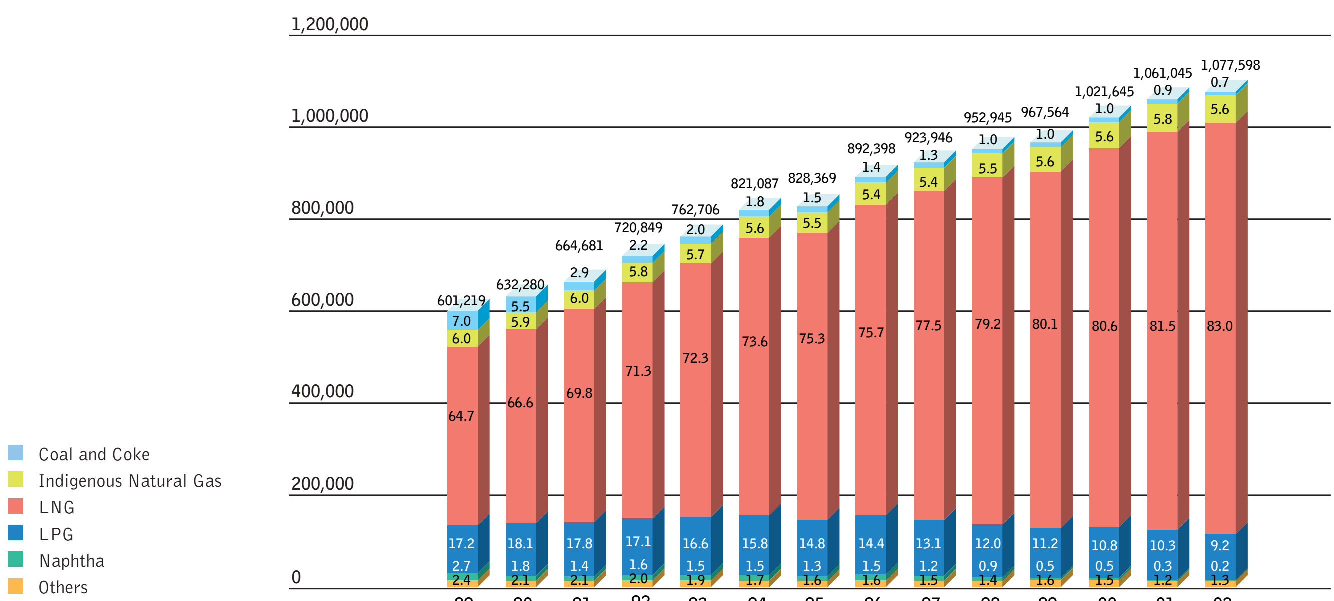
Use of Gas* by Sector (2000)



* Includes manufactured gas
Source: IEA, Energy Balances of OECD Countries, 1999–2000

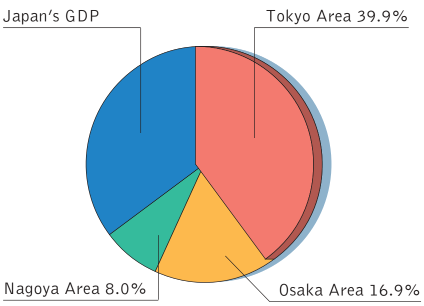
Japan's City Gas Supply by Feedstock Type

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



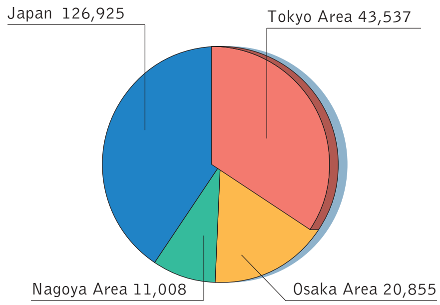
Source: Japan Gas Association

Share of Japan's GDP by Area
(For year ended March 31, 2000)



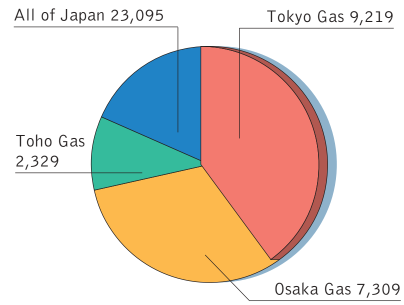
Source: Cabinet Office

Population of the Tokyo, Osaka, and Nagoya Areas
(As of October 1, 2001) (in thousands)



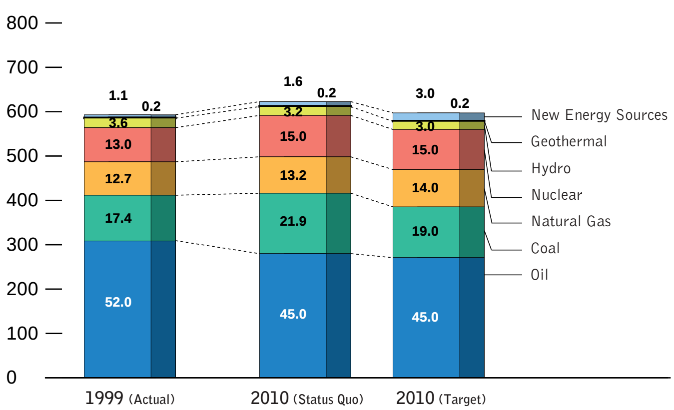
Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications

Comparison of Tokyo Gas, Osaka Gas, and Toho Gas Sales Volumes
(For year ended March 31, 2002)
(Millions of m^3, 46.05 MJ/m^3)



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)

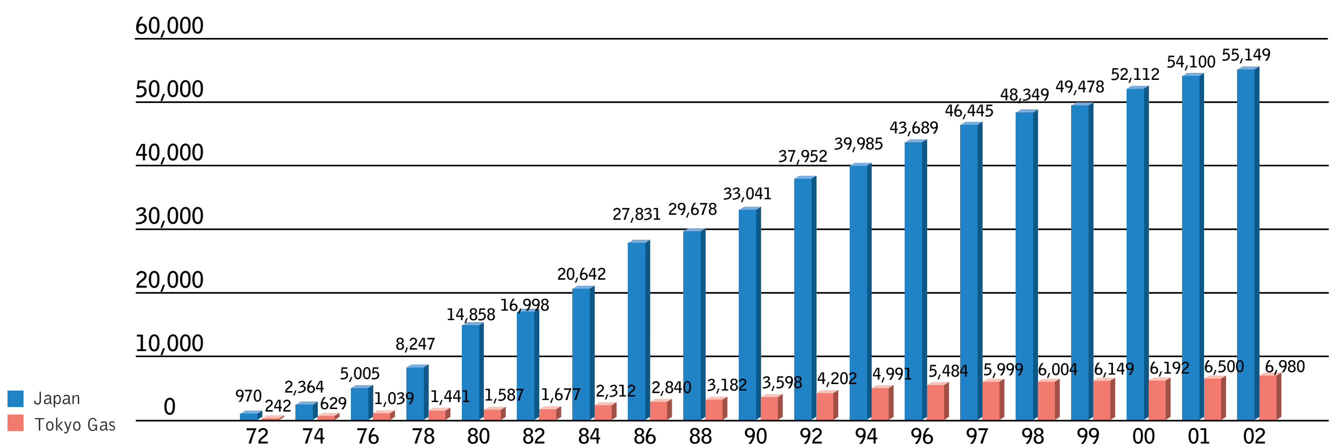


	1999 (Actual)	2010 (Status Quo)	2010 (Target)
Primary Energy Supply	593	622	602
New Energy Sources	7	10	20
Geothermal	1	1	1
Hydro	21	20	20
Nuclear	77	93	93
Natural Gas	75	82	83
Coal	103	136	114
Oil	308	280	271

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)



Organization

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

(As of June 27, 2002)

Corporate Information / Investor Information

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Asia Pacific Regional Office
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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, 2002)
2,810,165,397 shares

Number of Stockholders (as of March 31, 2002)
202,670

Cash Dividends Applicable to the Year
¥6.00

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

Independent Auditors
Asahi & Co.

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

Publications
The following English-language publications are available:
- Annual Report 2000
- Annual Report 2001
- TG Minutes (Quarterly Newsletter)
- Environmental Report 2002

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

Further Information
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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

TOKYO GAS

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