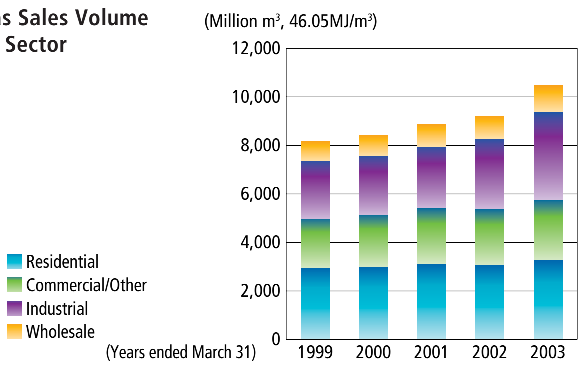
Management's Discussion and Analysis of Operations

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

Gas Sales Volume

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

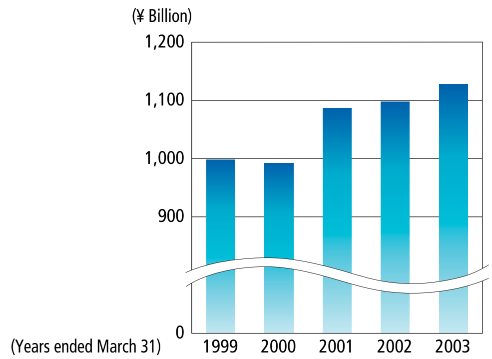
Gas Sales Volume by Sector



Net Sales

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

Net Sales



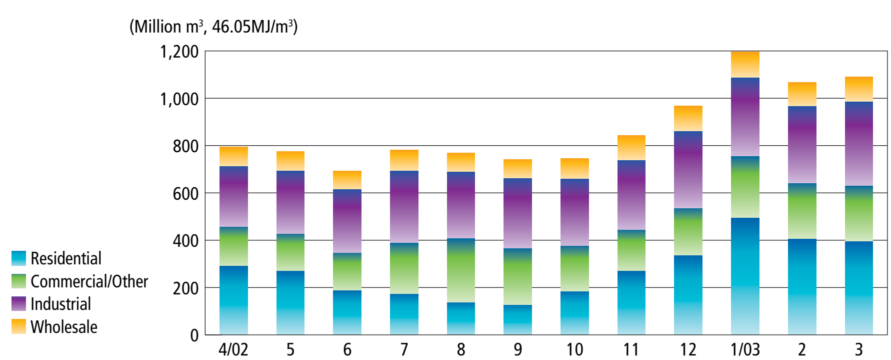
Operating Expenses and Operating Income

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

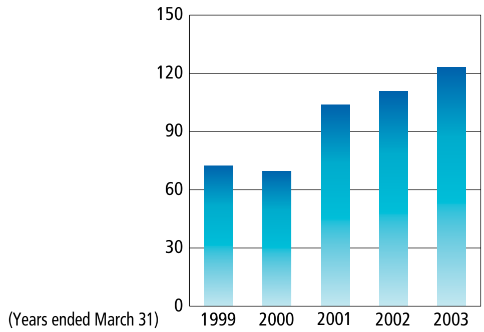
Effect of 1°C Temperature Increase on Gas Sales Volume

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

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



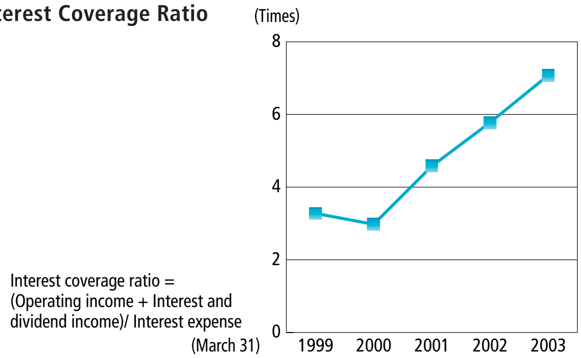
Operating Income



Other Income (Expenses)

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

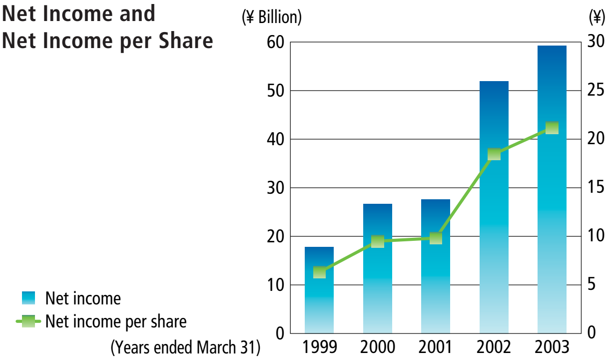
Interest Coverage Ratio



Income before Income Taxes, Income Taxes and Net Income

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

Net Income and Net Income per Share



Dividends

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

Segment Information

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

Gas

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

Gas Appliances

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

Related Construction

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

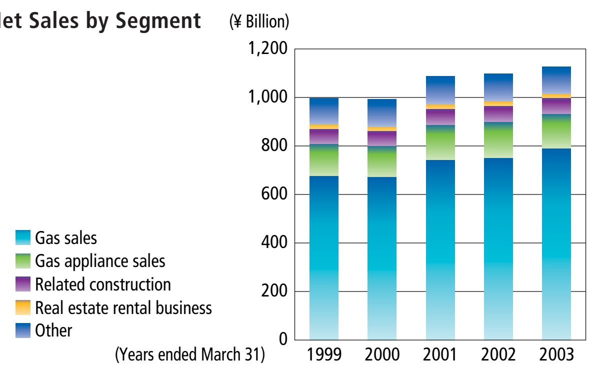
Real Estate Rental

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

Other

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

Net Sales by Segment



Financial Strategy

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

Liquidity and Capital Resources

Cash Flows

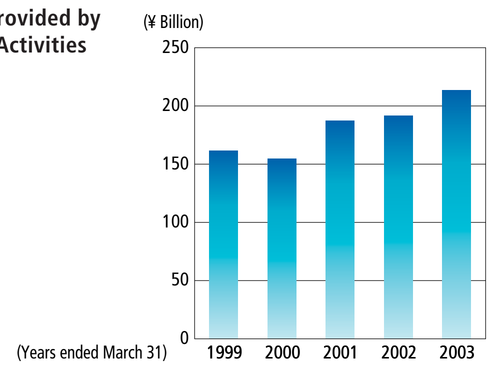
(¥ Billion)

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

Cash Flows from Operating Activities

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

Net Cash Provided by Operating Activities



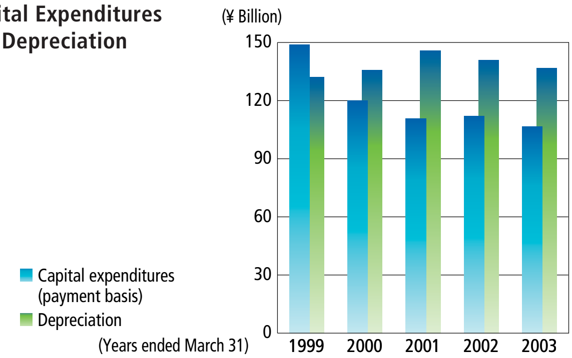
Cash Flows from Investing Activities

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

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

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

Capital Expenditures and Depreciation



Cash Flows from Financing Activities

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

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

Assets, Liabilities and Stockholders' Equity

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

Property, Plant and Equipment

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

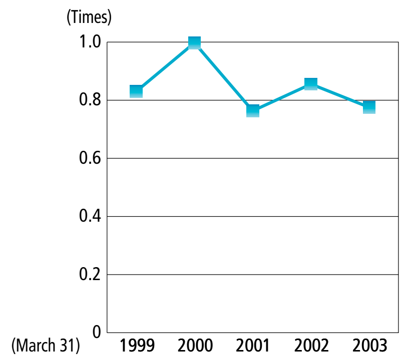
Current Assets

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

Current Liabilities

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

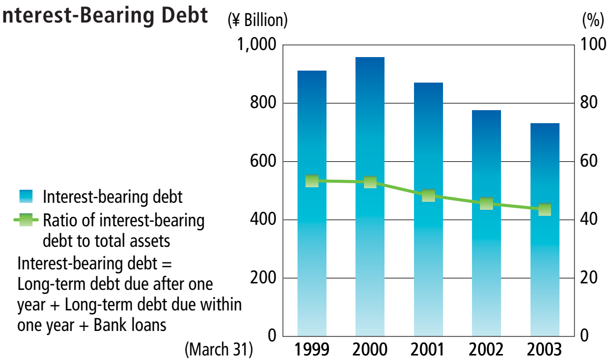
Current Ratio



Interest-Bearing Debt

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

Interest-Bearing Debt

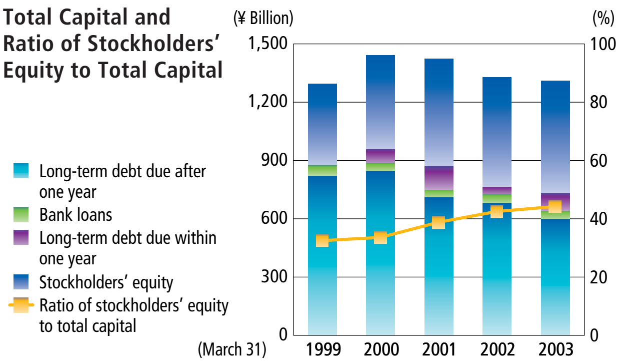


billion. The figure for the previous fiscal year includes ¥12.0 billion in commercial paper accounted for in other liabilities. The rate of dependence on interest-bearing debt, which is defined as interest-bearing debt as a percentage of total assets, improved to 43.6% from 45.6% a year earlier.

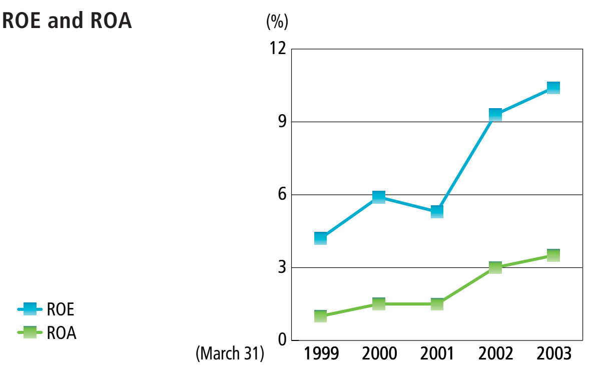
Stockholders’ Equity

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

Total Capital and Ratio of Stockholders’ Equity to Total Capital



ROE and ROA



Market Risk Exposure

Gas Rate Decrease Risk

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

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

Foreign Exchange Risk

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

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

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

Interest Rate Risk

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

Stock Price Risk

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