

•News

Kawasaki Natural Gas Power Generation Launches Business Operations



From left, Kazuo Tsukuda, Chairman, Mitsubishi Heavy Industries, Mitsunori Torihara, President, Tokyo Gas, Shinji Nishio, President, Nippon Oil and Kohei Kato, President, Kawasaki Natural Gas Power Generation

Kawasaki Natural Gas Power Generation Co., Ltd. (Nippon Oil Corporation: 51%, Tokyo Gas: 49%) started business operations on April 1, 2008.

Tokyo Gas is promoting construction of natural gas fueled power stations for further improvement of its electric power business to establish the total energy business with synergy between gas and power. Our power business is intended to ensure competitive advantages such as 1) adjacent to the electric power demand area; 2) mitigation of environmental impact by using the latest high-efficiency combined cycle power plants; 3) site location in

the vicinity of the Company's LNG terminal; and 4) strong ties with our customers.

Kawasaki Natural Gas Power Generation was established on November 30, 2001 as a joint venture between Nippon Oil Corporation, Japan's leading oil company, and Tokyo Gas, its leading gas company, to build and operate environmentally friendly power generation facilities for a power producer and supplier (PPS) to enter the deregulated electricity market in Japan. Kawasaki Natural Gas Power Generation started construction of two 400-MW combined cycle units, with the highest thermal efficiency

in the 400-MW class at the Kawasaki Office of Nippon Oil in Kawasaki in February 2006.

On April 16, 2008, the completion ceremony for Unit No.1 was held to celebrate the first large-scale power station for PPSs. Unit No.2 is scheduled to start business operations in October, 2008. With the commencement of operations at Kawasaki Natural Gas Power Generation, Tokyo Gas has increased its supply of wholesale power to a joint company, ENNET (NTT Facilities: 40%, Tokyo Gas: 30%, Osaka Gas: 30%), which is the largest PPS in Japan, and has been extending power business as planned.

Generating Electric Power using Sewage Sludge Gas

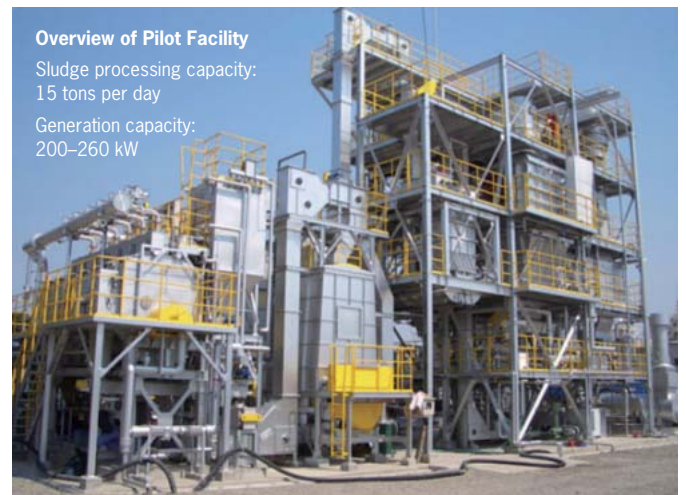
Tokyo Gas and Takuma Co., Ltd. (“Takuma”) have developed a system to generate electric power from sewage sludge gas. The viability and reliability of the system were verified during 2,000 hours of continuous operation over a 90-day period from the end of September to the end of December 2007. The pilot system has proven its suitability for installation in existing sewage treatment plants, opening the way for commercial operation.

Sewage sludge is carried through sewer lines to sewage treatment plants. In this sense, it has already been recognized as a form of biomass for which infrastructure is already in place. However, before sludge could be used effectively as an energy resource, it was necessary to develop practical and efficient technology.

In fiscal 2001, Tokyo Gas and Takuma commenced development of a gasification system with potential to reduce fossil fuel

consumption at sewage treatment plants by using gas derived from sewage sludge to partially fuel generators supplying electric power.

The system heats the sludge, which has a moisture content of 75–80%, at temperatures around 800°C. This converts the sludge into combustible gases, including hydrogen and carbon monoxide. The combustible gases are supplied to a gas engine and used to generate electricity, while waste heat from the generation process is recovered in the form of steam, which is used to dry the sludge in preparation for combustion. Benefits include the recovery and effective utilization of energy in the form of electricity and heat, as well



as the lowering of CO₂ emissions through reduced fossil fuel consumption. An added advantage compared with conventional sludge treatment methods from the viewpoint of preventing global warming is the fact that this process, unlike conventional sludge incineration, produces no nitrous oxide, which is a more potent greenhouse gas than CO₂.

Safety Sensors on All Burners Help Prevent Cooking Oil Fires



The cylindrical device in the center of each burner monitors the temperature on the bottom of the pan. If an abnormal rise in temperature is detected, the supply of gas is automatically turned off.

All cooktops sold by Tokyo Gas in the future will be fitted with overheating prevention devices (safety sensors) and automatic cut-off systems on every burner. This will enhance the safety and convenience of gas

cooking by preventing fires from overheated cooking oil.

Cooking oil spontaneously ignites at a temperature of around 370°C. The safety sensors are designed to prevent this by automatically turning off the gas when the temperature reaches about 250°C. The automatic cut-off system is designed to prevent accidents when gas is inadvertently left on, by cutting off the gas supply after a certain period of time. In fiscal 1991, Tokyo Gas began to fit safety sensors to at least one of the burners on cooktops with two or more burners. Since then it has progressively expanded its range of appliances with enhanced safety features.

However, fires have occurred when burners without safety sensors have been used for deep-frying with oil. Tokyo Gas therefore decid-

ed to install safety sensors and automatic cut-off systems on all burners. In 2006, there were 261 kitchen cooking oil fires in Tokyo. Of these, 69 involved cooktops fitted with safety sensors. However, in all cases, burners in use were not equipped with a safety sensor. Tokyo Gas will advise its customers to use cooktops fitted with safety sensors on all burners.



Deep-frying tempura

•Financial Spotlight FY2007 Consolidated Financial Results

The Japanese economy of this term shows some signs of recovery including increased capital investment helped by recovery of corporate performances and healthy export. However, its business environment was still severe, as the high crude oil price tendency and confusion of stock market which caused by problems of "subprime loan" looks to stay long.

Under these economic circumstances, the Tokyo Gas group has made strenuous efforts in marketing to popularize and expand city gas. As a result, consolidated sales were ¥1.487 trillion, up 8.0% year on year due to the expansion in the scope of consolidation mainly due to steady growth in gas sales.

Gas Business

In FY2007, the gas sales volume rose 6.8% compared with the previous year to 14.215 billion m³. Residential demand rose 2.3% year on year to 3.529 billion m³. It is because of higher temperatures in first half and low temperatures in the second half than previous year when gas demand is strong, which caused more demand in hot water and space heating.

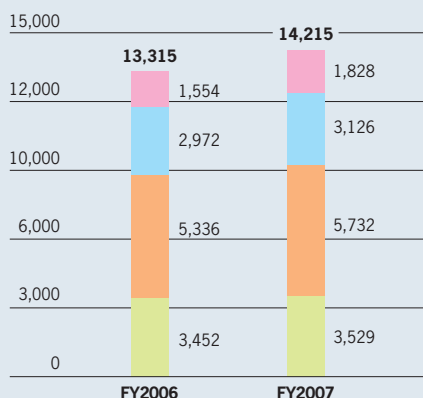
Moreover, commercial and other business demand was up 4.3% to 2.132 billion m³ and 7.1% to 994 million m³ respectively, making a combined total of 3.126 billion m³, up 5.2% year on year. This was result of increase in demand for air-conditioning due to higher temperature in summer and lower temperature in winter.

Industrial demand was up 7.4% year on year to 5.732 billion m³ compared with the previous year due to increased operation of both existing and new customers.

Wholesale supplies to other gas utilities rose 17.6% year on year to 1.828 billion m³ due to increase operation by those utilities.

As a result, gas sales was up to ¥1,087 billion by ¥87.5 billion or 8.8% compared with the previous year due to increase in gas unit price based on gas rate adjustment system. Operating expenses overall rose by ¥179.4 billion yen or 22.5% because of the increase in gas resource cost that accompanied the growth in gas sales volume. Operating income was down by ¥91.9 billion or 45.1% over the previous year to ¥111.6 billion.

Gas Sales Volume (consolidated) (million m³; 45 MJ/m³)



Note: The difference between total amounts and the sums of individual sectors is due to rounding.

On the other hand, Tokyo Gas made utmost efforts to hold down expenses, achieving further advances in the promotion of management efficiency. However, operational expenses increased because of high gas resource cost due to growth in sales volume as well as high rise in crude oil prices, labor cost increased due to actuarial differences and depreciation due to tax revision.

As a result, operating income decreased by 56.8% to ¥70.0 billion, and ordinary income was down 57.2% to ¥66.8 billion and net income was down 57.2% to ¥66.8 billion and net income was down 57.8% to ¥42.4 billion.

Gas Sales Volume by Sector

(million m ³ ; 45 MJ/m ³)	FY2007	FY2006	Year-on-year change (%)
Residential	3,529	3,452	77.0 (2.3)
Industrial	5,732	5,336	396.0 (7.4)
Commercial	3,126	2,972	154.0 (5.2)
Wholesale	1,828	1,554	274.0 (17.6)
Total	14,215	13,315	900.0 (6.8)

■ Summary of Consolidated Financial Results

Income Statement (¥ billion)

	FY2007	FY2006	Year-on-year change (%)
Total sales	1,487.4	1,376.9	110.5 (8.0)
Gas sales	1,087.0	999.5	87.5 (8.8)
Gas appliance sales	132.3	135.4	-3.1 (-2.3)
Related construction	57.3	59.2	-1.9 (-3.2)
Real estate rental business	35.1	34.0	1.1 (3.3)
Other	320.3	285.4	34.9 (12.2)
Operating income	70.0	162.3	-92.3 (-56.8)
Ordinary income	66.8	156.0	-89.2 (-57.2)
Net income	42.4	100.6	-58.2 (-57.8)

Note: Sales by segment include intra-group transactions.

Major Indicators (¥ billion)

	FY2007	FY2006	Year-on-year change
Total assets	1,703.6	1,692.6	11.0
Shareholders' equity	769.0	795.1	-26.1
Equity ratio	45.1%	47.0%	-1.9%
ROA	2.5%	5.9%	-3.4%
ROE	5.4%	13.2%	-7.8%
Interest-bearing debt	558.7	525.4	33.3
Operating cash flows*	184.9	233.8	-48.9

*Operating cash flows = net income + depreciation

Cash Flows (¥ billion)

	FY2007	FY2006	Year-on-year change
Cash flow provided by operating activities	182.2	190.5	-8.3
Cash flow used in investing activities	-155.3	-130.9	-24.4
Cash flow used in financing activities	-25.1	-65.8	40.7
Cash and cash equivalents at end of year	43.7	40.2	3.5

Spot Purchase from StatoilHydro ASA of Kingdom of Norway

Tokyo Gas has purchased LNG delivered from Snøhvit Liquefaction Terminal based on the Master Agreement signed between StatoilHydro ASA of Norway as its first buyer in the Asia-Pacific region.

Arctic Voyager, carrying LNG loaded at Snøhvit Liquefaction Terminal in the Arctic Circle entered Ohgishima LNG Terminal for the first time on the 22nd of March and successfully completed unloading operations.

Tokyo Gas pursued the transaction due to

the increase of demand in winter, and the transaction was based on a direct contract between StatoilHydro, the leading energy provider in the Atlantic basin, the first LNG deal with StatoilHydro as well as solidifying the relationship between StatoilHydro and Tokyo Gas in the field of LNG trade over the years ahead.

Snøhvit Liquefaction Terminal is located at the most distant place from Japan hence LNG transport to Tokyo Bay takes about one



Arctic Voyager delivered LNG from far away Norway

month. Through the purchase, Norway has now become the 13th supplier country for Tokyo Gas.

FY 2008 Outline of Supply Plans

***Plans for penetration** Tokyo Gas is planning for acquisition of about 214,000 new customers in fiscal 2008. It foresees an average annual increase of 1.3 percent in its number of customers over the next five years.

***Gas sales plans** Over the five-year period in question, Tokyo Gas projects that the gas sales volume will increase at a rate averaging 2.1% and reach about 15.4 billion cubic meters in fiscal 2012.

***Gas resource use plans** While working for stable procurement of gas resource and further reduction of procurement costs based on long-term contracts, Tokyo Gas also plans to make its procurement more flexible by measures such as participation in upstream development project, increased offtake of natural gas produced in Japan, and extensive engagement in short-term transactions in correspondence with the change of demand.

Gas demand outlook (Unit : millions of cubic meters, 45 MJ/m³)

	FY2007 outlook	FY2008	FY2009	FY2010	FY2011	FY2012	AAGR (%)
Total gas sales volume	13,862	14,070	14,312	14,746	15,054	15,359	2.1

Volume of gas resource/fuel use (Unit : thousand t)

	FY2007 outlook	FY2008	FY2009	FY2010	FY2011	FY2012
LNG	10,490	10,423	10,620	10,939	11,117	11,351
LPG	235	434	387	390	442	450

Tokyo Gas Group Companies No. 13

Japan Super Freeze Co., Ltd.

A Member Company of the Affiliated Companies Department



Frozen tuna

Japan Super Freeze Co., Ltd. provides cryogenic storage services using environmentally friendly LNG refrigeration technology to maintain a temperature of -60°C. Japan Super Freeze endeavors to enhance customer satisfaction and the advancement of culinary culture through the provision of high-quality distribution services. Established in 1973, the company is adjacent to Negishi LNG Terminal of Tokyo Gas. Reliable access to LNG cold energy from the Negishi Terminal (produced when LNG is re-gasified in the making of city gas) allows Japan Super Freeze to minimize the amount of electric power needed to refrigerate its warehouses, thereby contributing to the prevention of global warming. The amount of LNG received is continuously adjusted to maintain a constant temperature inside the cold storage areas. This ensures reliable, long-term preservation of the quality of tuna, shrimp and other products stored for customers. Japan Super Freeze has three warehouse facilities with a combined capacity of 33,260 tons.

Head Office

TOKYO GAS CO., LTD.
Business Development Dept.
1-5-20, Kaigan, Minato-ku,
Tokyo 105-8527, Japan
Tel: +81-3-5400-7561
Fax: +81-3-5472-5385
E-mail: kokusai@tokyo-gas.co.jp
URL: http://www.tokyo-gas.co.jp/index_e.html

Overseas Representative Offices

New York Representative Office
The Chrysler Building
405 Lexington Avenue, 33rd Floor
New York, NY 10174, U.S.A.
Tel: +1-646-865-0577
Fax: +1-646-865-0592

Paris Representative Office
102, Avenue des Champs-Élysées
75008 Paris, France
Tel: +33-1-45-62-00-59
Fax: +33-1-42-25-96-85

Asia Pacific Regional Office
Level 30, Menara Standard Chartered
No. 30 Jalan Sultan Ismail
50250 Kuala Lumpur, Malaysia
Tel: +60-3-2144-2928
Fax: +60-3-2144-2930

