Consolidated Financial Results for the Six Months Ended September 30, 2014 [Japanese GAAP]

October 31, 2014

Company name: NIPPON GAS CO., LTD.
Code number: 8174
URL: http://www.nichigas.co.jp/
Stock exchange listing: Tokyo Stock Exchange
Representative: Shinji Wada, President and Representative Director
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Scheduled date of filing quarterly securities report: November 13, 2014
Scheduled date of commencing dividend payments: November 18, 2014
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Scheduled (for institutional investors)

(Amounts are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the Six Months Ended September 30, 2014 (April 1, 2014 to September 30, 2014)

(1) Consolidated Results of Operations (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended Sep. 30, 2014	55,555	3.7	1,924	(26.0)	1,599	(38.1)	730	(65.0)
Six months ended Sep. 30, 2013	53,565	3.5	2,601	6.7	2,582	14.7	2,086	81.0

(Note) Comprehensive income: Six months ended Sep. 30, 2014 ¥1,332 million [(35.3)%]
Six months ended Sep. 30, 2013 ¥2,060 million [136.6%]

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2014	18.30	—
Six months ended Sep. 30, 2013	46.29	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2014	113,717	29,672	26.1
As of Mar. 31, 2014	123,496	44,831	36.3

(Reference) Equity: As of Sep. 30, 2014 ¥29,665 million As of Mar. 31, 2014 ¥44,824 million

2. Dividends

	Annual dividends				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2014	—	6.50	—	19.50	26.00
Fiscal year ending Mar. 31, 2015	—	13.00			
Fiscal year ending Mar. 31, 2015 (Forecast)			—	13.00	26.00

(Note) Revision of dividend projection from recently announced figures: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2015 (April 1, 2014 to March 31, 2015)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full-year	133,000	4.9	10,000	10.7	9,800	6.6	6,000	(36.6)	160.29

(Note) Revision of dividend projection from recently announced figures: No

4. Notes

(1) Significant changes of subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation during the period under review): No

(2) Adoption of special accounting processes for preparing quarterly consolidated financial statements: No

(3) Changes to accounting policies, changes to accounting estimates, and revision restatements

1) Changes to accounting policies accompanying the revision of accounting standards, etc.: Yes

2) Changes to accounting policies other than 1) above: No

3) Changes to accounting estimates: No

4) Revision restatements: No

(4) Total number of issued shares (common share)

1) Total number of issued shares (including treasury share):

Sep. 30, 2014	48,561,525 shares
Mar. 31, 2014	48,561,525 shares

2) Total number of treasury share at the end of the period:

Sep. 30, 2014	14,062,457 shares
Mar. 31, 2014	4,525,927 shares

3) Average number of shares during the period:

Six months ended Sep. 30, 2014	39,945,986 shares
Six months ended Sep. 30, 2013	45,073,872 shares

* Presentation regarding the implementation status of the audit process

These financial statements are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these quarterly financial statements, review procedures for quarterly consolidated financial statements are in progress.

* Explanation of the proper use of performance forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as of the date of publication of this document, but not intended to deliver the Company's commitment to fulfilling them. Actual results may differ significantly from these forecasts due to a wide range of factors. Please refer to "Explanation of Consolidated Forecast Results and Other Forward-looking Information" on page 4 of the attached Appendix for the notes on the use of preconditions for the earnings forecast and the use of the earnings forecast.

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1. Qualitative Information on Consolidated Performance for the Period under Review

(1) Explanation of Results of Operations

The environment surrounding Japan's energy industry is changing at even faster pace towards the energy liberalization. In the electricity industry, the revised Electricity Business Act was passed, and it has been decided that the retail sale of electricity would be fully liberalized in 2016. In the gas industry as well, a committee on gas system reform set up under the leadership of the Ministry of Economy, Trade and Industry held a series of discussions on system reform, resulting in a situation where complete liberalization of retail sale of gas would be definite. Under these circumstances, players in the upstream, the mid-stream, and the downstream in the industry are searching for partnership in various forms for their survival in the upcoming mega-competition. The movement for realignment of industry has become apparent including the recent announcement of several partnerships by major energy companies.

Assuming this situation in advance, the Group has forged ahead with step-by-step preparation. The Group has achieved cost reduction by taking into consideration the price competition under complete liberalization of competition, promoted acquisition of qualification related to city gas business by our employees, developed electricity retail business overseas where liberalization is further advanced, and made a city gas company a wholly owned subsidiary in March 2014. In the meantime, the Group is preparing for the start of package electricity and gas sales to large-volume customers through establishment of a new electricity business division in October 2014, following the application for PPS business in May 2014.

Kumonouchusen, the new operational system linking cloud technology and mobile devices which would greatly contribute to reducing operation costs after the energy liberalization, has already commenced full-scale operation at the Company. The Group is currently advancing its introduction into city gas subsidiaries.

As for the development of overseas businesses, the electricity retailer Entrust Energy, Inc. operating in Texas and California, affiliated with Strategic Power Holdings LLC, in which the Group is involved in its management in the U.S. through the Company's local subsidiary Nippon Gas USA, Inc., and North Eastern States Inc., which operates electricity and gas retail business in seven states in Northeastern America are steadily increasing their number of customers, and the number of customers as of the end of the six months ended September 30, 2014 totaled 161,000 households. In 2015, the Group plans to increase the number of customers overseas to 476,000 households. Meanwhile in Australia, the Group is involved in an electric energy saving management service company for commercial and industrial customers, COzero Holdings Limited, in terms of capital and management, and is accumulating business know-how related to energy saving in the retail field, which will be an extremely vital business area in the domestic energy market after liberalization. By applying the knowledge and expertise acquired from overseas investments in the U.S. and Australia, where liberalization of retail sale of energy is advancing, to the strategies for the planned liberalization of retail sale of energy in Japan in the future, while at the same time investing the Group's business know-how and funds in overseas investments, the Group will expand its customer base for overseas businesses and enhance its earnings base for the future.

For the period under review, consolidated net sales increased by 3.7% year-on-year to ¥55,555 million due to an increase in the volume of gas sales accompanying the steady increase in the number of customers and higher sales prices owing to factors including the gas rate adjustment system. The number of customers of the Group

increased by 20,000 households compared with the end of the previous fiscal year to 1,087,000 households as of the end of the six months ended September 30, 2014.

In terms of profit, owing to factors including higher raw material prices compared with the same period of the previous fiscal year, an increase in cost of sales, and an increase in demand development expenses associated with steady growth in the number of customers, operating income decreased by 26.0% year-on-year to ¥1,924 million, ordinary income decreased by 38.1% year-on-year to ¥1,599 million, and net income decreased by 65.0% year-on-year to ¥730 million, in spite of the effects of a reduction of costs through the deployment of the new logistics/operational systems.

In terms of the net sales and profits of the Group, the gas retail business accounts for a major part of the Group's business. Therefore, sales and profits tend to rise disproportionately in the second half of the year from fall to winter.

Business performance by segment for the six months ended September 30, 2014 is as follows:

[LP Gas Business]

In the LP gas business, gas sales volume increased year-on-year thanks to an increase in the number of retail customers. Consequently, net sales for the six months ended September 30, 2014 increased by ¥1,109 million (3.6% increase) year-on-year to ¥32,222 million.

[City Gas Business]

In the city gas business, net sales increased by ¥880 million (3.9% increase) year-on-year to ¥23,333 million because of an increase in demand from newly acquired large-volume industrial customers in addition to a year-on-year increase in natural gas prices due to the gas rate adjustment system.

(2) Explanation of Financial Position

1) Assets

Total assets as of the end of the second quarter of the fiscal year ending March 31, 2015 decreased by ¥9,778 million from the end of the previous fiscal year and stood at ¥113,717 million. This is mainly attributable to the decreases in cash and deposits as well as notes and accounts receivable-trade due to seasonal factors.

2) Liabilities

Total liabilities as of the end of the second quarter of the fiscal year ending March 31, 2015 increased by ¥5,380 million from the end of the previous fiscal year and stood at ¥84,045 million. This is mainly a reflection of the increase in loans payable and the decrease in notes and accounts payable-trade due to seasonal factors.

3) Net assets

Net assets as of the end of the second quarter of the fiscal year ending March 31, 2015 decreased by ¥15,159 million from the end of the previous fiscal year and stood at ¥29,672 million. This is mainly a reflection of the increase in treasury shares (decrease in net assets), and the decrease in retained earnings due to changes in the scope of application of the equity method resulting from rapid growth of businesses in North America.
As a result, equity ratio decreased by 10.2 points from the end of the previous fiscal year to 26.1%.

(3) Explanation of Consolidated Forecast Results and Other Forward-looking Information

In the fiscal year ending March 31, 2015, the Group will continue to focus on increasing gas sales volume through the expansion of its customer base and on the spread and the expansion of the use of gas appliances. As a result, the Company projects consolidated net sales of ¥133,000 million or 4.9% increase year-on-year.
In terms of profits, as a result of factors such as an increase in the number of customers, further evolution of the new logistics/operational systems, and progress in reducing administrative costs by making consolidated subsidiaries wholly owned subsidiaries, the Group projects operating income of ¥10,000 million (10.7% increase) and ordinary income of ¥9,800 million (6.6% increase). The Group projects net income of ¥6,000 million (36.6% decrease) and its favorable growth except for impact from the posting of ¥6,000 million of gain on bargain purchase in 2013.

2. Issues Related to Summary Information (Notes)

(1) Significant Changes of Subsidiaries during the Period under Review

None.

Scope of application of the equity method was changed in the first quarter of the fiscal year ending March 31, 2015

(Changes in the Scope of Consolidation or in the Scope of Application of the Equity Method)

Significant changes in the scope of application of the equity method

From the first quarter of the fiscal year ending March 31, 2015, Nippon Gas USA, Inc. and Strategic Power Holdings LLC with the growth of importance were included in the scope of application of the equity method.

(2) Adoption of Special Accounting Processes for Preparing Quarterly Consolidated Financial Statements

None.

(3) Changes to Accounting Policies, Changes to Accounting Estimates, and Revision Restatements

(Changes to Accounting Policies)

Following the adoption, from the first quarter of the fiscal year ending March 31, 2015, of provisions specified in the main clause of Paragraph 35 of “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan [ASBJ] Statement No. 26, May 17, 2012, hereinafter referred to as “Retirement Benefits Accounting Standard”) and the main clause of Paragraph 67 of “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012, hereinafter referred to as “Retirement Benefits Guidance”), methods for calculating retirement benefit obligations and service cost have been reviewed, and methods for attributing expected retirement benefits payment have been changed from straight-line basis to benefit formula basis, while the method of determining discount rate has also been changed.

In adopting the Retirement Benefits Accounting Standard etc., the effected amount associated with the aforementioned change in the methods for calculating retirement benefit obligations and service cost has been adjusted to retained earnings at the beginning of the period under review, according to the transitional handling prescribed in Paragraph 37 of the Retirement Benefits Accounting Standard.

As a result, net defined benefit liability at the beginning of the period under review decreased by ¥101 million, while retained earnings increased by ¥65 million, which, however, had minimal impact on operating income, ordinary income, and income before income taxes and minority interest for the six months ended September 30, 2014.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2014 (As of Mar. 31, 2014)	Six months ended Sep. 30, 2014 (As of Sep. 30, 2014)
Assets		
Current assets		
Cash and deposits	14,494	10,381
Notes and accounts receivable-trade	10,152	6,931
Merchandise and finished goods	7,298	5,475
Work in process	9	36
Raw materials and supplies	95	85
Deferred tax assets	739	589
Other	1,128	546
Allowance for doubtful accounts	(135)	(107)
Total current assets	33,782	23,938
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	7,375	7,078
Machinery, equipment and vehicles, net	37,660	36,227
Tools, furniture and fixtures, net	428	449
Land	21,725	22,067
Leased assets, net	2,216	2,399
Construction in progress	227	1,693
Total property, plant and equipment	69,632	69,915
Intangible assets		
Goodwill	5,872	5,417
Other	1,193	1,322
Total intangible assets	7,066	6,740
Investments and other assets		
Investment securities	5,597	4,974
Other	8,323	9,066
Allowance for doubtful accounts	(939)	(942)
Total investments and other assets	12,982	13,097
Total non-current assets	89,681	89,753
Deferred assets	32	25
Total assets	123,496	113,717

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2014 (As of Mar. 31, 2014)	Six months ended Sep. 30, 2014 (As of Sep. 30, 2014)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	15,607	9,507
Short-term loans payable	12,539	27,897
Income taxes payable	2,885	936
Provision for bonuses	423	457
Other	4,581	4,740
Total current liabilities	36,037	43,538
Non-current liabilities		
Long-term loans payable	36,533	34,428
Provision for directors' retirement benefits	1,011	971
Provision for gas holder repairs	275	306
Net defined benefit liability	2,196	2,084
Other	2,610	2,714
Total non-current liabilities	42,628	40,506
Total liabilities	78,665	84,045
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	6,020	6,020
Retained earnings	36,028	34,662
Treasury shares	(4,977)	(19,372)
Total shareholders' equity	44,140	28,379
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	695	837
Foreign currency translation adjustment	–	457
Remeasurements of defined benefit plans	(11)	(9)
Total accumulated other comprehensive income	683	1,285
Minority interests	6	6
Total net assets	44,831	29,672
Total liabilities and net assets	123,496	113,717

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2013 (from Apr. 1, 2013 to Sep. 30, 2013)	For the six months ended Sep. 30, 2014 (from Apr. 1, 2014 to Sep. 30, 2014)
Net sales	53,565	55,555
Cost of sales	32,378	34,434
Gross profit	21,186	21,120
Selling, general and administrative expenses	18,584	19,196
Operating income	2,601	1,924
Non-operating income		
Interest income	121	117
Dividend income	64	42
Real estate rent	22	20
Share of profit of entities accounted for using equity method	17	–
Dividend income of insurance	24	32
Other	78	110
Total non-operating income	329	324
Non-operating expenses		
Interest expenses	268	295
Share of loss of entities accounted for using equity method	–	334
Other	80	19
Total non-operating expenses	349	648
Ordinary income	2,582	1,599
Extraordinary income		
Gain on sales of non-current assets	15	12
Gain on sales of shares of subsidiaries and associates	234	–
Gain on bargain purchase	541	–
Other	92	–
Total extraordinary income	883	12
Extraordinary losses		
Loss on retirement of non-current assets	51	48
Other	7	–
Total extraordinary losses	59	48
Income before income taxes	3,406	1,563
Income taxes-current	1,143	785
Income taxes-deferred	121	47
Total income taxes	1,265	832
Income before minority interests	2,141	730
Minority interests in income (loss)	54	(0)
Net income	2,086	730

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2013 (from Apr. 1, 2013 to Sep. 30, 2013)	For the six months ended Sep. 30, 2014 (from Apr. 1, 2014 to Sep. 30, 2014)
Income before minority interests	2,141	730
Other comprehensive income		
Valuation difference on available-for-sale securities	(80)	141
Remeasurements of defined benefit plans, net of tax	–	2
Share of other comprehensive income of entities accounted for using equity method	–	457
Total other comprehensive income	(80)	601
Comprehensive income	2,060	1,332
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,006	1,332
Comprehensive income attributable to minority interests	53	(0)

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

For the six months ended September 30, 2014 (from April 1, 2014 to September 30, 2014)

None.

(Notes in Case of Significant Changes in Shareholder's Equity)

For the six months ended September 30, 2014 (from April 1, 2014 to September 30, 2014)

(Purchase of Treasury Shares and Tender Offer)

In view of the offers from OEP NG LLC and its joint holder OEP NG COINVEST LLC intending to sell out all of the common shares in the Company they held, the Company, at the Board of Directors' Meeting held on May 16, 2014, made a resolution to conduct purchase of treasury share, and that by means specifically of public tender offer, according to Article 156, Paragraph 1 of the Companies Act which is applied by the deemed replacement of terms pursuant to Article 165, Paragraph 3 of the Act, along with the provisions of the Company's Articles of Incorporation, which was followed up by its implementation as follows.

(1) Outline of the resolution adopted by the Board of Directors

1) Class of shares to be purchased	Common shares
2) Total number of shares to be purchased	10,000,100 shares (maximum)
3) Total value of shares to be repurchased	¥15,100 million (maximum)
4) Period of purchase	From May 19, 2014 to July 31, 2014

(2) Outline of the tender offer

1) Number of shares to be purchased via tender offer	10,000,000 shares
2) Tender offer price	¥1,510 per share
3) Funds necessary for tender offer	¥15,123 million

(Note) This amount includes estimated value of tender fee and other associated costs.

4) Tender offer period	From May 19, 2014 to June 17, 2014
5) Date of public notice for commencing tender offer	May 19, 2014
6) Date for commencing settlement	July 9, 2014

(3) Results of the tender offer

1) Total number of shares offered	9,531,100 shares
2) Total number of shares purchased	9,531,100 shares
3) Total value of shares purchased	¥14,391 million
4) Settlement date	July 9, 2014

4. Supplementary Information

(1) Production, Order and Sales Status

The Group is mainly engaged in sales and consequently does not indicate amounts and volumes representing its production and orders received for each reportable segment. In terms of the net sales and profits of the Group, the gas business, which by nature is characterized by sharp seasonal fluctuations, accounts for a major part of the Group's business. Therefore, sales and profits tend to rise disproportionately in the second half of the year.

1) Sales results

Sales by reportable segment for the six months ended September 30, 2014 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the six months ended Sep. 30, 2014 (from Apr. 1, 2014 to Sep. 30, 2014)	For the six months ended Sep. 30, 2013 (from Apr. 1, 2013 to Sep. 30, 2013)
LP gas Business	32,222	31,112
City gas Business	23,333	22,452
Total	55,555	53,565

2) Sales results of LP gas business (Millions of yen)

Reportable segments	For the six months ended Sep. 30, 2014 (from Apr. 1, 2014 to Sep. 30, 2014)	For the six months ended Sep. 30, 2013 (from Apr. 1, 2013 to Sep. 30, 2013)
Gas	26,281	24,725
Equipment, construction contracts, etc.	5,941	6,387
Total	32,222	31,112

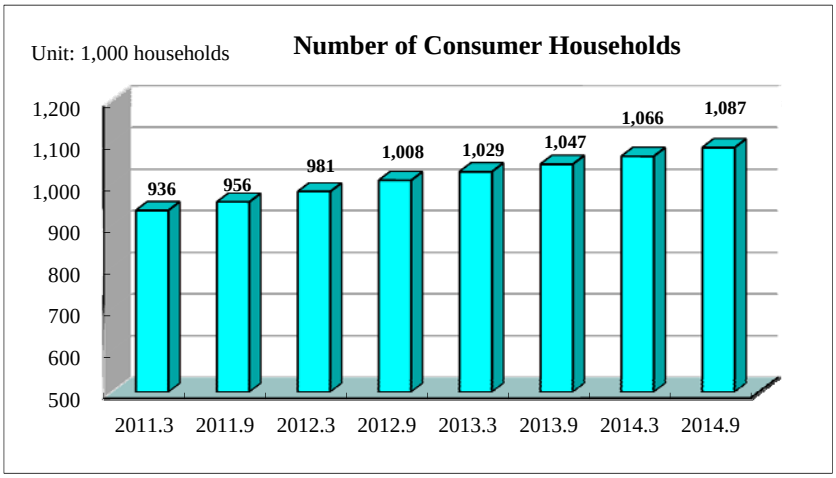
3) Sales results of city gas business (Millions of yen)

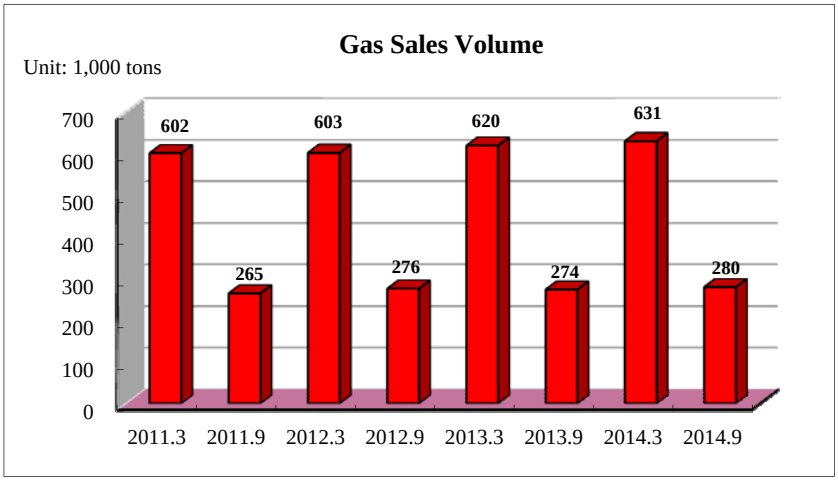
Reportable segments	For the six months ended Sep. 30, 2014 (from Apr. 1, 2014 to Sep. 30, 2014)	For the six months ended Sep. 30, 2013 (from Apr. 1, 2013 to Sep. 30, 2013)
Gas	20,033	18,929
Equipment, construction contracts, etc.	3,299	3,523
Total	23,333	22,452

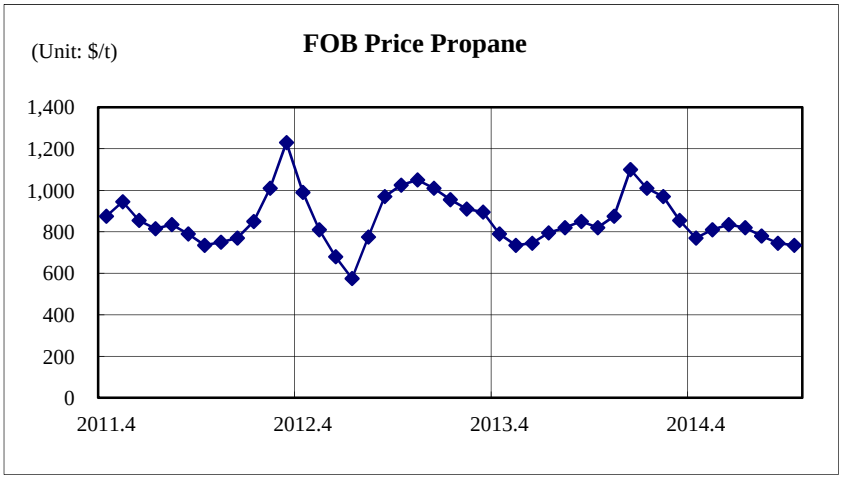
(Notes) 1. Above figures are stated net of consumption taxes, etc.

2. Inter-segment transactions are offset.

(2) Trends in the Number of Houses, etc.







(Note) Gas sales volume includes the sales volume of city gas (LNG) of the city gas business, which has been converted into the calorie value equivalent of LPG gas sales volume (1,000 tons).