Consolidated Financial Results for the Six Months Ended September 30, 2015 [Japanese GAAP]

October 28, 2015

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
Contact: Eiichi Miyamoto, Executive Officer, Manager of Financial Department
Phone: 03-3553-1281
Scheduled date of filing quarterly securities report: November 12, 2015
Scheduled date of commencing dividend payments: November 18, 2015
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, 2015 (April 1, 2015 to September 30, 2015)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended Sep. 30, 2015	51,545	(7.2)	3,690	91.8	3,451	115.8	2,079	184.5
Six months ended Sep. 30, 2014	55,555	3.7	1,924	(26.0)	1,599	(38.1)	730	(65.0)

(Note) Comprehensive income: Six months ended Sep. 30, 2015 ¥2,050 million [53.9%]
Six months ended Sep. 30, 2014 ¥1,332 million [(35.3)%]

	Profit per share	Diluted profit per share
	Yen	Yen
Six months ended Sep. 30, 2015	59.87	―
Six months ended Sep. 30, 2014	18.30	―

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2015	117,733	36,567	31.1
As of Mar. 31, 2015	123,910	34,969	28.2

(Reference) Equity: As of Sep. 30, 2015 ¥36,563 million As of Mar. 31, 2015 ¥34,964 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, 2015	—	13.00	—	13.00	26.00
Fiscal year ending Mar. 31, 2016	—	13.00			
Fiscal year ending Mar. 31, 2016 (Forecast)			—	17.00	30.00

(Note) Revision of dividend projection from recently announced figures: Yes

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2016 (April 1, 2015 to March 31, 2016)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full-year	116,000	(7.7)	11,700	16.8	11,100	17.7	6,600	19.4	190.02

(Note) Revision of financial results projection from recently announced figures: Yes

4. Notes

(1) Significant changes of subsidiaries 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 shares)

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

Sep. 30, 2015	48,561,525 shares
Mar. 31, 2015	48,561,525 shares

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

Sep. 30, 2015	13,828,552 shares
Mar. 31, 2015	13,828,252 shares

3) Average number of shares during the period:

Six months ended Sep. 30, 2015	34,733,076 shares
Six months ended Sep. 30, 2014	39,945,986 shares

(Note) From the second quarter of the fiscal year ending March 31, 2016, the Company has introduced the "Directors' Compensation BIP (Board Incentive Plan) Trust." Accordingly, the total number of treasury shares as of September 30, 2015 includes 291,300 shares of the Company held by the Trust.

* Presentation regarding the implementation status of the quarterly review procedures

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 the 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.

Contents of Appendix

1. Qualitative Information on Consolidated Performance for the Period under Review ----------2
(1) Explanation of Results of Operations ----------2
(2) Explanation of Financial Position ----------4
(3) Explanation of Consolidated Forecast Results and Other Forward-looking Information ----------4
2. Issues Related to Summary Information (Notes) ----------5
(1) Significant Changes of Subsidiaries during the Period under Review ----------5
(2) Adoption of Special Accounting Processes for Preparing Quarterly Consolidated Financial Statements -------5
(3) Changes to Accounting Policies, Changes to Accounting Estimates, and Revision Restatements ---------5
Additional Information ----------6
3. Consolidated Financial Statements ----------8
(1) Consolidated Balance Sheet ----------8
(2) Consolidated Statement of Income and Comprehensive Income ----------10
(3) Notes to Consolidated Financial Statements ----------12
(Notes on Going Concern Assumption) ----------12
(Notes in Case of Significant Changes in Shareholder's Equity) ----------12
4. Supplementary Information----------13
(1) Production, Order and Sales Status ----------13
(2) Trends in the Number of Houses, etc. ----------14

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

(1) Explanation of Results of Operations

Regarding the environment surrounding the energy industry in Japan, since the retail sale of electricity and city gas has been decided to be fully liberalized in April 2016 and 2017, respectively, various initiatives towards the liberalization have surfaced in the energy industry.

The Company believes it to be critically important to offer new convenience in energy services to customers while assuring safety and stable supply. To this end, the Company concluded, effective on October 5, 2015, a business partnership agreement with Tokyo Electric Power Company, Incorporated, on the development of new services associated with combined sales of electricity and gas. The Company has already conducted combined sales of electricity and LP gas to large-volume customers. After liberalization, both companies will cooperate for expanding the joint-sales operation, with a view to providing renewed satisfaction to customers.

In addition, the Company has developed the Nichigas Protect Member Service, "*Ookina Osewa* (assistance more than expected)," which combines the extended warranty for gas appliances with on-site service (free service for troubles related to plumbing, etc.), jointly with Tokio Marine & Nichido Fire Insurance Co., Ltd. Through this service, the Company has launched services to extensively support the daily lives of contracted customers. The Company will remain committed to enhancing the collaboration with Tokyo Electric Power Company, Incorporated, for creating a range of new added value on the energy service platform available to customers at their choice. The Company will also be committed to developing new price menus applying the knowledge and expertise acquired from overseas investments in the U.S. and Australia, which are in a harsh market environment because of the advancing liberalization of the retail sale of energy, with a view to developing into an integrated energy company to be chosen by customers.

In November 2015, the Company will move its headquarter to Yoyogi, Shibuya-ku. The Company plans to position the current headquarter as the operating base of the eastern part of Tokyo, thereby having sales bases in the eastern part and the western part of Tokyo. Along with this, the Company will promote its branding strategies by introducing new vehicles and uniforms to be used by employees, as well as focus efforts on providing new services as the "Nichigas Group," a brand trusted by people in the communities.

The new operational system linking cloud technology and mobile devices is already in operation at the Company, greatly contributing to reducing costs for operations such as meter reading, delivery and security. The Company deems the system to be the most important tool for synergy in efficiently running business collaborations with other companies and is working on the renewal of the system so that it supports price menus, etc., which are expected to become diversified in the future, along with active prior investments in the ICT field.

For the period under review, consolidated net sales amounted to ¥51,545 million, a year-on-year decrease of 7.2%, due to factors such as returning the decrease in raw material prices in the LP gas industry to customers, in addition to a decrease in gas sales volume compared to the same period of the previous fiscal year due to the impact of higher atmospheric and water temperatures, despite a steady increase in the number of customers.

The number of customers of the Group increased by 24,000 households compared with the end of the previous fiscal year to 1,132,000 households as of the end of the six months ended September 30, 2015.

In terms of profits, operating income increased by 91.8% year-on-year to ¥3,690 million, ordinary income increased by 115.8% year-on-year to ¥3,451 million, and profit attributable to owners of parent increased by 184.5% year-on-year to ¥2,079 million, thereby increasing profits significantly. These increases were attributable to factors such as lower raw material prices compared with the same period of the previous fiscal year resulting in a decrease in cost of sales, despite an increase in labor costs accompanied by the introduction of a new personnel system aimed at providing incentives to employees who contributed to the improvement of business performance.
Business performance by segment for the six months ended September 30, 2015 is as follows:

[LP Gas Business]
In the LP gas business, although the sales volume of home use LP gas increased slightly thanks to a steady growth in the number of customers, home use gas prices were lowered, in addition to decreased sales volume of business use LP gas compared with the same period of the previous fiscal year due to the impact of higher atmospheric and water temperatures. Owing to these factors, net sales for the six months ended September 30, 2015 decreased by ¥2,278 million (7.1% decrease) year-on-year to ¥29,943 million.

[City Gas Business]
In the city gas business, net sales for the six months ended September 30, 2015 decreased by ¥1,731 million (7.4% decrease) year-on-year to ¥21,601 million, reflecting low levels of unit sales prices of natural gas due to the gas rate adjustment system, in addition to decreased sales volume of home use gas compared with the same period of the previous fiscal year due to factors such as the impact of higher atmospheric and water temperatures.

(2) Explanation of Financial Position

1) Assets

Total assets as of the end of the second quarter of the fiscal year ending March 31, 2016 decreased by ¥6,177 million (5.0%) from the end of the previous fiscal year and stood at ¥117,733 million. This is mainly attributable to the decreases in cash and deposits and 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, 2016 decreased by ¥7,775 million (8.7%) from the end of the previous fiscal year and stood at ¥81,166 million. This is mainly attributable to the decrease in loans payable due to steady repayments 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, 2016 increased by ¥1,598 million (4.6%) from the end of the previous fiscal year and stood at ¥36,567 million. This is mainly a reflection of the increase and decrease in retained earnings due to profit attributable to owners of parent and payment of dividends.

As a result, equity ratio increased by 2.9 points from the end of the previous fiscal year to 31.1%.

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

In light of the recent performance results, the Company has made revisions to the consolidated financial results forecast for the full-year of the fiscal year ending March 31, 2016, announced on April 27, 2015. For further details, please refer to the “Notice Concerning Revisions of the Financial Results Forecast” announced today (October 28, 2015).

2. Issues Related to Summary Information (Notes)

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

None.

(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)

Effective from the first quarter of the fiscal year ending March 31, 2016, the Company adopted the Accounting Standard for Business Combinations (Accounting Standards Board of Japan [ASBJ] Statement No. 21, September 13, 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013), and the Accounting Standard for Business Divestitures (ASBJ Statement No.7, September 13, 2013) and others, and accordingly has changed the presentation of net income and other related items, and the presentation of minority interests to non-controlling interests. To reflect this change in presentation, the reclassification of accounts has been made to the consolidated financial statements and the non-consolidated financial statements for the six months ended September 30, 2014 and the fiscal year ended March 31, 2015.

Additional Information

(Abolition of Directors' Retirement Benefits System)

At the 61st Ordinary General Meeting of Shareholders held on June 25, 2015 (hereinafter referred to as the "General Meeting of Shareholders"), the Company made a resolution to abolish its directors' retirement benefits system as of the end of the fiscal year ended March 31, 2015.

For the Directors and Corporate Auditors who will remain in office after the conclusion of the General Meeting of Shareholders, a termination payout of retirement benefits for their term of service up to March 31, 2015 was also resolved at the General Meeting of Shareholders.

In six consolidated subsidiaries of the Company, similar resolutions were adopted. For the Directors, the payout date shall be the date on which they retire from all posts including Director, etc. of the Company and its consolidated subsidiaries, and for the Corporate Auditors, the payout date shall be the date on which they retire from the post of Corporate Auditor (in the case where the Corporate Auditor retires and later assumes office as Director, etc. of the Company and its consolidated subsidiaries, the date on which he/she retires from all posts including Director, etc.).

Accordingly, the total balance amount of "provision for directors' retirement benefits" was reversed during the first quarter of the fiscal year ending March 31, 2016 and the unpaid amount of the termination payout is included in "Other" under current liabilities and non-current liabilities.

(Transactions Concerning Share-based Compensation "Directors' Compensation BIP (Board Incentive Plan) Trust")

From the second quarter of the fiscal year ending March 31, 2016, the Company has introduced the "Directors' Compensation BIP (Board Incentive Plan) Trust" (hereinafter referred to as the "BIP Trust"). This is an incentive plan intended for directors, modeled on the "Performance Share" and "Restricted Stock" plans in the U.S. The BIP Trust is defined as a share-based compensation for directors, under which Directors of the Company (excluding Outside and Non-executive Directors), Executive Officers with whom the Company has concluded a mandate contract and Directors of the six consolidated subsidiaries of the Company (hereinafter collectively referred to as "eligible directors") are rewarded with a grant of shares of the Company. The number of shares granted to individual directors is calculated based on their job title coefficients, which are determined according to basic monthly remuneration and job titles for each fiscal year.

The Company contributes funds for the acquisition of its shares to set up the BIP Trust, whose beneficiaries are the eligible directors. In accordance with the pre-established Share Delivery Rules, the BIP Trust will acquire the estimated number of the shares of the Company to be granted to eligible directors, either by obtaining treasury shares disposed of by the Company or from the stock market.

The Company, based on provisions of the Share Delivery Rules, will grant eligible directors "points" (entitlement to the Company's shares) commensurate with their job title coefficients for each fiscal year. At the time of retirement, the Company will allocate to eligible directors the number of shares of the Company equivalent to 70% of their accumulated points through the BIP Trust. The remaining portion of shares will be

converted by the BIP Trust into cash equivalent to the conversion value of these shares, and the Company allocates the cash to eligible directors through the BIP Trust.

With regard to the accounting treatment for the transactions concerning the BIP Trust, the Company has adopted "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ Practical Issues Task Force No. 30, December 25, 2013).

Meanwhile, at the end of the second quarter of the fiscal year ending March 31, 2016, the Company recorded its shares held in the BIP Trust as treasury shares under net assets in the Consolidated Balance Sheet at the Trust's book value (excluding incidental expenses). They represented 291,300 shares, recorded at ¥1,099 million.

In addition, the Company recorded the estimated compensation for directors stated above at the amount attributed to the six months ended September 30, 2015, as the provision for share-based compensation.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2015 (As of Mar. 31, 2015)	Six months ended Sep. 30, 2015 (As of Sep. 30, 2015)
Assets		
Current assets		
Cash and deposits	17,067	14,816
Notes and accounts receivable - trade	9,525	6,184
Merchandise and finished goods	5,263	4,439
Work in process	27	39
Raw materials and supplies	74	79
Deferred tax assets	505	444
Other	1,081	1,186
Allowance for doubtful accounts	(130)	(119)
Total current assets	33,413	27,070
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,222	7,134
Machinery, equipment and vehicles, net	36,536	35,179
Tools, furniture and fixtures, net	504	582
Land	23,267	23,465
Leased assets, net	2,256	2,369
Construction in progress	2,297	3,349
Total property, plant and equipment	72,086	72,081
Intangible assets		
Goodwill	5,012	4,876
Other	1,360	1,787
Total intangible assets	6,373	6,663
Investments and other assets		
Investment securities	4,719	4,627
Other	8,005	7,974
Allowance for doubtful accounts	(705)	(695)
Total investments and other assets	12,019	11,907
Total non-current assets	90,479	90,652
Deferred assets	17	10
Total assets	123,910	117,733

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2015 (As of Mar. 31, 2015)	Six months ended Sep. 30, 2015 (As of Sep. 30, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,051	5,728
Electronically recorded obligations - operating	3,178	2,862
Short-term loans payable	27,504	25,416
Income taxes payable	2,431	1,549
Provision for bonuses	459	490
Other	5,144	5,112
Total current liabilities	48,769	41,160
Non-current liabilities		
Long-term loans payable	33,849	33,648
Provision for directors' retirement benefits	1,043	–
Provision for share-based compensation	–	85
Provision for gas holder repairs	339	370
Net defined benefit liability	2,306	2,337
Other	2,633	3,564
Total non-current liabilities	40,172	40,005
Total liabilities	88,941	81,166
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	6,683	7,376
Retained earnings	39,263	40,891
Treasury shares	(19,297)	(19,992)
Total shareholders' equity	33,718	35,345
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,109	1,081
Foreign currency translation adjustment	207	192
Remeasurements of defined benefit plans	(70)	(57)
Total accumulated other comprehensive income	1,246	1,217
Non-controlling interests	4	4
Total net assets	34,969	36,567
Total liabilities and net assets	123,910	117,733

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2014 (from Apr. 1, 2014 to Sep. 30, 2014)	For the six months ended Sep. 30, 2015 (from Apr. 1, 2015 to Sep. 30, 2015)
Net sales	55,555	51,545
Cost of sales	34,434	27,710
Gross profit	21,120	23,834
Selling, general and administrative expenses	19,196	20,144
Operating income	1,924	3,690
Non-operating income		
Interest income	117	159
Dividend income	42	67
Real estate rent	20	23
Dividend income of insurance	32	0
Other	110	100
Total non-operating income	324	350
Non-operating expenses		
Interest expenses	295	260
Share of loss of entities accounted for using equity method	334	296
Other	19	32
Total non-operating expenses	648	589
Ordinary income	1,599	3,451
Extraordinary income		
Gain on sales of non-current assets	12	2
Total extraordinary income	12	2
Extraordinary losses		
Loss on retirement of non-current assets	48	44
Other	–	7
Total extraordinary losses	48	51
Income before income taxes	1,563	3,401
Income taxes - current	785	1,371
Income taxes - deferred	47	(49)
Total income taxes	832	1,322
Profit	730	2,079
Loss attributable to non-controlling interests	(0)	(0)
Profit attributable to owners of parent	730	2,079

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2014 (from Apr. 1, 2014 to Sep. 30, 2014)	For the six months ended Sep. 30, 2015 (from Apr. 1, 2015 to Sep. 30, 2015)
Profit	730	2,079
Other comprehensive income		
Valuation difference on available-for-sale securities	141	(27)
Remeasurements of defined benefit plans, net of tax	2	13
Share of other comprehensive income of entities accounted for using equity method	457	(14)
Total other comprehensive income	601	(28)
Comprehensive income	1,332	2,050
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,332	2,050
Comprehensive income attributable to non-controlling interests	(0)	(0)

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

None.

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

For the six months ended September 30, 2015 (from April 1, 2015 to September 30, 2015)

None.

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, 2015 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the six months ended Sep. 30, 2015 (from Apr. 1, 2015 to Sep. 30, 2015)	For the six months ended Sep. 30, 2014 (from Apr. 1, 2014 to Sep. 30, 2014)
LP Gas Business	29,943	32,222
City Gas Business	21,601	23,333
Total	51,545	55,555

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

Reportable segments	For the six months ended Sep. 30, 2015 (from Apr. 1, 2015 to Sep. 30, 2015)	For the six months ended Sep. 30, 2014 (from Apr. 1, 2014 to Sep. 30, 2014)
Gas	23,304	26,281
Equipment, construction contracts, etc.	6,639	5,941
Total	29,943	32,222

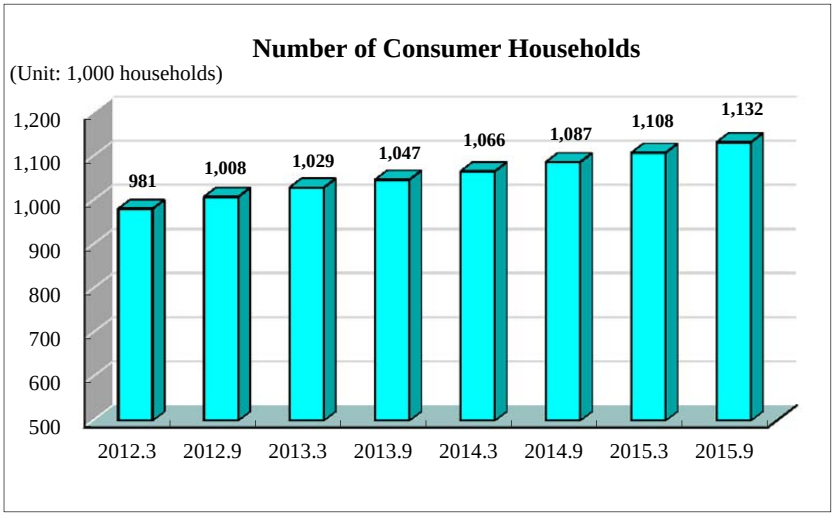
3) Sales results of city gas business (Millions of yen)

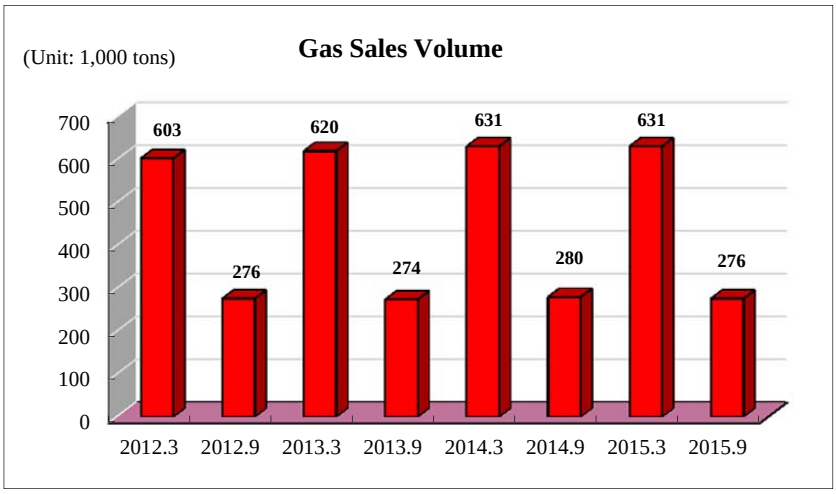
Reportable segments	For the six months ended Sep. 30, 2015 (from Apr. 1, 2015 to Sep. 30, 2015)	For the six months ended Sep. 30, 2014 (from Apr. 1, 2014 to Sep. 30, 2014)
Gas	18,237	20,033
Equipment, construction contracts, etc.	3,364	3,299
Total	21,601	23,333

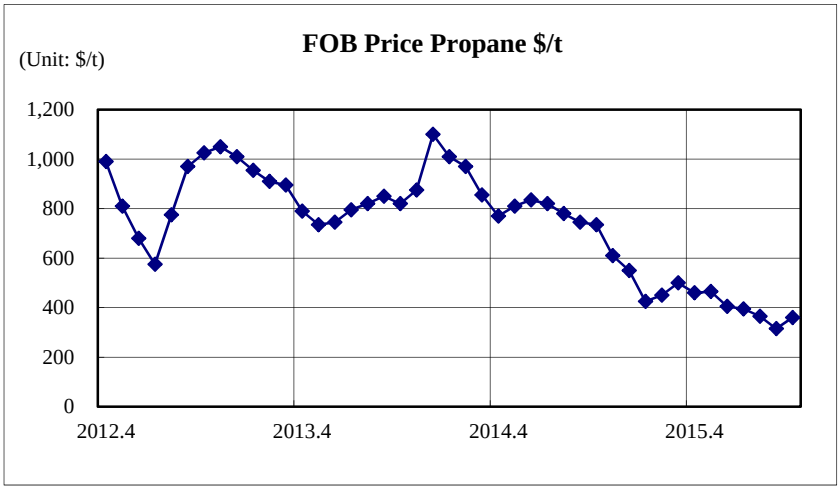
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).