Consolidated Financial Results for the Six Months Ended September 30, 2017 [Japanese GAAP]

October 27, 2017

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, 2017
Scheduled date of commencing dividend payments: November 17, 2017
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, 2017 (April 1, 2017 to September 30, 2017)

(1) Consolidated Results of Operations (% 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, 2017	48,465	(0.8)	1,508	(68.3)	1,595	(65.5)	1,087	(65.0)
Six Months ended Sep. 30, 2016	48,865	(5.2)	4,753	28.8	4,626	34.0	3,110	49.6

(Note) Comprehensive income: Six Months ended Sep. 30, 2017 ¥1,235 million [(61.9)%]
Six Months ended Sep. 30, 2016 ¥3,245 million [58.3%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six Months ended Sep. 30, 2017	25.47	―
Six Months ended Sep. 30, 2016	72.86	―

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2017	128,988	66,647	51.7
As of Mar. 31, 2017	139,157	66,641	47.9

(Reference) Equity: As of Sep. 30, 2017 ¥66,643 million As of Mar. 31, 2017 ¥66,635 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, 2017	—	17.00	—	17.00	34.00
Fiscal year ending Mar. 31, 2018	—	19.00			
Fiscal year ending Mar. 31, 2018 (Forecast)			—	23.00	42.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2018 (April 1, 2017 to March 31, 2018)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full-year	117,000	6.8	10,500	(13.9)	10,500	(13.8)	7,000	1.3	163.95

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

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.: No

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, 2017	48,561,525 shares
Mar. 31, 2017	48,561,525 shares

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

Sep. 30, 2017	5,858,105 shares
Mar. 31, 2017	5,866,468 shares

3) Average number of shares during the period:

Six months ended Sep. 30, 2017	42,700,322 shares
Six months ended Sep. 30, 2016	42,690,340 shares

(Note) The number of treasury shares includes the shares of the Company held by the “Directors’ Compensation BIP (Board Incentive Plan) Trust” (As of September 30, 2017: 271,137 shares, as of March 31, 2017: 279,796 shares).

* These financial results are outside the scope of quarterly review.

* 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 domestic energy industry has entered an era of great competition as seen by the successive announcements of entry of operators from other industries and collaboration across energy boundaries, following the full liberalization of the retail sale of electricity in April 2016, and that of city gas in April 2017.

With a view to expanding its business under such circumstance, the Group changed its wholesale supplier to city gas raw materials following liberalization to TEPCO Energy Partner, Incorporated, while it entered into the liberalized city gas retail market by announcing the “Premium 5+ Plan,” a package discount for providing inexpensive services to customers. At present, the Group is striving to enhance recognition of the Company’s brand by implementing the brand strategy mainly through TV commercial and web advertising, while expanding the lineup of discount services of the “Premium 5+ Plan” to include optical internet lines and video distribution services, in addition to electricity and water delivery, to enhance customer convenience, and is making an all-out marketing effort to achieve the target of 110,000 acquired customer households in the first fiscal year. As at the end of the period under review, the Group has received 55,000 customer applications and achieved 48,000 customer households in this market.

The Company also established Tokyo Energy Alliance Co., Ltd., a new company that provides a platform for the city gas business, through joint investment with TEPCO Energy Partner, Incorporated, the Group’s wholesale supplier of city gas raw material, in August 2017.

Tokyo Energy Alliance Co., Ltd. will sequentially provide services that include wholesale supply of city gas, wheeling procedures, security work, sale and repair of gas equipment, and a core cloud system for gas operations, including highly convenient payment functions, to operators seeking new entry.

Tokyo Energy Alliance Co., Ltd. will commence wholesale supply of city gas from the second half of the fiscal year ending March 31, 2018, with a view to selling to customers equivalent to 1 million households in the fiscal year ending March 31, 2020.

In addition, through joint development with Metaps Inc., the Company’s capital and business alliance partner, with leading-edge ICT and AI technologies, the Company has developed and operated a system to sell gas equipment, which allows users to complete from applications to payments through LINE, and an online payment system that enable customers to make bill payments for gas by credit card and register to make gas bill payments by transfer from a bank account through their smartphones.

We will keep striving to promote efforts for system development utilizing advanced technologies to eliminate customer stress arising from procedures to receive services through paperless operations and provide speedy and highly convenient services.

The number of customers of the Group steadily increased by 95,000 households, compared with the end of the same period of the previous fiscal year, to 1,271,000 households as of the end of the six months ended September 30, 2017.

For the period under review, consolidated net sales amounted to ¥48,465 million, a year-on-year decrease of 0.8%, due to factors such as a decrease in the sales of equipment works and others deriving from a decrease in sales of gas appliances and the closing of the gas cartridge business despite an increase in net sales of gas

compared with the same period of the previous fiscal year as a result of the steady increase in the number of customers.

In terms of profit, operating income decreased by 68.3% year on year to ¥1,508 million, ordinary income decreased by 65.5% year on year to ¥1,595 million, and profit attributable to owners of parent decreased by 65.0% year on year to ¥1,087 million. These decreases were attributable to an increase in cost of sales due to higher raw material prices compared with the same period of the previous fiscal year for both LP gas and city gas, along with an increase in advertising costs with a view to stimulating demand in the liberalized market.

Business performance by segment for the six months ended September 30, 2017 is as follows:

[LP Gas Business]

In the LP gas business, net sales for the six months ended September 30, 2017 decreased by ¥1,687 million (5.8% decrease) year on year to ¥27,433 million, due to factors including the closing of the gas cartridge business, despite the increased sales volume of LP gas thanks to a steady growth in the number of customers.

[City Gas Business]

In the city gas business, net sales for the six months ended September 30, 2017 increased by ¥1,286 million (6.5% increase) year on year to ¥21,031 million, due to factors including a year-on-year increase in sales volume of home use LP gas as a result of the acquisition of customers in the liberalized market.

(2) Explanation of Financial Position

1) Assets

Total assets as of the end of the second quarter of the fiscal year ending March 31, 2018 decreased by ¥10,168 million or 7.3% from the end of the previous fiscal year and stood at ¥128,988 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, 2018 decreased by ¥10,174 million or 14.0% from the end of the previous fiscal year and stood at ¥62,340 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, 2018 increased by ¥5 million or 0.0% from the end of the previous fiscal year and stood at ¥66,647 million. This is mainly a reflection of the increase and decrease in retained earnings due to the recording of profit attributable to owners of parent and payment of dividends, as well as the increase in valuation difference on available-for-sale securities.

As a result, equity ratio increased by 3.8 points from the end of the previous fiscal year to 51.7%.

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

In the fiscal year ending March 31, 2018, the Company projects consolidated net sales of ¥117,000 million or 6.8% increase year on year attributable to an increase in gas sales volume mainly through expansion of its customer base and the spread and expansion of the use of gas appliances in the liberalized city gas retail market. In terms of profit, as a result of a significant increase planned for prior investments in city gas liberalization and demand development costs, in addition to a rise in raw material prices, the Group projects operating income of ¥10,500 million (13.9% decrease), ordinary income of ¥10,500 million (13.8% decrease), and profit attributable to owners of parent of ¥7,000 million (1.3% increase).

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2017 (As of Mar. 31, 2017)	Six months ended Sep. 30, 2017 (As of Sep. 30, 2017)
Assets		
Current assets		
Cash and deposits	31,418	25,167
Notes and accounts receivable - trade	6,708	4,788
Merchandise and finished goods	4,639	3,368
Work in process	18	24
Raw materials and supplies	100	173
Deferred tax assets	504	401
Other	871	928
Allowance for doubtful accounts	(125)	(134)
Total current assets	44,134	34,718
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,323	9,261
Machinery, equipment and vehicles, net	35,484	34,588
Tools, furniture and fixtures, net	1,031	1,007
Land	24,594	25,279
Leased assets, net	2,153	1,998
Construction in progress	761	829
Total property, plant and equipment	73,349	72,964
Intangible assets		
Goodwill	3,824	3,472
Other	3,598	3,848
Total intangible assets	7,422	7,321
Investments and other assets		
Investment securities	5,823	5,395
Other	8,912	9,072
Allowance for doubtful accounts	(485)	(483)
Total investments and other assets	14,250	13,983
Total non-current assets	95,022	94,269
Total assets	139,157	128,988

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2017 (As of Mar. 31, 2017)	Six months ended Sep. 30, 2017 (As of Sep. 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,145	4,609
Electronically recorded obligations - operating	4,373	3,300
Short-term loans payable	15,976	13,537
Income taxes payable	2,360	712
Provision for bonuses	434	466
Other	6,392	5,005
Total current liabilities	36,683	27,632
Non-current liabilities		
Long-term loans payable	29,013	28,395
Provision for share-based compensation	279	326
Provision for gas holder repairs	354	405
Provision for loss on voluntary recall of products	825	238
Net defined benefit liability	2,410	2,402
Other	2,948	2,939
Total non-current liabilities	35,831	34,707
Total liabilities	72,515	62,340
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	15,724	15,724
Retained earnings	50,899	50,726
Treasury shares	(8,853)	(8,822)
Total shareholders' equity	64,840	64,698
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,564	1,673
Foreign currency translation adjustment	249	287
Remeasurements of defined benefit plans	(19)	(15)
Total accumulated other comprehensive income	1,795	1,944
Non-controlling interests	6	4
Total net assets	66,641	66,647
Total liabilities and net assets	139,157	128,988

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

Account	For the six months ended Sep. 30, 2016 (from Apr. 1, 2016 to Sep. 30, 2016)	For the six months ended Sep. 30, 2017 (from Apr. 1, 2017 to Sep. 30, 2017)
Net sales	48,865	48,465
Cost of sales	23,284	23,807
Gross profit	25,580	24,657
Selling, general and administrative expenses	20,826	23,148
Operating income	4,753	1,508
Non-operating income		
Interest income	17	20
Dividend income	47	40
Foreign exchange gains	–	14
Share of profit of entities accounted for using equity method	61	–
Real estate rent	16	27
Insurance income	31	85
Dividend income of insurance	11	2
Other	132	173
Total non-operating income	318	365
Non-operating expenses		
Interest expenses	198	181
Share of loss of entities accounted for using equity method	–	57
Foreign exchange losses	131	–
Other	115	40
Total non-operating expenses	445	278
Ordinary income	4,626	1,595
Extraordinary income		
Gain on sales of non-current assets	4	9
Gain on sales of investment securities	–	272
Other	0	–
Total extraordinary income	4	282
Extraordinary losses		
Loss on sales of non-current assets	1	1
Loss on retirement of non-current assets	34	38
Other	0	–
Total extraordinary losses	36	39
Profit before income taxes	4,594	1,837
Income taxes - current	1,337	532
Income taxes - deferred	146	218
Total income taxes	1,484	751
Profit	3,110	1,086
Profit (loss) attributable to non-controlling interests	0	(1)
Profit attributable to owners of parent	3,110	1,087

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2016 (from Apr. 1, 2016 to Sep. 30, 2016)	For the six months ended Sep. 30, 2017 (from Apr. 1, 2017 to Sep. 30, 2017)
Profit	3,110	1,086
Other comprehensive income		
Valuation difference on available-for-sale securities	0	108
Remeasurements of defined benefit plans, net of tax	4	3
Share of other comprehensive income of entities accounted for using equity method	129	37
Total other comprehensive income	135	149
Comprehensive income	3,245	1,235
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,245	1,237
Comprehensive income attributable to non-controlling interests	0	(1)

(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, 2017 (from April 1, 2017 to September 30, 2017)

None.

3. 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, 2017 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the six months ended Sep. 30, 2017 (from Apr. 1, 2017 to Sep. 30, 2017)	For the six months ended Sep. 30, 2016 (from Apr. 1, 2016 to Sep. 30, 2016)
LP gas Business	27,433	29,120
City gas Business	21,031	19,744
Total	48,465	48,865

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

Reportable segments	For the six months ended Sep. 30, 2017 (from Apr. 1, 2017 to Sep. 30, 2017)	For the six months ended Sep. 30, 2016 (from Apr. 1, 2016 to Sep. 30, 2016)
Gas	23,805	21,923
Equipment, construction contracts, etc.	3,628	7,196
Total	27,433	29,120

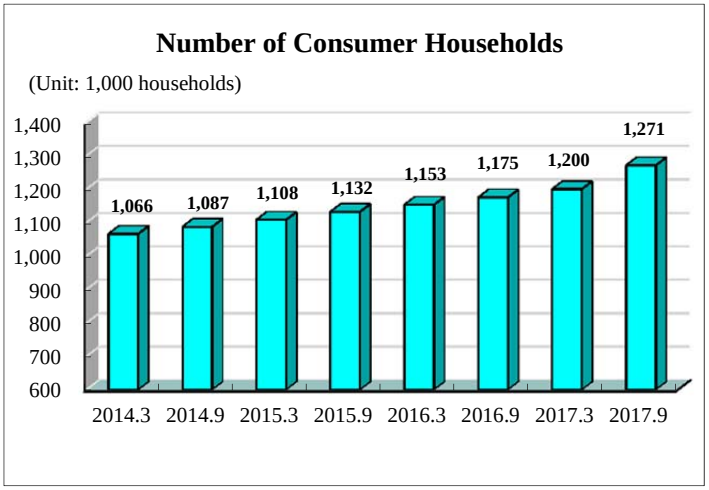
3) Sales results of city gas business (Millions of yen)

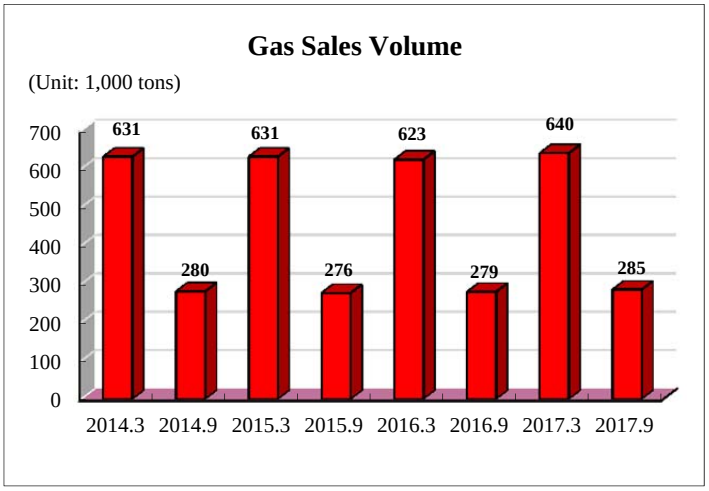
Reportable segments	For the six months ended Sep. 30, 2017 (from Apr. 1, 2017 to Sep. 30, 2017)	For the six months ended Sep. 30, 2016 (from Apr. 1, 2016 to Sep. 30, 2016)
Gas	16,222	15,096
Equipment, construction contracts, etc.	4,808	4,647
Total	21,031	19,744

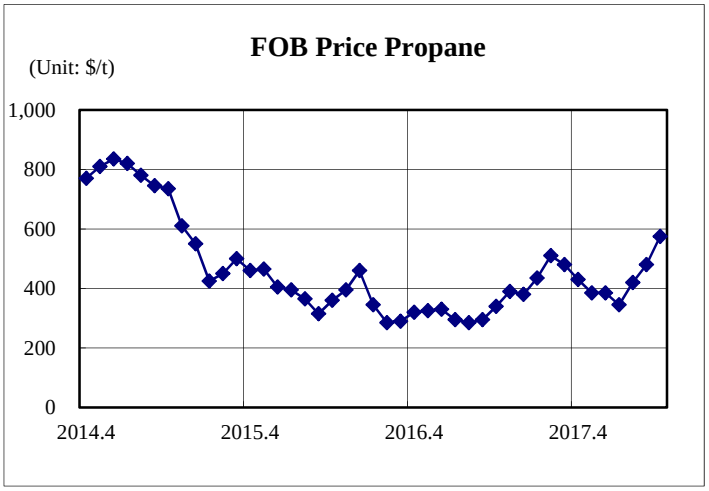
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).