Consolidated Financial Results for the Three Months Ended June 30, 2018 [Japanese GAAP]

July 26, 2018

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, Managing Executive Officer, Manager of Financial Department
Phone: 03-5308-2111
Scheduled date of filing quarterly securities report: August 10, 2018
Scheduled date of commencing dividend payments: —
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: None

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

1. Consolidated Financial Results for the Three Months Ended June 30, 2018 (April 1, 2018 to June 30, 2018)

(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	%
Three Months ended Jun. 30, 2018	28,676	7.2	1,804	(15.5)	1,585	(29.2)	1,017	(38.2)
Three Months ended Jun. 30, 2017	26,749	(3.6)	2,135	(52.3)	2,240	(48.0)	1,646	(43.5)

(Note) Comprehensive income: Three Months ended Jun. 30, 2018 ¥985 million [(38.6)%]
Three Months ended Jun. 30, 2017 ¥1,605 million [(43.8)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three Months ended Jun. 30, 2018	23.83	—
Three Months ended Jun. 30, 2017	38.56	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Jun. 30, 2018	131,388	72,092	54.9
As of Mar. 31, 2018	137,953	72,076	52.2

(Reference) Equity: As of Jun. 30, 2018 ¥72,087 million As of Mar. 31, 2018 ¥72,069 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, 2018	—	19.00	—	23.00	42.00
Fiscal year ending Mar. 31, 2019	—				
Fiscal year ending Mar. 31, 2019 (Forecast)		23.00	—	23.00	46.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(% 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
Six months ending Sep. 30, 2018	53,000	9.4	2,000	32.6	2,300	44.2	1,400	28.7	32.78
Full-year	130,000	13.3	13,400	25.4	13,800	24.4	9,200	18.0	215.44

(Note) Revision of financial results 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.: 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):

Jun. 30, 2018	48,561,525 shares
Mar. 31, 2018	48,561,525 shares

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

Jun. 30, 2018	5,853,237 shares
Mar. 31, 2018	5,858,603 shares

3) Average number of shares during the period:

Three months ended Jun. 30, 2018	42,704,201 shares
Three months ended Jun. 30, 2017	42,697,930 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 June 30, 2018: 265,465 shares, as of March 31, 2018: 271,137 shares).

* These financial results are outside the scope of quarterly review by a certified public accountant or an audit corporation.

* 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 the second year of an era of great competition, following the full liberalization of the retail sale of electricity in April 2016 and that of city gas in April 2017. Already in the Kanto Region, entry of operators from other industries and collaboration across energy boundaries have accelerated, and the Company expects that proposal activities to consumers will gain further momentum through various package discount deals, etc.

With a view to expanding its business under such circumstance, and setting a target of 200,000 increased customer households in the liberalized city gas retail market in the current fiscal year, the Group strives to enhance recognition of its brand by implementing the brand strategy mainly through TV commercial and web advertising. In addition, we expanded the lineup of "Premium 5+ Plan," a package discount for providing highly convenient service to customers, and have been making an all-out marketing effort. Furthermore, with the cooperation of TEPCO Energy Partner, Incorporated, the Company's capital and business alliance partner, the Company is preparing to start retail sale of electricity in this autumn that will form a core product in the package plans with gas.

In addition, with the belief that advanced technology shall be essential to develop corporate value in the future, the Group continues to focus on technological innovation of ICT. Initiatives we promoted included joint development of an online payment system to enhance customer convenience with Metaps Inc., the Company's capital and business alliance partner, and introduction of an automatic response service ("AI Concierge," where artificial intelligence directly recognizes conversation with voice and responds automatically) of U-NEXT MARKETING Company Limited. In recent, the Group also started working on "Nichigas Stream," a new service to be offered through an app, in collaboration with SORACOM, INC. The service will cater to different needs by each customer by collecting large amounts of data from various devices such as gas cylinders and gas meters, and analyzing such data by using AI. In recognition of such strategic utilization of IT and its achievements of the Group to enhance the corporate value, the Group was chosen in the "2018 Competitive IT Strategy Company Stock Selection" for three consecutive years, which are selected jointly by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. We will keep striving to promote efforts for system development utilizing advanced technologies such as AI to eliminate customer stress arising from procedures to receive services through paperless operations and provide speedy and highly convenient services.

Regarding quantitative aspect, the number of customers of the Group significantly increased by 124,000 households, compared with the end of the same period of the previous fiscal year, to 1,372,000 households as of the end of the three months ended June 30, 2018.

For the period under review, consolidated net sales amounted to ¥28,676 million, a year-on-year increase of 7.2%, reflecting an increase in net sales of gas compared to the same period of the previous fiscal year as a result of the steady increase in the number of customers in the liberalized market, despite the impact of high temperature from the beginning of the year.

In terms of profit, operating income decreased by 15.5% year on year to ¥1,804 million, ordinary income decreased by 29.2% year on year to ¥1,585 million, and profit attributable to owners of parent decreased by

38.2% year on year to ¥1,017 million. These decreases were attributable to higher raw material prices, along with an increase in labor costs due to personnel increase to strengthen sales capability and other factors.

Business performance by segment for the three months ended June 30, 2018 is as follows:

[LP Gas Business]

In the LP gas business, net sales for the three months ended June 30, 2018 increased by ¥446 million (2.9% increase) year on year to ¥16,068 million, due to factors including a rise in selling price in line with higher raw material prices, despite the decreased sales volume of LP gas due to impact of high temperature from the beginning of the year.

[City Gas Business]

In the city gas business, net sales for the three months ended June 30, 2018 increased by ¥1,479 million (13.3% increase) year on year to ¥12,607 million, due to factors including a year-on-year increase in gas sales volume as a result of the steady growth in the number of customers in the liberalized market.

(2) Explanation of Financial Position

1) Assets

Total assets as of the end of the first quarter of the fiscal year ending March 31, 2019 decreased by ¥6,565 million or 4.8% from the end of the previous fiscal year and stood at ¥131,388 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 first quarter of the fiscal year ending March 31, 2019 decreased by ¥6,582 million or 10.0% from the end of the previous fiscal year and stood at ¥59,295 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 first quarter of the fiscal year ending March 31, 2019 increased by ¥16 million or 0.0% from the end of the previous fiscal year and stood at ¥72,092 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 a result, equity ratio increased by 2.7 points from the end of the previous fiscal year to 54.9%.

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

In the fiscal year ending March 31, 2019, the Company projects consolidated net sales of ¥130,000 million or 13.3% 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 the expected improvement of the balance in the LP gas business and the city gas business in the liberalized market, the Group projects operating income of ¥13,400 million (25.4% increase), ordinary income of ¥13,800 million (24.4% increase), and profit attributable to owners of parent of ¥9,200 million (18.0% increase).

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2018 (As of Mar. 31, 2018)	Three months ended Jun. 30, 2018 (As of Jun. 30, 2018)
Assets		
Current assets		
Cash and deposits	31,467	27,456
Notes and accounts receivable - trade	6,759	5,652
Merchandise and finished goods	5,453	4,217
Raw materials and supplies	182	173
Other	926	1,153
Allowance for doubtful accounts	(141)	(126)
Total current assets	44,649	38,527
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,255	9,117
Machinery, equipment and vehicles, net	34,129	33,477
Tools, furniture and fixtures, net	1,007	995
Land	25,244	25,244
Leased assets, net	2,211	2,075
Construction in progress	830	1,397
Total property, plant and equipment	72,678	72,308
Intangible assets		
Goodwill	3,073	2,882
Other	3,211	3,370
Total intangible assets	6,284	6,252
Investments and other assets		
Investment securities	4,485	4,355
Other	10,460	10,530
Allowance for doubtful accounts	(604)	(587)
Total investments and other assets	14,340	14,299
Total non-current assets	93,304	92,860
Total assets	137,953	131,388

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2018 (As of Mar. 31, 2018)	Three months ended Jun. 30, 2018 (As of Jun. 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,249	5,445
Electronically recorded obligations - operating	4,269	3,025
Short-term loans payable	11,012	13,881
Income taxes payable	3,023	585
Provision for bonuses	436	441
Other	5,632	6,437
Total current liabilities	31,624	29,818
Non-current liabilities		
Long-term loans payable	27,917	23,168
Provision for share-based compensation	405	419
Provision for gas holder repairs	294	311
Provision for loss on voluntary recall of products	38	5
Net defined benefit liability	2,431	2,445
Other	3,166	3,126
Total non-current liabilities	34,253	29,476
Total liabilities	65,877	59,295
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	15,724	15,724
Retained earnings	56,620	56,649
Treasury shares	(8,824)	(8,804)
Total shareholders' equity	70,589	70,639
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,212	1,252
Foreign currency translation adjustment	289	217
Remeasurements of defined benefit plans	(23)	(21)
Total accumulated other comprehensive income	1,479	1,448
Non-controlling interests	6	5
Total net assets	72,076	72,092
Total liabilities and net assets	137,953	131,388

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the three months ended Jun. 30, 2017 (from Apr. 1, 2017 to Jun. 30, 2017)	For the three months ended Jun. 30, 2018 (from Apr. 1, 2018 to Jun. 30, 2018)
Net sales	26,749	28,676
Cost of sales	12,746	14,675
Gross profit	14,002	14,001
Selling, general and administrative expenses	11,867	12,196
Operating income	2,135	1,804
Non-operating income		
Interest income	9	96
Dividend income	30	23
Real estate rent	11	17
Insurance income	68	0
Other	96	101
Total non-operating income	217	239
Non-operating expenses		
Interest expenses	90	78
Share of loss of entities accounted for using equity method	21	358
Other	0	21
Total non-operating expenses	112	459
Ordinary income	2,240	1,585
Extraordinary income		
Gain on sales of non-current assets	5	55
Gain on sales of investment securities	272	104
Total extraordinary income	277	159
Extraordinary losses		
Loss on retirement of non-current assets	16	23
Other	1	0
Total extraordinary losses	17	24
Profit before income taxes	2,500	1,720
Income taxes - current	632	558
Income taxes - deferred	220	145
Total income taxes	853	703
Profit	1,646	1,016
Profit (loss) attributable to non-controlling interests	0	(0)
Profit attributable to owners of parent	1,646	1,017

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the three months ended Jun. 30, 2017 (from Apr. 1, 2017 to Jun. 30, 2017)	For the three months ended Jun. 30, 2018 (from Apr. 1, 2018 to Jun. 30, 2018)
Profit	1,646	1,016
Other comprehensive income		
Valuation difference on available-for-sale securities	(70)	39
Remeasurements of defined benefit plans, net of tax	1	2
Share of other comprehensive income of entities accounted for using equity method	27	(72)
Total other comprehensive income	(41)	(31)
Comprehensive income	1,605	985
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,604	986
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 three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)

None.

3. Others

(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 three months ended Jun 30, 2018 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the three months ended Jun. 30, 2018 (from Apr. 1, 2018 to Jun. 30, 2018)	For the three months ended Jun. 30, 2017 (from Apr. 1, 2017 to Jun. 30, 2017)
LP gas Business	16,068	15,621
City gas Business	12,607	11,127
Total	28,676	26,749

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

Reportable segments	For the three months ended Jun. 30, 2018 (from Apr. 1, 2018 to Jun. 30, 2018)	For the three months ended Jun. 30, 2017 (from Apr. 1, 2017 to Jun. 30, 2017)
Gas	14,106	13,725
Equipment, construction contracts, etc.	1,962	1,895
Total	16,068	15,621

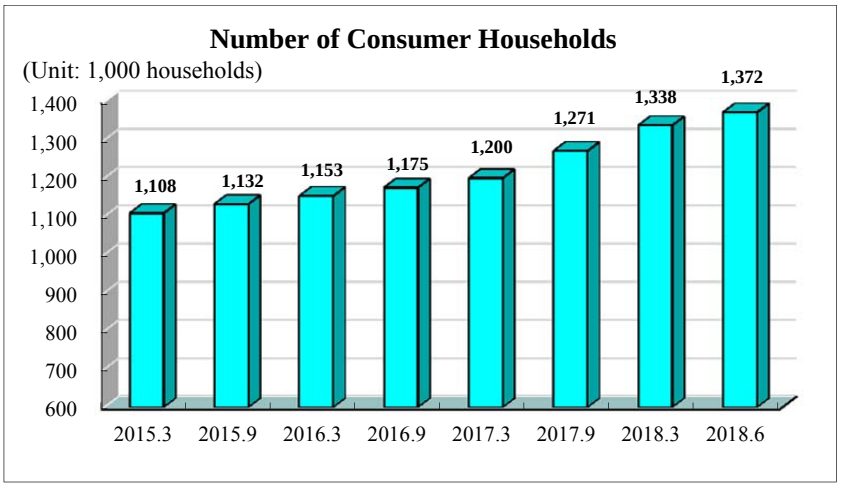
3) Sales results of city gas business (Millions of yen)

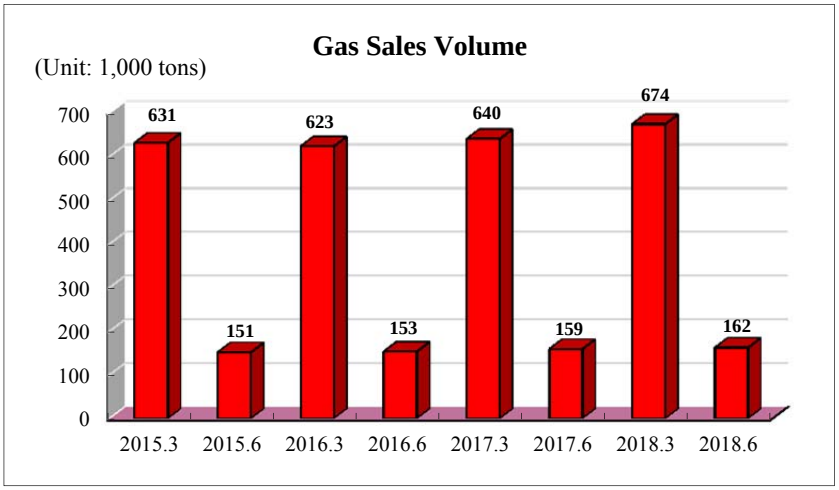
Reportable segments	For the three months ended Jun. 30, 2018 (from Apr. 1, 2018 to Jun. 30, 2018)	For the three months ended Jun. 30, 2017 (from Apr. 1, 2017 to Jun. 30, 2017)
Gas	10,465	8,869
Equipment, construction contracts, etc.	2,141	2,258
Total	12,607	11,127

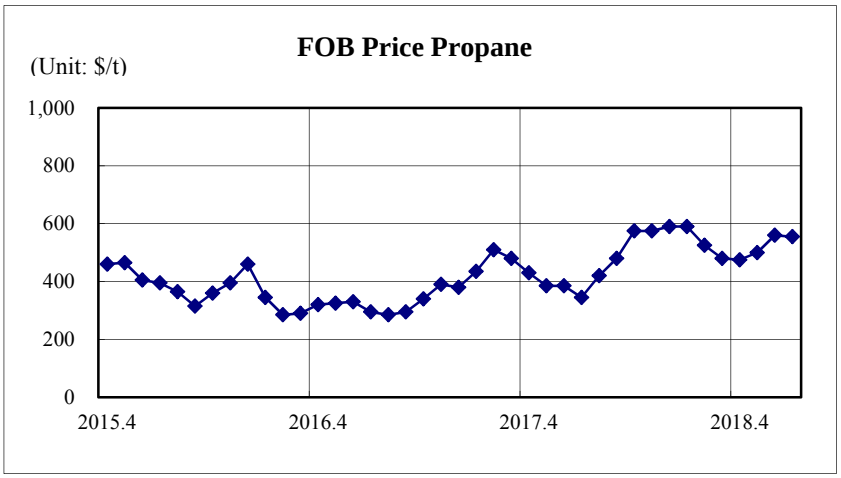
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).