Consolidated Financial Results for the Six Months Ended September 30, 2018 [Japanese GAAP]

October 25, 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
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Scheduled date of filing quarterly securities report: November 13, 2018
Scheduled date of commencing dividend payments: November 20, 2018
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, 2018 (April 1, 2018 to September 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	%
Six Months ended Sep. 30, 2018	51,932	7.2	1,258	(16.5)	851	(46.6)	382	(64.8)
Six Months ended Sep. 30, 2017	48,465	(0.8)	1,508	(68.3)	1,595	(65.5)	1,087	(65.0)

(Note) Comprehensive income: Six Months ended Sep. 30, 2018 ¥185 million [(85.0)%]
Six Months ended Sep. 30, 2017 ¥1,235 million [(61.9)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six Months ended Sep. 30, 2018	8.97	—
Six Months ended Sep. 30, 2017	25.47	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2018	127,403	71,340	56.0
As of Mar. 31, 2018	137,953	72,076	52.2

(Reference) Equity: As of Sep. 30, 2018 ¥71,335 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	—	23.00			
Fiscal year ending Mar. 31, 2019 (Forecast)			—	47.00	70.00

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

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
Full-year	125,000	9.0	9,000	(15.8)	8,000	(27.9)	5,100	(34.6)	119.38

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

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):

Sep. 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:

Sep. 30, 2018	5,840,524 shares
Mar. 31, 2018	5,858,603 shares

3) Average number of shares during the period:

Six months ended Sep. 30, 2018	42,711,443 shares
Six months ended Sep. 30, 2017	42,700,322 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, 2018: 252,465 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

In the domestic energy industry, full liberalization of the retail sale of electricity in April 2016 and that of city gas in April 2017 have been implemented. In the Kanto Region, entry of operators from other industries and collaboration across energy boundaries have accelerated, and the Company gained further momentum of proposal activities to consumers through various package discount deals, etc.

With a view to expanding its business under such circumstance, the Group set a target of 200,000 increased customer households in the liberalized city gas retail market in the current fiscal year. In order to achieve this target, the Group has been making an all-out marketing effort to enhance recognition of its brand by implementing the brand strategy mainly through TV commercial and web advertising, as well as expanding the lineup of "Premium 5+ Plan," a package discount for providing highly convenient service to customers. 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 November to launch packaged plans of electricity and gas.

In addition, with an eye toward steady expansion of customer base of mainstay LP gas business and future business alliances, the Group planned to construct "Yume no Kizuna Kawasaki (tentative name)," a new large-scale LP gas filling hub base, and decided to acquire 95,537 square meters of land in Kawasaki, Kanagawa as its site. The planned large-scale LP gas filling hub base incorporates the latest ICT and IoT technologies, and aims to achieve the world's first complete unmanned operation through complete digital transformation of some operations such as receiving LP gas into tanks, collaborative filling of gas, loading to trailers and pressure resistance inspection. Furthermore, the Group will achieve traceability of gas cylinders by utilizing IC tags and image authentication technology, etc., and will also aim for "visualization" of delivery routes and container management on a real-time basis and automatic operation of trailers and lorries in base premises by utlizing sensor technology. This technology is "Nichigas Stream," a system established in collaboration with SORACOM, INC, which links to various big data to support these energy platform businesses. Through the static and dynamic analyses of large amount of collected data by AI in the same system, the Group will apply it to new service offerings that cater to different needs by each customer and diversifying local community dynamics.

Moreover, in order to provide our existing system for external use, the Group reorganized various functions with groups of individual applications and individual APIs, and developed "Data Michi-no-Eki," a service that provides various functions with such APIs. The Group provides core system "Kumo no Uchusen" and other services through energy platform offered by Tokyo Energy Alliance Co., Ltd., a joint venture with TEPCO Energy Partner, Incorporated. This service is mainly for corporate users that use the energy platform. Each corporate user can select only necessary functions from those to be equipped with Kumo no Uchusen, and then is able to utilize such functions by connecting them without reconstructing its own customer management system.

The Group believes that incorporating leading-edge technologies will lead to future labor productivity improvement and the increase of net sales, which will control future corporate value enhancement as a result of

drastic reforms in the way of working. Based on this belief, the Group continues to address the creation of innovation with ICT technology.

Regarding quantitative aspect, the number of customers of the Group significantly increased by 137,000 households, compared with the end of the same period of the previous fiscal year, to 1,409,000 households as of the end of the six months ended September 30, 2018.

For the period under review, consolidated net sales amounted to ¥51,932 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 unusually high temperature from the beginning of the year.

In terms of profit, operating income decreased by 16.5% year on year to ¥1,258 million, ordinary income decreased by 46.6% year on year to ¥851 million, and profit attributable to owners of parent decreased by 64.8% year on year to ¥382 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 six months ended September 30, 2018 is as follows:

[LP Gas Business]

In the LP gas business, net sales for the six months ended September 30, 2018 increased by ¥1,729 million (6.3% increase) year on year to ¥29,163 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 six months ended September 30, 2018 increased by ¥1,737 million (8.3% increase) year on year to ¥22,769 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 second quarter of the fiscal year ending March 31, 2019 decreased by ¥10,550 million or 7.6% from the end of the previous fiscal year and stood at ¥127,403 million. This is mainly attributable to the decrease in cash and deposits due to repayments of loans payable and seasonal factors.

2) Liabilities

Total liabilities as of the end of the second quarter of the fiscal year ending March 31, 2019 decreased by ¥9,814 million or 14.9% from the end of the previous fiscal year and stood at ¥56,063 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, 2019 decreased by ¥736 million or 1.0% from the end of the previous fiscal year and stood at ¥71,340 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 3.8 points from the end of the previous fiscal year to 56.0%.

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

For full-year financial results forecast for fiscal year ending March 31, 2019, the Company revised the full-year forecast announced on April 26, 2018 by taking into consideration the results and other factors for the six months ended September 30, 2018.

For details, please refer to “Notice of Differences between Results Forecasts and Actual Results for the Second Quarter of Fiscal Year Ending March 31, 2019, and Revision to the Full-Year Consolidated Forecast” released separately today.

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)	Six months ended Sep. 30, 2018 (As of Sep. 30, 2018)
Assets		
Current assets		
Cash and deposits	31,467	20,025
Notes and accounts receivable - trade	6,759	7,614
Merchandise and finished goods	5,453	4,585
Raw materials and supplies	182	182
Other	926	1,187
Allowance for doubtful accounts	(141)	(106)
Total current assets	44,649	33,489
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,255	9,214
Machinery, equipment and vehicles, net	34,129	32,987
Tools, furniture and fixtures, net	1,007	938
Land	25,244	25,331
Leased assets, net	2,211	2,017
Construction in progress	830	3,293
Total property, plant and equipment	72,678	73,783
Intangible assets		
Goodwill	3,073	2,690
Other	3,211	3,455
Total intangible assets	6,284	6,145
Investments and other assets		
Investment securities	4,485	4,238
Other	10,460	10,455
Allowance for doubtful accounts	(604)	(709)
Total investments and other assets	14,340	13,984
Total non-current assets	93,304	93,913
Total assets	137,953	127,403

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2018 (As of Mar. 31, 2018)	Six months ended Sep. 30, 2018 (As of Sep. 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,249	4,877
Electronically recorded obligations - operating	4,269	3,095
Short-term loans payable	11,012	14,168
Income taxes payable	3,023	757
Provision for bonuses	436	446
Other	5,632	5,110
Total current liabilities	31,624	28,455
Non-current liabilities		
Long-term loans payable	27,917	21,232
Provision for share-based compensation	405	417
Provision for gas holder repairs	294	327
Provision for loss on voluntary recall of products	38	3
Net defined benefit liability	2,431	2,505
Other	3,166	3,121
Total non-current liabilities	34,253	27,608
Total liabilities	65,877	56,063
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	15,724	15,724
Retained earnings	56,620	56,014
Treasury shares	(8,824)	(8,757)
Total shareholders' equity	70,589	70,051
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,212	1,035
Foreign currency translation adjustment	289	267
Remeasurements of defined benefit plans	(23)	(19)
Total accumulated other comprehensive income	1,479	1,283
Non-controlling interests	6	4
Total net assets	72,076	71,340
Total liabilities and net assets	137,953	127,403

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2017 (from Apr. 1, 2017 to Sep. 30, 2017)	For the six months ended Sep. 30, 2018 (from Apr. 1, 2018 to Sep. 30, 2018)
Net sales	48,465	51,932
Cost of sales	23,807	26,663
Gross profit	24,657	25,268
Selling, general and administrative expenses	23,148	24,009
Operating income	1,508	1,258
Non-operating income		
Interest income	20	201
Dividend income	40	30
Foreign exchange gains	14	81
Real estate rent	27	35
Insurance income	85	35
Dividend income of insurance	2	19
Other	173	140
Total non-operating income	365	543
Non-operating expenses		
Interest expenses	181	159
Share of loss of entities accounted for using equity method	57	618
Other	40	173
Total non-operating expenses	278	950
Ordinary income	1,595	851
Extraordinary income		
Gain on sales of non-current assets	9	58
Gain on sales of investment securities	272	165
Other	–	0
Total extraordinary income	282	224
Extraordinary losses		
Loss on sales of non-current assets	1	0
Loss on retirement of non-current assets	38	40
Other	–	8
Total extraordinary losses	39	48
Profit before income taxes	1,837	1,027
Income taxes - current	532	644
Income taxes - deferred	218	1
Total income taxes	751	646
Profit	1,086	381
Loss attributable to non-controlling interests	(1)	(1)
Profit attributable to owners of parent	1,087	382

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2017 (from Apr. 1, 2017 to Sep. 30, 2017)	For the six months ended Sep. 30, 2018 (from Apr. 1, 2018 to Sep. 30, 2018)
Profit	1,086	381
Other comprehensive income		
Valuation difference on available-for-sale securities	108	(177)
Remeasurements of defined benefit plans, net of tax	3	4
Share of other comprehensive income of entities accounted for using equity method	37	(22)
Total other comprehensive income	149	(195)
Comprehensive income	1,235	185
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,237	187
Comprehensive income attributable to non-controlling interests	(1)	(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, 2018 (from April 1, 2018 to September 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 six months ended September 30, 2018 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the six months ended Sep. 30, 2018 (from Apr. 1, 2018 to Sep. 30, 2018)	For the six months ended Sep. 30, 2017 (from Apr. 1, 2017 to Sep. 30, 2017)
LP gas Business	29,163	27,433
City gas Business	22,769	21,031
Total	51,932	48,465

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

Reportable segments	For the six months ended Sep. 30, 2018 (from Apr. 1, 2018 to Sep. 30, 2018)	For the six months ended Sep. 30, 2017 (from Apr. 1, 2017 to Sep. 30, 2017)
Gas	24,816	23,805
Equipment, construction contracts, etc.	4,346	3,628
Total	29,163	27,433

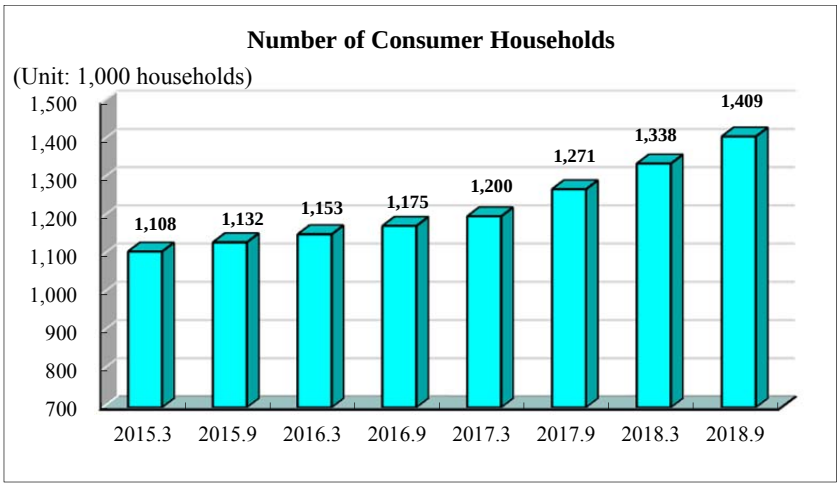
3) Sales results of city gas business (Millions of yen)

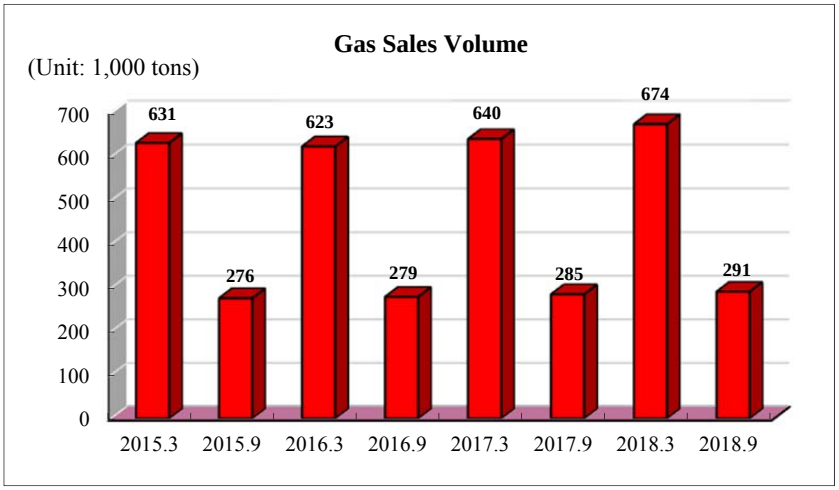
Reportable segments	For the six months ended Sep. 30, 2018 (from Apr. 1, 2018 to Sep. 30, 2018)	For the six months ended Sep. 30, 2017 (from Apr. 1, 2017 to Sep. 30, 2017)
Gas	19,050	16,222
Equipment, construction contracts, etc.	3,718	4,808
Total	22,769	21,031

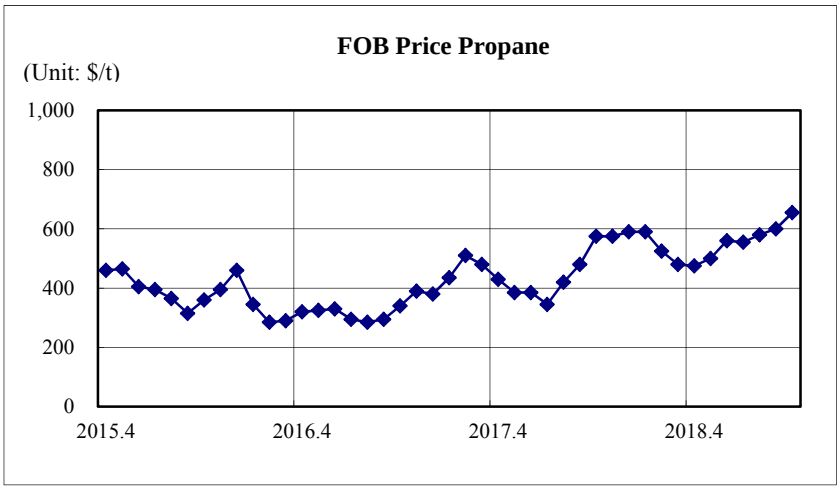
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).