Consolidated Financial Results for the Nine Months Ended December 31, 2018 [Japanese GAAP]

January 31, 2019

Company name: NIPPON GAS CO., LTD.
Code number: 8174
URL: http://www.nichigas.co.jp/
Stock exchange listing: Tokyo Stock Exchange
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Scheduled date of filing quarterly securities report: Feburuary 13, 2019
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 Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 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	%
Nine Months ended Dec. 31, 2018	82,677	6.3	2,821	(20.7)	2,005	(53.3)	989	(68.6)
Nine Months ended Dec. 31, 2017	77,792	2.4	3,557	(47.3)	4,297	(36.6)	3,149	(29.9)

(Note) Comprehensive income: Nine Months ended Dec. 31, 2018 ¥63 million [(98.0)%]
Nine Months ended Dec. 31, 2017 ¥3,144 million [(47.3)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine Months ended Dec. 31, 2018	23.17	—
Nine Months ended Dec. 31, 2017	73.76	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Dec. 31, 2018	138,725	69,562	50.1
As of Mar. 31, 2018	137,953	72,076	52.2

(Reference) Equity: As of Dec. 31, 2018 ¥69,558 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: 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
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: 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):

Dec. 31, 2018	42,973,466 shares
Mar. 31, 2018	48,561,525 shares

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

Dec. 31, 2018	421,615 shares
Mar. 31, 2018	5,858,603 shares

3) Average number of shares during the period:

Nine months ended Dec. 31, 2018	42,689,190 shares
Nine months ended Dec. 31, 2017	42,701,208 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 December 31, 2018: 251,590 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, following full liberalization of the retail sale of electricity in April 2016, the retail sale of city gas was fully liberalized in April 2017. 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 has been engaged in all-out marketing activities through efforts such as expanding the lineup of "Premium 5+ Plan," a package discount for providing highly convenient service to customer, while striving to enhance recognition of its brand by implementing the brand strategy mainly through TV commercial and web advertising.

Furthermore, in November 2018, with the cooperation of TEPCO Energy Partner, Incorporated, the Company's capital and business alliance partner, the Company announced "Electricity + Gas Discount Package," a package discount for electricity and gas, and started retail sale of electricity. This discount deal allows customers to use a packaged electricity and gas service at a lower price. Going forward, the Company will continue to focus on developing attractive discount deals and value-added services that can garner support from more customers.

In addition, while the Company and TEPCO Energy Partner, Incorporated set a target of gaining 1,000,000 city gas customer households during the fiscal year ending March 31, 2020 through both companies and their joint venture Tokyo Energy Alliance Co., Ltd., the target was achieved one year earlier than initially planned (as of January 7, 2019), and they set a new target of gaining 2,000,000 customer households during the fiscal year ending March 31, 2020.

In addition, with an eye toward steady expansion of customer base for key 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 acquired 95,537 square meters of land in Kawasaki, Kanagawa as its site.

The hub base to be put into operation in April 2020 incorporates the latest ICT and IoT technologies, and aims to achieve the world's first complete unmanned operation through complete digital transformation for operations such as receiving LP gas, collaborative filling of gas and loading to trailers. Furthermore, the Group will achieve traceability of gas cylinders by utilizing IC tags and image authentication technology, etc., and will 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.

The Group has been currently cooperating with SORACOM, INC. in linking various big data that supports these energy platform businesses and establishing "Nichigas Stream," a system that conducts static and dynamic analysis of large amount of collected data by AI and applies the analysis to the development of new services that cater to different needs of each customer and diversifying local community dynamics.

The Group believes that incorporating leading-edge technologies will lead to an increase in net sales by future labor productivity improvement and determine future corporate value enhancement through 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 148,000 households, compared with the end of the same period of the previous fiscal year, to 1,450,000 households as of the end of the nine months ended December 31, 2018.

For the period under review, consolidated net sales amounted to ¥82,677 million, a year-on-year increase of 6.3%, 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 20.7% year on year to ¥2,821 million, ordinary income decreased by 53.3% year on year to ¥2,005 million due partly to the recognition of share of loss of entities accounted for using equity method, and profit attributable to owners of parent decreased by 68.6% year on year to ¥989 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 nine months ended December 31, 2018 is as follows:

[LP Gas Business]

In the LP gas business, net sales for the nine months ended December 31, 2018 increased by ¥2,345 million (5.4% increase) year on year to ¥46,183 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 nine months ended December 31, 2018 increased by ¥2,538 million (7.5% increase) year on year to ¥36,493 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 third quarter of the fiscal year ending March 31, 2019 increased by ¥771 million or 0.6% from the end of the previous fiscal year and stood at ¥138,725 million. This is mainly a reflection of the increase in property, plant and equipment due to the acquisition of the land for a plant in Kawasaki and the decrease in cash and deposits in association therewith.

2) Liabilities

Total liabilities as of the end of the third quarter of the fiscal year ending March 31, 2019 increased by ¥3,284 million or 5.0% from the end of the previous fiscal year and stood at ¥69,162 million. This is mainly attributable to the increase in loans payable in association with financing for capital investments.

3) Net assets

Net assets as of the end of the third quarter of the fiscal year ending March 31, 2019 decreased by ¥2,513 million or 3.5% from the end of the previous fiscal year and stood at ¥69,562 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 and the decrease in valuation difference on available-for-sale securities. In addition, 5,588,000 shares of treasury shares were retired.

As a result, equity ratio decreased by 2.1 points from the end of the previous fiscal year to 50.1%.

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

For full-year financial results forecast for fiscal year ending March 31, 2019, no revision has been made to the "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 on October 25, 2018.

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)	Nine months ended Dec. 31, 2018 (As of Dec. 31, 2018)
Assets		
Current assets		
Cash and deposits	31,467	13,077
Notes and accounts receivable - trade	6,759	8,107
Merchandise and finished goods	5,453	6,169
Raw materials and supplies	182	204
Other	926	1,960
Allowance for doubtful accounts	(141)	(104)
Total current assets	44,649	29,415
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,255	9,591
Machinery, equipment and vehicles, net	34,129	32,759
Tools, furniture and fixtures, net	1,007	905
Land	25,244	43,004
Leased assets, net	2,211	1,967
Construction in progress	830	2,072
Total property, plant and equipment	72,678	90,299
Intangible assets		
Goodwill	3,073	2,525
Other	3,211	3,539
Total intangible assets	6,284	6,065
Investments and other assets		
Investment securities	4,485	3,614
Other	10,460	10,028
Allowance for doubtful accounts	(604)	(698)
Total investments and other assets	14,340	12,944
Total non-current assets	93,304	109,309
Total assets	137,953	138,725

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2018 (As of Mar. 31, 2018)	Nine months ended Dec. 31, 2018 (As of Dec. 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,249	7,832
Electronically recorded obligations - operating	4,269	4,029
Short-term loans payable	11,012	17,159
Income taxes payable	3,023	700
Provision for bonuses	436	168
Other	5,632	6,062
Total current liabilities	31,624	35,953
Non-current liabilities		
Long-term loans payable	27,917	26,736
Provision for share-based compensation	405	453
Provision for gas holder repairs	294	344
Provision for loss on voluntary recall of products	38	2
Net defined benefit liability	2,431	2,539
Other	3,166	3,132
Total non-current liabilities	34,253	33,208
Total liabilities	65,877	69,162
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	15,724	7,920
Retained earnings	56,620	55,632
Treasury shares	(8,824)	(1,620)
Total shareholders' equity	70,589	69,002
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,212	331
Foreign currency translation adjustment	289	241
Remeasurements of defined benefit plans	(23)	(16)
Total accumulated other comprehensive income	1,479	555
Non-controlling interests	6	4
Total net assets	72,076	69,562
Total liabilities and net assets	137,953	138,725

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the nine months ended Dec. 31, 2017 (from Apr. 1, 2017 to Dec. 31, 2017)	For the nine months ended Dec. 31, 2018 (from Apr. 1, 2018 to Dec. 31, 2018)
Net sales	77,792	82,677
Cost of sales	38,564	43,477
Gross profit	39,228	39,199
Selling, general and administrative expenses	35,670	36,377
Operating income	3,557	2,821
Non-operating income		
Interest income	110	300
Dividend income	57	44
Share of profit of entities accounted for using equity method	423	–
Foreign exchange gains	16	29
Real estate rent	41	49
Insurance income	123	44
Dividend income of insurance	13	35
Other	261	208
Total non-operating income	1,048	712
Non-operating expenses		
Interest expenses	267	231
Share of loss of entities accounted for using equity method	–	1,133
Other	40	163
Total non-operating expenses	308	1,528
Ordinary income	4,297	2,005
Extraordinary income		
Gain on sales of non-current assets	43	59
Gain on sales of investment securities	398	242
Total extraordinary income	441	301
Extraordinary losses		
Loss on sales of non-current assets	1	0
Loss on retirement of non-current assets	58	69
Other	–	8
Total extraordinary losses	60	78
Profit before income taxes	4,678	2,228
Income taxes - current	1,256	1,178
Income taxes - deferred	273	62
Total income taxes	1,529	1,240
Profit	3,148	987
Loss attributable to non-controlling interests	(0)	(1)
Profit attributable to owners of parent	3,149	989

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the nine months ended Dec. 31, 2017 (from Apr. 1, 2017 to Dec. 31, 2017)	For the nine months ended Dec. 31, 2018 (from Apr. 1, 2018 to Dec. 31, 2018)
Profit	3,148	987
Other comprehensive income		
Valuation difference on available-for-sale securities	(47)	(881)
Remeasurements of defined benefit plans, net of tax	5	6
Share of other comprehensive income of entities accounted for using equity method	37	(48)
Total other comprehensive income	(4)	(924)
Comprehensive income	3,144	63
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,145	65
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 nine months ended December 31, 2018 (from April 1, 2018 to December 31, 2018)

1) Purchase of treasury shares

The Company resolved at the meeting of the Board of Directors held on October 25, 2018 to purchase treasury shares pursuant to the provisions of Article 156 of the Companies Act applied *mutatis mutandis* pursuant to the provisions of Article 165, Paragraph 3 of the same Act. Therefore, the Company is advancing the purchase of up to 1,250,000 treasury shares on the market of the Tokyo Stock Exchange from November 1, 2018 to October 31, 2019, with the upper limit of ¥5,000 million in acquisition value.

As a result, the Company acquired 169,900 treasury shares in the nine months ended December 31, 2018 and treasury shares increased by ¥669 million to ¥1,620 million at the end of the third quarter of the fiscal year ending March 31, 2019.

2) Retirement of treasury shares

The Company resolved at the meeting of the Board of Directors held on October 25, 2018 to retire treasury shares pursuant to the provisions of Article 178 of the Companies Act and retired treasury shares as follows.

As a result, capital surplus and treasury shares were decreased by ¥7,803 million, respectively.

- Type of share retired: Common share of the Company
- Number of shares retired: 5,588,059 shares (11.5% of the total number of issued shares before the retirement)
- Date of retirement: November 9, 2018

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 nine months ended December 31, 2018 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the nine months ended Dec. 31, 2018 (from Apr. 1, 2018 to Dec. 31, 2018)	For the nine months ended Dec. 31, 2017 (from Apr. 1, 2017 to Dec. 31, 2017)
LP gas Business	46,183	43,837
City gas Business	36,493	33,954
Total	82,677	77,792

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

Reportable segments	For the nine months ended Dec. 31, 2018 (from Apr. 1, 2018 to Dec. 31, 2018)	For the nine months ended Dec. 31, 2017 (from Apr. 1, 2017 to Dec. 31, 2017)
Gas	38,570	37,768
Equipment, construction contracts, etc.	7,613	6,069
Total	46,183	43,837

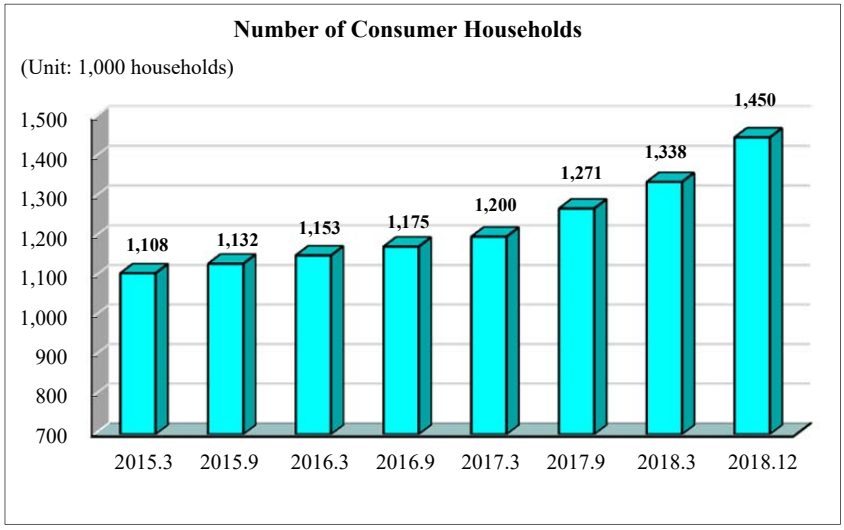
3) Sales results of city gas business (Millions of yen)

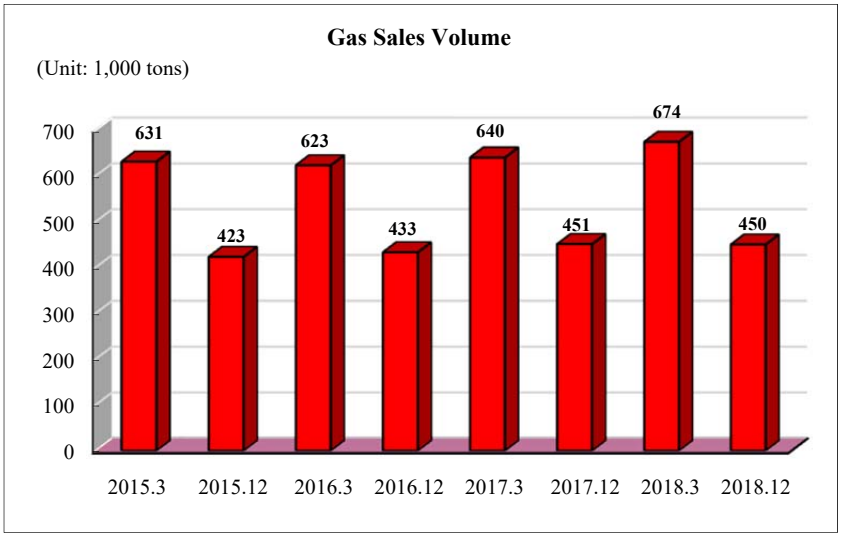
Reportable segments	For the nine months ended Dec. 31, 2018 (from Apr. 1, 2018 to Dec. 31, 2018)	For the nine months ended Dec. 31, 2017 (from Apr. 1, 2017 to Dec. 31, 2017)
Gas	30,377	25,945
Equipment, construction contracts, etc.	6,116	8,009
Total	36,493	33,954

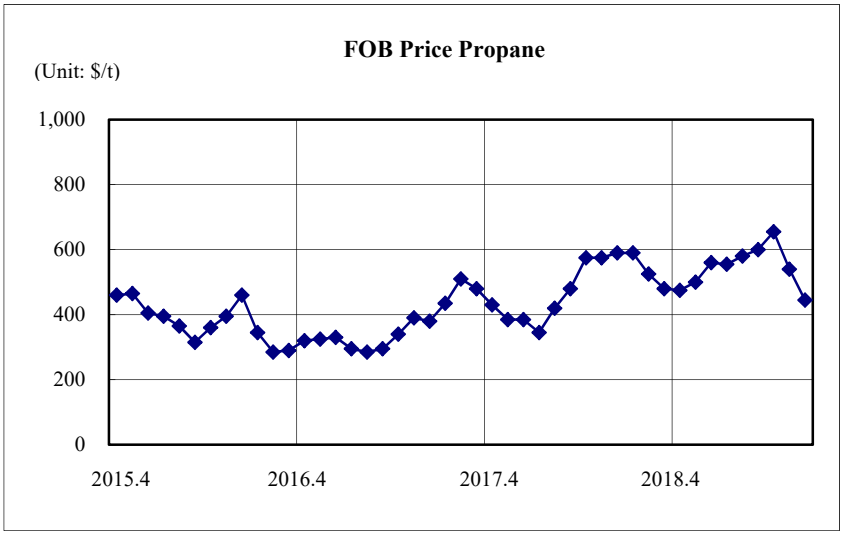
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).