Consolidated Financial Results for the Three Months Ended June 30, 2019 [Japanese GAAP]

July 30, 2019

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: August 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 Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 2019)

(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, 2019	32,768	14.3	3,436	90.4	3,065	93.3	2,151	111.4
Three Months ended Jun. 30, 2018	28,676	7.2	1,804	(15.5)	1,585	(29.2)	1,017	(38.2)

(Note) Comprehensive income: Three Months ended Jun. 30, 2019 ¥1,942 million [97.1%]
Three Months ended Jun. 30, 2018 ¥985 million [(38.6)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three Months ended Jun. 30, 2019	51.90	—
Three Months ended Jun. 30, 2018	23.83	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Jun. 30, 2019	137,898	68,882	49.9
As of Mar. 31, 2019	141,267	69,064	48.9

(Reference) Equity: As of Jun. 30, 2019 ¥68,877 million As of Mar. 31, 2019 ¥69,059 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, 2019	—	23.00	—	47.00	70.00
Fiscal year ending Mar. 31, 2020	—				
Fiscal year ending Mar. 31, 2020 (Forecast)		35.00	—	35.00	70.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(% 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, 2019	56,000	7.8	2,100	66.8	1,400	64.4	600	56.7	14.47
Full-year	135,000	10.1	10,500	17.6	9,000	22.0	5,600	29.4	135.02

(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, 2019	41,773,466 shares
Mar. 31, 2019	42,973,466 shares

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

Jun. 30, 2019	362,616 shares
Mar. 31, 2019	1,498,332 shares

3) Average number of shares during the period:

Three months ended Jun. 30, 2019	41,459,879 shares
Three months ended Jun. 30, 2018	42,704,201 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, 2019: 241,212 shares, as of March 31, 2019: 248,107 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

Now that the world faces the fourth industrial revolution, the energy industry is said to be a prime case for digital transformation (DX) utilizing information technologies such as big data, IoT and AI. As local communities in Japan are diversifying, the economy is becoming more virtualized and the progressive adoption of new concepts of service such as subscription and EC, the focus of business competition is shifting to convenience and the elimination of customer stress. Some say we are in a transition period, in which we move from costly forms of monitoring based on the national government's regulations in the past to new and innovative forms of monitoring that are fair and cannot be falsified, including blockchain, encryption technologies and automatic authentication systems.

The liberalization of energy is said to be a touchstone for these changes, as fair competition fosters innovations in the supply of the energy vital for local communities, which provides inexpensive, safe, convenient, and stress-free services for consumers.

With a view to expanding its business and improving its services under such conditions, the Group has been actively investing in the development of systems, our intellectual assets, to manage energy safety utilizing IoT, pursue greater convenience and reduce costs. In addition, the Group is striving to enhance recognition of its brand by implementing the brand strategy mainly through TV commercial and web advertising, as well as making an all-out effort to expand the customer base of the energy business, a core business of the Group.

In the liberalized retail energy market, the Group is actively engaged in marketing activities with its "Premium 5+ Plan," a package discount providing highly convenient one-stop service to customers. During the previous consolidated fiscal year, with the cooperation of TEPCO Energy Partner, Incorporated, the Company's capital and business alliance partner, the Company began retail sale of electricity in the areas covered by TEPCO and the areas covered by CHUBU Electric Power (west of the Fuji River in Shizuoka), and is focusing on increasing the number of customers of its "Electricity + Gas Discount Package," a package discount for electricity and gas aimed at the lowest price in the industry. Going forward, the Company will continue to focus on developing attractive discount deals and value-added services that can garner support from more customers.

The Group recently succeeded in the in-house development of the NCU "Space *Hotaru*" (an IoT device that electronically reads gas meter usage data and transmits it wirelessly to the cloud), putting gas meters online and facilitating the real-time measurement of gas usage. This technology facilitates real-time remote monitoring of gas safety management, as well as the real-time automatic monitoring of logistics traceability.

The Group has also succeeded in linking this with "Nichigas Stream," a core system for collecting big data through the IoT technology developed in collaboration with SORACOM, INC., which consolidates various forms of data into a single global standard. This system features blockchain and the X-ROAD encryption technology from Estonia, a world leader in IoT, protecting data from falsification, ensuring anonymity and consistency, and thus establishing a comprehensive basis for linkage between partners, competitors and between industries in the shared economy. By offering this system on the platform of Tokyo Energy Alliance Co., Ltd., a joint venture between the Company and TEPCO Energy Partner, the Group will contribute to vitalization of the liberalized gas market.

Furthermore, Space *Hotaru* can remotely and automatically make hourly measurements of data that used to require human meter-reading, while only requiring battery replacement once a decade. By visualizing the amount of gas remaining, this technology optimizes gas cylinder replacement, and reduces operating costs significantly. It also makes it possible to remotely connect and disconnect gas at the meter, eliminating the need for customers to be present when connecting and disconnecting gas, and significantly enhancing customer convenience. In addition, it can also monitor safety information such as small leakage alerts, realizing a heightened degree of safety.
In "Yume no Kizuna Kawasaki," one of the world's largest LP gas filling hub bases, due for completion in 2020, the Group is introducing technologies to facilitate real-time monitoring of the levels of remaining gas in storage tanks, the number of gas cylinders, and the operational condition of gas fillers, as well as technology to monitor the delivery routes and location information of gas cylinders through RFIDs attached to each cylinder. By connecting each link in the LPG logistics chain in real-time, the Group will evolve the concept of LPG logistics from one based on "estimation" to one based on "actual results," and bring about an LPG digital transformation by managing "production" and "consumption" in real time.

To begin with, the Group will sequentially install "Space *Hotaru*" at residents of existing customers of the Group's LP gas (approximately 860,000 households), before introducing it for customers using city gas supplied using the Group's lines (approximately 420,000 households).
The Group believes that incorporating leading edge technologies will lead to working-style reforms and an increase in net sales through future labor productivity improvement, and determine the sustainable growth of corporate value. Based on this belief, the Group continues to address the creation of innovation with ICT technology. 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 "2019 Competitive IT Strategy Company Stock Selection" for four consecutive years, which are selected jointly by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.
Regarding quantitative aspect, the number of customers of the Group steadily increased by 163,000 households, compared with the end of the same period of the previous fiscal year, to 1,536,000 households as of the end of the three months ended June 30, 2019.
For the period under review, consolidated net sales amounted to ¥32,768 million, a year-on-year increase of 14.3%, reflecting an increase in net sales of gas compared to the previous fiscal year as a result of the steady increase in the number of customers in the liberalized market, as well as lower temperatures compared to the same period of the previous year.
In terms of profit, operating income increased by 90.4% year on year to ¥3,436 million, ordinary income increased by 93.3% year on year to ¥3,065 million, and profit attributable to owners of parent increased by 111.4% year on year to ¥2,151 million. These large increases in profit were attributable to the contribution of increased net sales, despite an increase in customer acquisition costs.

Business performance by segment for the three months ended June 30, 2019 is as follows:

[LP Gas Business]

In the LP gas business, net sales for the three months ended June 30, 2019 increased by ¥1,920 million (12.0% increase) year on year to ¥17,989 million, due to factors including increased gas sales attributable to lower temperatures compared to the same period of the previous year.

[City Gas Business]

In the city gas business, net sales for the three months ended June 30, 2019 increased by ¥2,171 million (17.2% increase) year on year to ¥14,778 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 as of the end of the first quarter of the fiscal year ending March 31, 2020 decreased by ¥3,369 million or 2.4% from the end of the previous fiscal year and stood at ¥137,898 million. This is mainly attributable to seasonal decreases in cash and deposits, and merchandise and finished goods.

2) Liabilities

Total liabilities as of the end of the first quarter of the fiscal year ending March 31, 2020 decreased by ¥3,186 million or 4.4% from the end of the previous fiscal year and stood at ¥69,016 million. This is mainly due to seasonal decreases in notes and accounts payable – trade, and electronically recorded obligations – operating.

3) Net assets

Net assets as of the end of the first quarter of the fiscal year ending March 31, 2020 decreased by ¥182 million or 0.3% from the end of the previous fiscal year and stood at ¥68,882 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 1.0 points from the end of the previous fiscal year to 49.9%. In addition, 1,200,000 shares of treasury shares were retired on May 21, 2019.

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

In the fiscal year ending March 31, 2020, the Company projects consolidated net sales of ¥135,000 million or 10.1% increase year on year attributable to an increase in sales of package plans of electricity and gas mainly through expansion of its customer base and the spread and expansion of the use of gas appliances in the liberalized electricity and city gas retail markets.

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 ¥10,500 million (17.6% increase), ordinary income of ¥9,000 million (22.0% increase), and profit attributable to owners of parent of ¥5,600 million (29.4% increase).

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2019 (As of Mar. 31, 2019)	Three months ended Jun. 30, 2019 (As of Jun. 30, 2019)
Assets		
Current assets		
Cash and deposits	18,235	15,916
Notes and accounts receivable - trade	7,647	7,909
Merchandise and finished goods	5,065	4,418
Raw materials and supplies	187	167
Other	1,158	1,348
Allowance for doubtful accounts	(96)	(130)
Total current assets	32,198	29,629
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,487	9,396
Machinery, equipment and vehicles, net	33,061	32,460
Tools, furniture and fixtures, net	946	930
Land	32,194	32,450
Leased assets, net	1,959	1,924
Construction in progress	1,044	1,255
Total property, plant and equipment	78,694	78,418
Intangible assets		
Goodwill	2,336	2,326
Other	3,761	3,997
Total intangible assets	6,098	6,324
Investments and other assets		
Investment securities	3,628	3,297
Other	21,703	21,689
Allowance for doubtful accounts	(1,054)	(1,460)
Total investments and other assets	24,276	23,526
Total non-current assets	109,069	108,269
Total assets	141,267	137,898

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2019 (As of Mar. 31, 2019)	Three months ended Jun. 30, 2019 (As of Jun. 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,286	5,546
Electronically recorded obligations - operating	4,062	3,058
Short-term loans payable	21,686	18,546
Income taxes payable	2,916	1,001
Provision for bonuses	397	412
Other	5,737	6,687
Total current liabilities	42,086	35,252
Non-current liabilities		
Long-term loans payable	23,418	27,129
Provision for share-based compensation	477	488
Provision for gas holder repairs	354	371
Provision for loss on voluntary recall of products	60	51
Net defined benefit liability	2,665	2,704
Other	3,140	3,019
Total non-current liabilities	30,116	33,763
Total liabilities	72,203	69,016
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	7,920	5,860
Retained earnings	58,971	56,867
Treasury shares	(5,474)	(1,283)
Total shareholders' equity	68,487	68,514
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	346	134
Foreign currency translation adjustment	286	283
Remeasurements of defined benefit plans	(61)	(55)
Total accumulated other comprehensive income	571	362
Non-controlling interests	5	5
Total net assets	69,064	68,882
Total liabilities and net assets	141,267	137,898

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the three months ended Jun. 30, 2018 (from Apr. 1, 2018 to Jun. 30, 2018)	For the three months ended Jun. 30, 2019 (from Apr. 1, 2019 to Jun. 30, 2019)
Net sales	28,676	32,768
Cost of sales	14,675	16,865
Gross profit	14,001	15,902
Selling, general and administrative expenses	12,196	12,465
Operating income	1,804	3,436
Non-operating income		
Interest income	96	107
Dividend income	23	20
Real estate rent	17	15
Insurance income	0	6
Other	101	75
Total non-operating income	239	225
Non-operating expenses		
Interest expenses	78	74
Share of loss of entities accounted for using equity method	358	45
Provision of allowance for doubtful accounts	13	406
Other	8	70
Total non-operating expenses	459	597
Ordinary income	1,585	3,065
Extraordinary income		
Gain on sales of non-current assets	55	1
Gain on sales of investment securities	104	32
Gain on extinguishment of tie-in shares	–	52
Total extraordinary income	159	87
Extraordinary losses		
Loss on retirement of non-current assets	23	22
Other	0	–
Total extraordinary losses	24	22
Profit before income taxes	1,720	3,129
Income taxes - current	558	1,091
Income taxes - deferred	145	(113)
Total income taxes	703	977
Profit	1,016	2,151
Loss attributable to non-controlling interests	(0)	(0)
Profit attributable to owners of parent	1,017	2,151

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the three months ended Jun. 30, 2018 (from Apr. 1, 2018 to Jun. 30, 2018)	For the three months ended Jun. 30, 2019 (from Apr. 1, 2019 to Jun. 30, 2019)
Profit	1,016	2,151
Other comprehensive income		
Valuation difference on available-for-sale securities	39	(211)
Remeasurements of defined benefit plans, net of tax	2	5
Share of other comprehensive income of entities accounted for using equity method	(72)	(2)
Total other comprehensive income	(31)	(208)
Comprehensive income	985	1,942
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	986	1,942
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)

Based on a resolution made at the meeting of the Board of Directors held on April 25, 2019, the Company retired 1,200,000 treasury shares on May 21, 2019. As a result, capital surplus, retained earnings and treasury shares decreased ¥2,060 million, ¥2,294 million and ¥4,354 million respectively, during the first quarter of the fiscal year ending March 31, 2020. Due to this retirement and other factors, capital surplus, retained earnings and treasury shares amounted to ¥5,860 million, ¥56,867 million and ¥1,283 million respectively, at the end of the first quarter of the fiscal year ending March 31, 2020.

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, 2019 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, 2019 (from Apr. 1, 2019 to Jun. 30, 2019)
LP gas Business	16,068	17,989
City gas Business	12,607	14,778
Total	28,676	32,768

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, 2019 (from Apr. 1, 2019 to Jun. 30, 2019)
Gas	14,106	14,941
Equipment, construction contracts, etc.	1,962	3,048
Total	16,068	17,989

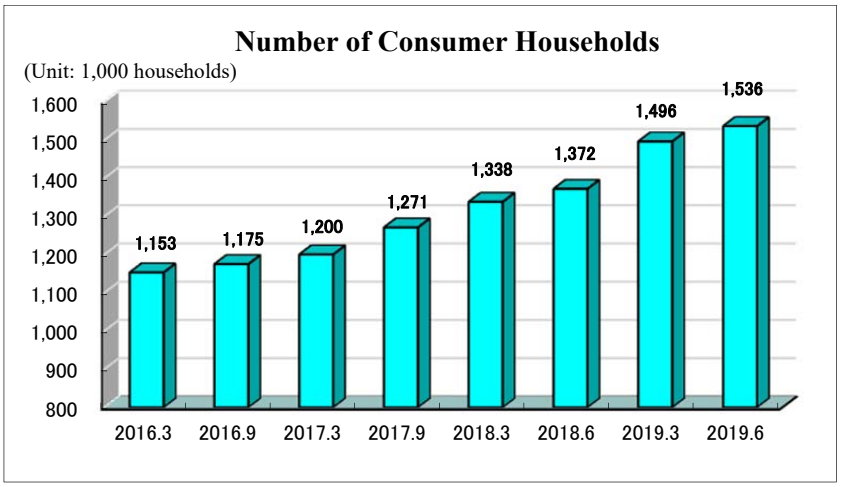
3) Sales results of city gas business (Millions of yen)

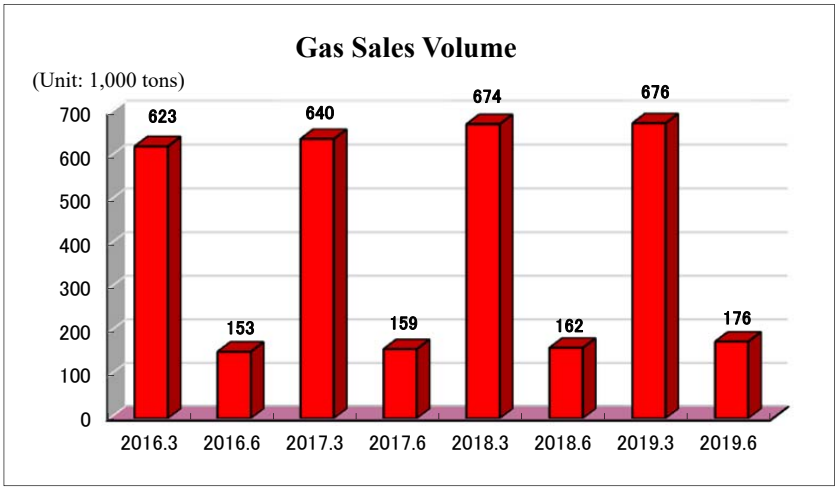
Reportable segments	For the three months ended Jun. 30, 2018 (from Apr. 1, 2018 to Jun. 30, 2018)	For the three months ended Jun. 30, 2019 (from Apr. 1, 2019 to Jun. 30, 2019)
Gas	10,465	13,211
Equipment, construction contracts, etc.	2,141	1,567
Total	12,607	14,778

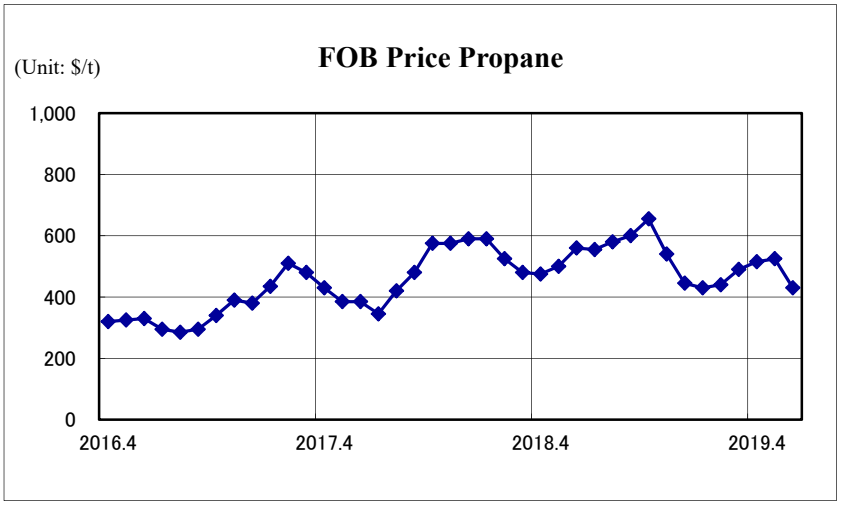
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).