Consolidated Financial Results for the Six Months Ended September 30, 2019 [Japanese GAAP]

October 31, 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
Contact: Shinichi Kiyota, Director in charge of Financial Department (Group Finance) and Corporate Communication Department
Phone: 03-5308-2111
Scheduled date of filing quarterly securities report: November 13, 2019
Scheduled date of commencing dividend payments: November 19, 2019
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, 2019 (April 1, 2019 to September 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	%
Six Months ended Sep. 30, 2019	59,294	14.2	3,210	155.0	2,917	242.5	2,013	425.8
Six Months ended Sep. 30, 2018	51,932	7.2	1,258	(16.5)	851	(46.6)	382	(64.8)

(Note) Comprehensive income: Six Months ended Sep. 30, 2019 ¥1,784 million [862%]
Six Months ended Sep. 30, 2018 ¥185 million [(85)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six Months ended Sep. 30, 2019	48.76	—
Six Months ended Sep. 30, 2018	8.97	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2019	132,673	66,990	50.5
As of Mar. 31, 2019	141,267	69,064	48.9

(Reference) Equity: As of Sep. 30, 2019 ¥66,985 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	—	35.00			
Fiscal year ending Mar. 31, 2020 (Forecast)			—	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
Full-year	135,000	11,000	10,000	6,500	157.41

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

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

Sep. 30, 2019	938,036 shares
Mar. 31, 2019	1,498,332 shares

3) Average number of shares during the period:

Six months ended Sep. 30, 2019	41,293,928 shares
Six months ended Sep. 30, 2018	42,711,443 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, 2019: 240,498 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.

Contents of Appendix

1. Qualitative Information on Consolidated Performance for the Period under Review ---------- 2
(1) Explanation of Results of Operations ---------- 2
(2) Explanation of Financial Position ---------- 4
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information ---------- 4
2. Consolidated Financial Statements and Primary Notes ---------- 5
(1) Consolidated Balance Sheet ---------- 5
(2) Consolidated Statement of Income and Comprehensive Income ---------- 7
(3) Notes to Consolidated Financial Statements ---------- 9
(Notes on Going Concern Assumption) ---------- 9
(Notes in Case of Significant Changes in Shareholder's Equity) ---------- 9
3. Others ---------- 10
(1) Production, Order and Sales Status ---------- 10
(2) Trends in the Number of Houses, etc. ---------- 11

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. With the disruptive evolution of ICT as a backdrop, the economy is becoming more virtualized, and the new concepts of service such as subscription and EC are being progressively adopted into diversifying local communities in Japan. As a result, the focus of business competition is shifting from mere price competition to convenience and the elimination of customer stress. The evolution of ICT has also affected the raison d' être of regulations, and some say we are in a transition period, in which we move from costly forms of monitoring based on the national government's regulations to new and innovative forms of monitoring that are less costly, 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. Fueled by innovations fostered by fair competition, energy, that is vital for the development and existence of local communities, has ceased to be the rigid and uniform product it was in the past, and is turning into a service that is inexpensive, safe, convenient, and stress-free for consumers.

Based on such an understanding of the current situation, the Group has prioritized investments in the development of systems, which are our intellectual assets. The "Space *Hotaru*," an online gas meter that the Group put into commercial use in July 2019, is one of the services generated from active investments in ICT. Space *Hotaru* can remotely and automatically make hourly real-time measurement of gas usage (meter-reading) that was formerly manually conducted, while only requiring battery replacement once a decade. It can also remotely disconnect gas taps in an emergency and monitor safety information such as small leakage alerts on a real-time basis, enhancing customer convenience in terms of safety as well. To begin with, the Group will 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). Concurrently, the Group will offer Space *Hotaru* to general gas suppliers as a subscription service by combining it with IoT-driven data services.

The Group has also succeeded in linking Space *Hotaru* with "Nichigas Stream," a core system for collecting big data 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 authentication technology from Estonia, a world leader in IT, and will protect data acquired from falsification and ensures anonymity and consistency. This contributes to the establishment of an integrated infrastructure for shared economy where partners, competitors and companies from different industries can collaborate with one another. By offering this system on the platform of Tokyo Energy Alliance Co., Ltd., a joint venture between the Company and TEPCO Energy Partner, Incorporated, the Group will contribute to the vitalization of the liberalized gas market.

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.

The Group believes that incorporating leading edge technologies will lead to 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 achievements, 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.

On the other hand, in the gas business, the Group promoted selection and concentration, i.e. focus of its efforts on the mainstay LP gas business, the fruit of which is taking shape as a net increase in the number of customers. In the city gas business post-liberalization, the Group is striving for further growth by redefining its business domains considering developments in the market after the liberalization and building specific strategies.

In quantitative terms, the number of customers, an important management indicator for the Group, significantly increased by 139,000 households from that of the end of the previous corresponding period to 1,548,000 households as of September 30, 2019.

For the period under review, gross profit amounted to ¥28,290 million, a year-on-year increase of 12.0%, mainly reflecting customer acquisition focusing on the LP gas business, an increase in gas sales volume due to cooler weather compared to the previous year, improved margin due to lower LP gas raw material prices, as well as the contribution of the electricity business and the platform business.

As a result of properly controlling selling, general and administrative expenses, operating income increased by 155.0% year on year to ¥3,210 million, ordinary income increased by 242.5% year on year to ¥2,917 million, and profit attributable to owners of parent increased by 425.8% year on year to ¥2,013 million, resulting in significant increases in revenue and profit.

Business performance by segment for the six months ended September 30, 2019 is as follows:

[LP Gas Business]

As a result of prioritizing the distribution of sales human resources to the LP gas business during this fiscal year, the number of customers recorded a net increase of 31,000 households from that at the end of the previous corresponding period, and resulted in increased gas sales volume. In addition, due to improved margin attributable to lower LP gas raw material prices compared to the previous period, gross profit increased by ¥2,050 million (12.2% increase) year on year to ¥18,814 million.

[City Gas Business]

The city gas business saw a net increase in the number of customers of 107,000 households amid the liberalized market and improved gas sales volume thanks to a tailwind from cooler weather compared to the previous year, while taking initiatives such as discontinuing discounts to new subscribers. As a result, gross profit increased by ¥970 million (11.4% increase) year on year to ¥9,475 million.

(2) Explanation of Financial Position

The Company values capital efficiency, and controls total assets and equity ratio, while balancing investments in growth and shareholder returns backed by steady financial results.

Total assets as of the end of the second quarter of the fiscal year ending March 31, 2020 decreased by ¥8,594 million or 6.1% from the end of the previous fiscal year and stood at ¥132,673 million, due to the decrease in cash and deposits as a result of payment of dividends, purchase of treasury shares and repayments of loans payable, as well as the seasonal decrease in trade receivables.

Total liabilities as of the end of the second quarter of the fiscal year ending March 31, 2020 decreased by ¥6,519 million or 9.0% from the end of the previous fiscal year and stood at ¥65,683 million, due to repayments of loans payable and the seasonal decrease in trade payables.

Net assets as of the end of the second quarter of the fiscal year ending March 31, 2020 stood at ¥66,990 million as a result of an increase of ¥2,013 million due to the recording of profit attributable to owners of parent, and a decrease of ¥2,074 million or 3.0% due to purchase of treasury shares and payment of dividends. As a result, equity ratio amounted to 50.5%, maintaining a stable financial condition more or less according to the plan.

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

For full-year financial results forecast for the fiscal year ending March 31, 2020, the Company revised the full-year forecast announced on April 25, 2019 by taking into consideration the results and other factors for the six months ended September 30, 2019.

For details, please refer to “Notice of Differences between Results Forecasts and Actual Results for the Second Quarter of Fiscal Year Ending March 31, 2020, 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, 2019 (As of Mar. 31, 2019)	Six months ended Sep. 30, 2019 (As of Sep. 30, 2019)
Assets		
Current assets		
Cash and deposits	18,235	11,822
Notes and accounts receivable - trade	7,647	6,732
Merchandise and finished goods	5,065	3,377
Raw materials and supplies	187	175
Other	1,158	1,243
Allowance for doubtful accounts	(96)	(94)
Total current assets	32,198	23,256
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,487	9,422
Machinery, equipment and vehicles, net	33,061	32,194
Tools, furniture and fixtures, net	946	956
Land	32,194	32,871
Leased assets, net	1,959	2,076
Construction in progress	1,044	1,176
Total property, plant and equipment	78,694	78,699
Intangible assets		
Goodwill	2,336	2,311
Other	3,761	4,293
Total intangible assets	6,098	6,605
Investments and other assets		
Investment securities	3,628	2,980
Other	21,703	22,703
Allowance for doubtful accounts	(1,054)	(1,571)
Total investments and other assets	24,276	24,112
Total non-current assets	109,069	109,417
Total assets	141,267	132,673

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2019 (As of Mar. 31, 2019)	Six months ended Sep. 30, 2019 (As of Sep. 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,286	4,822
Electronically recorded obligations - operating	4,062	3,107
Short-term loans payable	21,686	19,046
Income taxes payable	2,916	1,298
Provision for bonuses	397	404
Other	5,737	5,529
Total current liabilities	42,086	34,207
Non-current liabilities		
Long-term loans payable	23,418	24,563
Provision for share-based compensation	477	523
Provision for gas holder repairs	354	387
Provision for loss on voluntary recall of products	60	43
Net defined benefit liability	2,665	2,749
Other	3,140	3,207
Total non-current liabilities	30,116	31,475
Total liabilities	72,203	65,683
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	7,920	5,860
Retained earnings	58,971	56,728
Treasury shares	(5,474)	(3,016)
Total shareholders' equity	68,487	66,642
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	346	53
Foreign currency translation adjustment	286	339
Remeasurements of defined benefit plans	(61)	(49)
Total accumulated other comprehensive income	571	343
Non-controlling interests	5	4
Total net assets	69,064	66,990
Total liabilities and net assets	141,267	132,673

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2018 (from Apr. 1, 2018 to Sep. 30, 2018)	For the six months ended Sep. 30, 2019 (from Apr. 1, 2019 to Sep. 30, 2019)
Net sales	51,932	59,294
Cost of sales	26,663	31,004
Gross profit	25,268	28,290
Selling, general and administrative expenses	24,009	25,080
Operating income	1,258	3,210
Non-operating income		
Interest income	201	221
Dividend income	30	27
Foreign exchange gains	81	–
Real estate rent	35	34
Insurance income	35	19
Dividend income of insurance	19	18
Other	140	143
Total non-operating income	543	465
Non-operating expenses		
Interest expenses	159	152
Share of loss of entities accounted for using equity method	618	1
Foreign exchange losses	–	80
Provision of allowance for doubtful accounts	135	515
Other	37	7
Total non-operating expenses	950	758
Ordinary income	851	2,917
Extraordinary income		
Gain on sales of non-current assets	58	4
Gain on sales of investment securities	165	67
Gain on extinguishment of tie-in shares	–	52
Other	0	–
Total extraordinary income	224	124
Extraordinary losses		
Loss on sales of non-current assets	0	6
Loss on retirement of non-current assets	40	50
Loss on sales of investment securities	–	15
Other	8	–
Total extraordinary losses	48	72
Profit before income taxes	1,027	2,970
Income taxes - current	644	1,300
Income taxes - deferred	1	(342)
Total income taxes	646	957
Profit	381	2,012
Loss attributable to non-controlling interests	(1)	(0)
Profit attributable to owners of parent	382	2,013

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2018 (from Apr. 1, 2018 to Sep. 30, 2018)	For the six months ended Sep. 30, 2019 (from Apr. 1, 2019 to Sep. 30, 2019)
Profit	381	2,012
Other comprehensive income		
Valuation difference on available-for-sale securities	(177)	(292)
Remeasurements of defined benefit plans, net of tax	4	11
Share of other comprehensive income of entities accounted for using equity method	(22)	53
Total other comprehensive income	(195)	(227)
Comprehensive income	185	1,784
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	187	1,785
Comprehensive income attributable to non-controlling interests	(1)	(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 six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)

1) Purchase of treasury shares

The Company resolved at the meeting of the Board of Directors held on April 25, 2019 to purchase treasury shares pursuant to the provisions 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 1,650,000 treasury shares on the market of the Tokyo Stock Exchange from May 1, 2019 to April 30, 2020, with the upper limit of ¥5,000 million in acquisition value.

As a result, the Company acquired 650,813 treasury shares in the six months ended September 30, 2019, and treasury shares increased by ¥1,936 million to ¥3,016 million at the end of the second quarter of the fiscal year ending March 31, 2020.

2) Retirement of treasury shares

The Company resolved at the meeting of the Board of Directors held on April 25, 2019 to retire treasury shares pursuant to the provisions of Article 178 of the Companies Act and retired 1,200,000 treasury shares on May 21, 2019. As a result, capital surplus, retained earnings and treasury shares decreased by ¥2,060 million, ¥2,294 million and ¥4,354 million, respectively.

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, 2019 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, 2019 (from Apr. 1, 2019 to Sep. 30, 2019)
LP gas Business	29,163	32,628
City gas Business	22,769	26,665
Total	51,932	59,294

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, 2019 (from Apr. 1, 2019 to Sep. 30, 2019)
Gas	24,816	25,636
Equipment, construction contracts, etc.	4,346	6,992
Total	29,163	32,628

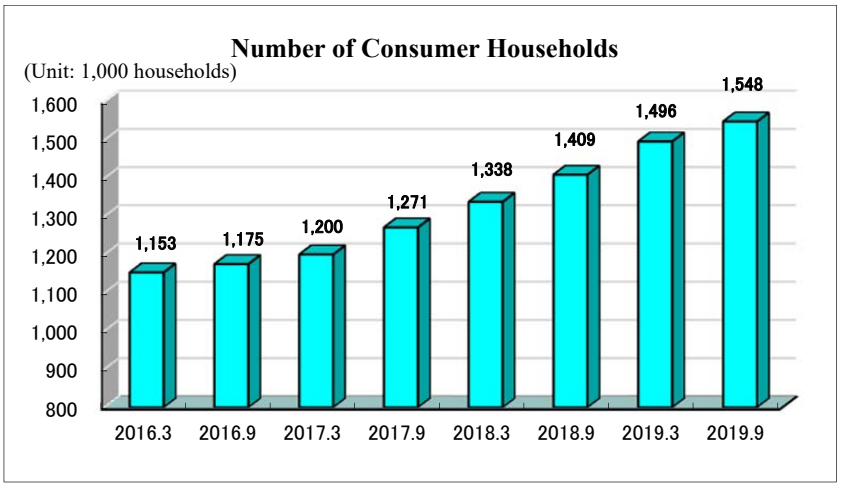
3) Sales results of city gas business (Millions of yen)

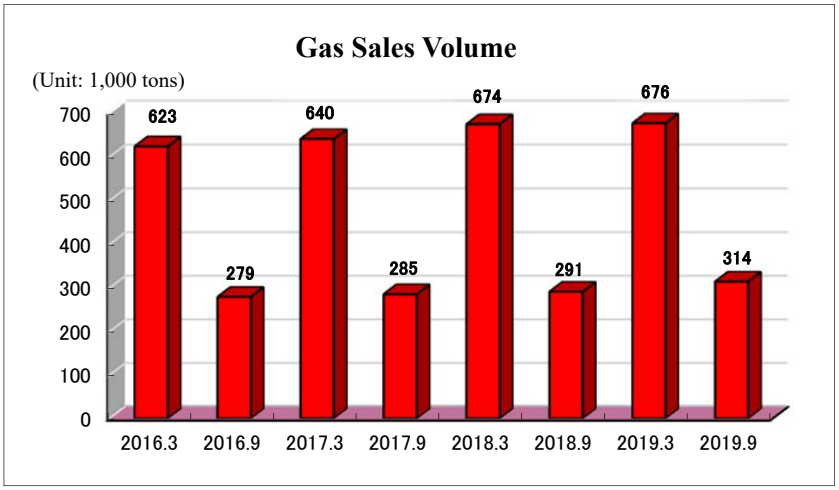
Reportable segments	For the six months ended Sep. 30, 2018 (from Apr. 1, 2018 to Sep. 30, 2018)	For the six months ended Sep. 30, 2019 (from Apr. 1, 2019 to Sep. 30, 2019)
Gas	19,050	23,145
Equipment, construction contracts, etc.	3,718	3,520
Total	22,769	26,665

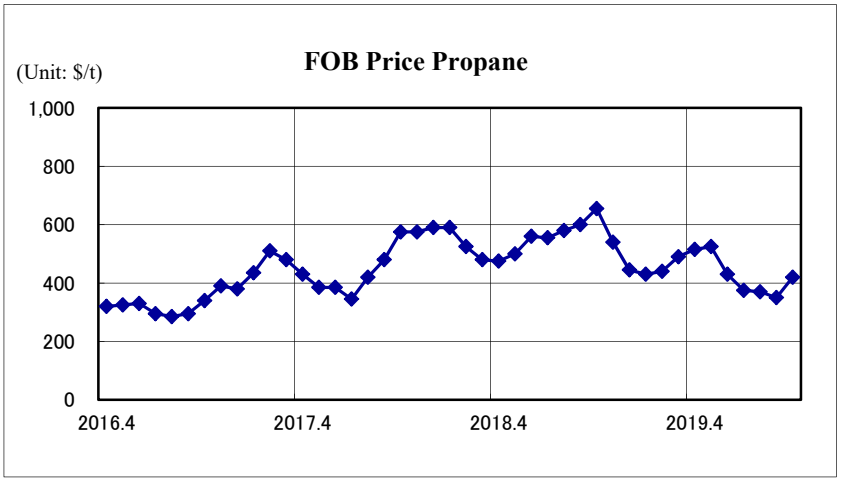
(Notes) 1. Above figures are stated net of consumption taxes, etc.

2. Inter-segment transactions are offset.

(2) Trends in the Number of Consumer Households, 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).