

Consolidated Financial Results for the Six Months Ended September 30, 2013 [Japanese GAAP]



October 31, 2013

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: November 13, 2013

Scheduled date of commencing dividend payments: November 19, 2013

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 Six Months Ended September 30, 2013 (April 1, 2013 to September 30, 2013)

(1) Consolidated Results of Operations (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended Sep. 30, 2013	53,565	3.5	2,601	6.7	2,582	14.7	2,086	81.0
Six months ended Sep. 30, 2012	51,735	6.8	2,438	17.5	2,250	22.9	1,152	46.1

(Note) Comprehensive income: Six months ended Sep. 30, 2013 ¥2,060 million [136.6%]
Six months ended Sep. 30, 2012 ¥870 million [7.2%]

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2013	46.29	—
Six months ended Sep. 30, 2012	23.82	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2013	117,314	42,939	27.0
As of Mar. 31, 2013	124,958	53,016	32.2

(Reference) Equity: As of Sep. 30, 2013 ¥31,714 million As of Mar. 31, 2013 ¥40,260 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, 2013	—	6.50	—	6.50	13.00
Fiscal year ending Mar. 31, 2014	—	6.50			
Fiscal year ending Mar. 31, 2014 (Forecast)			—	6.50	13.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2014 (April 1, 2013 to March 31, 2014)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full-year	124,000	5.9	9,000	14.1	8,800	7.5	4,000	6.0	101.48

(Note) Revision of forecast results 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 stock)

1) Total number of issued shares (including treasury stock):

Sep. 30, 2013	48,561,525 shares
Mar. 31, 2013	48,561,525 shares

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

Sep. 30, 2013	9,146,325 shares
Mar. 31, 2013	177,290 shares

3) Average number of shares during the period:

Six months ended Sep. 30, 2013	45,073,872 shares
Six months ended Sep. 30, 2012	48,385,631 shares

* Presentation regarding the implementation status of the audit process

These financial statements are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these quarterly financial statements, review procedures for quarterly consolidated financial statements are in progress.

* 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, and are not intended to indicate 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 energy industry, dependence on thermal power generation as an alternative for nuclear power generation is rising, leading to an increased demand for LNG, the fuel used in thermal power generation. Shale gas produced in the U.S. will be imported from 2017, whose abundant reserves have been identified in many areas, and expectations toward the import of low-priced unconventional LNG is rising. As a result, the importance of gaseous energy as a key energy source for the future has come into the spotlight.

Meanwhile, in the electricity industry, complete liberalization of retail sale of electricity is scheduled to come into effect in 2016, and it is thought that similar relaxation of regulations will spread to the gas industry in the future. Operators from other business fields are expected to newly enter the electricity and gas businesses, and competition is predicted to intensify beyond the borders of the industry.

In keeping with such circumstances, the Group is actively investing in the energy retail field both in Japan and overseas in anticipation of the future. In addition, to gain the support of customers as well as to build a more robust security system, the Group will continue with active restructuring and investing toward a more efficient management.

With regards to Kumonouchusen, a new operational system linking cloud technology and mobile devices, the verification test carried out by the Company for distribution is in its final stage. Nationwide distribution of this system through Kumonouchusen Co., Ltd., which was jointly established with KDDI CORPORATION and Hitachi Capital Corporation, is scheduled to commence after the verification test is finished.

As for the development of overseas businesses, the electricity retailer Entrust Energy, Inc. affiliated with the U.S. holding company Strategic Power Holdings LLC, in which the Group is involved in its management, is steadily increasing its number of customers, and the number of customers as of September 30, 2013 reached 45,000 households.

In Australia, the Group sold all stocks of the electricity retailer Australian Power and Gas Company Limited, in which the Group has been involved in its management, to a major Australian electric power company, AGL Energy Limited, by accepting a takeover bid proposal. Meanwhile, the Group is newly involved in an electric energy management service company for commercial and industrial customers, COzero Holdings Limited, in terms of capital and management.

While applying the knowledge and expertise acquired from overseas investments in the U.S. and Australia, where liberalization of retail sale of energy is advancing, to the strategies for the planned liberalization of retail sale of energy in Japan, the Group will invest its business expertise and funds to overseas, and will continue expanding its customer base with a view to enhancing its earnings base for the future.

Based on the capital and business alliance agreement with One Equity Partners (OEP), which is the investment arm of international financial institution JP Morgan, the Group holds strategic investment committee meetings with OEP on a regular basis to discuss joint investment overseas. The Group plans to continue making active investment in the energy retail field.

For the period under review, consolidated net sales increased by 3.5% year-on-year to ¥53,565 million due to higher sales prices resulting from factors including the gas rate adjustment system, despite a slight year-on-year decrease in gas sales volume due to the impact of the high atmospheric and water temperatures during the

period under review compared with the same period of the previous fiscal year. The number of customers of the Group steadily increased by 18,000 households compared with the end of the previous fiscal year to 1,047,000 households as of September 30, 2013.

In terms of profit, despite higher raw material prices compared with the same period of the previous fiscal year and an increase in cost of sales, operating income increased by 6.7% year-on-year to ¥2,601 million and ordinary income increased by 14.7% year-on-year to ¥2,582 million, thanks to a reduction of overall costs resulting from a sweeping reform across all businesses through the deployment of the new logistics/operational systems. On top of these, due to factors including posting of gain on bargain purchase resulting from additional acquisition of shares of a consolidated subsidiary, net income increased by 81.0% year-on-year to ¥2,086 million.

Sales and profits tend to rise disproportionately in the second half of the year, as the gas business, which by nature is characterized by sharp seasonal fluctuations, accounts for a major part of the Group's business.

Business performance by segment for the six months ended September 30, 2013 is as follows:

[LP Gas Business]

In the LP gas business, despite a slight year-on-year decrease in gas sales volume due to the impact of high atmospheric and water temperatures, sales prices moved higher compared with the same period of the previous fiscal year when sales prices were lowered due to a reduction in material costs. Consequently, net sales for the six months ended September 30, 2013 increased by ¥719 million (2.4% increase) year-on-year to ¥31,112 million.

[City Gas Business]

In the city gas business, although consumer gas sales volume decreased year-on-year due to the impact of atmospheric and water temperatures, sales prices moved higher compared with the same period of the previous fiscal year due to the gas rate adjustment system, in addition to an increase in commercial gas sales volume due to an increased demand for air-conditioning. Consequently, net sales for the six months ended September 30, 2013 increased by ¥1,110 million (5.2% increase) year-on-year to ¥22,452 million.

(2) Explanation of Financial Position

1) Assets

Total assets as of the end of the second quarter of the fiscal year ending March 31, 2014 decreased by ¥7,644 million from the end of the previous fiscal year and stood at ¥117,314 million. This is mainly because of the decrease in cash and deposits and notes and accounts receivable-trade due to seasonal factors, and the decrease in investments and other assets resulting from sales of subsidiaries and affiliates' stocks.

2) Liabilities

Total liabilities as of the end of the second quarter of the fiscal year ending March 31, 2014 increased by ¥2,431 million from the end of the previous fiscal year and stood at ¥74,374 million. This is mainly a reflection of the

decrease in notes and accounts payable-trade due to seasonal factors and the increase in short-term loans payable.

3) Net assets

Net assets as of the end of the second quarter of the fiscal year ending March 31, 2014 decreased by ¥10,076 million from the end of the previous fiscal year and stood at ¥42,939 million. This is mainly a reflection of the increase in retained earnings due to net income recorded for the period under review and the increase in treasury stock (decrease in shareholders' equity).

As a result, equity ratio decreased by 5.2 percentage points from the end of the previous fiscal year to 27.0%.

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

In the fiscal year ending March 31, 2014, the Group will continue to focus on increasing gas sales volume through the expansion of its customer base and on the spread and the expansion of the use of gas appliances. As a result, the Company projects consolidated net sales of ¥124,000 million or 5.9% increase year-on-year.

In terms of profits, despite expected increase in expenses associated with the customer base expansion and amortization of goodwill, the Group projects operating income of ¥9,000 million (14.1% increase), ordinary income of ¥8,800 million (7.5% increase), and net income of ¥4,000 million (6.0% increase), as a result of the increase in customers and other factors.

Note that no changes have been made to the earnings forecasts released on April 30, 2013.

2. Issues Related to Summary Information (Notes)

(1) Significant Changes of Subsidiaries during the Period under Review

None.

(2) Adoption of Special Accounting Processes for Preparing Quarterly Consolidated Financial Statements

None.

(3) Changes to Accounting Policies, Changes to Accounting Estimates, and Revision Restatements

None.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2013 (As of Mar. 31, 2013)	Six months ended Sep. 30, 2013 (As of Sep. 30, 2013)
Assets		
Current assets		
Cash and deposits	14,914	11,632
Notes and accounts receivable-trade	7,836	6,785
Merchandise and finished goods	6,063	5,161
Work in process	22	13
Raw materials and supplies	88	98
Deferred tax assets	712	613
Other	922	1,583
Allowance for doubtful accounts	(124)	(127)
Total current assets	30,435	25,760
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	7,930	7,670
Machinery, equipment and vehicles, net	38,189	37,438
Tools, furniture and fixtures, net	431	412
Land	21,365	21,412
Lease assets, net	1,388	2,013
Construction in progress	441	494
Total property, plant and equipment	69,746	69,441
Intangible assets		
Goodwill	6,707	6,198
Other	897	1,278
Total intangible assets	7,605	7,477
Investments and other assets		
Investment securities	10,321	8,208
Other	7,733	7,295
Allowance for doubtful accounts	(939)	(936)
Total investments and other assets	17,115	14,567
Total noncurrent assets	94,466	91,485
Deferred assets	56	67
Total assets	124,958	117,314

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2013 (As of Mar. 31, 2013)	Six months ended Sep. 30, 2013 (As of Sep. 30, 2013)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	14,318	9,739
Short-term loans payable	7,974	15,819
Income taxes payable	2,456	1,286
Provision for bonuses	425	468
Other	4,490	4,384
Total current liabilities	29,665	31,698
Noncurrent liabilities		
Long-term loans payable	36,670	36,897
Provision for retirement benefits	2,133	2,156
Provision for directors' retirement benefits	981	942
Provision for gas holder repairs	213	244
Other	2,277	2,435
Total noncurrent liabilities	42,276	42,675
Total liabilities	71,942	74,374
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	5,198	5,198
Retained earnings	27,130	28,904
Treasury stock	(61)	(10,301)
Total shareholders' equity	39,337	30,871
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	923	843
Total accumulated other comprehensive income	923	843
Minority interests	12,755	11,224
Total net assets	53,016	42,939
Total liabilities and net assets	124,958	117,314

(2) Consolidated Statements of Income and Comprehensive Income

(Consolidated Statements of Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2012 (from Apr. 1, 2012 to Sep. 30, 2012)	For the six months ended Sep. 30, 2013 (from Apr. 1, 2013 to Sep. 30, 2013)
Net sales	51,735	53,565
Cost of sales	30,411	32,378
Gross profit	21,324	21,186
Selling, general and administrative expenses	18,885	18,584
Operating income	2,438	2,601
Non-operating income		
Interest income	64	121
Dividends income	52	64
Real estate rent	20	22
Equity in earnings of affiliates	9	17
Dividends income of insurance	11	24
Other	86	78
Total non-operating income	243	329
Non-operating expenses		
Interest expenses	314	268
Other	116	80
Total non-operating expenses	431	349
Ordinary income	2,250	2,582
Extraordinary income		
Gain on sales of noncurrent assets	11	15
Gain on sales of subsidiaries and affiliates' stocks	—	234
Gain on bargain purchase	2	541
Other	0	92
Total extraordinary income	14	883
Extraordinary loss		
Loss on retirement of noncurrent assets	32	51
Loss on valuation of investment securities	0	—
Other	9	7
Total extraordinary losses	42	59
Income before income taxes and minority interests	2,222	3,406
Income taxes-current	924	1,143
Income taxes-deferred	73	121
Total income taxes	998	1,265
Income before minority interests	1,224	2,141
Minority interests in income	71	54
Net income	1,152	2,086

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2012 (from Apr. 1, 2012 to Sep. 30, 2012)	For the six months ended Sep. 30, 2013 (from Apr. 1, 2013 to Sep. 30, 2013)
Income before minority interests	1,224	2,141
Other comprehensive income		
Valuation difference on available-for-sale securities	(353)	(80)
Total other comprehensive income	(353)	(80)
Comprehensive income	870	2,060
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	802	2,006
Comprehensive income attributable to minority interests	68	53

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

For the six months ended September 30, 2013 (from April 1, 2013 to September 30, 2013)

None.

(Notes in Case of Significant Changes in Shareholders' Equity)

For the six months ended September 30, 2013 (from April 1, 2013 to September 30, 2013)

(Repurchase of Treasury Stock)

The Company repurchased its treasury stock in accordance with the resolutions of the Board of Directors' meetings held on March 8, 2013 and August 12, 2013 as follows.

1. Repurchase based on the resolution of the Board of Directors' meeting held on March 8, 2013

The Company passed a resolution on the repurchase of treasury stock at the Board of Directors' meeting held on March 8, 2013 based on the provision of Article 156, Paragraph 1 of the Companies Act, applied pursuant to Article 165, Paragraph 3 of the Act, and executed the repurchase as follows.

(1) Reason for the repurchase

To execute agile capital policies responsive to changes in management environment, to improve capital efficiency, and to return profits to shareholders.

(2) Details of the repurchase

1) Type of shares to be repurchased	Common stock
2) Number of shares to be repurchased	1,737,072 shares
3) Repurchase price	¥989 per share
4) Total amount of repurchase price	¥1,717 million
5) Method of repurchase	Tender offer
6) Date starting payment	May 8, 2013

2. Repurchase based on the resolution of the Board of Directors' meeting held on August 12, 2013

The Company passed a resolution on the repurchase of treasury stock and specific method of repurchase at the Board of Directors' meeting held on August 12, 2013 based on the provision of Article 156 of the Companies Act, applied pursuant to Article 165, Paragraph 3 of the Act, and executed the repurchase of treasury stock based the resolution as follows.

(1) Details of the resolution on the repurchase of treasury stock at the Board of Directors' meeting

1 Reason for the repurchase of treasury stock

To execute agile capital policies responsive to changes in management environment.

2 Method of the repurchase

The Company entrusts the purchase in the off-auction own share repurchase transaction (ToSTNeT-3) of the Tokyo Stock Exchange at 8:45 a.m. on August 13, 2013, at the closing price of ¥1,179 on August 12, 2013.

(No changes shall be made to other trading system or to other trading time.)

Such purchase order shall contain orders standing at such trading time only.

3 Details of the repurchase

1) Type of shares to be repurchased	Common stock
2) Number of shares to be repurchased	7,500,000 shares (maximum)
3) Total amount of repurchase price	¥8,842 million (maximum)

(2) Other

As a result of the above off-auction own share repurchase transaction (ToSTNeT-3), the Company acquired 7,227,100 shares of its common stock (¥8,520 million).

4. Supplementary Information

(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, 2013 are as follows:

Sales results by reportable segments

(Millions of yen)

Reportable segments	For the six months ended Sep. 30, 2013 (from Apr. 1, 2013 to Sep. 30, 2013)	For the six months ended Sep. 30, 2012 (from Apr. 1, 2012 to Sep. 30, 2012)
LP gas business	31,112	30,393
City gas business	22,452	21,341
Total	53,565	51,735

2) Sales results of LP gas business

(Millions of yen)

Reportable segments	For the six months ended Sep. 30, 2013 (from Apr. 1, 2013 to Sep. 30, 2013)	For the six months ended Sep. 30, 2012 (from Apr. 1, 2012 to Sep. 30, 2012)
Gas	24,725	23,743
Equipment, construction contracts, etc.	6,387	6,650
Total	31,112	30,393

3) Sales results of city gas business

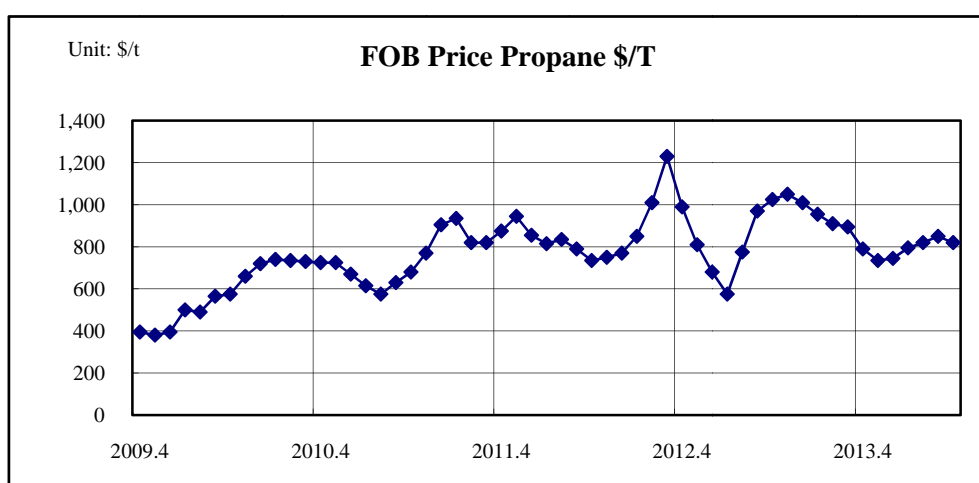
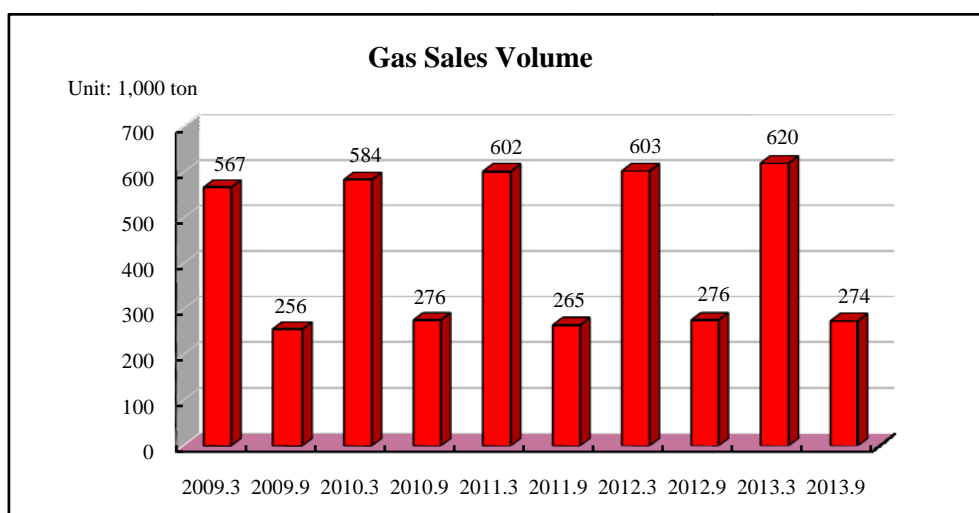
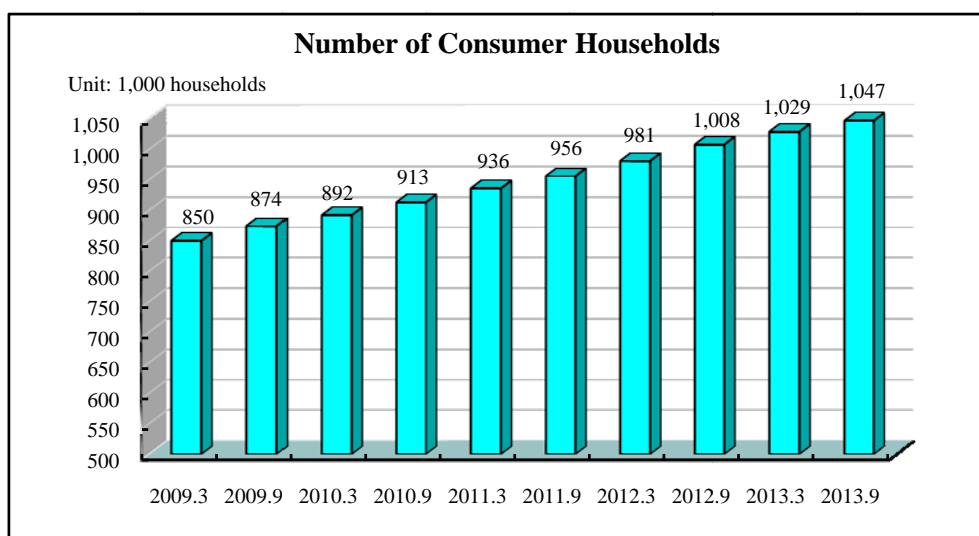
(Millions of yen)

Reportable segments	For the six months ended Sep. 30, 2013 (from Apr. 1, 2013 to Sep. 30, 2013)	For the six months ended Sep. 30, 2012 (from Apr. 1, 2012 to Sep. 30, 2012)
Gas	18,929	18,037
Equipment, construction contracts, etc.	3,523	3,303
Total	22,452	21,341

(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)