



**Financial Results Briefing Material
for 2Q of FY Ending in Mar. 2018 (FYE 03/18)**

**October 27, 2017
Nippon Gas Co., Ltd**

Contents

1	Summary	P.2	4	Return to Shareholders	P.11
2	Financial Results (2Q of FYE 03/18)		5	Overseas Business	P.12
	Summary	P.3	6	Financial Highlights	P.13
	LP Gas Business	P.4	7	Appendix	P.16
	Existing City Gas Business	P.5			
	New City Gas Business	P.6			
3	Progress of Three-Year Plan	P.7			

1. Summary

Significant Increase of Customers with Income as Planned. Further Rise in Dividend

- ◆ Significant increase (YoY) of net customer growth after deregulation of retail City Gas. **Nippon Gas (“NICIGAS”) has increased 71K new customers in six months.**

(1,000 households)	1H of FYE 03/17	1H of FYE 03/18	+/-
LP Gas customers	16	17	+1
Existing City Gas customers	6	5	▲ 1
New City Gas customers	-	49	+49
Total	22	71	+49

- ◆ **Operating Income of 2Q was ¥1.5B, in line with the plan.**

(¥100M)	Half year of FYE 03/18 (F)	Half year of FYE 03/18 (A)
Operating Income	15	15
Net Income	10	11

In line with the plan.

- ◆ **Plan to rise in dividend increase from ¥4 to ¥8. Divested cross-shareholding stocks for the second consecutive year.** Will enhance return to shareholders using cash generated by selling cross-shareholding stocks.

	FYE 03/15(A)	FYE 03/16 (A)	FYE 03/17 (A)	FYE 03/18 (Previous forecast)	FYE 03/18 (Current forecast)
Dividend Per Share (¥)	26	30	34	38	42
				Interim dividend: 19 Year-end dividend: 19	Interim dividend: 19 Year-end dividend: 23

2. Financial Results / Summary (17/4 – 17/9)

Significant Customer Growth. Operating Income was in Line with the Plan.

- Achieved **71,000 net customer growth with increased gas sales volume (+7,000 ton, YoY)** in six months after deregulation of retail City Gas. Decrease in Gross Profit and increase in SG&A Expenses, mainly CTA and Advertising Expenses were in line with the plan. As planned, Operating Income of 2Q was ¥1.5B.

Total of all segments	2Q of FYE 03/17 (Apr. - Sep.)	2Q of FYE 03/18 (Apr. - Sep.)	+/-	+/- (%)
PL (¥100M)				
Net Sales	489	485	▲4	▲0.8%
- LP Gas business	291	274	▲17	▲5.8%
- Existing City Gas business	197	197	+0	+0.0%
- New City Gas business	-	13.6	+13.6	-
Gross Profit	256	247	▲9	▲3.5%
SG&A Expenses	208	231	+23	+11.1%
- Cost to Acquire*(CTA)	27	37	+10	+37.0%
- Advertising Expenses	5	13	+8	+160.0%
Operating Income	48	15	▲33	▲68.8%
- LP Gas business	34	12	▲22	▲64.7%
- Existing City Gas business	14	14	+0	+0.0%
- New City Gas business	-	▲11	▲11	-
Net Income	31	11	▲20	▲64.5%
Business scale				
Net Customers Growth (households)	21,873	71,073	+49,200	+224.9%
Customers (households)	1,175,650	1,271,626	+95,976	+8.2%
Gas sales volume (1,000 t)	279	286	+7	+2.5%
- LP Gas business	135	141	+6	+4.4%
- Existing City Gas business	144	142	▲2	▲1.4%
- New City Gas business	-	3.1	+3.1	-

* CTA: cost for acquisition and retention of LP Gas customers, including gas cylinders, meters, services and personnel costs.

* Calculated after rounding of actual values and adjusted as necessary.
* +/- / +/- (%) is calculated after adjusting to ¥100M units.

2. Financial Results / LP Gas Business

Customer Increase and Profit Level are in Line with the Plan.

- Gas sales volume increased (+6,000 tons YoY) with customers' growth. **Gross Profit was almost in line with the plan**, while it negatively affected by higher raw material cost. Despite increase in CTA (+¥1B YoY), SG&A Expenses was also in line with the plan, resulting in Operating Income was within an expected range.

(¥100M)

LP Gas Business	2Q of FYE 03/17 (Apr. - Sep.)	%	2Q of FYE 03/18 (Apr. - Sep.)	%	+/- / +/- (%)	Remarks
Net Sales	291	100.0%	274	100.0%	▲17 / ▲5.8%	
- Gas	219		238		+19 / +8.7%	- Resulting from larger gas sales volume
- Equipment sales, etc.	72		36		▲36 / ▲50.0%	- Decreased due to exit from cassette cartridge business.
Gross Profit	169	58.1%	158	57.7%	▲11 / ▲6.5%	- Negatively affected by higher raw material cost.
SG&A Expenses	135	46.4%	146	53.3%	+11 / +8.1%	
- Personnel Cost	40		42		+2 / +5.0%	- Number of employees increased. Increased in base pay.
- Cost to Acquire* (CTA)	27		37		+10 / +37.0%	- Increasing competition with major competitors.
- D&A Expense	14		15		+1 / +7.1%	
Operating Income	34	11.7%	12	4.4%	▲22 / ▲64.7%	
Operating Income exc. CTA	61		49		▲12 / ▲19.7%	- NICIGAS' new KPI (which eliminates the effects from fluctuation of CTA amounts)
Net customer growth (households)	16,149		17,286		+1,137 / +7.0%	
Total customers (households)	776,528		812,954		+36,426 / +4.7%	
Gas sales volume (1,000 t)	135		141		+6 / +4.4%	- Resulting from Increase in customers
- Residential use	75		80		+5 / +6.7%	
- Commercial use	60		61		+1 / +1.7%	

* **CTA**: cost for acquisition and retention of LP Gas customers, including gas cylinders, meters, services and personnel costs.

* Calculated after rounding of actual values and adjusted as necessary.
* +/- / +/- (%) is calculated after adjusting to ¥100M units.

2. Financial Results / Existing City Gas Business

Gas Sales Volume for Residential Increased. Operating Income was Same Level.

- Increase in sales volume for residential customers (+2,000 tons YoY) and lower raw material cost absorbed decrease in Gross Profit from equipment sales and negative impact on slide time lag (▲¥330M YoY), resulting in Gross Margin (YoY) at the same level. SG&A Expenses was also flat (YoY), resulting in **Operating Income (YoY) at the same level.**

(¥100M)

Existing City Gas Business	2Q of FYE 03/17 (Apr. - Sep.)	%	2Q of FYE 03/18 (Apr. - Sep.)	%	+/- / +/- (%)	Remarks
Net Sales	197	100.0%	197	100.0%	+0 / +0.0%	
- Gas	151		158		+7 / +4.6%	- Resulting from increase in gas selling price
- Equipment sales, etc.	46		39		▲7 / ▲15.2%	- Due to one time large gas equipment sales for large customers in FYE 03/17
Gross Profit	87	44.2%	87	44.2%	+0 / +0.0%	- Resulting from increase in gas sales volume for residential customers
SG&A Expenses	73	37.1%	73	37.1%	+0 / +0.0%	
- D&A Expense	34		33		▲1 / ▲2.9%	
- Personnel Cost	21		20		▲1 / ▲4.8%	
Operating Income	14	7.1%	14	7.1%	+0 / +0.0%	
Net customer growth (households)	5,724		5,261		▲463 / ▲8.1%	
Total customers (households)	399,122		410,146		+11,024 / +2.8%	
Gas sales volume (1,000 t)	144		142		▲2 / ▲1.4%	
- Residential use	44		46		+2 / +4.5%	
- Commercial use	100		96		▲4 / ▲4.0%	
Slide time lag	2.4		▲0.9		▲3.3 / -	

*Calculated after rounding of actual values and adjusting as necessary.

*+/- / +/- (%) is calculated after adjusting to ¥100M units.

2. Financial Results / New City Gas Business

Spent Advertising Expenses as Planned. Operating Income was in Line with the Plan

- After deregulation of retail City Gas, increased **49,000 customers (already switched)** and received **56,000 application by Sep. 30, 2017**. Gas equipment sales for prospective new customers contributed to profit.
- **Advertising Expenses was ¥1B which was within planned range**. Operation Expenses will increase with increasing customers. **Operating Income was in line with the plan.**

(¥100M)

New City Gas Business	FYE 03/18 (F)*	2Q of FYE 03/18 (Apr. - Sep.)	%	Remarks
Net Sales	-	13.6	100.0%	
- Gas	-	3.9		
- Equipment sales, etc.	-	9.7		- Mainly sales of water heaters and gas stoves
Gross Profit	8	1.6	11.8%	- Net sales after deduction of raw material cost, pipeline charge paid to Tokyo Gas, and first year discount.
SG&A Expenses	34	12.6	92.6%	
- Operating Expenses	10	2.4		- Including CTA, Personnel Cost, and Overhead Expenses
- Advertising Expenses	20	10.0		- Mainly expenses of TVCM. Almost as planned.
- IT, etc.	4	0.2		
Operating Income	▲26	▲11	▲80.9%	
Net customer growth (households)	110,000	48,526		- The number of application was 56,000
Gas sales volume (1,000 t)	18	3.1		
- Residential use	-	2.3		
- Commercial use	-	0.8		

* Figures of three-year plan.

*Calculated after rounding of actual values and adjusting as necessary.

*+/- / +/- (%) is calculated after adjusting to ¥100M units.

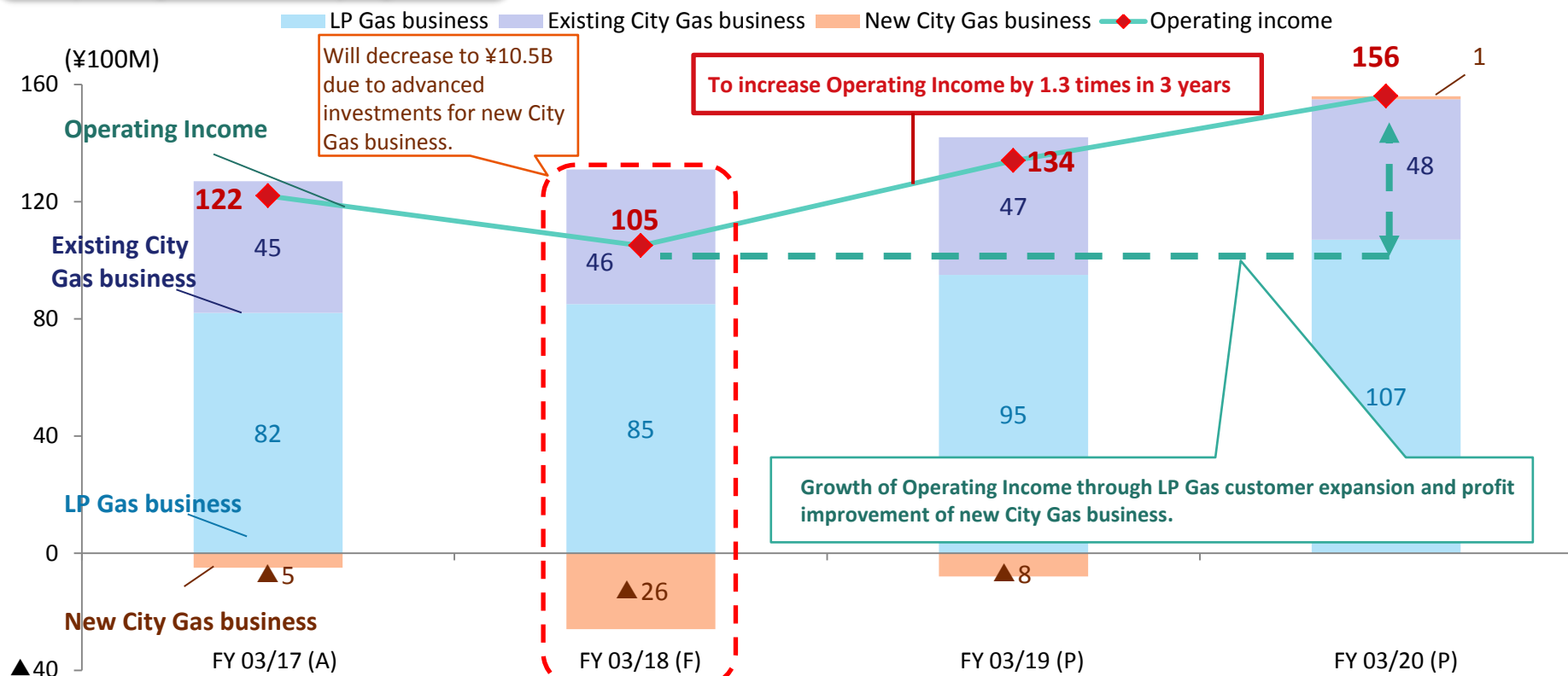
3. Progress of Three-Year Plan / Operating Income by Segment

Expand profit in each segment from FYE 03/19.

- Planning to achieve ¥10.5B operating income for FYE 03/18 with an increase in initial investments for new City Gas business*. Thereafter Operating Income will significantly improve with increased profit in LP Gas business and improved profitability of new City Gas business. Planning to generate ¥13.4B and ¥15.6B of Operating Income for FYE 03/19 and FYE 03/20, respectively.

*City Gas business in the area where NICIGAS could enter only after deregulation of retail City Gas.

Operating Income Plan by Segment



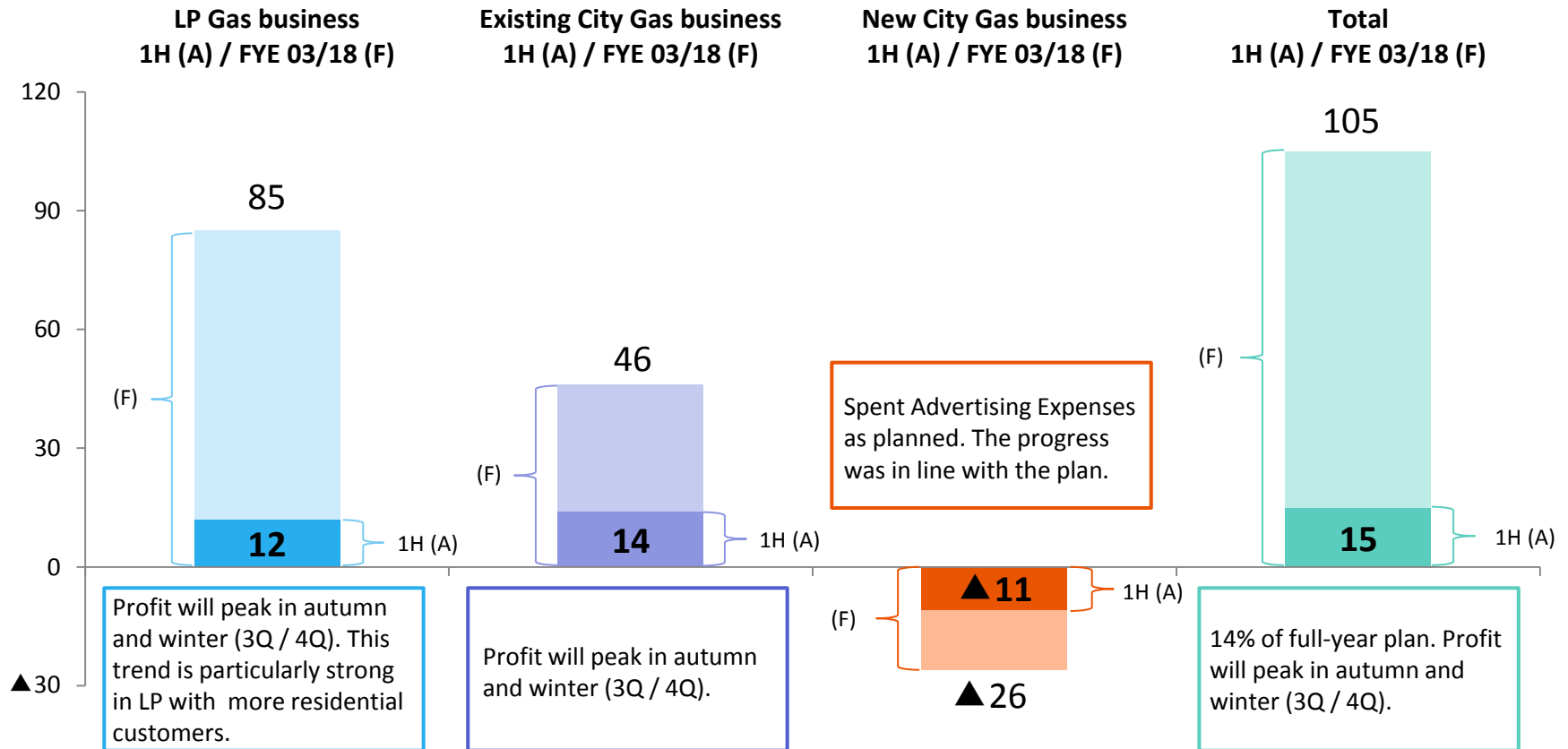
Please see P.8 for the details.

3. Progress of Three-Year Plan / Progress by Segment in FYE 03/18

1H Result was in line with the Plan. Revenue and Profit will Peak in Autumn and Winter.

- 1H Operating Income was within an expected range . Each segment was in line with the plan.
- Operating Income of 1H was ¥1.5B, which is 14% of full-year plan (¥10.5B). It is because most of full-year profit to be achieved by peak season of autumn and winter (3Q / 4Q).

Progress of Operating Income by Segment (¥100M)



3. Progress of Three-Year Plan / Customer Acquisition

Acquiring Customers in Each Segment for Achieving Full-year Plan.

- **Net customer growth in the first half of FYE 03/18 was 71,000**, remarkably increased the result of last year (YoY). **Total customer number exceeded 1,270,000.**
- Increased 17,000 LP Gas customers during 1H, better progress compared with last year (16,000 customers (YoY)). Increased 5,000 existing City Gas customers versus full-year plan of 10,000.
- By Sep. 30, 2017, received 56,000 applications for New City Gas, of which 49,000 customers were already switched. Smooth progress towards full-year plan of 110,000.

Progress of customer acquisition (1,000 households)


	FYE 03/18 (F)	1H of FYE 03/18 (A)	1H of FYE 03/17 (Appendix)
LP Gas net customer growth	40	17	16
Existing City Gas ^{*1} net customer growth	10	5	6
New City Gas ^{*2} net customer growth	110	49 (Application as of Sep. 17: 56)	-
Total customer growth	160	71	22
Total customer number	1,361	1,272	1,176

*1: City Gas business in the area where NICIGAS is already supplying gas

*2: City Gas business in the area where NICIGAS could enter only after deregulation of retail City Gas.

*Calculated after rounding of actual values and adjusting as necessary.

3. Progress of Three-Year Plan / Appendix: Breakdown of Operating Income by Segment: New City Gas business will be profitable in three years.

(¥100M)	FYE 03/17 (A)	Deregulation of City Gas retail 		
		FYE 03/18 (F) 1 st year of deregulation	FYE 03/19 (P) 2 nd year of deregulation	FYE 03/20 (P) 3 rd year of deregulation
LP Gas business				
Net customer growth (1,000 households)	35	40	45	50
Customers (1,000 households)	796	836	881	931
Gas sales volume (1,000 t)	315	324	335	347
Gross Profit	375	380	395	412
SG&A Expenses	293	295	300	305
Operating Income	82	85	95	107
Existing City Gas business (NICIGAS' exclusive area)				
Net customer growth (1,000 households)	12	10	10	10
Customers (1,000 households)	405	415	425	435
Gas sales volume (1,000 t)	325	317	320	323
Gross Profit	188	189	192	195
SG&A Expenses	143	143	145	147
Operating Income	45	46	47	48
New City Gas business (Other retailers' exclusive area)				
Net customer growth (1,000 households)	-	110	200	200
Customers (1,000 households)	-	110	310	510
Gas sales volume (1,000 t)	-	18	71	140
Gross Profit	6	8	23	43
SG&A Expenses	11	34	31	42
Operation Expenses	1	10	18	29
Advertising Expenses	10	20	9	9
IT	0	4	4	4
Operating Income	▲5	▲26	▲8	1

Investments for new City Gas business.

To improve profit by customer expansion to achieve Net Profit.

4. Return to Shareholders

Divested cross-shareholdings stock for 2nd consecutive year. Plan to rise in dividend increase from ¥4 to ¥8.

- Planning to rise in dividend increase from ¥4 to ¥8, resulting in ¥42 full-year dividend per share in FYE 03/18, while FYE 03/17 full-year dividend was ¥34.
- Following the previous year, reviewing the policy of cross-shareholdings stocks and **divested 2 stocks to procure cash (¥360M) in the 1st half of FYE 03/18. While NICIGAS is in the growth stage, we will focus on our return to shareholders based on corresponding cash & deposit and shareholders' equity ratio using cash generated by selling cross-shareholding stocks.**

	FYE 03/13(A)	FYE 03/14(A)	FYE 03/15(A)	FYE 03/16 (A)	FYE 03/17 (A)	FYE 03/18 (Previous forecast)	FYE 03/18 (Current forecast)
Dividend Per Share (¥)	13	26	26	30	34	38 Interim dividend: 19 Year-end dividend: 19	42 Interim dividend: 19 Year-end dividend: 23
Dividend Amount	631	1,120	903	1,185	1,461	1,623	1,805
Payout Ratio (Net Income Per Share)	16.7% (78.01)	11.8% (220.93)	17.5% (148.26)	15.7% (190.71)	21.0% (161.93)	23.2% (163.95)	25.6% (163.95)
Treasury Share Repurchase Amount	1	10,239 ^{*1}	14,394 ^{*2}	2	2	—	1

*Dividend Amounts are as approved by board resolution.
Payout Ratio = Dividend Per Share / Net Income Per Share

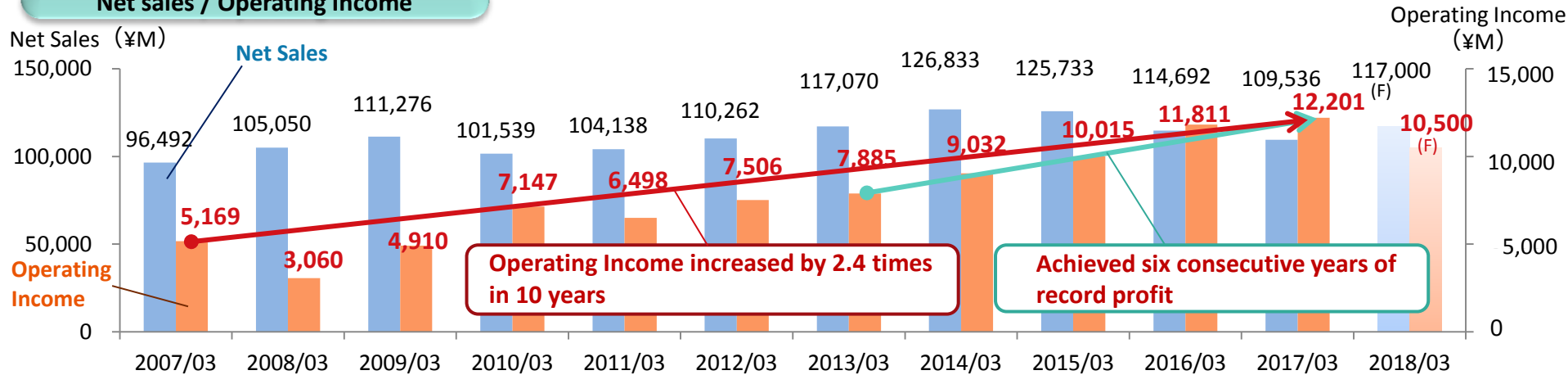
*1 From Iwatani Corp., etc. *2 From OEP

6. Financial Highlights / Profit and Customer Growth

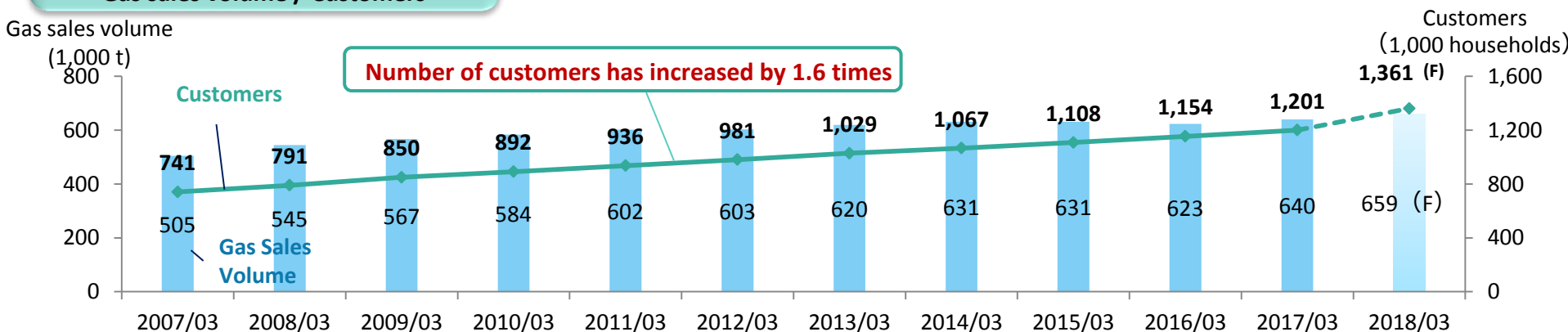
Operating Income increased by 2.4 times in 10 years.

- Operating Income and number of customers increased by 2.4 times and 1.6 times respectively in 10 years. Achieved six consecutive years of record Operating Income. Accelerating investments for deregulation of City Gas retail, leading to slimmer Operating Income in FYE 03/18.

Net sales / Operating Income



Gas sales volume / Customers



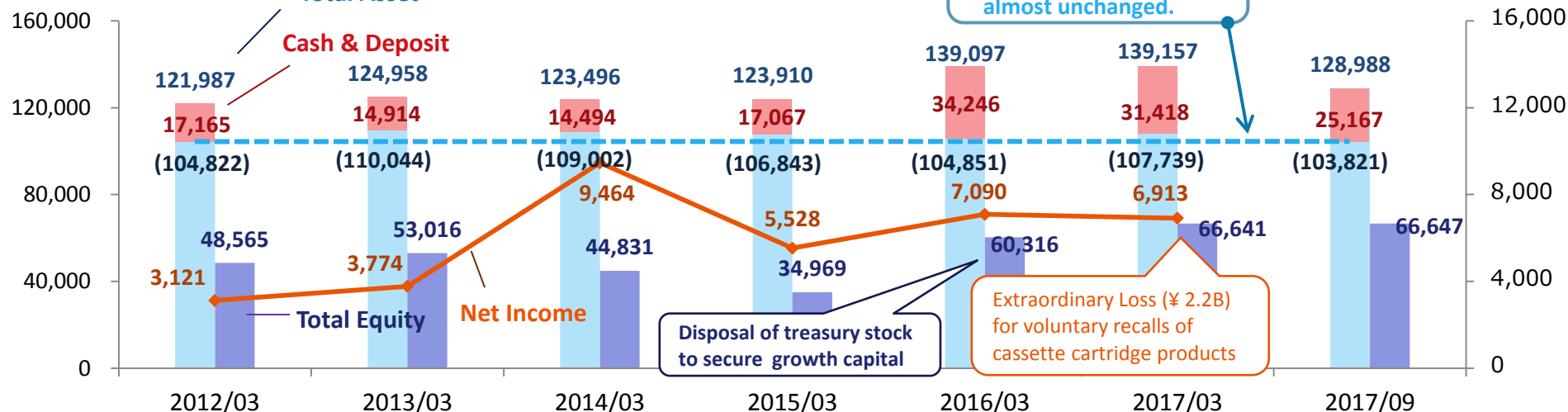
6. Financial Highlights / B/S:

Increased Profits with Stable Asset Size. Strengthened Financial Capacity.

- **Total asset size (excl. cash and deposits) remained almost unchanged** since FYE 03/12. Despite a decrease in net income due to extraordinary loss (¥2.2B) in FYE 03/17, **profit level continues to improve.**
- Improved total equity for Strong Balance Sheet. **Capital to asset ratio was 51.7%** as of Sep. 2017.

B/S and Net Income

Total Assets / Total Equity
/ Cash & Deposits (¥M)



B/S (¥M)	2012/03	2013/03	2014/03	2015/03	2016/03	2017/03	2017/09
Capital to Asset Ratio	29.9%	32.2%	36.3%	28.2%	43.4%	47.9%	51.7%
Net Interest-bearing Debt	29,905	29,730	34,578	44,286	16,937	13,572	16,765
Net D/E Ratio	0.62	0.56	0.77	1.27	0.28	0.20	0.25
ROA* ¹	2.6%	3.0%	7.7%	4.5%	5.1%	5.0%	-
ROE* ²	10.4%	9.8%	22.2%	13.9%	14.9%	10.9%	-

*1 ROA= Net Income / Total Assets × 100

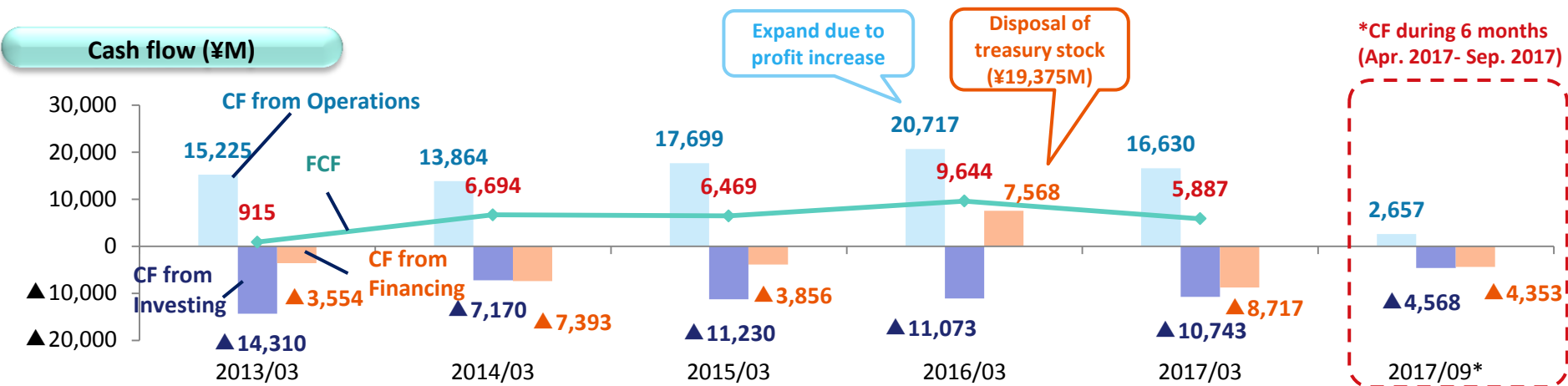
*2 ROE= Net Income (current year) / (average of Equity Capital of the current and previous FY) × 100

*Calculated after rounding down to actual values.

6. Financial Highlight / Cash Flow

Continue Aggressive Growth Investments in FYE 03/18. Focusing on Investing in ICT.

Continue aggressive growth investments in FYE 03/18 and to focus on investing in ICT.



Cash Flow (¥M)	2013/03	2014/03	2015/03	2016/03	2017/03	2017/09*
CF from Operations	15,225	13,864	17,699	20,717	16,630	2,657
CF from Investing	▲14,310	▲7,170	▲11,230	▲11,073	▲10,743	▲4,568
CF from Financing	▲3,554	▲7,393	▲3,856	7,568	▲8,717	▲4,353
Free Cash Flow (FCF*)	915	6,694	6,469	9,644	5,887	▲1,911

*FCF (Free Cash Flow)=CF from operations – CF from investing

Breakdown of capital investment

	2013/03	2014/03	2015/03	2016/03	2017/03	2017/09*
Pipeline	6,713	6,645	5,918	5,142	5,664	2,151
Vehicles	916	1,360	1,224	1,396	833	259
Depots	1,475	78	644	590	1,093	690
Gas Supply Facilities	927	580	621	624	650	288
ICT	194	471	400	1,466	1,423	506
Filling Plants	442	0	0	0	97	0
M&A	752	317	332	320	444	56
Others	861	615	3,830	1,847	314	294

*CF during 6 months (Apr. 2017- Sep. 2017)

<Comparison with 2Q of FYE 03/17 >

	16/9	17/9	+/-
CF from operating	+50	+27	▲23
-Net Income before tax	+46	+18	▲28
CF from investing	▲53	▲46	+7
-Pipeline	▲25	▲22	+3
-Depots	0	▲7	▲7
-ICT	▲10	▲5	+5
CF from financing	▲48	▲44	+4
FCF	▲3	▲19	▲16

* Breakdown of capital investment is based on accrual basis. Construction in progress was adjusted.

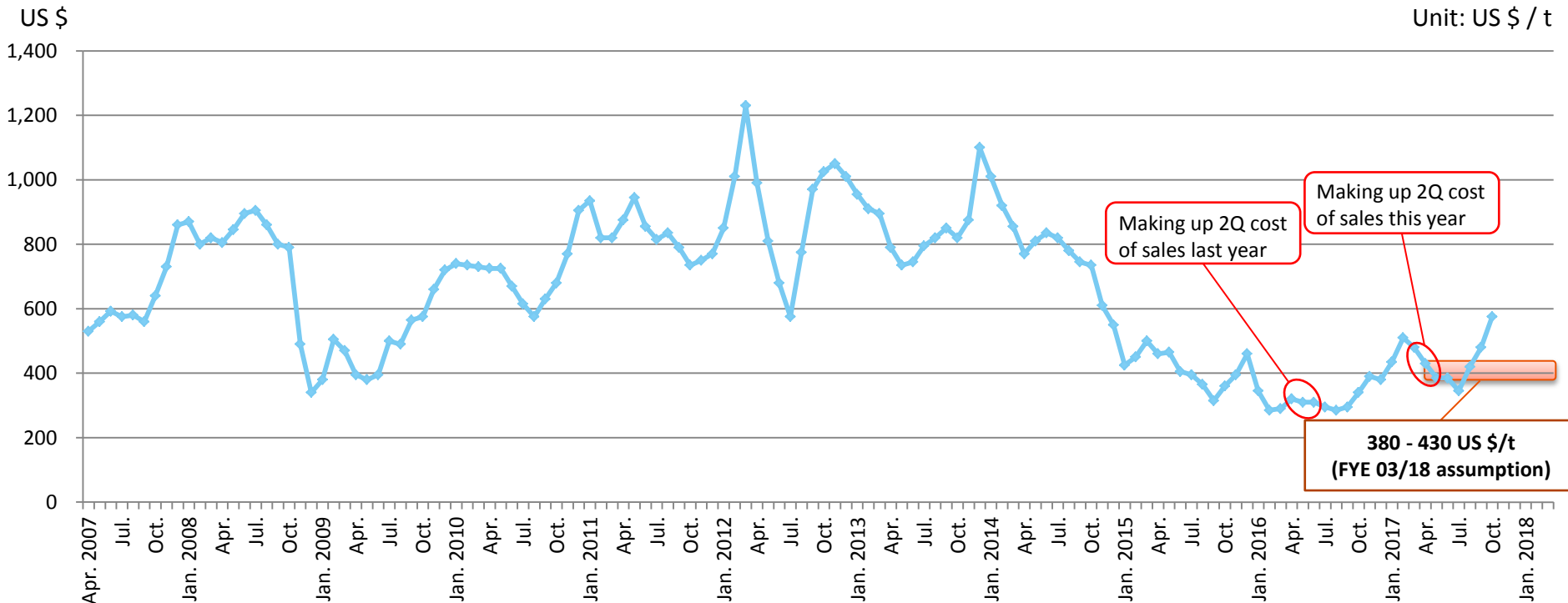
* Calculated after rounding down to actual values.

7. Appendix / LP Gas Raw Material Price

Price is Upward Trend, higher than FYE 03/18 Assumption.

- While LP Gas raw material price showed decreasing trend since Jan. 2017, current price is upward trend.
- Raw material price in 2Q of FY 03/18 was at higher level than that of 2Q of FY 03/17.

Propane Gas FOB Price



Source: Japan LP Gas Association website

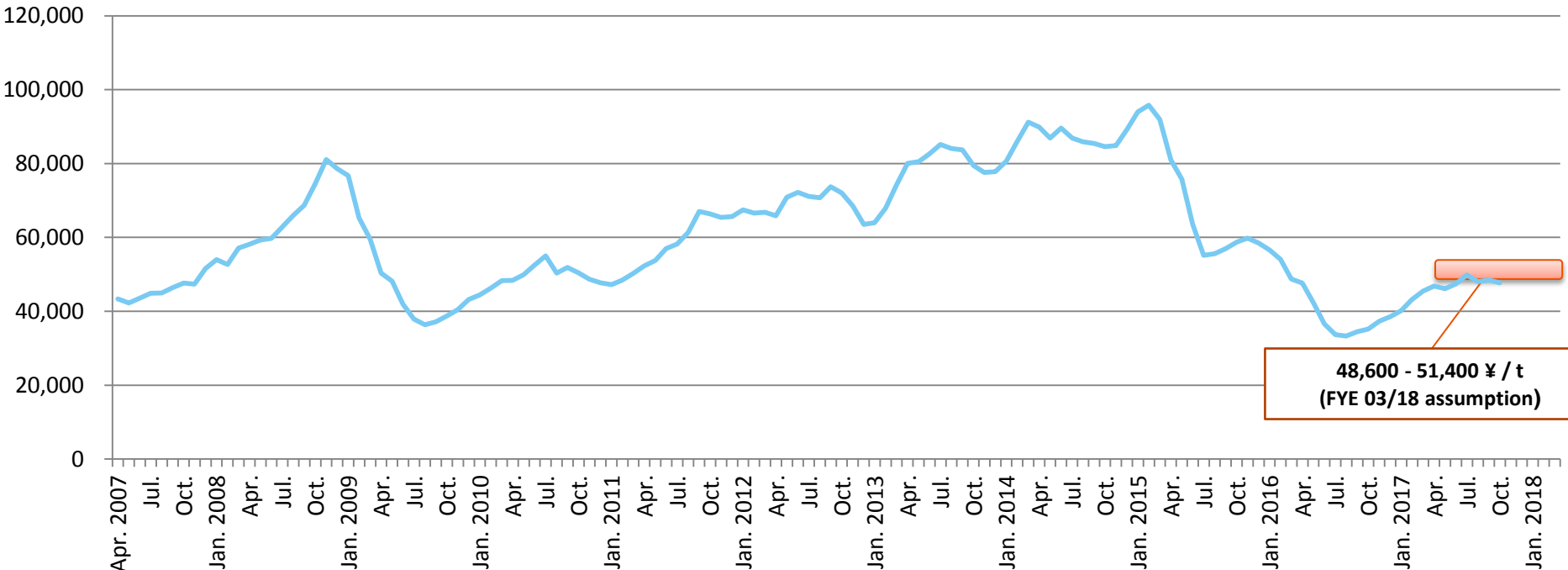
7. Appendix / LNG Raw Material Price

Current Price is Nearly Flat. Current Price is within an Expected Range.

- LNG raw material price, which makes up the cost of City Gas retail business, is nearly flat after upward trend since mid-2016. Current price is within an expected range.

LNG Raw Material Price

Unit: ¥ / t



Source: NICIGAS average purchase price

7. Appendix / Performance (07/17-09/17)

Gas Sales Volume Remained Flat. CTA and Advertising Expenses increased.

Gas sales volume was flat (YoY) due to increasing that for New City Gas customers despite decreasing that for Existing City Gas commercial customers. Slight decrease of Gross Profit and increase of CTA and Advertising Expenses resulted in decrease of Operating Income to ▲¥600M.

LP Gas + City Gas	FYE 03/17 2Q only (Jul.- Sep.)	FYE 03/18 2Q only (Jul.- Sep.)	+/-	+/- (%)
PL (¥100M)				
Net Sales	211	217	+6	+2.8%
- LP Gas business	129	118	▲11	▲8.5%
- Existing City Gas business	82	91	+9	+11.0%
- New City Gas business	-	7.9	+7.9	-
Gross Profit	110	107	▲3	▲2.7%
SG&A Expenses	108	113	+5	+4.6%
- Cost to Acquire*(CTA)	14	18	+4	+28.6%
- Advertising Expenses	2	4	+2	+100.0%
Operating Income	3	▲6	▲9	-
- LP Gas business	3	▲3	▲6	-
- Existing City Gas business	0	▲1	▲1	-
- New City Gas business	-	▲2	▲2	-
Net Income	2	▲6	▲8	-
Business scale				
Customers (households; net growth)	12,033	23,864	+11,831	+98.3%
Customers (households)	1,175,650	1,271,626	+95,976	+8.2%
Gas sales volume (1,000 t)	126	126	+0	+0.0%
- LP Gas business	58	59	+1	+1.7%
- Existing City Gas business	68	65	▲3	▲4.4%
- New City Gas business	-	2.4	+2.4	-

* CTA: cost for acquisition and retention of LP Gas customers, including gas cylinders, meters, services and personnel costs.

*Calculated after rounding of actual values and adjusted as necessary.
*+/- / +/- (%) is calculated after adjusting to ¥100M units.