Consolidated Financial Results for the Nine Months Ended December 31, 2014 [Japanese GAAP]

January 29, 2015

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: February 13, 2015
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, 2014 (April 1, 2014 to December 31, 2014)

(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	%
Nine months ended Dec. 31, 2014	86,869	2.3	3,475	(8.5)	3,258	(17.1)	1,909	(28.7)
Nine months ended Dec. 31, 2013	84,929	4.7	3,799	8.2	3,929	9.3	2,676	44.9

(Note) Comprehensive income: Nine months ended Dec. 31, 2014 ¥2,538 million [(14.3)%]
Nine months ended Dec. 31, 2013 ¥2,961 million [45.4%]

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2014	49.83	－
Nine months ended Dec. 31, 2013	61.71	－

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Dec. 31, 2014	119,636	30,466	25.5
As of Mar. 31, 2014	123,496	44,831	36.3

(Reference) Equity: As of Dec. 31, 2014 ¥30,459 million As of Mar. 31, 2014 ¥44,824 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, 2014	—	6.50	—	19.50	26.00
Fiscal year ending Mar. 31, 2015	—	13.00	—		
Fiscal year ending Mar. 31, 2015 (Forecast)				13.00	26.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2015 (April 1, 2014 to March 31, 2015)

(% 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	133,000	4.9	10,000	10.7	9,800	6.6	6,000	(36.6)	160.29

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

4. Notes

(1) Significant changes of subsidiaries 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.: Yes

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 share)

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

Dec. 31, 2014	48,561,525 shares
Mar. 31, 2014	48,561,525 shares

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

Dec. 31, 2014	14,049,792 shares
Mar. 31, 2014	4,525,927 shares

3) Average number of shares during the period:

Nine months ended Dec. 31, 2014	38,315,748 shares
Nine months ended Dec. 31, 2013	43,376,249 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, 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

The environment surrounding Japan's energy industry is changing at an even faster pace towards the energy liberalization. In the electricity industry, the revised Electricity Business Act was passed, and it has been decided that the retail sale of electricity would be fully liberalized in 2016. In the gas industry as well, a committee on gas system reform set up under the leadership of the Ministry of Economy, Trade and Industry held a series of discussions on system reform, resulting in a situation where complete liberalization of retail sale of gas would be definite in 2017. Consolidation across industry borders is expected to accelerate as a result of partnerships and mergers, etc. formed among energy companies in order to survive amid the upcoming mega-competition brought about by such changes in the situation.

Assuming this situation in advance, the Group has forged ahead with step-by-step preparation. The Group has achieved cost reduction by taking into consideration the price competition under complete liberalization of competition, promoted acquisition of qualification related to city gas business by our employees, developed electricity retail business overseas where liberalization is further advanced, and made a city gas company a wholly owned subsidiary in March 2014. The Group made an application for PPS business in May 2014, and has been achieving sales results in the electricity retail business since starting package sales of electricity and LP gas to large-volume customers in December 2014.

Kumonouchusen, the new operational system linking cloud technology and mobile devices which would greatly contribute to reducing operation costs after the energy liberalization, has already commenced full-scale operation at the Company. The Group is currently advancing its introduction into city gas subsidiaries.

As for the development of overseas businesses, the electricity retailer Entrust Energy, Inc. operating in Texas and California, affiliated with Strategic Power Holdings LLC, in which the Group is involved in its management in the U.S. through the Company's local subsidiary Nippon Gas USA, Inc., and North Eastern States Inc., which operates electricity and gas retail business in seven states in Northeastern America are steadily increasing their number of customers, and the number of customers as of the end of the nine months ended December 31, 2014 totaled 200,000 households. At the end of December 2015, the Group plans to increase the number of customers overseas to 281,000 households. Meanwhile in Australia, the Group is involved in an electric energy saving management service company for commercial and industrial customers, COzero Holdings Limited, in terms of capital and management, and is accumulating business know-how related to energy saving in the retail field, which will be an extremely vital business area in the domestic energy market after liberalization. By 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 in the future, while at the same time investing the Group's business know-how and funds in overseas investments, the Group will expand its customer base for overseas businesses and enhance its earnings base for the future.

For the period under review, consolidated net sales increased by 2.3% year-on-year to ¥86,869 million due to an increase in the volume of gas sales accompanying the steady increase in the number of customers and higher sales prices owing to factors including the gas rate adjustment system. The number of customers of the Group

increased by 30,000 households compared with the end of the previous fiscal year to 1,097,000 households as of the end of the nine months ended December 31, 2014.

In terms of profit, owing to factors including higher raw material prices compared with the same period of the previous fiscal year, an increase in cost of sales, and an increase in customer acquisition expenses associated with steady growth in the number of customers, operating income decreased by 8.5% year-on-year to ¥3,475 million, ordinary income decreased by 17.1% year-on-year to ¥3,258 million, and net income decreased by 28.7% year-on-year to ¥1,909 million, in spite of the effects of a reduction of costs through the deployment of the new logistics/operational systems.

In terms of the net sales and profits of the Group, the gas retail business 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 from fall to winter.

Business performance by segment for the nine months ended December 31, 2014 is as follows:

[LP Gas Business]

In the LP gas business, although commercial gas sales volume decreased, consumer gas sales volume increased year-on-year thanks to an increase in the number of retail customers. Owing to these and other factors, net sales for the nine months ended December 31, 2014 increased by ¥823 million (1.7% increase) year-on-year to ¥50,372 million.

[City Gas Business]

In the city gas business, net sales increased by ¥1,116 million (3.2% increase) year-on-year to ¥36,497 million because of an increase in demand from newly acquired large-volume industrial customers in addition to a year-on-year increase in natural gas prices due to the gas rate adjustment system.

(2) Explanation of Financial Position

1) Assets

Total assets as of the end of the third quarter of the fiscal year ending March 31, 2015 decreased by ¥3,860 million from the end of the previous fiscal year and stood at ¥119,636 million. This is mainly attributable to the decrease in cash and deposits owing to factors including payments for capital investment and the decrease in notes and accounts receivable - trade.

2) Liabilities

Total liabilities as of the end of the third quarter of the fiscal year ending March 31, 2015 increased by ¥10,505 million from the end of the previous fiscal year and stood at ¥89,170 million. This is mainly a reflection of the increase in loans payable due to factors including fund procurement for the tender offer of treasury shares and the decrease in notes and accounts payable - trade.

3) Net assets

Net assets as of the end of the third quarter of the fiscal year ending March 31, 2015 decreased by ¥14,365 million from the end of the previous fiscal year and stood at ¥30,466 million. This is mainly a reflection of the increase in treasury shares (decrease in net assets), and the decrease in retained earnings due to changes in the scope of application of the equity method resulting from rapid growth of businesses in North America.
As a result, equity ratio decreased by 10.8 points from the end of the previous fiscal year to 25.5%.

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

In the fiscal year ending March 31, 2015, 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 ¥133,000 million or 4.9% increase year-on-year.
In terms of profits, as a result of factors such as an increase in the number of customers, further evolution of the new logistics/operational systems, and progress in reducing administrative costs by making consolidated subsidiaries wholly owned subsidiaries, the Group projects operating income of ¥10,000 million (10.7% increase) and ordinary income of ¥9,800 million (6.6% increase). The Group projects net income of ¥6,000 million (36.6% decrease) and its steady growth except for impact from the posting of ¥6,000 million of gain on bargain purchase in 2013.

2. Issues Related to Summary Information (Notes)

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

None.

Scope of application of the equity method was changed in the first quarter of the fiscal year ending March 31, 2015

(Changes in the Scope of Consolidation or in the Scope of Application of the Equity Method)

Significant changes in the scope of application of the equity method

From the first quarter of the fiscal year ending March 31, 2015, Nippon Gas USA, Inc. and Strategic Power Holdings LLC, with their growing importance, were included in the scope of application of the equity method.

(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

(Changes to Accounting Policies)

Following the adoption, from the first quarter of the fiscal year ending March 31, 2015, of provisions specified in the main clause of Paragraph 35 of "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan [ASBJ] Statement No. 26, May 17, 2012, hereinafter referred to as "Retirement Benefits Accounting Standard") and the main clause of Paragraph 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012, hereinafter referred to as "Retirement Benefits Guidance"), methods for calculating retirement benefit obligations and service cost have been reviewed, and methods for attributing expected retirement benefits payment have been changed from straight-line basis to benefit formula basis, while the method of determining discount rate has also been changed.

In adopting the Retirement Benefits Accounting Standard etc., the effected amount associated with the aforementioned change in the methods for calculating retirement benefit obligations and service cost has been adjusted to retained earnings at the beginning of the period under review, according to the transitional handling prescribed in Paragraph 37 of the Retirement Benefits Accounting Standard.

As a result, net defined benefit liability at the beginning of the period under review decreased by ¥101 million, while retained earnings increased by ¥65 million, which, however, had minimal impact on operating income, ordinary income, and income before income taxes and minority interest for the nine months ended December 31, 2014.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2014 (As of Mar. 31, 2014)	Nine months ended Dec. 31, 2014 (As of Dec. 31, 2014)
Assets		
Current assets		
Cash and deposits	14,494	10,006
Notes and accounts receivable - trade	10,152	8,967
Merchandise and finished goods	7,298	6,493
Work in process	9	23
Raw materials and supplies	95	81
Deferred tax assets	739	528
Other	1,128	2,040
Allowance for doubtful accounts	(135)	(125)
Total current assets	33,782	28,014
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,375	7,256
Machinery, equipment and vehicles, net	37,660	35,853
Tools, furniture and fixtures, net	428	472
Land	21,725	23,569
Leased assets, net	2,216	2,287
Construction in progress	227	2,068
Total property, plant and equipment	69,632	71,507
Intangible assets		
Goodwill	5,872	5,210
Other	1,193	1,343
Total intangible assets	7,066	6,553
Investments and other assets		
Investment securities	5,597	4,914
Other	8,323	9,569
Allowance for doubtful accounts	(939)	(944)
Total investments and other assets	12,982	13,539
Total non-current assets	89,681	91,600
Deferred assets	32	21
Total assets	123,496	119,636

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2014 (As of Mar. 31, 2014)	Nine months ended Dec. 31, 2014 (As of Dec. 31, 2014)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	15,607	10,804
Electronically recorded obligations - operating	–	2,484
Short-term loans payable	12,539	27,266
Income taxes payable	2,885	656
Provision for bonuses	423	157
Other	4,581	5,085
Total current liabilities	36,037	46,454
Non-current liabilities		
Long-term loans payable	36,533	36,611
Provision for directors' retirement benefits	1,011	1,015
Provision for gas holder repairs	275	322
Net defined benefit liability	2,196	2,121
Other	2,610	2,644
Total non-current liabilities	42,628	42,715
Total liabilities	78,665	89,170
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	6,020	6,045
Retained earnings	36,028	35,394
Treasury shares	(4,977)	(19,369)
Total shareholders' equity	44,140	29,141
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	695	962
Foreign currency translation adjustment	–	364
Remeasurements of defined benefit plans	(11)	(8)
Total accumulated other comprehensive income	683	1,318
Minority interests	6	6
Total net assets	44,831	30,466
Total liabilities and net assets	123,496	119,636

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the nine months ended Dec. 31, 2013 (from Apr. 1, 2013 to Dec. 31, 2013)	For the nine months ended Dec. 31, 2014 (from Apr. 1, 2014 to Dec. 31, 2014)
Net sales	84,929	86,869
Cost of sales	52,336	54,033
Gross profit	32,593	32,836
Selling, general and administrative expenses	28,793	29,361
Operating income	3,799	3,475
Non-operating income		
Interest income	250	204
Dividend income	84	64
Foreign exchange gains	0	75
Real estate rent	33	30
Share of profit of entities accounted for using equity method	30	–
Dividend income of insurance	25	35
Other	147	144
Total non-operating income	572	555
Non-operating expenses		
Interest expenses	409	442
Share of loss of entities accounted for using equity method	–	269
Other	31	59
Total non-operating expenses	441	771
Ordinary income	3,929	3,258
Extraordinary income		
Gain on sales of non-current assets	18	213
Gain on sales of investment securities	92	26
Gain on sales of shares of subsidiaries and associates	234	–
Gain on bargain purchase	550	–
Other	–	2
Total extraordinary income	895	242
Extraordinary losses		
Loss on sales of non-current assets	7	26
Loss on retirement of non-current assets	82	85
Loss on valuation of investment securities	103	–
Total extraordinary losses	193	111
Income before income taxes	4,631	3,389
Income taxes - current	1,572	1,324
Income taxes - deferred	201	161
Total income taxes	1,774	1,485
Income before minority interests	2,857	1,904
Minority interests in income (loss)	180	(4)
Net income	2,676	1,909

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the nine months ended Dec. 31, 2013 (from Apr. 1, 2013 to Dec. 31, 2013)	For the nine months ended Dec. 31, 2014 (from Apr. 1, 2014 to Dec. 31, 2014)
Income before minority interests	2,857	1,904
Other comprehensive income		
Valuation difference on available-for-sale securities	103	266
Remeasurements of defined benefit plans, net of tax	–	3
Share of other comprehensive income of entities accounted for using equity method	–	364
Total other comprehensive income	103	634
Comprehensive income	2,961	2,538
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,778	2,543
Comprehensive income attributable to minority interests	182	(4)

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

For the nine months ended December 31, 2014 (from April 1, 2014 to December 31, 2014)

None.

(Notes in Case of Significant Changes in Shareholder's Equity)

For the nine months ended December 31, 2014 (from April 1, 2014 to December 31, 2014)

(Purchase of Treasury Shares and Tender Offer)

In view of the offers from OEP NG LLC and its joint holder OEP NG COINVEST LLC intending to sell out all of the common shares in the Company they held, the Company, at the Board of Directors' Meeting held on May 16, 2014, made a resolution to conduct purchase of treasury share, and that by means specifically of public tender offer, according to Article 156, Paragraph 1 of the Companies Act which is applied by the deemed replacement of terms pursuant to Article 165, Paragraph 3 of the Act, along with the provisions of the Company's Articles of Incorporation, which was followed up by its implementation as follows.

(1) Outline of the resolution adopted by the Board of Directors

1) Class of shares to be purchased	Common shares
2) Total number of shares to be purchased	10,000,100 shares (maximum)
3) Total value of shares to be repurchased	¥15,100 million (maximum)
4) Period of purchase	From May 19, 2014 to July 31, 2014

(2) Outline of the tender offer

1) Number of shares to be purchased via tender offer	10,000,000 shares
2) Tender offer price	¥1,510 per share
3) Funds necessary for tender offer	¥15,123 million

(Note) This amount includes estimated value of tender fee and other associated costs.

4) Tender offer period	From May 19, 2014 to June 17, 2014
5) Date of public notice for commencing tender offer	May 19, 2014
6) Date for commencing settlement	July 9, 2014

(3) Results of the tender offer

1) Total number of shares offered	9,531,100 shares
2) Total number of shares purchased	9,531,100 shares
3) Total value of shares purchased	¥14,391 million
4) Settlement date	July 9, 2014

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 nine months ended December 31, 2014 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the nine months ended Dec. 31, 2014 (from Apr. 1, 2014 to Dec. 31, 2014)	For the nine months ended Dec. 31, 2013 (from Apr. 1, 2013 to Dec. 31, 2013)
LP gas Business	50,372	49,548
City gas Business	36,497	35,380
Total	86,869	84,929

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

Reportable segments	For the nine months ended Dec. 31, 2014 (from Apr. 1, 2014 to Dec. 31, 2014)	For the nine months ended Dec. 31, 2013 (from Apr. 1, 2013 to Dec. 31, 2013)
Gas	39,813	38,493
Equipment, construction contracts, etc.	10,558	11,055
Total	50,372	49,548

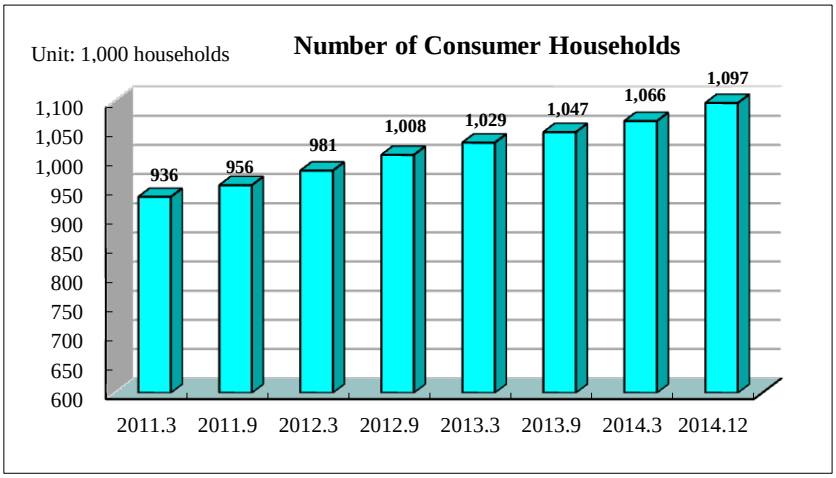
3) Sales results of city gas business (Millions of yen)

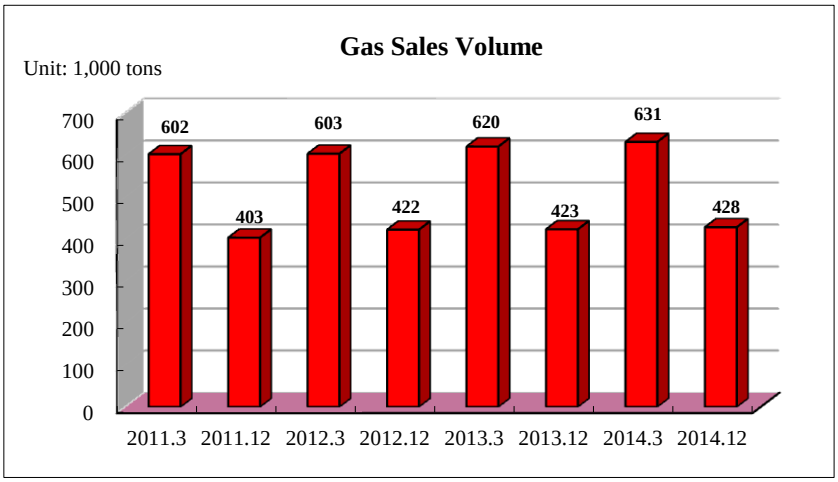
Reportable segments	For the nine months ended Dec. 31, 2014 (from Apr. 1, 2014 to Dec. 31, 2014)	For the nine months ended Dec. 31, 2013 (from Apr. 1, 2013 to Dec. 31, 2013)
Gas	30,592	29,042
Equipment, construction contracts, etc.	5,905	6,338
Total	36,497	35,380

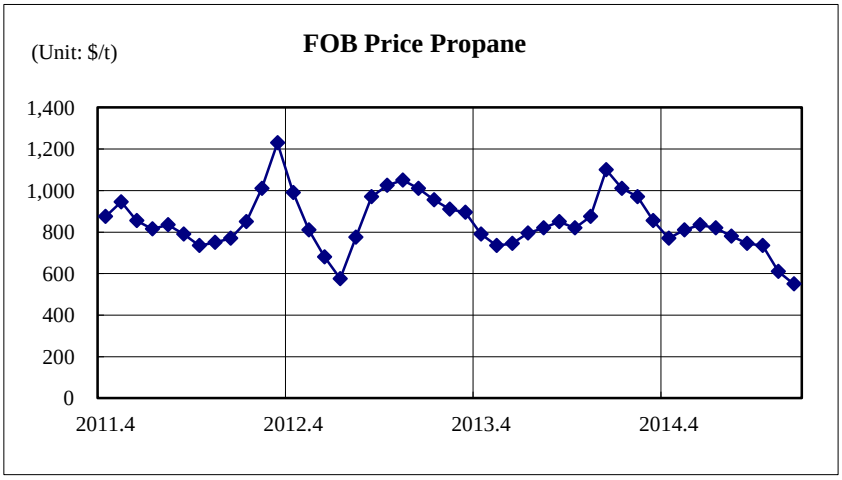
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).