Consolidated Financial Results for the Nine Months Ended December 31, 2015 [Japanese GAAP]

January 27, 2016

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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: February 10, 2016
Scheduled date of commencing dividend payments: －
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 Nine Months Ended December 31, 2015 (April 1, 2015 to December 31, 2015)

(1) Consolidated Results of Operations (cumulative) (% 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	%
Nine months ended Dec. 31, 2015	80,153	(7.7)	5,416	55.9	5,099	56.5	3,143	64.7
Nine months ended Dec. 31, 2014	86,869	2.3	3,475	(8.5)	3,258	(17.1)	1,909	(28.7)

(Note) Comprehensive income: Nine months ended Dec. 31, 2015 ¥3,203 million [26.2%]
Nine months ended Dec. 31, 2014 ¥2,538 million [(14.3)%]

	Profit per share	Diluted profit per share
	Yen	Yen
Nine months ended Dec. 31, 2015	88.49	－
Nine months ended Dec. 31, 2014	49.83	－

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Dec. 31, 2015	139,551	56,708	40.6
As of Mar. 31, 2015	123,910	34,969	28.2

(Reference) Equity: As of Dec. 31, 2015 ¥56,703 million As of Mar. 31, 2015 ¥34,964 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, 2015	—	13.00	—	13.00	26.00
Fiscal year ending Mar. 31, 2016	—	13.00	—		
Fiscal year ending Mar. 31, 2016 (Forecast)				17.00	30.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2016 (April 1, 2015 to March 31, 2016)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full-year	116,000	(7.7)	11,700	16.8	11,100	17.7	6,600	19.4	177.52

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

4. Notes

(1) Significant changes of subsidiaries during the period under review: No
Newly consolidated: — Excluded: —

(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 shares)

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

Dec. 31, 2015	48,561,525 shares
Mar. 31, 2015	48,561,525 shares

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

Dec. 31, 2015	5,877,566 shares
Mar. 31, 2015	13,828,252 shares

3) Average number of shares during the period:

Nine months ended Dec. 31, 2015	35,528,142 shares
Nine months ended Dec. 31, 2014	38,315,748 shares

(Note) From the second quarter of the fiscal year ending March 31, 2016, the Company has introduced the "Directors' Compensation BIP (Board Incentive Plan) Trust." Accordingly, the total number of treasury shares as of December 31, 2015 includes 291,300 shares of the Company held by the Trust.

* Presentation regarding the implementation status of the quarterly review procedures

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 the 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

In the energy industry in Japan, since the retail sale of electricity has been decided to be fully liberalized in April 2016, entries from other industries into the energy industry, along with various package deals through alliances with businesses from different industrial sectors have been announced one after another. This has led to the present sales activities in order to survive under free competition. In addition, retail sale of city gas is also scheduled to be fully liberalized in April 2017, which is expected to further accelerate the cross-industrial realignment.

In light of these circumstances, the Company believes it to be critically important to offer new convenience in energy services to customers while assuring safety and stable supply. To this end, the Company concluded, effective on October 5, 2015, a business partnership agreement with Tokyo Electric Power Company, Incorporated, on the development of new services associated with combined sales of electricity and gas. Going forward, the two companies will be committed to enhancing this collaboration, for creating a range of added value available to customers at their choice.

The Company also considered the urgent need for strengthening its financial base, expanding its customer base and improving operational efficiency in the gas business, in order to survive amidst a rapidly changing business environment. Accordingly, the Company has raised funds amounting to ¥19,400 million, through disposition of treasury shares in December 2015 by way of overseas offering.

As for a new initiative, the Company has developed the Nichigas Protect Member Service, "*Ookina Osewa* (assistance more than expected)," which combines 10-year extended warranty for all gas appliances with on-site service (free service for troubles related to plumbing, etc.), jointly with Tokio Marine & Nichido Fire Insurance Co., Ltd. Through this service, the Company has launched services to extensively support the daily lives of contracted customers.

The Company will strive to develop into an integrated energy company to be chosen by customers and promote its branding strategies, while being committed to developing attractive price menus applying the knowledge and expertise acquired from overseas investments in the U.S. and Australia, which are in a harsh market environment because of the advancing liberalization of the retail sale of energy.

The new operational system linking cloud technology and mobile devices is already in operation at the Company, greatly contributing to reducing costs for operations such as meter reading, delivery and security. The Company deems the system to be the most important tool for synergy in efficiently running business collaborations with other companies and is working on the renewal of the system so that it supports price menus, etc., which are expected to become diversified in the future, along with additional active prior investments in the areas including ICT, IoT, Fintech, and Blockchain.

The number of customers of the Group steadily increased by 36,000 households, compared with the end of the previous fiscal year, to 1,144,000 households as of the end of the third quarter of the fiscal year ending March 31, 2016.

For the period under review, consolidated net sales amounted to ¥80,153 million, a year-on-year decrease of 7.7%, due to factors such as returning to customers the decrease in raw material prices in the LP gas industry, in

addition to a decrease in gas sales volume compared to the same period of the previous fiscal year due to the impact of warm winter, despite a steady increase in the number of customers.
In terms of profits, operating income increased by 55.9% year-on-year to ¥5,416 million, ordinary income increased by 56.5% year-on-year to ¥5,099 million, and profit attributable to owners of parent increased by 64.7% year-on-year to ¥3,143 million, thereby increasing profits significantly. These increases were attributable to factors such as lower raw material prices compared with the same period of the previous fiscal year resulting in a decrease in cost of sales, despite an increase in labor costs accompanied by the introduction of a new personnel system aimed at providing incentives to employees who contributed to the improvement of business performance.
Business performance by segment for the nine months ended December 31, 2015 is as follows:

[LP Gas Business]
In the LP gas business, although the sales volume of home use LP gas increased slightly thanks to a steady growth in the number of customers, home use gas prices were lowered, in addition to decreased sales volume of business use LP gas compared with the same period of the previous fiscal year due to the impact of higher atmospheric and water temperatures. Owing to these factors, net sales for the nine months ended December 31, 2015 decreased by ¥3,487 million (6.9% decrease) year-on-year to ¥46,884 million.

[City Gas Business]
In the city gas business, net sales for the nine months ended December 31, 2015 decreased by ¥3,228 million (8.8% decrease) year-on-year to ¥33,268 million, reflecting low levels of unit sales prices of natural gas due to the gas rate adjustment system, in addition to decreased sales volume of home use gas compared with the same period of the previous fiscal year due to factors such as the impact of warm winter.

(2) Explanation of Financial Position

1) Assets

Total assets as of the end of the third quarter of the fiscal year ending March 31, 2016 increased by ¥15,641 million (12.6%) from the end of the previous fiscal year and stood at ¥139,551 million. This is mainly attributable to the increase in cash and deposits associated with the disposition of treasury shares by way of overseas offering and the increase in intangible assets due to investment in software development.

2) Liabilities

Total liabilities as of the end of the third quarter of the fiscal year ending March 31, 2016 decreased by ¥6,098 million (6.9%) from the end of the previous fiscal year and stood at ¥82,843 million. This is mainly attributable to the decrease in loans payable due to steady repayments and the decrease in notes and accounts payable - trade due to the decrease in raw material prices.

3) Net assets

Net assets as of the end of the third quarter of the fiscal year ending March 31, 2016 increased by ¥21,739 million (62.2%) from the end of the previous fiscal year and stood at ¥56,708 million. This is mainly attributable to the increase in capital surplus and the decrease in treasury shares (increase in shareholders' equity) associated with the disposal of treasury shares, as well as the increase in retained earnings due to recording profit attributable to owners of parent.

As a result, equity ratio increased by 12.4 points from the end of the previous fiscal year to 40.6%.

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

For the fiscal year ending March 31, 2016, the Group will remain focused on increasing gas sales volume and penetrating and promoting gas appliances through expanding its customer base. However, consolidated net sales are expected to decrease by 7.7% year on year to ¥116,000 million as a further decline in unit sales price is expected for both LP gas and city gas associated with the decrease in raw material prices.

In terms of profits, operating income is expected to increase by 16.8% year on year to ¥11,700 million, ordinary income to increase by 17.7% to ¥11,100 million, and profit attributable to owners of parent to increase by 19.4% to ¥6,600 million, through further evolving the new logistics and operational system in a continuous pursuit of overall cost reduction.

No change has been made to the consolidated financial results forecast announced on October 28, 2015.

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

(Changes to Accounting Policies)

Effective from the first quarter of the fiscal year ending March 31, 2016, the Company adopted the Accounting Standard for Business Combinations (Accounting Standards Board of Japan [ASBJ] Statement No. 21, September 13, 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013), and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013) and others, and accordingly has changed the presentation of net income and other related items, and the presentation of minority interests to non-controlling interests. To reflect this change in presentation, the reclassification of accounts has been made to the consolidated financial statements for the nine months ended December 31, 2014 and the fiscal year ended March 31, 2015.

Additional Information

(Abolition of Directors' Retirement Benefits System)

At the 61st Ordinary General Meeting of Shareholders held on June 25, 2015 (hereinafter referred to as the "General Meeting of Shareholders"), the Company made a resolution to abolish its directors' retirement benefits system as of the end of the fiscal year ended March 31, 2015.

For the Directors and Corporate Auditors who will remain in office after the conclusion of the General Meeting of Shareholders, a termination payout of retirement benefits for their term of service up to March 31, 2015 was also resolved at the General Meeting of Shareholders.

In six consolidated subsidiaries of the Company, similar resolutions were adopted. For the Directors, the payout date shall be the date on which they retire from all posts including Director, etc. of the Company and its consolidated subsidiaries, and for the Corporate Auditors, the payout date shall be the date on which they retire from the post of Corporate Auditor (in the case where the Corporate Auditor retires and later assumes office as Director, etc. of the Company and its consolidated subsidiaries, the date on which he/she retires from all posts including Director, etc.).

Accordingly, the total balance amount of "provision for directors' retirement benefits" was reversed during the first quarter of the fiscal year ending March 31, 2016 and the unpaid amount of the termination payout is included in "Other" under current liabilities and non-current liabilities.

(Transactions Concerning Share-based Compensation "Directors' Compensation BIP (Board Incentive Plan) Trust")

From the second quarter of the fiscal year ending March 31, 2016, the Company has introduced the "Directors' Compensation BIP (Board Incentive Plan) Trust" (hereinafter referred to as the "BIP Trust"). This is an incentive plan intended for directors, modeled on the "Performance Share" and "Restricted Stock" plans in the U.S. The BIP Trust is defined as a share-based compensation for directors, under which Directors of the Company (excluding Outside and Non-executive Directors), Executive Officers with whom the Company has concluded a mandate contract and Directors of the six consolidated subsidiaries of the Company (hereinafter collectively referred to as "eligible directors") are rewarded with a grant of shares of the Company. The number of shares granted to individual directors is calculated based on their job title coefficients, which are determined according to basic monthly remuneration and job titles for each fiscal year.

The Company contributes funds for the acquisition of its shares to set up the BIP Trust, whose beneficiaries are the eligible directors. In accordance with the pre-established Share Delivery Rules, the BIP Trust will acquire the estimated number of the shares of the Company to be granted to eligible directors, either by obtaining treasury shares disposed of by the Company or from the stock market.

The Company, based on provisions of the Share Delivery Rules, will grant eligible directors "points" (entitlement to the Company's shares) commensurate with their job title coefficients for each fiscal year. At the time of retirement, the Company will allocate to eligible directors the number of shares of the Company equivalent to 70% of their accumulated points through the BIP Trust. The remaining portion of shares will be

converted by the BIP Trust into cash equivalent to the conversion value of these shares, and the Company allocates the cash to eligible directors through the BIP Trust.

With regard to the accounting treatment for the transactions concerning the BIP Trust, the Company has adopted "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ Practical Issues Task Force No. 30, March 26, 2015).

Meanwhile, at the end of the third quarter of the fiscal year ending March 31, 2016, the Company recorded its shares held in the BIP Trust as treasury shares under net assets in the Consolidated Balance Sheet at the Trust's book value (excluding incidental expenses). They represented 291,300 shares, recorded at ¥1,099 million.

In addition, the Company recorded the estimated compensation for directors stated above at the amount attributed to the nine months ended December 31, 2015, as the provision for share-based compensation.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2015 (As of Mar. 31, 2015)	Nine months ended Dec. 31, 2015 (As of Dec. 31, 2015)
Assets		
Current assets		
Cash and deposits	17,067	31,951
Notes and accounts receivable - trade	9,525	8,263
Merchandise and finished goods	5,263	5,055
Work in process	27	39
Raw materials and supplies	74	87
Deferred tax assets	505	331
Other	1,081	1,650
Allowance for doubtful accounts	(130)	(134)
Total current assets	33,413	47,244
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,222	9,854
Machinery, equipment and vehicles, net	36,536	35,117
Tools, furniture and fixtures, net	504	974
Land	23,267	23,489
Leased assets, net	2,256	2,373
Construction in progress	2,297	612
Total property, plant and equipment	72,086	72,421
Intangible assets		
Goodwill	5,012	4,644
Other	1,360	2,423
Total intangible assets	6,373	7,068
Investments and other assets		
Investment securities	4,719	4,644
Other	8,005	8,868
Allowance for doubtful accounts	(705)	(703)
Total investments and other assets	12,019	12,809
Total non-current assets	90,479	92,299
Deferred assets	17	7
Total assets	123,910	139,551

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2015 (As of Mar. 31, 2015)	Nine months ended Dec. 31, 2015 (As of Dec. 31, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,051	8,224
Electronically recorded obligations - operating	3,178	4,162
Short-term loans payable	27,504	25,966
Income taxes payable	2,431	899
Provision for bonuses	459	185
Other	5,144	5,620
Total current liabilities	48,769	45,059
Non-current liabilities		
Long-term loans payable	33,849	31,330
Provision for directors' retirement benefits	1,043	–
Provision for share-based compensation	–	127
Provision for gas holder repairs	339	314
Net defined benefit liability	2,306	2,377
Other	2,633	3,633
Total non-current liabilities	40,172	37,784
Total liabilities	88,941	82,843
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	6,683	15,724
Retained earnings	39,263	41,500
Treasury shares	(19,297)	(8,896)
Total shareholders' equity	33,718	55,398
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,109	1,143
Foreign currency translation adjustment	207	212
Remeasurements of defined benefit plans	(70)	(51)
Total accumulated other comprehensive income	1,246	1,305
Non-controlling interests	4	4
Total net assets	34,969	56,708
Total liabilities and net assets	123,910	139,551

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the nine months ended Dec. 31, 2014 (from Apr. 1, 2014 to Dec. 31, 2014)	For the nine months ended Dec. 31, 2015 (from Apr. 1, 2015 to Dec. 31, 2015)
Net sales	86,869	80,153
Cost of sales	54,033	43,636
Gross profit	32,836	36,516
Selling, general and administrative expenses	29,361	31,100
Operating income	3,475	5,416
Non-operating income		
Interest income	204	171
Dividend income	64	90
Foreign exchange gains	75	–
Real estate rent	30	33
Other	180	165
Total non-operating income	555	460
Non-operating expenses		
Interest expenses	442	388
Share of loss of entities accounted for using equity method	269	336
Other	59	51
Total non-operating expenses	771	777
Ordinary income	3,258	5,099
Extraordinary income		
Gain on sales of non-current assets	213	9
Gain on sales of investment securities	26	35
Other	2	–
Total extraordinary income	242	45
Extraordinary losses		
Loss on retirement of non-current assets	85	69
Other	26	7
Total extraordinary losses	111	77
Income before income taxes	3,389	5,067
Income taxes - current	1,324	1,914
Income taxes - deferred	161	8
Total income taxes	1,485	1,923
Profit	1,904	3,144
Profit (loss) attributable to non-controlling interests	(4)	0
Profit attributable to owners of parent	1,909	3,143

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the nine months ended Dec. 31, 2014 (from Apr. 1, 2014 to Dec. 31, 2014)	For the nine months ended Dec. 31, 2015 (from Apr. 1, 2015 to Dec. 31, 2015)
Profit	1,904	3,144
Other comprehensive income		
Valuation difference on available-for-sale securities	266	34
Remeasurements of defined benefit plans, net of tax	3	19
Share of other comprehensive income of entities accounted for using equity method	364	5
Total other comprehensive income	634	59
Comprehensive income	2,538	3,203
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,543	3,202
Comprehensive income attributable to non-controlling interests	(4)	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 nine months ended December 31, 2015 (from April 1, 2015 to December 31, 2015)

The Company disposed of treasury shares by way of overseas offering for which the date of payment is scheduled on December 14, 2015. Accordingly, other capital surplus increased by ¥8,347 million, while treasury shares decreased by ¥11,096 million.

As a result of the above, as of the end of the third quarter of the fiscal year ending March 31, 2016, capital surplus was ¥15,724 million while treasury shares was ¥(8,896) 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 nine months ended December 31, 2015 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the nine months ended Dec. 31, 2015 (from Apr. 1, 2015 to Dec. 31, 2015)	For the nine months ended Dec. 31, 2014 (from Apr. 1, 2014 to Dec. 31, 2014)
LP Gas Business	46,884	50,372
City Gas Business	33,268	36,497
Total	80,153	86,869

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

Reportable segments	For the nine months ended Dec. 31, 2015 (from Apr. 1, 2015 to Dec. 31, 2015)	For the nine months ended Dec. 31, 2014 (from Apr. 1, 2014 to Dec. 31, 2014)
Gas	35,277	39,813
Equipment, construction contracts, etc.	11,607	10,558
Total	46,884	50,372

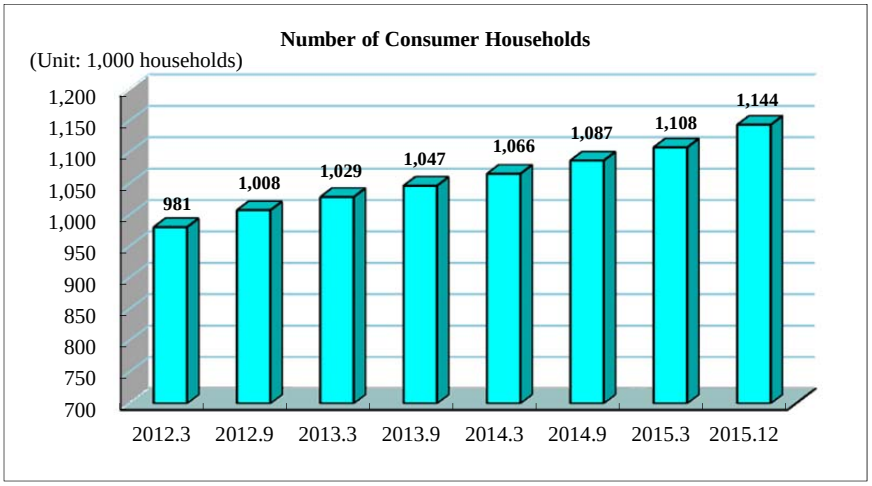
3) Sales results of city gas business (Millions of yen)

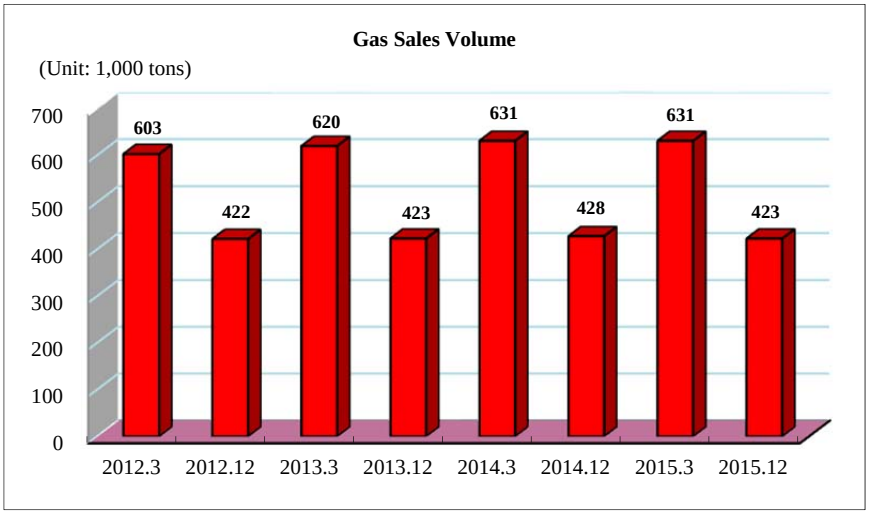
Reportable segments	For the nine months ended Dec. 31, 2015 (from Apr. 1, 2015 to Dec. 31, 2015)	For the nine months ended Dec. 31, 2014 (from Apr. 1, 2014 to Dec. 31, 2014)
Gas	27,099	30,592
Equipment, construction contracts, etc.	6,168	5,905
Total	33,268	36,497

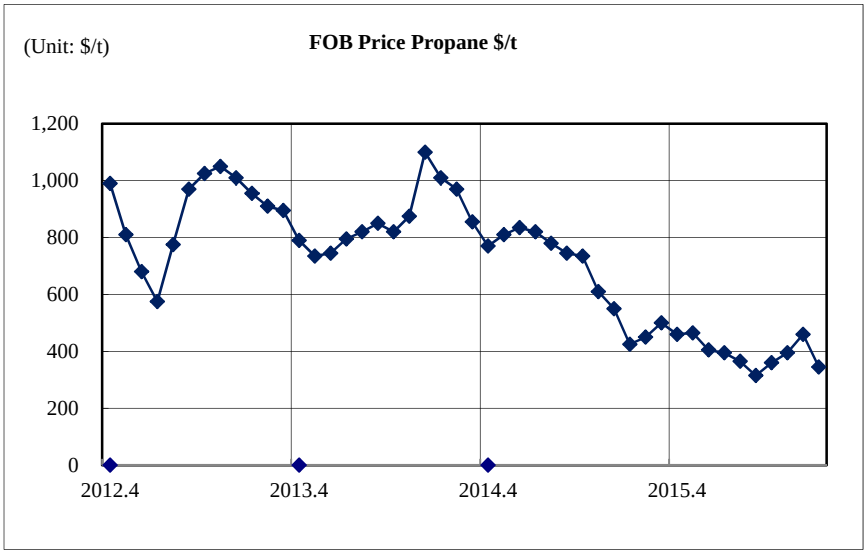
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).