Consolidated Financial Results for the Three Months Ended June 30, 2016 [Japanese GAAP]

July 28, 2016

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: August 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: None

(Amounts are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the Three Months Ended June 30, 2016 (April 1, 2016 to June 30, 2016)

(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	%
Three months ended Jun. 30, 2016	27,751	(3.6)	4,474	25.6	4,310	25.4	2,915	31.6
Three months ended Jun. 30, 2015	28,790	(6.9)	3,561	65.0	3,438	66.6	2,215	78.7

(Note) Comprehensive income: Three months ended Jun. 30, 2016 ¥2,854 million [16.3%]
Three months ended Jun. 30, 2015 ¥2,454 million [30.6%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended Jun. 30, 2016	68.31	－
Three months ended Jun. 30, 2015	63.79	－

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Jun. 30, 2016	133,283	62,469	46.9
As of Mar. 31, 2016	139,097	60,316	43.4

(Reference) Equity: As of Jun. 30, 2016 ¥62,464 million As of Mar. 31, 2016 ¥60,310 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, 2016	—	13.00	—	17.00	30.00
Fiscal year ending Mar. 31, 2017	—				
Fiscal year ending Mar. 31, 2017 (Forecast)		15.00	—	15.00	30.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2017 (April 1, 2016 to March 31, 2017)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending Sep. 30, 2016	52,800	2.4	3,900	5.7	3,900	13.0	2,400	15.4	56.23
Full-year	115,500	0.7	12,200	3.3	12,100	6.8	7,600	7.2	178.05

(Note) Revision of financial results projection 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.: 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):

Jun. 30, 2016	48,561,525 shares
Mar. 31, 2016	48,561,525 shares

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

Jun. 30, 2016	5,869,731 shares
Mar. 31, 2016	5,877,635 shares

3) Average number of shares during the period:

Three months ended Jun. 30, 2016	42,686,648 shares
Three months ended Jun. 30, 2015	34,733,141 shares

(Note) The number of treasury shares includes the shares of the Company held by the “Directors’ Compensation BIP (Board Incentive Plan) Trust” (As of June 30, 2016: 283,396 shares, as of March 31, 2016: 291,300 shares).

* 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 domestic energy industry, in conjunction with the full liberalization of the retail sale of electricity in April 2016, the competition to acquire customers has already begun as a result of various package discount deals with products from different industrial sectors. In April 2017, the retail sale of city gas is scheduled to be fully liberalized, and it is expected to mark the beginning of a period of all-out competition.

In light of these circumstances, the Company believes it to be crucially important to offer new convenience in energy services to customers while assuring safety and stable supply. To this end, the Company concluded a business partnership agreement with Tokyo Electric Power Company Incorporated, effective on October 5, 2015, and commenced the combined sales of electricity and gas.

In addition, looking ahead to the competition to acquire customers after the full liberalization of retail sale of city gas, the Company has concluded a basic agreement with TEPCO Energy Partner, Incorporated, effective on May 9, 2016, in order to receive wholesale supply of the entire amount of city gas (equivalent to approximately 240,000 tons per year of LNG) to be sold by the Company and its three Group Companies from April 2017.

Going forward, the Company will promote consultation on strategic alliance in the sale of city gas with TEPCO Energy Partner, Incorporated, and combine the electricity/gas sales expertise of both parties and apply it to the joint development of new menus of combined sales and value-added services, with the aim of developing into an integrated energy company to be chosen by customers.

In the previous fiscal year, the Company developed the Nichigas Protect Member Service, "*Ookina Osewa* (assistance more than expected)," as a service to extensively support the daily lives of customers, jointly with Tokio Marine & Nichido Fire Insurance Co., Ltd. The service combines 10-year extended warranty for all gas appliances with on-site service (free service for troubles relating to plumbing, etc.), and the number of contracts has been increasing at a brisk pace and currently has exceeded 20,000.

In an effort to provide its customers with safe and more inexpensive gas, the Company has developed "Kumo no uchusen" ("Starship Cloud"), an IT-based operational system linking cloud technology and mobile devices, and has successfully reduced the costs for operations, such as meter reading, delivery and security and enhanced the quality of its security.

The Company currently deems the system to be the most important tool for synergy in efficiently running business collaborations with other companies and will promote the renewal of the system so that it supports price menus etc., which are expected to become diversified in the future.

In recognition of such strategic utilization of IT and its achievements of the Company to enhance the corporate value, the Company was chosen as one of the 26 companies in the "2016 Competitive IT Strategy Company Stock Selection," which are selected jointly by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.

Furthermore, focusing on the potential of Blockchain technology, the Company took part in the founding of the Japan Blockchain Association. Going forward, the Company will actively promote the adoption of Blockchain technology including virtual currencies, and strive to enhance customer convenience of gas bill payment service and other services.

The number of customers of the Group steadily increased by 42,000 households, compared with the end of the same period of the previous fiscal year, to 1,163,000 households as of the end of the three months ended June 30, 2016.

For the period under review, consolidated net sales amounted to ¥27,751 million, a year-on-year decrease of 3.6%, due to factors such as the decreased unit sales price of gas in both the LP gas business and the city gas business led by decreased raw material prices despite the increase in gas sales volume compared to the same period of the previous fiscal year as a result of the steady increase in the number of customers.

In terms of profit, operating income increased by 25.6% year-on-year to ¥4,474 million, ordinary income increased by 25.4% year-on-year to ¥4,310 million, and profit attributable to owners of parent increased by 31.6% year-on-year to ¥2,915 million. These increases were attributable to factors such as lower raw material prices compared to the same period of the previous fiscal year resulting in a decrease in cost of sales, despite an increase in advertising costs for the purpose of expanding sales of gas appliances.

Business performance by segment for the three months ended June 30, 2016 is as follows:

[LP Gas Business]

In the LP gas business, although the sales volume of home use LP gas increased thanks to a steady growth in the number of customers, unit sales price of gas fell, due to decreased raw material prices. Owing to these factors, net sales for the three months ended June 30, 2016 decreased by ¥404 million (2.4% decrease) year-on-year to ¥16,199 million.

[City Gas Business]

In the city bas business, net sales for the three months ended June 30, 2016 decreased by ¥634 million (5.2% decrease) year-on-year to ¥11,552 million, reflecting lower levels of unit sales prices of natural gas due to the gas rate adjustment system, despite the increase in sales volume of both home use and business use gas due to their steady growth compared with the same period of the previous fiscal year.

(2) Explanation of Financial Position

1) Assets

Total assets as of the end of the first quarter of the fiscal year ending March 31, 2017 decreased by ¥5,814 million (4.2%) from the end of the previous fiscal year and stood at ¥133,283 million. This is mainly attributable to the decrease in notes and accounts receivable - trade due to seasonal factors, and the decrease in property, plant and equipment as a result of the recording of depreciation.

2) Liabilities

Total liabilities as of the end of the first quarter of the fiscal year ending March 31, 2017 decreased by ¥7,967 million (10.1%) from the end of the previous fiscal year and stood at ¥70,813 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 seasonal factors.

3) Net assets

Net assets as of the end of the first quarter of the fiscal year ending March 31, 2017 increased by ¥2,153 million (3.6%) from the end of the previous fiscal year and stood at ¥62,469 million. This is mainly a reflection of the increase and decrease in retained earnings due to the recording of profit attributable to owners of parent and payment of dividends.

As a result, equity ratio increased by 3.5 points from the end of the previous fiscal year to 46.9%.

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

In the fiscal year ending March 31, 2017, although a decrease in unit sales price accompanying a decrease in raw material prices is expected for both LP gas and city gas, the Company projects consolidated net sales of ¥115,500 million or 0.7% increase year-on-year due to the increase in gas sales volume through the expansion of its customer base and the spread and expansion of the use of gas appliances.

In terms of profit, although an increase in expenses for acquiring customers is expected, through further advancement of the new logistics/operational systems and progress in reducing overall costs, the Group projects operating income of ¥12,200 million (3.3% increase), ordinary income of ¥12,100 million (6.8% increase), and profit attributable to owners of parent of ¥7,600 million (7.2% increase).

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)

In conjunction with the revision of the Corporation Tax Act, the Company adopted the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (Accounting Standards Board of Japan [ASBJ] Practical Issues Task Force (PITF) No. 32, June 17, 2016), effective in the period under review, and accordingly has changed the method for the depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

This change in accounting policy has minimal impact on the operating income, ordinary income and income before income taxes for the three months ended June 30, 2016.

(4) Additional Information

Effective from the period under review, the Company adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2016 (As of Mar. 31, 2016)	Three months ended Jun. 30, 2016 (As of Jun. 30, 2016)
Assets		
Current assets		
Cash and deposits	34,246	32,160
Notes and accounts receivable - trade	6,807	5,153
Merchandise and finished goods	4,347	3,476
Work in process	76	46
Raw materials and supplies	75	86
Deferred tax assets	604	412
Other	981	1,119
Allowance for doubtful accounts	(120)	(103)
Total current assets	47,020	42,352
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,802	9,680
Machinery, equipment and vehicles, net	35,543	35,376
Tools, furniture and fixtures, net	1,072	1,034
Land	23,487	23,528
Leased assets, net	2,405	2,196
Construction in progress	739	713
Total property, plant and equipment	73,051	72,530
Intangible assets		
Goodwill	4,458	4,225
Other	2,533	2,953
Total intangible assets	6,991	7,179
Investments and other assets		
Investment securities	4,083	3,901
Other	8,647	8,012
Allowance for doubtful accounts	(701)	(692)
Total investments and other assets	12,030	11,220
Total non-current assets	92,073	90,930
Deferred assets	3	–
Total assets	139,097	133,283

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2016 (As of Mar. 31, 2016)	Three months ended Jun. 30, 2016 (As of Jun. 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,240	4,973
Electronically recorded obligations - operating	4,110	3,173
Short-term loans payable	18,133	15,683
Income taxes payable	3,252	1,223
Provision for bonuses	448	483
Other	6,084	6,149
Total current liabilities	39,268	31,685
Non-current liabilities		
Long-term loans payable	33,051	33,193
Provision for share-based compensation	170	184
Provision for gas holder repairs	330	346
Net defined benefit liability	2,346	2,332
Other	3,613	3,070
Total non-current liabilities	39,512	39,127
Total liabilities	78,781	70,813
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	15,724	15,724
Retained earnings	45,447	47,633
Treasury shares	(8,896)	(8,866)
Total shareholders' equity	59,345	61,560
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	782	655
Foreign currency translation adjustment	208	271
Remeasurements of defined benefit plans	(25)	(23)
Total accumulated other comprehensive income	965	903
Non-controlling interests	5	5
Total net assets	60,316	62,469
Total liabilities and net assets	139,097	133,283

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the three months ended Jun. 30, 2015 (from Apr. 1, 2015 to Jun. 30, 2015)	For the three months ended Jun. 30, 2016 (from Apr. 1, 2016 to Jun. 30, 2016)
Net sales	28,790	27,751
Cost of sales	15,212	13,208
Gross profit	13,577	14,543
Selling, general and administrative expenses	10,015	10,068
Operating income	3,561	4,474
Non-operating income		
Interest income	69	8
Dividend income	34	38
Real estate rent	11	8
Other	64	80
Total non-operating income	179	136
Non-operating expenses		
Interest expenses	130	98
Share of loss of entities accounted for using equity method	161	70
Foreign exchange losses	–	116
Other	10	14
Total non-operating expenses	303	300
Ordinary income	3,438	4,310
Extraordinary income		
Gain on sales of non-current assets	0	1
Total extraordinary income	0	1
Extraordinary losses		
Loss on sales of non-current assets	0	0
Loss on retirement of non-current assets	16	17
Other	–	0
Total extraordinary losses	16	17
Income before income taxes	3,422	4,293
Income taxes - current	1,149	1,132
Income taxes - deferred	57	243
Total income taxes	1,207	1,376
Profit	2,215	2,916
Profit (loss) attributable to non-controlling interests	(0)	0
Profit attributable to owners of parent	2,215	2,915

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the three months ended Jun. 30, 2015 (from Apr. 1, 2015 to Jun. 30, 2015)	For the three months ended Jun. 30, 2016 (from Apr. 1, 2016 to Jun. 30, 2016)
Profit	2,215	2,916
Other comprehensive income		
Valuation difference on available-for-sale securities	232	(127)
Remeasurements of defined benefit plans, net of tax	6	2
Share of other comprehensive income of entities accounted for using equity method	(0)	62
Total other comprehensive income	238	(62)
Comprehensive income	2,454	2,854
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,454	2,853
Comprehensive income attributable to non-controlling interests	(0)	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 three months ended June 30, 2016 (from April 1, 2016 to June 30, 2016)

None.

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 three months ended June 30, 2016 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the three months ended Jun. 30, 2016 (from Apr. 1, 2016 to Jun. 30, 2016)	For the three months ended Jun. 30, 2015 (from Apr. 1, 2015 to Jun. 30, 2015)
LP gas Business	16,199	16,603
City gas Business	11,552	12,186
Total	27,751	28,790

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

Reportable segments	For the three months ended Jun. 30, 2016 (from Apr. 1, 2016 to Jun. 30, 2016)	For the three months ended Jun. 30, 2015 (from Apr. 1, 2015 to Jun. 30, 2015)
Gas	12,621	13,400
Equipment, construction contracts, etc.	3,577	3,203
Total	16,199	16,603

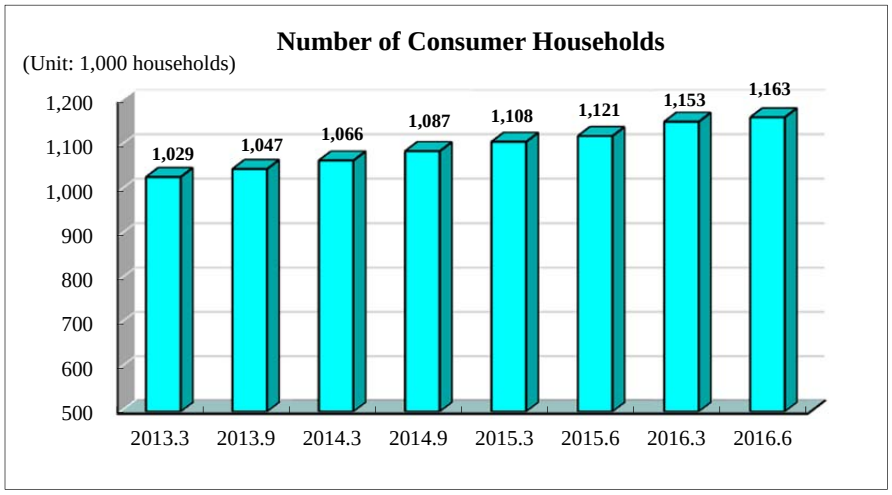
3) Sales results of city gas business (Millions of yen)

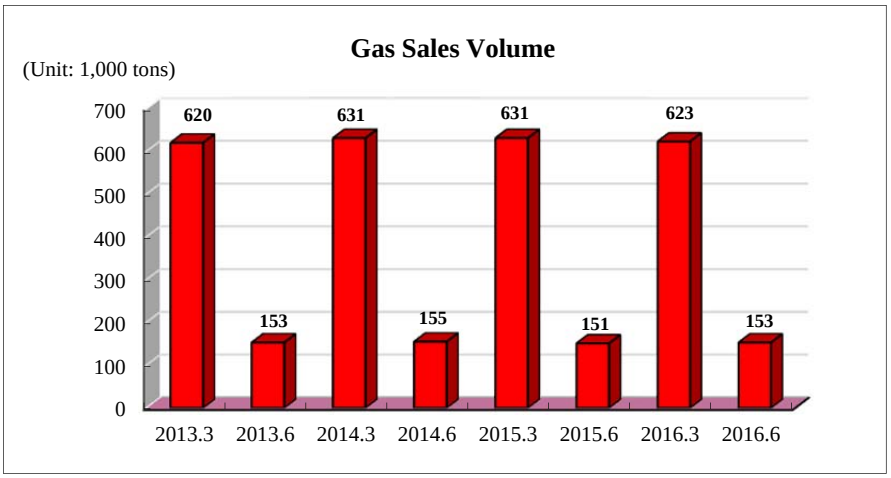
Reportable segments	For the three months ended Jun. 30, 2016 (from Apr. 1, 2016 to Jun. 30, 2016)	For the three months ended Jun. 30, 2015 (from Apr. 1, 2015 to Jun. 30, 2015)
Gas	8,609	10,563
Equipment, construction contracts, etc.	2,942	1,623
Total	11,552	12,186

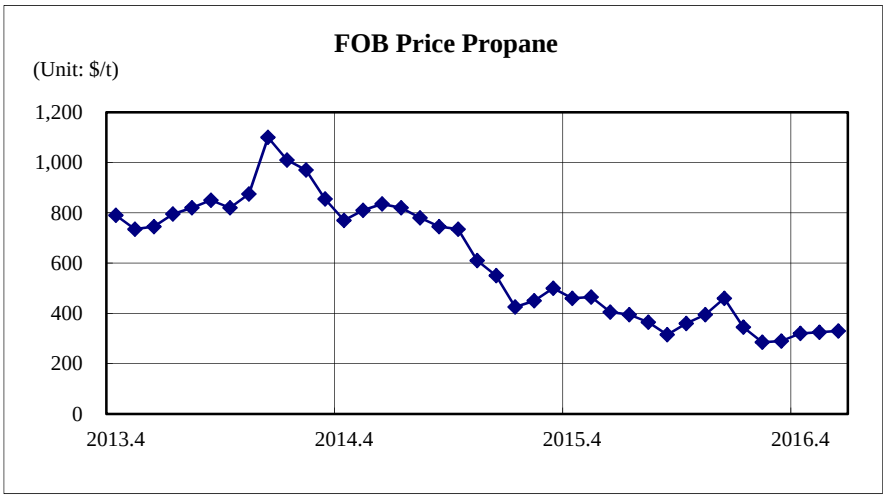
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).