Consolidated Financial Results for the Six Months Ended September 30, 2016 [Japanese GAAP]

October 27, 2016

Company name: NIPPON GAS CO., LTD.
Code number: 8174
URL: http://www.nichigas.co.jp/
Stock exchange listing: Tokyo Stock Exchange
Representative: Shinji Wada, President and Representative Director
Contact: Eiichi Miyamoto, Executive Officer, Manager of Financial Department
Phone: 03-5308-2111
Scheduled date of filing quarterly securities report: November 11, 2016
Scheduled date of commencing dividend payments: November 18, 2016
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 Six Months Ended September 30, 2016 (April 1, 2016 to September 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	%
Six months ended Sep. 30, 2016	48,865	(5.2)	4,753	28.8	4,626	34.0	3,110	49.6
Six months ended Sep. 30, 2015	51,545	(7.2)	3,690	91.8	3,451	115.8	2,079	184.5

(Note) Comprehensive income: Six months ended Sep. 30, 2016 ¥3,245 million [58.3%]
Six months ended Sep. 30, 2015 ¥2,050 million [53.9%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended Sep. 30, 2016	72.86	―
Six months ended Sep. 30, 2015	59.87	―

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2016	130,887	62,874	48.0
As of Mar. 31, 2016	139,097	60,316	43.4

(Reference) Equity: As of Sep. 30, 2016 ¥62,869 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	—	17.00			
Fiscal year ending Mar. 31, 2017 (Forecast)			—	17.00	34.00

(Note) Revision of dividend projection from recently announced figures: Yes

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
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):

Sep. 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:

Sep. 30, 2016	5,866,351 shares
Mar. 31, 2016	5,877,635 shares

3) Average number of shares during the period:

Six months ended Sep. 30, 2016	42,690,340 shares
Six months ended Sep. 30, 2015	34,733,076 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 September 30, 2016: 279,796 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.

Contents of Appendix

1. Qualitative Information on Consolidated Performance for the Period under Review ----------2
(1) Explanation of Results of Operations ----------2
(2) Explanation of Financial Position ----------4
(3) Explanation of Consolidated Forecast Results and Other Forward-looking Information ----------4
2. Issues Related to Summary Information (Notes) ----------5
(1) Significant Changes of Subsidiaries during the Period under Review ----------5
(2) Adoption of Special Accounting Processes for Preparing Quarterly Consolidated Financial Statements -------5
(3) Changes to Accounting Policies, Changes to Accounting Estimates, and Revision Restatements ---------5
(4) Additional Information ----------5
3. Consolidated Financial Statements ----------6
(1) Consolidated Balance Sheet ----------6
(2) Consolidated Statement of Income and Comprehensive Income ----------8
(3) Notes to Consolidated Financial Statements ----------10
(Notes on Going Concern Assumption) ----------10
(Notes in Case of Significant Changes in Shareholder's Equity) ----------10
4. Supplementary Information----------11
(1) Production, Order and Sales Status ----------11
(2) Trends in the Number of Houses, etc. ----------12

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, gas suppliers and others have entered into the electricity retail sales market and are competing to acquire customers by such means as various package discount deals. In April 2017, the retail sale of city gas is scheduled to be fully liberalized, and multiple electricity providers have already announced their entry into this city gas retail market. These moves are expected to further intensify the competition to acquire customers.

In light of these circumstances, the Group 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 Group concluded a business partnership agreement with TEPCO Energy Partner, Incorporated in October 2015, and commenced the combined sales of electricity and gas. In addition, the Company and its three Group Companies concluded a basic agreement with TEPCO Energy Partner, Incorporated in May 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 onward.

Going forward, looking ahead to the competition to acquire customers after the full liberalization of the retail sale of city gas, the Company will 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 an effort to provide its customers with safe and more inexpensive gas, the Company has developed “Kumo no uchusen” (“Starship Cloud”), an ICT-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. In recognition of such strategic utilization of ICT and its achievements of the Company to enhance the corporate value, the Company was chosen in June 2016 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.

Most recently, in September 2016, the Company formed a capital and business alliance with Metaps Inc. with the aim of establishing an integrated energy platform for its customers, which is advanced and innovative in the sense that it utilizes ICT along with AI technologies to improve both customer convenience and operational efficiency. As the first joint development with Metaps Inc., a system was developed to sell gas equipment through LINE BOT (an automatic response technology using LINE), which combines LINE, a smartphone communication tool, with AI technologies. In addition, a system that virtualizes public utility transactions was also developed to allow users to conclude contracts, make applications, confirm information and make payments through LINE, and operation of this system will soon be started. By such paperless operations, the Company will consequently eliminate customer stress arising from procedures to receive services and accelerate the promotion of prompt and highly convenient services. Moreover, the energy industry’s first bill payment for gas and gas equipment using Bitcoins will be available in October 2016. Making effective use of FinTech, Blockchain and the IoT, we will enhance our efforts to raise the quality and differentiation of our services by reforming our business structure.

The number of customers of the Group steadily increased by 43,000 households, compared with the end of the same period of the previous fiscal year, to 1,175,000 households as of the end of the six months ended September 30, 2016.

For the period under review, consolidated net sales amounted to ¥48,865 million, a year-on-year decrease of 5.2%, 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 28.8% year-on-year to ¥4,753 million, ordinary income increased by 34.0% year-on-year to ¥4,626 million, and profit attributable to owners of parent increased by 49.6% year-on-year to ¥3,110 million, which represent increases in all levels of profits and the highest levels of profits ever attained for a six month period. 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 costs for demand development in order to acquire new customers.

Business performance by segment for the six months ended September 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 six months ended September 30, 2016 decreased by ¥823 million (2.7% decrease) year-on-year to ¥29,120 million.

[City Gas Business]

In the city gas business, net sales for the six months ended September 30, 2016 decreased by ¥1,857 million (8.6% decrease) year-on-year to ¥19,744 million, reflecting lower levels of unit sales prices of natural gas due to the gas rate adjustment system, despite the increase in gas sales volume due to steady growth in large-scale demand from the industrial sector 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 second quarter of the fiscal year ending March 31, 2017 decreased by ¥8,209 million (5.9%) from the end of the previous fiscal year and stood at ¥130,887 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 second quarter of the fiscal year ending March 31, 2017 decreased by ¥10,767 million (13.7%) from the end of the previous fiscal year and stood at ¥68,013 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 second quarter of the fiscal year ending March 31, 2017 increased by ¥2,557 million (4.2%) from the end of the previous fiscal year and stood at ¥62,874 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 4.6 points from the end of the previous fiscal year to 48.0%.

(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 from the first quarter of the fiscal year ending March 31, 2017, 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 profit before income taxes for the six months ended September 30, 2016.

(4) Additional Information

Effective from the first quarter of the fiscal year ending March 31, 2017, 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)	Six months ended Sep. 30, 2016 (As of Sep. 30, 2016)
Assets		
Current assets		
Cash and deposits	34,246	29,109
Notes and accounts receivable - trade	6,807	5,122
Merchandise and finished goods	4,347	3,404
Work in process	76	23
Raw materials and supplies	75	92
Deferred tax assets	604	456
Other	981	1,100
Allowance for doubtful accounts	(120)	(104)
Total current assets	47,020	39,205
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,802	9,522
Machinery, equipment and vehicles, net	35,543	35,040
Tools, furniture and fixtures, net	1,072	1,013
Land	23,487	23,532
Leased assets, net	2,405	2,217
Construction in progress	739	953
Total property, plant and equipment	73,051	72,279
Intangible assets		
Goodwill	4,458	4,033
Other	2,533	3,326
Total intangible assets	6,991	7,360
Investments and other assets		
Investment securities	4,083	4,608
Other	8,647	8,218
Allowance for doubtful accounts	(701)	(784)
Total investments and other assets	12,030	12,042
Total non-current assets	92,073	91,682
Deferred assets	3	–
Total assets	139,097	130,887

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2016 (As of Mar. 31, 2016)	Six months ended Sep. 30, 2016 (As of Sep. 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,240	4,543
Electronically recorded obligations - operating	4,110	2,985
Short-term loans payable	18,133	15,664
Income taxes payable	3,252	1,535
Provision for bonuses	448	481
Other	6,084	5,294
Total current liabilities	39,268	30,506
Non-current liabilities		
Long-term loans payable	33,051	31,532
Provision for share-based compensation	170	205
Provision for gas holder repairs	330	368
Net defined benefit liability	2,346	2,354
Other	3,613	3,046
Total non-current liabilities	39,512	37,507
Total liabilities	78,781	68,013
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	15,724	15,724
Retained earnings	45,447	47,827
Treasury shares	(8,896)	(8,853)
Total shareholders' equity	59,345	61,768
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	782	783
Foreign currency translation adjustment	208	338
Remeasurements of defined benefit plans	(25)	(20)
Total accumulated other comprehensive income	965	1,100
Non-controlling interests	5	4
Total net assets	60,316	62,874
Total liabilities and net assets	139,097	130,887

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2015 (from Apr. 1, 2015 to Sep. 30, 2015)	For the six months ended Sep. 30, 2016 (from Apr. 1, 2016 to Sep. 30, 2016)
Net sales	51,545	48,865
Cost of sales	27,710	23,284
Gross profit	23,834	25,580
Selling, general and administrative expenses	20,144	20,826
Operating income	3,690	4,753
Non-operating income		
Interest income	159	17
Dividend income	67	47
Share of profit of entities accounted for using equity method	–	61
Real estate rent	23	16
Dividend income of insurance	0	11
Other	100	164
Total non-operating income	350	318
Non-operating expenses		
Interest expenses	260	198
Share of loss of entities accounted for using equity method	296	–
Foreign exchange losses	19	131
Other	13	115
Total non-operating expenses	589	445
Ordinary income	3,451	4,626
Extraordinary income		
Gain on sales of non-current assets	2	4
Other	–	0
Total extraordinary income	2	4
Extraordinary losses		
Loss on sales of non-current assets	0	1
Loss on retirement of non-current assets	44	34
Other	7	0
Total extraordinary losses	51	36
Profit before income taxes	3,401	4,594
Income taxes - current	1,371	1,337
Income taxes - deferred	(49)	146
Total income taxes	1,322	1,484
Profit	2,079	3,110
Profit (loss) attributable to non-controlling interests	(0)	0
Profit attributable to owners of parent	2,079	3,110

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the six months ended Sep. 30, 2015 (from Apr. 1, 2015 to Sep. 30, 2015)	For the six months ended Sep. 30, 2016 (from Apr. 1, 2016 to Sep. 30, 2016)
Profit	2,079	3,110
Other comprehensive income		
Valuation difference on available-for-sale securities	(27)	0
Remeasurements of defined benefit plans, net of tax	13	4
Share of other comprehensive income of entities accounted for using equity method	(14)	129
Total other comprehensive income	(28)	135
Comprehensive income	2,050	3,245
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,050	3,245
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 six months ended September 30, 2016 (from April 1, 2016 to September 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 six months ended September 30, 2016 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the six months ended Sep. 30, 2016 (from Apr. 1, 2016 to Sep. 30, 2016)	For the six months ended Sep. 30, 2015 (from Apr. 1, 2015 to Sep. 30, 2015)
LP gas Business	29,120	29,943
City gas Business	19,744	21,601
Total	48,865	51,545

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

Reportable segments	For the six months ended Sep. 30, 2016 (from Apr. 1, 2016 to Sep. 30, 2016)	For the six months ended Sep. 30, 2015 (from Apr. 1, 2015 to Sep. 30, 2015)
Gas	21,923	23,304
Equipment, construction contracts, etc.	7,196	6,639
Total	29,120	29,943

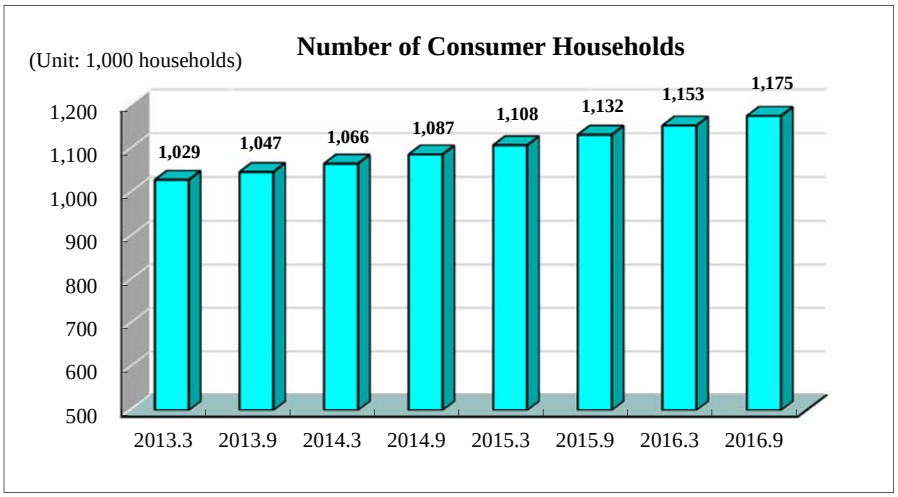
3) Sales results of city gas business (Millions of yen)

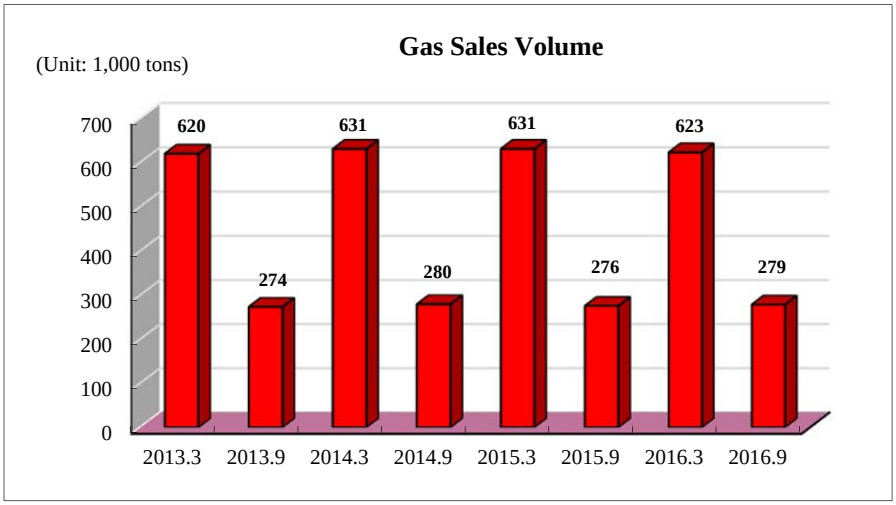
Reportable segments	For the six months ended Sep. 30, 2016 (from Apr. 1, 2016 to Sep. 30, 2016)	For the six months ended Sep. 30, 2015 (from Apr. 1, 2015 to Sep. 30, 2015)
Gas	15,096	18,237
Equipment, construction contracts, etc.	4,647	3,364
Total	19,744	21,601

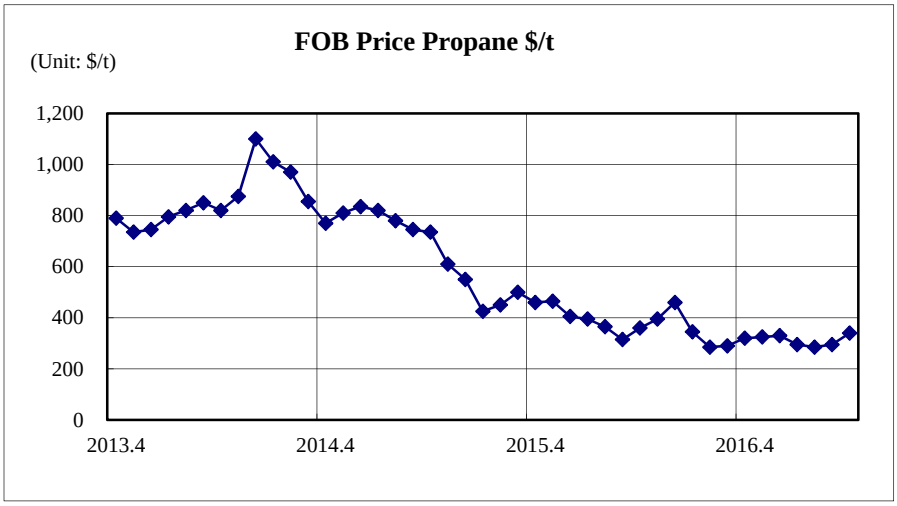
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).