Consolidated Financial Results for the Nine Months Ended December 31, 2016 [Japanese GAAP]

January 30, 2017

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, 2017
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, 2016 (April 1, 2016 to December 31, 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	%
Nine months ended Dec. 31, 2016	75,968	(5.2)	6,751	24.6	6,776	32.9	4,494	43.0
Nine months ended Dec. 31, 2015	80,153	(7.7)	5,416	55.9	5,099	56.5	3,143	64.7

(Note) Comprehensive income: Nine months ended Dec. 31, 2016 ¥5,965 million [86.2%]
Nine months ended Dec. 31, 2015 ¥3,203 million [26.2%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Dec. 31, 2016	105.28	－
Nine months ended Dec. 31, 2015	88.49	－

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Dec. 31, 2016	135,618	64,862	47.8
As of Mar. 31, 2016	139,097	60,316	43.4

(Reference) Equity: As of Dec. 31, 2016 ¥64,856 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: 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
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):

Dec. 31, 2016	48,561,525 shares
Mar. 31, 2016	48,561,525 shares

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

Dec. 31, 2016	5,866,501 shares
Mar. 31, 2016	5,877,635 shares

3) Average number of shares during the period:

Nine months ended Dec. 31, 2016	42,691,770 shares
Nine months ended Dec. 31, 2015	35,528,142 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 December 31, 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.

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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, many operators from other industries have entered into the electricity retail sales market and are competing to acquire customers through various package discount deals. Retail sale of city gas is scheduled to be fully liberalized in April 2017, and alliances leading to consolidation of the industry with a view to generating new cross-industrial innovation are expected to accelerate sharply.

The Group believes it to be crucially important to offer new convenience in energy services to customers. To that end, 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, or 320,000 customer households) to be sold by the Company and its three Group Companies from April 2017 onward. Furthermore, in addition to the agreement, in December 2016, the Company concluded a basic agreement on small volume wholesale of city gas to be sold primarily for home use with TEPCO Energy Partner, Incorporated. The Group will make a full-fledged entry into the city gas retail market from April 2017, and TEPCO Energy Partner, Incorporated from July 2017, with the aim of selling to customers equivalent to 500,000 households in the first fiscal year.

Going forward, in light of the dramatic changes that the industry environment will undergo after the full liberalization of the retail sale of city gas, the Company will combine the knowledge and functions of both parties with regard to the energy business and apply them to joint efforts to enhance a service lineup that is both highly convenient for customers and efficient, with the aim of developing into an integrated energy company to be chosen by customers. Furthermore, with the goal of revitalizing the city gas market, both parties will develop Japan’s most powerful energy platform, incorporating the upstream and downstream gas business expertise of both companies as well as advanced technologies such as artificial intelligence, bots, FinTech, Blockchain, virtual currency and IoT. In this way, we will promote collaboration with local energy operators and new operators entering from other industries and strive together to contribute to the local communities.

In addition, in September 2016, the Company concluded a capital and business alliance with Metaps Inc., a company with leading-edge ICT and AI technologies that aims “to be the world’s brain,” as a systems development partner to establish this platform and 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 the smartphone communication tool LINE with AI technologies. The system, which allows users to complete applications, conclude contracts, confirm information, and make payments through LINE, has started operations. In addition, the Company has developed and launched operations of an online payment system that lets customers use their smartphones to make bill payments for gas and gas equipment as well as register to make gas bill payments by transfer from a bank account. These paperless operations have made it possible for the Company to eliminate customer stress arising from procedures to receive services and to provide quick and highly convenient services. Moreover, the energy industry’s first bill payments for gas and gas equipment using Bitcoins were launched in October 2016. Making effective use of FinTech, Blockchain and the IoT, we will continue to push ahead with

innovative efforts to raise the quality and differentiation of our services in order to enhance customer convenience.

The number of customers of the Group steadily increased by 44,000 households, compared with the end of the same period of the previous fiscal year, to 1,189,000 households as of the end of the nine months ended December 31, 2016.

For the period under review, consolidated net sales amounted to ¥75,968 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 24.6% year-on-year to ¥6,751 million, ordinary income increased by 32.9% year-on-year to ¥6,776 million, and profit attributable to owners of parent increased by 43.0% year-on-year to ¥4,494 million, which represent increases in all levels of profits and the highest levels of profits ever attained for a nine 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 nine months ended December 31, 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 declined due to decreased raw material prices. Owing to these factors, net sales for the nine months ended December 31, 2016 decreased by ¥882 million (1.9% decrease) year-on-year to ¥46,002 million.

[City Gas Business]

In the city gas business, net sales for the nine months ended December 31, 2016 decreased by ¥3,302 million (9.9% decrease) year-on-year to ¥29,965 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, in addition to the increase in sales volume of home use gas, 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 third quarter of the fiscal year ending March 31, 2017 decreased by ¥3,478 million (2.5%) from the end of the previous fiscal year and stood at ¥135,618 million. This is mainly attributable to the decrease in cash and deposits due to aggressive investments in software and repayments of loans payable.

2) Liabilities

Total liabilities as of the end of the third quarter of the fiscal year ending March 31, 2017 decreased by ¥8,025 million (10.2%) from the end of the previous fiscal year and stood at ¥70,756 million. This is mainly attributable to the decrease in loans payable due to steady repayments and the decrease in income taxes payable.

3) Net assets

Net assets as of the end of the third quarter of the fiscal year ending March 31, 2017 increased by ¥4,546 million (7.5%) from the end of the previous fiscal year and stood at ¥64,862 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 4.4 points from the end of the previous fiscal year to 47.8%.

(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).

No change has been made to the consolidated financial results forecast announced on April 27, 2016.

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 nine months ended December 31, 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)	Nine months ended Dec. 31, 2016 (As of Dec. 31, 2016)
Assets		
Current assets		
Cash and deposits	34,246	27,833
Notes and accounts receivable - trade	6,807	6,493
Merchandise and finished goods	4,347	4,430
Work in process	76	19
Raw materials and supplies	75	95
Deferred tax assets	604	413
Other	981	1,755
Allowance for doubtful accounts	(120)	(115)
Total current assets	47,020	40,926
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,802	9,459
Machinery, equipment and vehicles, net	35,543	35,167
Tools, furniture and fixtures, net	1,072	993
Land	23,487	23,532
Leased assets, net	2,405	2,303
Construction in progress	739	904
Total property, plant and equipment	73,051	72,361
Intangible assets		
Goodwill	4,458	4,065
Other	2,533	3,604
Total intangible assets	6,991	7,670
Investments and other assets		
Investment securities	4,083	6,966
Other	8,647	8,497
Allowance for doubtful accounts	(701)	(802)
Total investments and other assets	12,030	14,660
Total non-current assets	92,073	94,692
Deferred assets	3	–
Total assets	139,097	135,618

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2016 (As of Mar. 31, 2016)	Nine months ended Dec. 31, 2016 (As of Dec. 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,240	6,651
Electronically recorded obligations - operating	4,110	4,430
Short-term loans payable	18,133	17,517
Income taxes payable	3,252	835
Provision for bonuses	448	173
Other	6,084	6,245
Total current liabilities	39,268	35,854
Non-current liabilities		
Long-term loans payable	33,051	28,865
Provision for share-based compensation	170	242
Provision for gas holder repairs	330	339
Net defined benefit liability	2,346	2,377
Other	3,613	3,076
Total non-current liabilities	39,512	34,901
Total liabilities	78,781	70,756
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	15,724	15,724
Retained earnings	45,447	48,481
Treasury shares	(8,896)	(8,853)
Total shareholders' equity	59,345	62,421
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	782	2,101
Foreign currency translation adjustment	208	352
Remeasurements of defined benefit plans	(25)	(18)
Total accumulated other comprehensive income	965	2,435
Non-controlling interests	5	5
Total net assets	60,316	64,862
Total liabilities and net assets	139,097	135,618

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the nine months ended Dec. 31, 2015 (from Apr. 1, 2015 to Dec. 31, 2015)	For the nine months ended Dec. 31, 2016 (from Apr. 1, 2016 to Dec. 31, 2016)
Net sales	80,153	75,968
Cost of sales	43,636	36,668
Gross profit	36,516	39,299
Selling, general and administrative expenses	31,100	32,548
Operating income	5,416	6,751
Non-operating income		
Interest income	171	29
Dividend income	90	71
Share of profit of entities accounted for using equity method	–	72
Foreign exchange gains	–	25
Real estate rent	33	24
Other	165	237
Total non-operating income	460	460
Non-operating expenses		
Interest expenses	388	297
Share of loss of entities accounted for using equity method	336	–
Other	51	138
Total non-operating expenses	777	435
Ordinary income	5,099	6,776
Extraordinary income		
Gain on sales of non-current assets	9	7
Gain on sales of investment securities	35	3
Total extraordinary income	45	10
Extraordinary losses		
Loss on retirement of non-current assets	69	111
Other	7	1
Total extraordinary losses	77	112
Profit before income taxes	5,067	6,674
Income taxes - current	1,914	2,053
Income taxes - deferred	8	124
Total income taxes	1,923	2,178
Profit	3,144	4,495
Profit attributable to non-controlling interests	0	1
Profit attributable to owners of parent	3,143	4,494

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the nine months ended Dec. 31, 2015 (from Apr. 1, 2015 to Dec. 31, 2015)	For the nine months ended Dec. 31, 2016 (from Apr. 1, 2016 to Dec. 31, 2016)
Profit	3,144	4,495
Other comprehensive income		
Valuation difference on available-for-sale securities	34	1,318
Remeasurements of defined benefit plans, net of tax	19	7
Share of other comprehensive income of entities accounted for using equity method	5	143
Total other comprehensive income	59	1,469
Comprehensive income	3,203	5,965
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,202	5,964
Comprehensive income attributable to non-controlling interests	0	1

(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, 2016 (from April 1, 2016 to December 31, 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 nine months ended December 31, 2016 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the nine months ended Dec. 31, 2016 (from Apr. 1, 2016 to Dec. 31, 2016)	For the nine months ended Dec. 31, 2015 (from Apr. 1, 2015 to Dec. 31, 2015)
LP gas Business	46,002	46,884
City gas Business	29,965	33,268
Total	75,968	80,153

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

Reportable segments	For the nine months ended Dec. 31, 2016 (from Apr. 1, 2016 to Dec. 31, 2016)	For the nine months ended Dec. 31, 2015 (from Apr. 1, 2015 to Dec. 31, 2015)
Gas	33,843	35,277
Equipment, construction contracts, etc.	12,158	11,607
Total	46,002	46,884

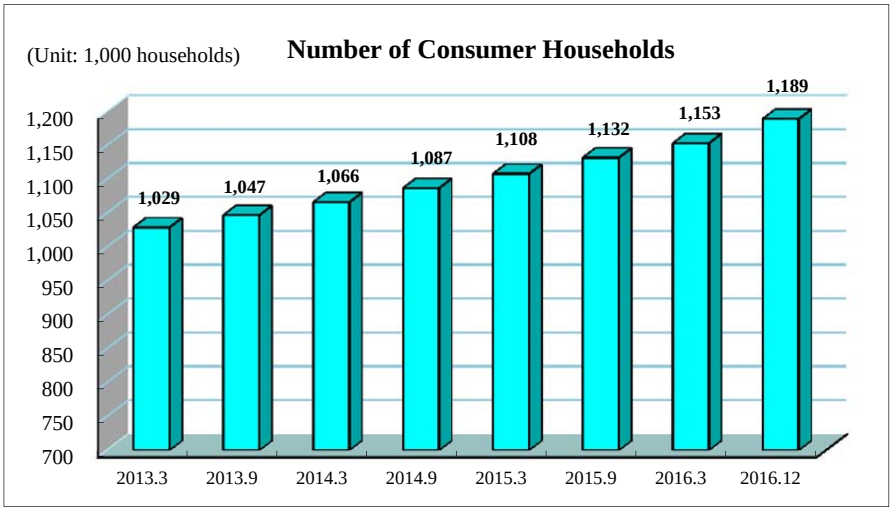
3) Sales results of city gas business (Millions of yen)

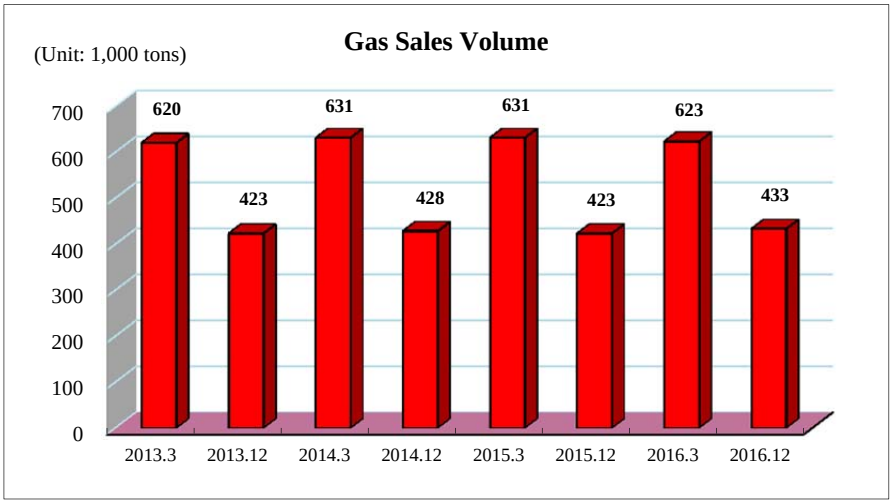
Reportable segments	For the nine months ended Dec. 31, 2016 (from Apr. 1, 2016 to Dec. 31, 2016)	For the nine months ended Dec. 31, 2015 (from Apr. 1, 2015 to Dec. 31, 2015)
Gas	23,017	27,099
Equipment, construction contracts, etc.	6,947	6,168
Total	29,965	33,268

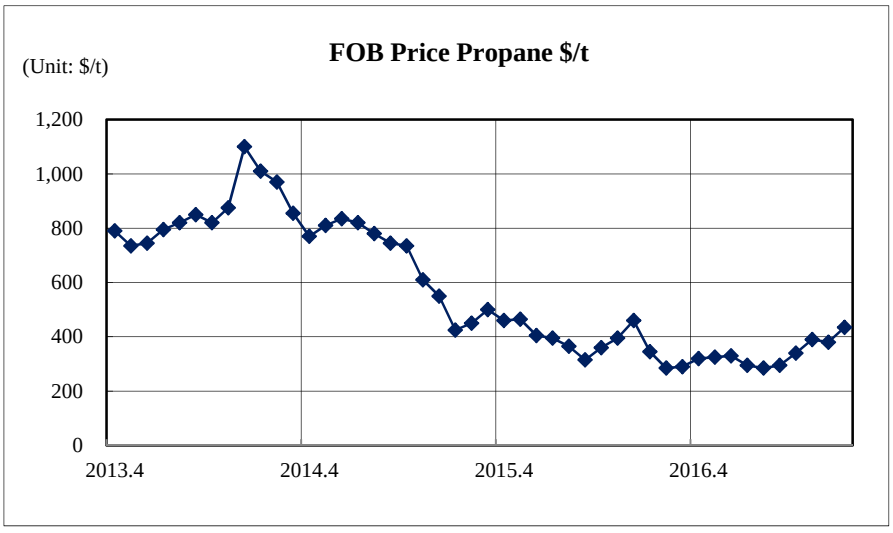
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).