Consolidated Financial Results for the Three Months Ended June 30, 2017 [Japanese GAAP]

July 27, 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: August 9, 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 Three Months Ended June 30, 2017 (April 1, 2017 to June 30 2017)

(1) Consolidated Results of Operations (% 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, 2017	26,749	(3.6)	2,135	(52.3)	2,240	(48.0)	1,646	(43.5)
Three Months ended Jun. 30, 2016	27,751	(3.6)	4,474	25.6	4,310	25.4	2,915	31.6

(Note) Comprehensive income: Three Months ended Jun. 30, 2017 ¥1,605 million [(43.8)%]
Three Months ended Jun. 30, 2016 ¥2,854 million [16.3%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three Months ended Jun. 30, 2017	38.56	－
Three Months ended Jun. 30, 2016	68.31	－

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Jun. 30, 2017	132,145	67,548	51.1
As of Mar. 31, 2017	139,157	66,641	47.9

(Reference) Equity: As of Jun. 30, 2017 ¥67,542 million As of Mar. 31, 2017 ¥66,635 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, 2017	—	17.00	—	17.00	34.00
Fiscal year ending Mar. 31, 2018	—				
Fiscal year ending Mar. 31, 2018 (Forecast)		19.00	—	19.00	38.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2018 (April 1, 2017 to March 31, 2018)

(% 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, 2017	51,300	5.0	1,500	(68.4)	1,600	(65.4)	1,000	(67.8)	23.42
Full-year	117,000	6.8	10,500	(13.9)	10,500	(13.8)	7,000	1.3	163.95

(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.: No

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, 2017	48,561,525 shares
Mar. 31, 2017	48,561,525 shares

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

Jun. 30, 2017	5,857,872 shares
Mar. 31, 2017	5,866,468 shares

3) Average number of shares during the period:

Three months ended Jun. 30, 2017	42,697,930 shares
Three months ended Jun. 30, 2016	42,686,648 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, 2017: 271,137 shares, as of March 31, 2017: 279,796 shares).

* These financial results are outside the scope of quarterly review.

* Explanation of the proper use of performance forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as of the date of publication of this document, but not intended to deliver the Company's commitment to fulfilling them. Actual results may differ significantly from these forecasts due to a wide range of factors. Please refer to "Explanation of Consolidated Forecast Results and Other Forward-looking Information" on page 4 of the attached Appendix for the notes on the use of preconditions for the earnings forecast and the use of the earnings forecast.

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1. Qualitative Information on Consolidated Performance for the Period under Review

(1) Explanation of Results of Operations

The domestic energy industry has entered an era of great competition through the abolition of conventional regional monopoly and rate regulation, following the full liberalization of the retail sale of electricity in April 2016, and that of city gas in April 2017. The Company expects to see more cross-industrial alliances and creation of new innovation in the future.

With a view to expanding its business under such circumstance, the Group changed its wholesale supplier to TEPCO Energy Partner, Incorporated, for the entire amount of city gas to be sold by the Company in and after April 2017, while it entered into the liberalized city gas retail market by announcing the “Premium 5+ Plan,” a package discount for providing inexpensive services to customers. At present, the Group is striving to enhance recognition of the Company’s brand by implementing the brand strategy mainly through TV commercial and web advertising, and making an all-out marketing effort to achieve the target of 110,000 acquired customer households in the first fiscal year. As at the end of the period under review, the Group has achieved 35,000 customer households in this market.

The Group’s city gas supplier, TEPCO Energy Partner, Incorporated, also participated in the city gas retail market in July 2017. Collaboration will be developed between the Company and TEPCO Energy Partner for promoting the acquisition of customers on both sides, including the company’s outsourcing of gas security work to the Company.

Going forward, the Company will combine the knowledge and functions of both parties with regard to the energy business, develop Japan’s most powerful energy platform incorporating advanced technologies such as artificial intelligence, bots and FinTech, and apply them in joint efforts to enhance a service lineup that is both highly convenient for customers and efficient. Under this framework, the Company will aim for revitalizing the energy market including city gas, and also promote collaboration with local energy operators and new operators entering from other industries and cooperate to contribute to the local communities.

In addition, through joint development with Metaps Inc., the Company’s capital and business alliance partner, with leading-edge ICT and AI technologies, the Company has developed and operated a system to sell gas equipment, which allows users to complete from applications to payments through LINE, and an online payment system that enable customers to make bill payments for gas by credit card and register to make gas bill payments by transfer from a bank account through their smartphones. 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.

In recognition of such strategic utilization of IT and its achievements of the Company to enhance the corporate value, the Company was chosen in the “2017 Competitive IT Strategy Company Stock Selection” for two consecutive years, which are selected jointly by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.

We will keep striving to promote efforts for system development utilizing advanced technologies to enhance customer convenience.

The number of customers of the Group steadily increased by 84,000 households, compared with the end of the same period of the previous fiscal year, to 1,247,000 households as of the end of the three months ended June 30, 2017.

For the period under review, consolidated net sales amounted to ¥26,749 million, a year-on-year decrease of 3.6%, due to factors such as a decrease in the sales of equipment works and others deriving from a decrease in sales of large air-conditioning equipment and the closing of the gas cartridge business despite an increase in net sales of gas compared with 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 decreased by 52.3% year on year to ¥2,135 million, ordinary income decreased by 48.0% year on year to ¥2,240 million, and profit attributable to owners of parent decreased by 43.5% year-on-year to ¥1,646 million. These decreases were attributable to a decrease in gross profit resulting from a decrease in sales, along with an increase in advertising costs with a view to stimulating demand in the liberalized market.

Business performance by segment for the three months ended June 30, 2017 is as follows:

[LP Gas Business]

In the LP gas business, net sales for the three months ended June 30, 2017 decreased by ¥577 million (3.6% decrease) year on year to ¥15,621 million, due to factors including the closing of the gas cartridge business, despite the increased sales volume of LP gas thanks to a steady growth in the number of customers.

[City Gas Business]

In the city gas business, net sales for the three months ended June 30, 2017 decreased by ¥424 million (3.7% decrease) year on year to ¥11,127 million, due to factors including a year-on-year decrease in sales of large air-conditioning equipment, despite a year-on-year increase in gas sales volume due to the same reason as the LP gas business.

(2) Explanation of Financial Position

1) Assets

Total assets as of the end of the first quarter of the fiscal year ending March 31, 2018 decreased by ¥7,011 million or 5.0% from the end of the previous fiscal year and stood at ¥132,145 million. This is mainly attributable to the decreases in cash and deposits, and notes and accounts receivable – trade due to seasonal factors.

2) Liabilities

Total liabilities as of the end of the first quarter of the fiscal year ending March 31, 2018 decreased by ¥7,918 million or 10.9% from the end of the previous fiscal year and stood at ¥64,596 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, 2018 increased by ¥906 million or 1.4% from the end of the previous fiscal year and stood at ¥67,548 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 3.2 points from the end of the previous fiscal year to 51.1%.

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

In the fiscal year ending March 31, 2018, the Company projects consolidated net sales of ¥117,000 million or 6.8% increase year on year attributable to an increase in gas sales volume mainly through expansion of its customer base and the spread and expansion of the use of gas appliances in the liberalized city gas retail market. In terms of profit, as a result of a significant increase planned for prior investments in city gas liberalization and demand development costs, in addition to a rise in raw material prices, the Group projects operating income of ¥10,500 million (13.9% decrease), ordinary income of ¥10,500 million (13.8% decrease), and profit attributable to owners of parent of ¥7,000 million (1.3% increase).

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2017 (As of Mar. 31, 2017)	Three months ended Jun. 30, 2017 (As of Jun. 30, 2017)
Assets		
Current assets		
Cash and deposits	31,418	27,926
Notes and accounts receivable - trade	6,708	4,811
Merchandise and finished goods	4,639	3,620
Work in process	18	75
Raw materials and supplies	100	178
Deferred tax assets	504	400
Other	871	1,050
Allowance for doubtful accounts	(125)	(135)
Total current assets	44,134	37,926
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,323	9,385
Machinery, equipment and vehicles, net	35,484	35,037
Tools, furniture and fixtures, net	1,031	1,020
Land	24,594	24,593
Leased assets, net	2,153	1,992
Construction in progress	761	630
Total property, plant and equipment	73,349	72,658
Intangible assets		
Goodwill	3,824	3,620
Other	3,598	3,889
Total intangible assets	7,422	7,510
Investments and other assets		
Investment securities	5,823	5,628
Other	8,912	8,903
Allowance for doubtful accounts	(485)	(482)
Total investments and other assets	14,250	14,049
Total non-current assets	95,022	94,219
Total assets	139,157	132,145

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2017 (As of Mar. 31, 2017)	Three months ended Jun. 30, 2017 (As of Jun. 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,145	4,525
Electronically recorded obligations - operating	4,373	3,354
Short-term loans payable	15,976	13,893
Income taxes payable	2,360	704
Provision for bonuses	434	404
Other	6,392	6,128
Total current liabilities	36,683	29,011
Non-current liabilities		
Long-term loans payable	29,013	29,359
Provision for share-based compensation	279	287
Provision for gas holder repairs	354	377
Provision for loss on voluntary recall of products	825	501
Net defined benefit liability	2,410	2,354
Other	2,948	2,704
Total non-current liabilities	35,831	35,585
Total liabilities	72,515	64,596
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	15,724	15,724
Retained earnings	50,899	51,815
Treasury shares	(8,853)	(8,821)
Total shareholders' equity	64,840	65,788
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,564	1,493
Foreign currency translation adjustment	249	277
Remeasurements of defined benefit plans	(19)	(17)
Total accumulated other comprehensive income	1,795	1,753
Non-controlling interests	6	6
Total net assets	66,641	67,548
Total liabilities and net assets	139,157	132,145

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

(Millions of yen)

Account	For the three months ended Jun. 30, 2016 (from Apr. 1, 2016 to Jun. 30, 2016)	For the three months ended Jun. 30, 2017 (from Apr. 1, 2017 to Jun. 30, 2017)
Net sales	27,751	26,749
Cost of sales	13,208	12,746
Gross profit	14,543	14,002
Selling, general and administrative expenses	10,068	11,867
Operating income	4,474	2,135
Non-operating income		
Interest income	8	9
Dividend income	38	30
Real estate rent	8	11
Insurance income	7	68
Other	73	96
Total non-operating income	136	217
Non-operating expenses		
Interest expenses	98	90
Share of loss of entities accounted for using equity method	70	21
Foreign exchange losses	116	0
Other	14	0
Total non-operating expenses	300	112
Ordinary income	4,310	2,240
Extraordinary income		
Gain on sales of non-current assets	1	5
Gain on sales of investment securities	–	272
Total extraordinary income	1	277
Extraordinary losses		
Loss on sales of non-current assets	0	1
Loss on retirement of non-current assets	17	16
Other	0	–
Total extraordinary losses	17	17
Profit before income taxes	4,293	2,500
Income taxes - current	1,132	632
Income taxes - deferred	243	220
Total income taxes	1,376	853
Profit	2,916	1,646
Profit attributable to non-controlling interests	0	0
Profit attributable to owners of parent	2,915	1,646

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the three months ended Jun. 30, 2016 (from Apr. 1, 2016 to Jun. 30, 2016)	For the three months ended Jun. 30, 2017 (from Apr. 1, 2017 to Jun. 30, 2017)
Profit	2,916	1,646
Other comprehensive income		
Valuation difference on available-for-sale securities	(127)	(70)
Remeasurements of defined benefit plans, net of tax	2	1
Share of other comprehensive income of entities accounted for using equity method	62	27
Total other comprehensive income	* (62)	* (41)
Comprehensive income	2,854	1,605
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,853	1,604
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, 2017 (from April 1, 2017 to June 30, 2017)

None.

3. 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, 2017 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the three months ended Jun. 30, 2017 (from Apr. 1, 2017 to Jun. 30, 2017)	For the three months ended Jun. 30, 2016 (from Apr. 1, 2016 to Jun. 30, 2016)
LP gas Business	15,621	16,199
City gas Business	11,127	11,552
Total	26,749	27,751

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

Reportable segments	For the three months ended Jun. 30, 2017 (from Apr. 1, 2017 to Jun. 30, 2017)	For the three months ended Jun. 30, 2016 (from Apr. 1, 2016 to Jun. 30, 2016)
Gas	13,725	12,621
Equipment, construction contracts, etc.	1,895	3,577
Total	15,621	16,199

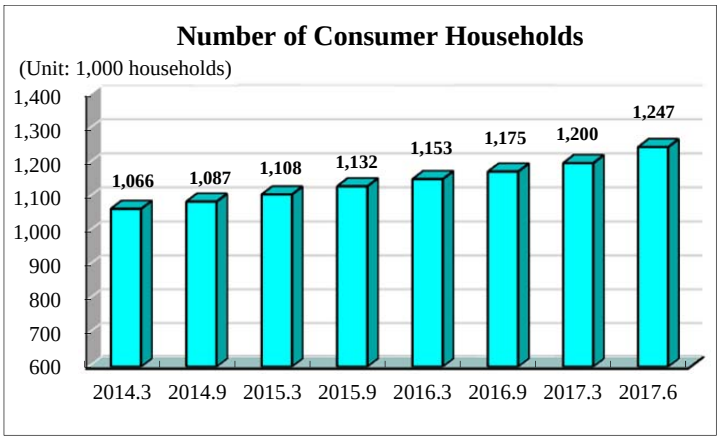
3) Sales results of city gas business (Millions of yen)

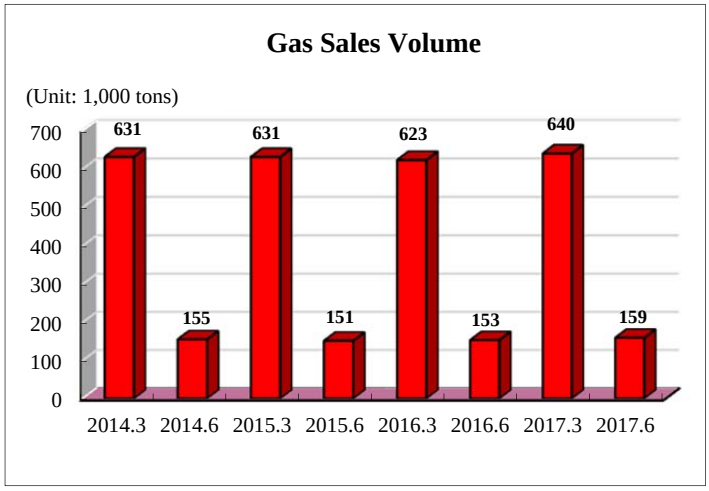
Reportable segments	For the three months ended Jun. 30, 2017 (from Apr. 1, 2017 to Jun. 30, 2017)	For the three months ended Jun. 30, 2016 (from Apr. 1, 2016 to Jun. 30, 2016)
Gas	8,869	8,609
Equipment, construction contracts, etc.	2,258	2,942
Total	11,127	11,552

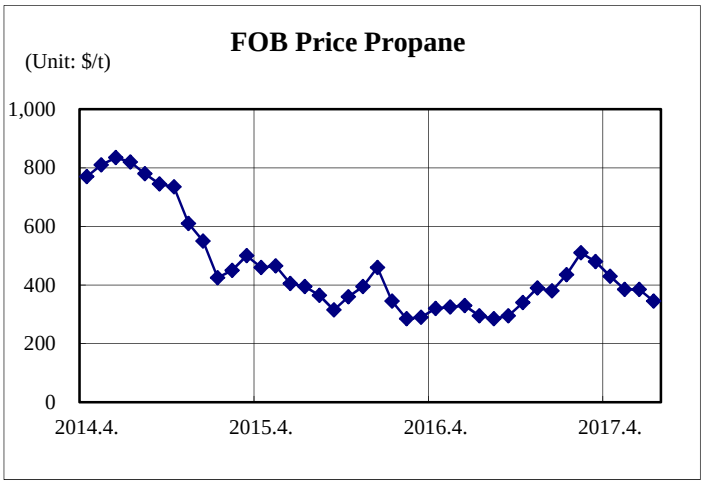
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).