Consolidated Financial Results for the Nine Months Ended December 31, 2017 [Japanese GAAP]

January 30, 2018

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, 2018
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, 2017 (April 1, 2017 to December 31, 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	%
Nine Months ended Dec. 31, 2017	77,792	2.4	3,557	(47.3)	4,297	(36.6)	3,149	(29.9)
Nine Months ended Dec. 31, 2016	75,968	(5.2)	6,751	24.6	6,776	32.9	4,494	43.0

(Note) Comprehensive income: Nine Months ended Dec. 31, 2017 ¥3,144 million [(47.3)%]
Nine Months ended Dec. 31, 2016 ¥5,965 million [86.2%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine Months ended Dec. 31, 2017	73.76	－
Nine Months ended Dec. 31, 2016	105.28	－

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Dec. 31, 2017	133,557	67,738	50.7
As of Mar. 31, 2017	139,157	66,641	47.9

(Reference) Equity: As of Dec. 31, 2017 ¥67,733 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	—	19.00	—		
Fiscal year ending Mar. 31, 2018 (Forecast)				23.00	42.00

(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
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: 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):

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

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

Dec. 31, 2017	5,858,361 shares
Mar. 31, 2017	5,866,468 shares

3) Average number of shares during the period:

Nine months ended Dec. 31, 2017	42,701,208 shares
Nine months ended Dec. 31, 2016	42,691,770 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, 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, following the full liberalization of the retail sale of electricity in April 2016 and that of city gas in April 2017, and entry of operators from other industries and collaboration across energy boundaries have been announced successively.

With a view to expanding its business under such circumstance, the Group changed its wholesale supplier of city gas raw materials to TEPCO Energy Partner, Incorporated, 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. The Group has been striving to enhance recognition of the Company’s brand by implementing the brand strategy mainly through TV commercial and web advertising, while expanding the lineup of discount services of the “Premium 5+ Plan” to enhance customer convenience, and has been making an all-out marketing effort to achieve the target of 110,000 acquired customer households in the liberalized city gas retail market in the first fiscal year. As at the end of the period under review, the Group has received 77,000 customer applications and achieved 69,000 customer households in this market.

The Company also established Tokyo Energy Alliance Co., Ltd., a new company that provides a platform for the city gas business, through joint investment with TEPCO Energy Partner, Incorporated, in August 2017.

Tokyo Energy Alliance Co., Ltd. will sequentially provide services that include wholesale supply of city gas, wheeling procedures, security work, sale and repair of gas equipment, and a core cloud system for gas operations, including highly convenient payment functions, to operators seeking new entry.

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.

In addition, the Company is advancing automation of acceptance procedures to start using gas (application for connection) from customers via telephone, using an automatic response service (“AI Concierge,” where artificial intelligence directly recognizes conversation with voice and responds automatically) of U-NEXT MARKETING Company Limited, and started its test operation. Furthermore, with the aim for future external sales, the Company will work on automation of all telephone reception operations in collaboration with U-NEXT MARKETING Company Limited, using said service, and as the second step, realize real-time response to customers by automatic operations from responses to inquiries from customers to arrangements for staff in charge to respond to customers, linking with the Company’s cloud system “Kumo no Uchusen.”

We will keep striving to promote efforts for system development utilizing advanced technologies such as AI to eliminate customer stress arising from procedures to receive services through paperless operations and provide speedy and highly convenient services.

The number of customers of the Group steadily increased by 113,000 households, compared with the end of the same period of the previous fiscal year, to 1,302,000 households as of the end of the nine months ended December 31, 2017.

For the period under review, consolidated net sales amounted to ¥77,792 million, a year-on-year increase of 2.4%, due to factors such as 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, despite a decrease in the sales of equipment works and others deriving from a decrease in sales of gas appliances and the closing of the gas cartridge business.

In terms of profit, operating income decreased by 47.3% year on year to ¥3,557 million, ordinary income decreased by 36.6% year on year to ¥4,297 million, and profit attributable to owners of parent decreased by 29.9% year on year to ¥3,149 million. These decreases were attributable to an increase in cost of sales due to higher raw material prices compared with the same period of the previous fiscal year for both LP gas and city gas, along with an increase in advertising costs with a view to stimulating demand in the liberalized market.

Business performance by segment for the nine months ended December 31, 2017 is as follows:

[LP Gas Business]

In the LP gas business, net sales for the nine months ended December 31, 2017 decreased by ¥2,164 million (4.7% decrease) year on year to ¥43,837 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 nine months ended December 31, 2017 increased by ¥3,989 million (13.3% increase) year on year to ¥33,954 million, due to factors including a year-on-year increase in sales volume of home use LP gas as a result of the acquisition of customers in the liberalized market, and higher levels of unit sales prices of natural gas due to the gas rate adjustment system.

(2) Explanation of Financial Position

1) Assets

Total assets as of the end of the third quarter of the fiscal year ending March 31, 2018 decreased by ¥5,599 million or 4.0% from the end of the previous fiscal year and stood at ¥133,557 million. This is mainly attributable to the decrease in cash and deposits due to aggressive investments in software, etc. and repayments of loans payable.

2) Liabilities

Total liabilities as of the end of the third quarter of the fiscal year ending March 31, 2018 decreased by ¥6,695 million or 9.2% from the end of the previous fiscal year and stood at ¥65,819 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, 2018 increased by ¥1,096 million or 1.6% from the end of the previous fiscal year and stood at ¥67,738 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 2.8 points from the end of the previous fiscal year to 50.7%.

(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)	Nine months ended Dec. 31, 2017 (As of Dec. 31, 2017)
Assets		
Current assets		
Cash and deposits	31,418	25,162
Notes and accounts receivable - trade	6,708	6,350
Merchandise and finished goods	4,639	5,448
Work in process	18	45
Raw materials and supplies	100	206
Deferred tax assets	504	322
Other	871	1,482
Allowance for doubtful accounts	(125)	(146)
Total current assets	44,134	38,872
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,323	9,323
Machinery, equipment and vehicles, net	35,484	34,119
Tools, furniture and fixtures, net	1,031	966
Land	24,594	25,194
Leased assets, net	2,153	2,360
Construction in progress	761	860
Total property, plant and equipment	73,349	72,825
Intangible assets		
Goodwill	3,824	3,267
Other	3,598	3,909
Total intangible assets	7,422	7,177
Investments and other assets		
Investment securities	5,823	5,137
Other	8,912	10,030
Allowance for doubtful accounts	(485)	(485)
Total investments and other assets	14,250	14,682
Total non-current assets	95,022	94,685
Total assets	139,157	133,557

(Millions of yen)

Account	Fiscal year ended Mar. 31, 2017 (As of Mar. 31, 2017)	Nine months ended Dec. 31, 2017 (As of Dec. 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,145	7,855
Electronically recorded obligations - operating	4,373	4,242
Short-term loans payable	15,976	10,687
Income taxes payable	2,360	840
Provision for bonuses	434	174
Other	6,392	5,868
Total current liabilities	36,683	29,668
Non-current liabilities		
Long-term loans payable	29,013	29,619
Provision for share-based compensation	279	366
Provision for gas holder repairs	354	278
Provision for loss on voluntary recall of products	825	170
Net defined benefit liability	2,410	2,428
Other	2,948	3,286
Total non-current liabilities	35,831	36,150
Total liabilities	72,515	65,819
Net assets		
Shareholders' equity		
Capital stock	7,070	7,070
Capital surplus	15,724	15,724
Retained earnings	50,899	51,972
Treasury shares	(8,853)	(8,823)
Total shareholders' equity	64,840	65,943
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,564	1,517
Foreign currency translation adjustment	249	287
Remeasurements of defined benefit plans	(19)	(13)
Total accumulated other comprehensive income	1,795	1,790
Non-controlling interests	6	4
Total net assets	66,641	67,738
Total liabilities and net assets	139,157	133,557

(2) Consolidated Statement of Income and Comprehensive Income

(Consolidated Statement of Income)

Account	For the nine months ended Dec. 31, 2016 (from Apr. 1, 2016 to Dec. 31, 2016)	For the nine months ended Dec. 31, 2017 (from Apr. 1, 2017 to Dec. 31, 2017)
Net sales	75,968	77,792
Cost of sales	36,668	38,564
Gross profit	39,299	39,228
Selling, general and administrative expenses	32,548	35,670
Operating income	6,751	3,557
Non-operating income		
Interest income	29	110
Dividend income	71	57
Share of profit of entities accounted for using equity method	72	423
Foreign exchange gains	25	16
Real estate rent	24	41
Other	237	398
Total non-operating income	460	1,048
Non-operating expenses		
Interest expenses	297	267
Other	138	40
Total non-operating expenses	435	308
Ordinary income	6,776	4,297
Extraordinary income		
Gain on sales of non-current assets	7	43
Gain on sales of investment securities	3	398
Total extraordinary income	10	441
Extraordinary losses		
Loss on sales of non-current assets	–	1
Loss on retirement of non-current assets	111	58
Other	1	–
Total extraordinary losses	112	60
Profit before income taxes	6,674	4,678
Income taxes - current	2,053	1,256
Income taxes - deferred	124	273
Total income taxes	2,178	1,529
Profit	4,495	3,148
Profit (loss) attributable to non-controlling interests	1	(0)
Profit attributable to owners of parent	4,494	3,149

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

Account	For the nine months ended Dec. 31, 2016 (from Apr. 1, 2016 to Dec. 31, 2016)	For the nine months ended Dec. 31, 2017 (from Apr. 1, 2017 to Dec. 31, 2017)
Profit	4,495	3,148
Other comprehensive income		
Valuation difference on available-for-sale securities	1,318	(47)
Remeasurements of defined benefit plans, net of tax	7	5
Share of other comprehensive income of entities accounted for using equity method	143	37
Total other comprehensive income	1,469	(4)
Comprehensive income	5,965	3,144
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,964	3,145
Comprehensive income attributable to non-controlling interests	1	(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, 2017 (from April 1, 2017 to December 31, 2017)

None.

3. Others

(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, 2017 are as follows:

Sales results by reportable segments (Millions of yen)

Reportable segments	For the nine months ended Dec. 31, 2017 (from Apr. 1, 2017 to Dec. 31, 2017)	For the nine months ended Dec. 31, 2016 (from Apr. 1, 2016 to Dec. 31, 2016)
LP gas Business	43,837	46,002
City gas Business	33,954	29,965
Total	77,792	75,968

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

Reportable segments	For the nine months ended Dec. 31, 2017 (from Apr. 1, 2017 to Dec. 31, 2017)	For the nine months ended Dec. 31, 2016 (from Apr. 1, 2016 to Dec. 31, 2016)
Gas	37,768	33,843
Equipment, construction contracts, etc.	6,069	12,158
Total	43,837	46,002

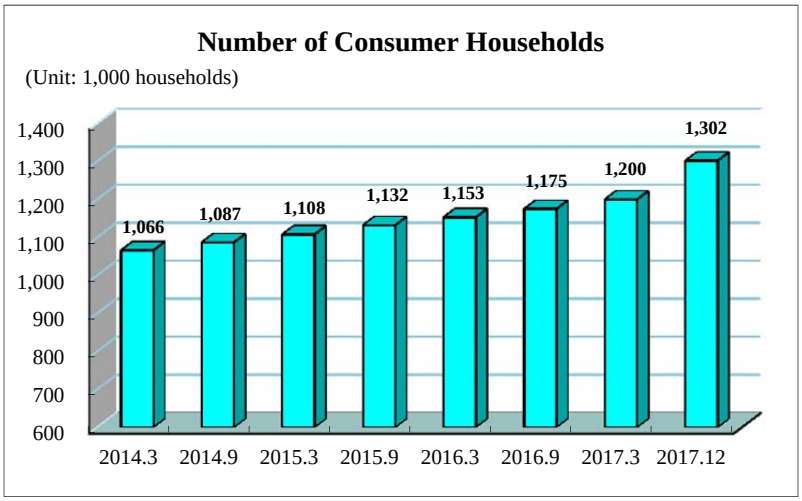
3) Sales results of city gas business (Millions of yen)

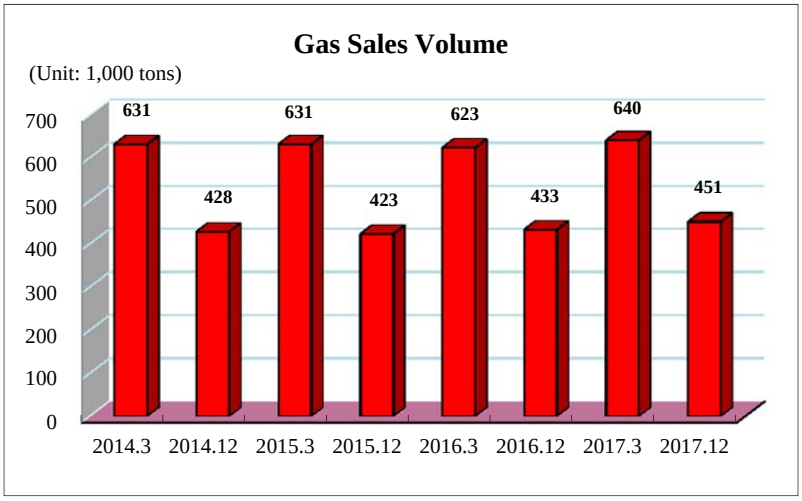
Reportable segments	For the nine months ended Dec. 31, 2017 (from Apr. 1, 2017 to Dec. 31, 2017)	For the nine months ended Dec. 31, 2016 (from Apr. 1, 2016 to Dec. 31, 2016)
Gas	25,945	23,017
Equipment, construction contracts, etc.	8,009	6,947
Total	33,954	29,965

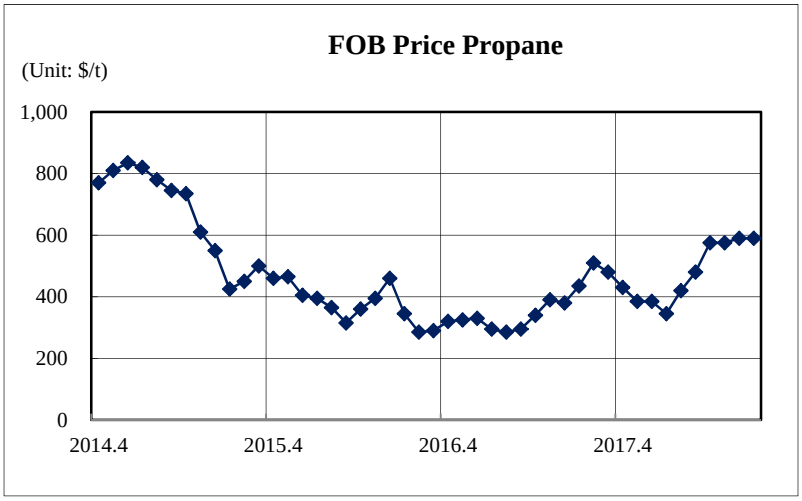
(Notes) 1. Above figures are stated net of consumption taxes, etc.

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).