

Flash Report for the First Half of 2017 [Japan GAAP](Consolidated)

August 8, 2017

Company Name: SHIZUOKA GAS CO., LTD. Listing: Tokyo Stock Exchange (1st section)
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 Date for presentation of the quarterly report: August 10, 2017
 Date of dividend payment: September 1, 2017
 Preparation of supplemental explanatory materials: Yes
 Holding of quarterly results briefing session: Yes (for institutional investors)

1. Consolidated Business Results for the First Half (January 1 through June 30, 2017)

(Amounts under one million yen are omitted; YoY % change)

(1) Operating Results

	Net sales (¥ million)	Operating income (¥ million)	Ordinary income (¥ million)
Reporting First Half	61,004 0.2 %	4,817 (56.5) %	5,233 (54.1) %
Previous First Half	60,883 (26.4)	11,077 25.2	11,412 30.4

Note: Total comprehensive income (¥ million)

Reporting First Half: 3,980 ((33.1%)) Previous First Half: 5,951 ((17.6%))

	Profit attributable to owners of parent (¥ million)	Profit per share (¥)	Diluted profit per share (¥)
Reporting First Half	3,218 (57.8) %	43.62	43.54
Previous First Half	7,632 37.6	103.47	103.33

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Equity ratio (%)
Reporting First Half	106,287	80,250	69.2
Previous full term	110,938	78,110	63.6

Note: Net assets excluding subscription rights to shares and non-controlling interests (¥ million)

Reporting First Half: 73,584 Previous full term: 70,563

2. Dividend Payment

	Annual dividend per share (¥)				
	1Q	2Q	3Q	Term-end	Total
FY 2016	—	6.50	—	6.50	13.00
FY 2017	—	7.00	/	/	/
FY 2017 (forecast)	/	/	—	7.00	14.00

Note: Revision of previously announced dividend forecasts: No

3. Consolidated Business Forecast for Current Term (January 1 through December 31, 2017)

(Amounts under one million yen are omitted; YoY % change)

	Net sales (¥ million)	Operating income (¥ million)	Ordinary income (¥ million)	Profit attributable to owners of parent (¥ million)	Profit per share (¥)
Full term	122,490 12.8	5,680 (44.5)	6,330 (41.0)	3,720 (44.7)	50.41

Note: Revision of previously announced consolidated business forecasts: Yes

※Notes

(1) Major changes in subsidiaries: **No**

Note: Transfer of specified subsidiaries during the reporting First Half resulting in changes in the scope of consolidation

(2) Simplified accounting and special accounting methods for quarterly financial reporting: **Yes**

(Please refer to the section “Notes(3) Application of Special Accounting Methods in Preparation of Quarterly Consolidated Financial Statements” on P10)

(3) Changes in accounting policies, estimates, or retrospective restatements

a) Changes in accounting policies due to revisions of accounting standards: **No**

b) Other: **No**

c) Changes in accounting estimates: **No**

d) Retrospective restatements: **No**

(4) Number of issued shares (ordinary shares)

a) Number of shares issued at end of period (including treasury shares)

Reporting First Half: 76,192,950

Previous full term: 76,192,950

b) Number of treasury shares at end of period

Reporting First Half: 2,406,480

Previous full term: 2,422,180

c) Average number of shares outstanding during the term

Reporting First Half: 73,780,858

Previous First Half: 73,756,930

Quarterly Review

Quarterly financial results are exempt from quarterly review.

Notes on proper use of forecasts, and other matters

Business forecasts and other forward-looking statements contained in this document are assumptions based on information available to the company and judgments deemed rational at the time this document was published. Forward-looking statements are not a guarantee that forecasts will be achieved. Actual earnings may differ significantly from business forecasts due to various factors.

For further details, please refer to the section “Qualitative Information on Quarterly Consolidated Financial Performance (3) Qualitative Information Regarding Consolidated Business Forecasts” on P4.

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Qualitative Information Regarding Consolidated Operating Results

Net sales for the first six months of the current fiscal year (January through June, 2017) was nearly level year on year at ¥61,004 million.

Operating income amounted to ¥4,817 million, representing a 56.5% year-on-year decrease, mainly due to a decrease in the influence of time lag until fluctuation in raw material prices are reflected in unit gas sales prices. Ordinary income amounted to ¥5,233 million (54.1% decrease), while profit attributable to owners of parent fell 57.8% to ¥3,218 million.

The following describes our performance by segment.

Note that segment earnings include inter-segment transactions.

1. Gas

Gas sales volume decreased 2.0% year on year, down to 727 million m³. This result was mainly due to a decrease in demand among wholesale customers.

Gas net sales amounted to ¥50,298 million, a 2.9% year-on-year decrease, mainly due to downward revisions in gas unit sales prices necessitated under the gas rate adjustment system. Meanwhile, segment income (operating income) fell 51.7% to ¥5,793 million, mainly due to a decrease in the influence of time lag until fluctuation in raw material prices are reflected in unit gas sales prices.

2. LPG and Other Energy Services

Net sales increased 35.0% year on year to ¥7,491 million, mainly due to the launch of electricity sales in April 2016. Segment income (operating income) rose 2.4% year on year to ¥485 million.

3. Other Businesses

Net sales rose 1.6% year on year to ¥6,386 million. Segment income (operating income) amounted to ¥261 million, a decrease of 6.1%.

(2) Qualitative Information Regarding Consolidated Financial Position

1. Assets, Liabilities, and Net Assets

Total assets at the end of the first six months of the consolidated fiscal year amounted to ¥106,287 million. This was a ¥4,651 million decrease compared to the end of the prior consolidated fiscal year, owing mainly to a decrease in raw materials due to a decrease in LNG inventories and higher depreciation and amortization.

Liabilities decreased ¥6,791 million to ¥26,036 million. This result was mainly due to a decrease in accounts payable-trade due to the timing of raw materials payment settlements and repayments of long-term loans payable.

Net assets increased ¥2,140 million compared to the end of the prior consolidated fiscal year, up to ¥80,250 million. This result was mainly due to increased retained earnings stemming from profit attributable to owners of parent. The Company's equity ratio at the end of the First Half stood at 69.2%.

2. Cash Flows

Cash and cash equivalents as of the end of the first six months of the consolidated fiscal year amounted to ¥10,353 million, a year-on-year decrease of ¥1,073 million.

The following describes the Company's cash flows and major factors in cash flow changes.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥5,843 million (compared to ¥10,946 million for the first six months of the prior fiscal year). While income before depreciation and amortization amounted to ¥9,732 million, this decrease in cash was due mainly to a decrease in notes and accounts payable-trade.

(Cash Flows from Investing Activities)

Net cash used in investing activities amounted to ¥3,179 million (compared to ¥5,969 million for the first six months of the prior fiscal year). This result was mainly due to capital investments in things like gas pipelines.

(Cash Flows from Financing Activities)

Net cash used in financing activities was nearly level year on year at ¥3,688 million (compared to ¥3,393 million for the first six months of the prior fiscal year). This result was mainly due to repayments of loans payable and payments of dividends.

(3) Qualitative Information Regarding Consolidated Business Forecasts

The Company has revised its full-year business forecast based on consolidated earnings for the first six months of the current fiscal year. As a result, we now forecast net sales of ¥122,490 million, lower than the previous forecast. This is mainly due to a decrease in sales volume to wholesale customers and downward revisions in gas unit sales prices necessitated under the gas rate adjustment system. Meanwhile, we forecast operating income of ¥5,680 million, ordinary income of ¥6,330 million, and profit attributable to owners of parent of ¥3,720 million, due to lower costs of raw materials stemming from lower materials costs.

(Reference) Crude Oil Price/Exchange Rate Projections

Crude oil price (Japan CIF)	Previous forecast	US\$55/bbl (2nd Half)
	Revised forecast	US\$54/bbl (2nd Half)
Exchange rate	Previous forecast	US\$1/115 yen (2nd Half)
	Revised forecast	US\$1/115yen (2nd Half)

2. Quarterly Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

	(¥ million)	
	December 31, 2016	June 30, 2017
Assets		
Non-current assets		
Property, plant and equipment		
Production facilities	11,473	10,557
Distribution facilities	35,737	34,779
Service and maintenance facilities	5,064	5,198
Other facilities	8,038	8,711
Construction in progress	1,036	522
Total property, plant and equipment	61,350	59,770
Intangible assets	867	825
Investments and other assets		
Investment securities	11,787	11,880
Long-term loans receivable	7,203	6,870
Deferred tax assets	367	362
Other investments and other assets	1,567	1,595
Allowance for doubtful accounts	(92)	(93)
Total investments and other assets	20,833	20,615
Total non-current assets	83,052	81,210
Current assets		
Cash and deposits	11,446	10,378
Notes and accounts receivable-trade	7,313	8,756
Merchandise and finished goods	241	271
Raw materials and supplies	5,936	3,390
Deferred tax assets	568	576
Other current assets	2,405	1,729
Allowance for doubtful accounts	(26)	(26)
Total current assets	27,886	25,076
Total assets	110,938	106,287

Note: Amounts under one million yen are omitted.

	(¥ million)	
	December 31,2016	June 30,2017
Liabilities		
Non-current liabilities		
Long-term loans payable	11,432	10,210
Deferred tax liabilities	559	671
Net defined benefit liability	3,948	3,568
Other non-current liabilities	119	114
Total non-current liabilities	16,060	14,565
Current liabilities		
Current portion of non-current liabilities	3,356	2,737
Accounts payable-trade	7,503	3,272
Accounts payable-other	1,307	1,439
Income taxes payable	1,238	1,626
Provision for bonuses	482	429
Other current liabilities	2,878	1,965
Total current liabilities	16,767	11,471
Total liabilities	32,828	26,036
Net assets		
Shareholders' equity		
Capital stock	6,279	6,279
Capital surplus	4,653	4,688
Retained earnings	56,512	59,251
Treasury shares	(1,230)	(1,222)
Total shareholders' equity	66,214	68,995
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,488	4,700
Deferred gains or losses on hedges	(1)	(9)
Foreign currency translation adjustment	(253)	(228)
Remeasurements of defined benefit plans	115	125
Total accumulated other comprehensive income	4,349	4,589
Subscription rights to shares	79	105
Non-controlling interests	7,467	6,560
Total net assets	78,110	80,250
Total liabilities and net assets	110,938	106,287

Note: Amounts under one million yen are omitted.

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

	(¥ million)	
First Half ended June 30	2016	2017
Net sales	60,883	61,004
Cost of sales	36,896	43,351
Gross profit	23,987	17,653
Selling, general and administrative expenses	12,909	12,835
Operating income	11,077	4,817
Non-operating income		
Interest income	72	66
Dividend income	100	108
Share of profit of entities accounted for using equity method	115	95
Foreign exchange gains	15	85
Miscellaneous income	163	172
Total non-operating income	468	527
Non-operating expenses		
Interest expenses	126	95
Miscellaneous expenses	6	15
Total non-operating expenses	133	111
Ordinary income	11,412	5,233
Extraordinary losses		
Loss on valuation of investment securities	86	31
Total extraordinary losses	86	31
Profit before income taxes	11,326	5,201
Income taxes	3,235	1,467
Profit	8,091	3,734
Profit attributable to non-controlling interests	458	515
Profit attributable to owners of parent	7,632	3,218

Note: Amounts under one million yen are omitted.

Consolidated Statements of Comprehensive Income

	(¥ million)	
First Half ended June 30	2016	2017
Profit	8,091	3,734
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,014)	218
Deferred gains or losses on hedges	106	(7)
Foreign currency translation adjustment	—	1
Remeasurements of defined benefit plans, net of tax	6	10
Share of other comprehensive income of entities accounted for using equity method	(237)	23
Total other comprehensive income	(2,139)	245
Comprehensive income	5,951	3,980
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,493	3,458
Comprehensive income attributable to non-controlling interests	458	521

Note: Amounts under one million yen are omitted.

(3) Consolidated Statements of Cash Flows

First Half ended June 30	(¥ million)	
	2016	2017
Cash flows from operating activities		
Profit before income taxes	11,326	5,201
Depreciation	4,899	4,530
Loss on retirement of property, plant and equipment	51	16
Loss (gain) on valuation of securities	86	31
Increase (decrease) in allowance for doubtful accounts	(7)	0
Increase (decrease) in net defined benefit liability	(307)	(366)
Increase (decrease) in provision for bonuses	2	(52)
Interest and dividend income	(173)	(174)
Interest expenses	126	95
Share of (profit) loss of entities accounted for using equity method	(115)	(95)
Decrease (increase) in notes and accounts receivable-trade	2,370	(1,442)
Decrease (increase) in inventories	2,209	2,516
Increase (decrease) in notes and accounts payable-trade	(4,655)	(4,224)
Decrease/increase in consumption taxes receivable/payable	(1,995)	1,302
Other, net	(5)	(228)
Subtotal	13,813	7,111
Interest and dividend income received	173	174
Interest expenses paid	(152)	(127)
Income taxes paid	(2,888)	(1,315)
Net cash provided by (used in) operating activities	10,946	5,843
Cash flows from investing activities		
Payments into time deposits	(13)	(13)
Proceeds from withdrawal of time deposits	13	13
Purchase of property, plant and equipment and intangible assets	(6,338)	(3,809)
Proceeds from sales of property, plant and equipment and intangible assets	9	45
Purchase of investment securities	(4)	(4)
Collection of loans receivable	331	340
Proceeds from contribution received for construction	263	453
Other, net	(230)	(204)
Net cash provided by (used in) investing activities	(5,969)	(3,179)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	(8)
Proceeds from long-term loans payable	1,100	240
Repayments of long-term loans payable	(2,956)	(2,043)
Cash dividends paid	(442)	(479)
Dividends paid to non-controlling interests	(1,093)	(1,104)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(291)
Other, net	(1)	0
Net cash provided by (used in) financing activities	(3,393)	(3,688)
Effect of exchange rate change on cash and cash equivalents	(156)	(42)
Net increase (decrease) in cash and cash equivalents	1,427	(1,067)
Cash and cash equivalents at beginning of period	9,999	11,421
Cash and cash equivalents at end of period	11,426	10,353

Note: Amounts under one million yen are omitted.

(4) Notes

(1) Note on Going Concerns' Premise

Not applicable.

(2) Note on Significant Change in Shareholders' Equity

Not applicable.

(3) Application of Special Accounting Methods in Preparation of Quarterly Consolidated Financial Statements

Calculation of tax expenses

The Company calculates tax expenses based on a reasonable estimate of the effective tax rate after the application of tax effect accounting to profit before income taxes for the current consolidated fiscal year including the consolidated First Half. We multiply this effective tax rate by the quarterly profit before income taxes for the cumulative period to calculate tax expenses.

Additional Information

Beginning with the first quarter of the consolidated fiscal year, the Company has applied "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, issued March 28, 2016) .

Segment Information

Net Sales and Income (Loss) by Reportable Segment

Six Months Ended June 30, 2016

(¥ million)

	Reportable segment			Other businesses (Note1)	Total	Adjustments (Note2)	Amount recorded on consolidated statement of income (Note3)
	Gas	LPG and other energy services	Total				
Net sales							
Sales to external customers	51,246	5,438	56,684	4,198	60,883	—	60,883
Inter-segment sales and transfers	577	110	688	2,085	2,773	(2,773)	—
Total	51,824	5,548	57,373	6,284	63,657	(2,773)	60,883
Segment income(loss)	11,993	474	12,467	278	12,746	(1,669)	11,077

Notes:

1. The Other businesses category consists of businesses not categorized as individual reportable segments. Other businesses includes orders for construction related to the gas business, sales of gas appliances, remodeling, and leasing.
2. The (¥1,669) million in segment income adjustments includes ¥118 million in inter-segment eliminations and (¥1,787) million in corporate expenses not allocable to a reportable segment. Corporate expenses are general and administrative expenses not allocable to a reportable segment.
3. Segment income is adjusted to reflect operating income as recorded on the Company's quarterly consolidated statements of income.

Six Months Ended June 30, 2017

(¥ million)

	Reportable segment			Other businesses (Note1)	Total	Adjustments (Note2)	Amount recorded on consolidated statement of income (Note3)
	Gas	LPG and other energy services	Total				
Net sales							
Sales to external customers	49,474	7,363	56,837	4,167	61,004	—	61,004
Inter-segment sales and transfers	823	128	952	2,219	3,171	(3,171)	—
Total	50,298	7,491	57,789	6,386	64,176	(3,171)	61,004
Segment income(loss)	5,793	485	6,279	261	6,541	(1,723)	4,817

Notes:

1. The Other businesses category consists of businesses not categorized as individual reportable segments. Other businesses includes orders for construction related to the gas business, sales of gas appliances, remodeling, and leasing.
2. The (¥1,723) million in segment income adjustments includes ¥121 million in inter-segment eliminations and (¥1,845) million in corporate expenses not allocable to a reportable segment. Corporate expenses are general and administrative expenses not allocable to a reportable segment.
3. Segment income is adjusted to reflect operating income as recorded on the Company's quarterly consolidated statements of income.