

# Flash Report for the First Half of 2015 [Japan GAAP] (Consolidated)

August 5, 2015

Company Name: SHIZUOKA GAS CO., LTD. Listing: Tokyo Stock Exchange (1st section)  
 Code Number: 9543 URL: [http://ir.shizuokagas.co.jp/corp\\_en/Top.html](http://ir.shizuokagas.co.jp/corp_en/Top.html)  
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Date for presentation of the quarterly report: August 13, 2015

Date of dividend payment: September 1, 2015

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, 2015)

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

### (1) Operating Results

	Net sales (¥ million)		Operating income (¥ million)		Ordinary income (¥ million)	
Reporting first half	82,746	(3.2)%	8,844	101.9%	8,750	82.9%
Previous first half	85,461	13.2	4,380	30.5	4,785	35.3

Note: Total comprehensive income (¥ million) Reporting first half: 7,221(118.3%) Previous first half: 3,308((12.9)%)

	Net income (¥ million)		Net income per share (¥)	Diluted net income per share (¥)
Reporting first half	5,546	92.5%	75.23	75.14
Previous first half	2,880	57.9	39.07	39.06

### (2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Equity ratio (%)
Reporting first half	106,253	71,366	60.6
Previous full term	117,926	67,284	50.7

Note: Owners' equity (¥ million)

Reporting first half: 64,427

Previous full term: 59,818

## 2. Dividend Payment

Annual dividend per share (¥)

	1Q	2Q	3Q	Term-end	Total
FY 2014	—	5.00	—	5.00	10.00
FY 2015	—	6.00	/	/	/
FY 2015 (forecast)	/	/	—	6.00	12.00

Note: Revision of previously announced dividend forecasts: No

## 3. Consolidated Business Forecasts for Current Term (January 1 through December 31, 2015)

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

	Net sales (¥ million)		Operating income (¥ million)		Ordinary income (¥ million)		Net income (¥ million)		Net income per share (¥)
Full term	149,110	(10.5)%	9,980	73.5%	10,410	73.6%	6,670	129.3%	90.46

Note: Revision of previously announced 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 “2. Summary Information (Notes)” on P4)

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

a) Changes in accounting policies due to revisions of accounting standards: Yes

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 the period (including shares in treasury)

Reporting first half: 76,192,950

Previous full term: 76,192,950

b) Number of treasury shares at end of the period

Reporting first half: 2,464,038

Previous full term: 2,464,038

c) Average number of shares outstanding during the term

Reporting first half: 73,728,912

Previous first half: 73,728,989

### Disclosure regarding Quarterly Review Procedures

This quarterly flash report is exempt from the quarterly review procedures under the Financial Instruments and Exchange Act. Furthermore, this quarterly flash report was undergoing the review procedure process under the Financial Instruments and Exchange Act at the time of this release.

### Caution Concerning Forward-Looking Statements

Earnings 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 earnings forecasts due to various factors.

Given recent earnings trends, the Company has revised its full-year earnings forecast from those originally published in February 6, 2015 in Flash Report for the Term Ended December 31, 2014. See Attachment Page 4, 1. Qualitative Information on Quarterly Consolidated Financial Performance (3) Qualitative Information Regarding Consolidated Earnings Forecasts for more.

## 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 1 to June 30) amounted to ¥82,746 million, a 3.2% decrease year on year.

Operating income amounted to ¥8,844 million, representing a 101.9% year-on-year increase, with reported ordinary income of ¥8,750 million (82.9% increase) and net income of ¥5,546 million (92.5% increase). These gains mainly reflect a time lag between the decrease in raw materials costs for gas and the time that such decreases are reflected in gas unit sales prices.

The following describes our performance by segment.

Note that segment earnings include inter-segment transactions.

#### 1. Gas

Gas sales volume rose 1.1% compared to the same period in the prior fiscal year, reaching 695 million m<sup>3</sup>. This increase was mainly due to higher wholesale volume, despite a decrease in sales volume for residential and industrial uses.

Gas net sales amounted to ¥73,202 million, a 1.2% year-on-year decrease. This decrease was mainly due to lower LNG sales volume, which exceeded the increase in gas sales volume. On the other hand, the time lag between the decrease in raw materials costs for gas and the time that such decreases are reflected in gas unit sales prices helped drive segment income (operating income) 83.0% higher, reaching ¥9,668 million.

#### 2. LPG and Other Energy Services

Net sales declined 17.2% year on year to ¥6,074 million. This result was mainly due to lower gas unit sales prices for LPG sales. Meanwhile, segment income (operating income) rose 31.6% year on year to ¥650 million, owing to lower cost of sales stemming from lower raw materials costs.

#### 3. Other Businesses

Net sales declined 10.2% year on year to ¥6,027 million, mainly due to lower sales of gas appliances and orders for construction related to the gas business. Segment income (operating income) was ¥192 million, a decline of 9.0% compared to the same period in the prior fiscal year.

### (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 ¥106,253 million. This was a ¥11,673 million decrease compared to the end of the prior fiscal year, owing mainly to a decrease in raw materials due to the timing of shipment receipts and to a decrease in notes and accounts receivable-trade.

Liabilities decreased ¥15,754 million compared to the prior fiscal year end, amounting to ¥34,887 million. While retirement benefit obligations rose in connection with the adoption of the Accounting Standard for Retirement Benefits, the Company experienced a decrease in accounts payable-trade owing to timing of raw materials payment settlements, as well as repayments of short-term loans payable.

Net assets rose ¥4,081 million to ¥71,366 million. This result was mainly due to increased retained earnings stemming from net income reported for the period. The Company's equity ratio at the end of the period stood at 60.6%.

## 2. Cash Flows

Cash and cash equivalents as of the end of the first six months of the current consolidated fiscal year amounted to ¥2,657 million, a year-on-year increase of ¥2,211 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 ¥17,360 million. The Company recorded net income before depreciation and amortization of ¥14,079 million, a decrease in notes and accounts payable-trade, as well as decreases in inventories and notes and accounts receivable-trade.

### (Cash Flows from Investing Activities)

Net cash used in investing activities amounted to ¥3,352 million, mainly due to expansions/maintenance on gas pipeline networks and power generation facilities construction.

### (Cash Flows from Financing Activities)

Net cash used in financing activities amounted to ¥11,789 million, mainly due to repayments of loans payable and payments of dividends.

## (3) Qualitative Information Regarding Consolidated Business Forecasts

Based on the cumulative consolidated earnings results through the first six months of the current fiscal year, as well as revised projections in crude oil prices and exchange rates for the third quarter and beyond, the Company has revised our full-year earnings forecast.

We expect city gas sales volume for our gas segment to be lower than initially projected. Accordingly, we have made a downward revision in our forecast for net sales. At the same time, a time lag has occurred between the decrease in raw materials costs for gas and the time that such decreases are reflected in gas unit sales prices. Accordingly, we project that operating income, ordinary income, and net income will generally be in line with our previous forecasts.

As a result, we now forecast net sales of ¥149,110 million, operating income of ¥9,980 million, ordinary income of ¥10,410 million, and net income of ¥6,670 million.

### (Reference) Crude Oil Price/Exchange Rate Projections

Crude oil price (Japan CIF)	Previous forecast	US\$76/bbl (2nd Half)
	Revised forecast	US\$62/bbl (2nd Half)
Exchange rate	Previous forecast	US\$1/120 yen (2nd Half )
	Revised forecast	US\$1/125 yen (2nd Half )

## 2. Summary Information (Notes)

### (1) Application of Special Accounting Methods in the 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 income (loss) before income taxes and minority interests for the

current consolidated fiscal year including the consolidated second quarter. We multiply this effective tax rate by quarterly income (loss) before income taxes and minority interests for the cumulative period to calculate tax expenses.

## **(2) Changes in Accounting Policies, Accounting Estimates, or Restatements**

Changes in accounting policies

Application of Accounting Standard for Retirement Benefits

Beginning with the first quarter of the current consolidated fiscal year, the Company began applying Accounting Standards for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Application Guidelines for Accounting Standard on Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015) under the provisions contained in Paragraph 35 of the Accounting Standard for Retirement Benefits and the provisions of Paragraph 67 of the Application Guidelines for Accounting Standard for Retirement Benefits. The Company has revised its method for calculating retirement benefit obligations and service costs, changing the period attribution method for the projected retirement benefit from the point method to a benefit formula basis. Further, the Company has changed the method for determining discount rate from a discount rate corresponding to average remaining service period of the employee to a single weighted-average discount rate reflecting the estimated timing and amount of payments for retirement benefits and respective payment periods.

This application of Accounting Standards for Retirement Benefits is in accordance with the transitional treatment as provided in Paragraph 37 of the Accounting Standard for Retirement Benefits. As of the beginning of the first six months of the consolidated fiscal year, the Company has recorded differences arising from changes in the calculation method for retirement benefit obligations and service costs directly to retained earnings.

As a result, as of the beginning of the cumulative consolidated second quarter, retained earnings decreased by ¥1,710 million.

This change in accounting standard will not have a material effect on operating income, ordinary income, or net income (loss) before income taxes and minority interests for the cumulative consolidated second quarter.

## Consolidated Balance Sheets

	Millions of yen	
	December 31, 2014	June 30, 2015
<b>Assets</b>		
Noncurrent assets		
Property, plant and equipment		
Production facilities	15,850	14,575
Distribution facilities	38,378	37,492
Service and maintenance facilities	5,604	5,457
Other facilities	4,290	4,235
Construction in progress	359	881
Total property, plant and equipment	64,483	62,642
Intangible assets	1,374	1,228
Investments and other assets		
Investment securities	10,199	11,310
Long-term loans receivable	8,535	8,438
Deferred tax assets	454	421
Other investments and other assets	1,553	1,560
Allowance for doubtful accounts	(129)	(126)
Total investments and other assets	20,614	21,604
Total noncurrent assets	86,471	85,475
Current assets		
Cash and deposits	470	2,682
Notes and accounts receivable-trade	14,588	11,841
Merchandise and finished goods	379	304
Raw materials and supplies	11,725	3,811
Deferred tax assets	605	634
Other current assets	3,728	1,539
Allowance for doubtful accounts	(43)	(36)
Total current assets	31,454	20,777
Total assets	117,926	106,253

*Note: Amounts under one million yen are omitted.*

	Millions of yen	
	December 31, 2014	June 30, 2015
<b>Liabilities</b>		
Noncurrent liabilities		
Long-term loans payable	16,267	<b>13,685</b>
Deferred tax liabilities	1,093	<b>699</b>
Net defined benefit liability	1,908	<b>3,993</b>
Other noncurrent liabilities	319	<b>233</b>
<b>Total noncurrent liabilities</b>	<b>19,588</b>	<b>18,611</b>
Current liabilities		
Current portion of noncurrent liabilities	6,237	<b>5,685</b>
Accounts payable-trade	11,209	<b>2,110</b>
Short-term loans payable	7,237	<b>16</b>
Accounts payable-other	1,486	<b>2,730</b>
Income taxes payable	2,096	<b>3,360</b>
Deferred tax liabilities	2	—
Provision for bonuses	452	<b>454</b>
Other current liabilities	2,330	<b>1,917</b>
<b>Total current liabilities</b>	<b>31,053</b>	<b>16,275</b>
<b>Total liabilities</b>	<b>50,641</b>	<b>34,887</b>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	6,279	<b>6,279</b>
Capital surplus	4,626	<b>4,626</b>
Retained earnings	45,592	<b>49,060</b>
Treasury shares	(1,252)	<b>(1,252)</b>
<b>Total shareholders' equity</b>	<b>55,246</b>	<b>58,713</b>
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	4,405	<b>5,580</b>
Deferred gains or losses on hedges	—	<b>(34)</b>
Remeasurements of defined benefit plans	167	<b>167</b>
<b>Total accumulated other comprehensive income</b>	<b>4,572</b>	<b>5,713</b>
Subscription rights to shares	34	<b>71</b>
Minority interests	7,431	<b>6,867</b>
<b>Total net assets</b>	<b>67,284</b>	<b>71,366</b>
<b>Total liabilities and net assets</b>	<b>117,926</b>	<b>106,253</b>

Note: Amounts under one million yen are omitted.

## Consolidated Statements of Income

First half ended June 30	Millions of yen	
	2014	2015
Net sales	85,461	<b>82,746</b>
Cost of sales	67,903	<b>60,630</b>
Gross profit	17,558	<b>22,116</b>
Selling, general and administrative expenses	13,177	<b>13,271</b>
Operating income	4,380	<b>8,844</b>
Non-operating income		
Interest income	78	<b>79</b>
Dividends income	89	<b>97</b>
Amortization of negative goodwill	21	—
Share of profit of entities accounted for using equity method	249	—
Miscellaneous income	168	<b>227</b>
Total non-operating income	606	<b>404</b>
Non-operating expenses		
Interest expenses	190	<b>148</b>
Share of loss of entities accounted for using equity method	—	<b>333</b>
Miscellaneous expenses	11	<b>17</b>
Total non-operating expenses	201	<b>499</b>
Ordinary income	4,785	<b>8,750</b>
Extraordinary income		
Gain on sales of noncurrent assets	—	<b>278</b>
Total extraordinary income	—	<b>278</b>
Income before income taxes and minority interests	4,785	<b>9,029</b>
Income taxes	1,377	<b>2,950</b>
Income before minority interests	3,408	<b>6,078</b>
Minority interests in income	527	<b>531</b>
Net income	2,880	<b>5,546</b>

Note: Amounts under one million yen are omitted.



## Consolidated Statements of Comprehensive Income

First half ended June 30	Millions of yen	
	2014	2015
Income before minority interests	3,408	<b>6,078</b>
Other comprehensive income		
Valuation difference on available-for-sale securities	(77)	<b>1,177</b>
Deferred gains or losses on hedges	(21)	<b>(34)</b>
Remeasurements of defined benefit plans, net of tax	—	<b>0</b>
Total other comprehensive income	(99)	<b>1,143</b>
Comprehensive income	3,308	<b>7,221</b>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,782	<b>6,688</b>
Comprehensive income attributable to minority interests	526	<b>533</b>

*Note: Amounts under one million yen are omitted.*

## Consolidated Statements of Cash Flows

	Millions of yen	
First half ended June 30	2014	2015
<b>Cash flows from operating activities</b>		
Income before income taxes and minority interests	4,785	<b>9,029</b>
Depreciation	5,208	<b>5,050</b>
Amortization of negative goodwill	(21)	—
Loss on retirement of property, plant and equipment	19	<b>20</b>
Increase (decrease) in allowance for doubtful accounts	(65)	<b>(10)</b>
Increase (decrease) in provision for retirement benefits	(352)	—
Increase (decrease) in net defined benefit liability	—	<b>(360)</b>
Increase (decrease) in provision for gas holder repairs	(94)	—
Increase (decrease) in provision for bonuses	(4)	<b>1</b>
Interest and dividend income	(167)	<b>(177)</b>
Interest expenses	190	<b>148</b>
Share of (profit) loss of entities accounted for using equity method	(249)	<b>333</b>
Loss (gain) on sales of property, plant and equipment	—	<b>(278)</b>
Decrease (increase) in notes and accounts receivable – trade	(299)	<b>2,749</b>
Decrease (increase) in inventories	(395)	<b>7,991</b>
Increase (decrease) in notes and accounts payable – trade	60	<b>(9,142)</b>
Increase (decrease) in consumption taxes payable	(234)	<b>2,050</b>
Other, net	(231)	<b>1,278</b>
<b>Subtotal</b>	<b>8,147</b>	<b>18,684</b>
Interest and dividend income received	167	<b>177</b>
Interest expenses paid	(193)	<b>(153)</b>
Income taxes paid	(919)	<b>(1,346)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>7,202</b>	<b>17,360</b>
<b>Cash flows from investing activities</b>		
Payments into time deposits	(13)	<b>(13)</b>
Proceeds from withdrawal of time deposits	13	<b>13</b>
Purchase of property, plant and equipment and intangible assets	(3,909)	<b>(3,549)</b>
Proceeds from sales of property, plant and equipment and intangible assets	4	<b>288</b>
Purchase of investment securities	(3)	<b>(4)</b>
Payments of loans receivable	(1,190)	—
Collection of loans receivable	92	<b>97</b>
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	28	—
Other, net	(755)	<b>(184)</b>
<b>Net cash provided by (used in) investing activities</b>	<b>(5,732)</b>	<b>(3,352)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	744	<b>(7,221)</b>
Proceeds from long-term loans payable	3,000	—
Repayments of long-term loans payable	(3,702)	<b>(3,134)</b>
Cash dividends paid	(368)	<b>(368)</b>
Cash dividends paid to minority shareholders	(1,064)	<b>(1,065)</b>
Other, net	(0)	—
<b>Net cash provided by (used in) financing activities</b>	<b>(1,390)</b>	<b>(11,789)</b>
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>—</b>	<b>(6)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>78</b>	<b>2,211</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>503</b>	<b>446</b>
<b>Cash and cash equivalents at end of period</b>	<b>581</b>	<b>2,657</b>

*Note: Amounts under one million yen are omitted.*

## Segment Information

### Net Sales and Profit (Loss) by Reportable Segment

Six Months Ended June 30, 2014							Millions of yen
	Reporting 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	73,445	7,089	80,534	4,927	85,461	—	85,461
Inter-segment sales and transfers	658	243	901	1,784	2,686	(2,686)	—
Total	74,103	7,332	81,436	6,712	88,148	(2,686)	85,461
Segment income (loss)	5,282	493	5,776	211	5,987	(1,607)	4,380

#### 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 (¥1,607) million in segment income adjustments includes ¥131 million in inter-segment eliminations and (¥1,738) 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 (loss) is adjusted to reflect operating income as recorded on the Company's quarterly consolidated statements of income.

Six Months Ended June 30, 2015							Millions of yen
	Reporting 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	72,542	5,946	78,489	4,257	82,746	—	82,746
Inter-segment sales and transfers	659	127	787	1,769	2,557	(2,557)	—
Total	73,202	6,074	79,276	6,027	85,304	(2,557)	82,746
Segment income (loss)	9,668	650	10,318	192	10,511	(1,666)	8,844

#### 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 (¥1,666) million in segment income adjustments includes ¥125 million in inter-segment eliminations and (¥1,792) 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 (loss) is adjusted to reflect operating income as recorded on the Company's quarterly consolidated statements of income.