

Flash Report for the First Three Quarters of 2015 [Japan GAAP] (Consolidated)

November 6, 2015

Company Name: SHIZUOKA GAS CO., LTD. Listing: Tokyo Stock Exchange (1st section)
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Date for presentation of the quarterly report: November 12, 2015

Date of dividend payment: —

Preparation of supplemental explanatory materials: No

Holding of quarterly results briefing session: No

1. Consolidated Business Results for the First Three Quarters (January 1 through September 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 three quarters	114,300	(8.4)%	10,713	100.6%	11,015	94.3%
Previous first three quarters	124,826	10.1	5,339	8.5	5,667	10.2

Note: Total comprehensive income (¥ million)

Reporting first three quarters: 7,994(98.4%) Previous first three quarters: 4,028((16.2)%)

	Net income (¥ million)		Net income per share (¥)	Diluted net income per share (¥)
Reporting first three quarters	7,245	125.3%	98.27	98.15
Previous first three quarters	3,215	27.7	43.61	43.59

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Equity ratio (%)
Reporting first three quarters	111,477	72,311	57.9
Previous full term	117,926	67,284	50.7

Note: Owners' equity (¥ million)

Reporting first three quarters: 64,553
 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	146,070	(12.3)%	10,530	83.0%	11,040	84.1%	7,180	146.8%	97.38

Note: Revision of previously announced business forecasts: Yes

※Notes

(1) Major changes in subsidiaries: No

Note: Transfer of specified subsidiaries during the reporting first three quarters 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) (1) Application of Special Accounting Methods in the Preparation of Quarterly Consolidated Financial Statements” 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 three quarters: 76,192,950

Previous full term: 76,192,950

b) Number of treasury shares at end of the period

Reporting first three quarters: 2,464,080

Previous full term: 2,464,038

c) Average number of shares outstanding during the term

Reporting first three quarters: 73,728,905

Previous first three quarters: 73,728,988

Disclosure regarding Quarterly Review Procedures

This quarterly flash report is exempt from quarterly review procedures based on the Financial Instruments and Exchange Act. Thus, at the time that these quarterly financial statements were disclosed, review procedures for them were completed based on the Financial Instruments and Exchange Act.

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 August 5, 2015 in Flash Report for the Term Ended December 31, 2015. See Attachment Page 4, (3) Qualitative Information Regarding Consolidated Business Forecasts for more.

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Qualitative Information Regarding Consolidated Operating Results

Net sales for the first nine months of the current fiscal year (January 1 to September 30) amounted to ¥114,300 million, an 8.4% decrease year on year.

Operating income amounted to ¥10,713 million, representing a 100.6% year-on-year increase, with reported ordinary income of ¥11,015 million (94.3% increase) and net income of ¥7,245 million (125.3% 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 0.2% compared to the same period in the prior fiscal year, reaching 1,032 million m³. This increase was mainly due to higher commercial-use and wholesale volume, despite a decrease in sales volume for residential and industrial uses.

Gas net sales amounted to ¥100,553 million, a 7.7% year-on-year decrease. This decrease was mainly due to downward revisions in gas unit sales prices necessitated under the gas rate adjustment system. 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) 74.1% higher, reaching ¥12,169 million.

2. LPG and Other Energy Services

Net sales declined 17.5% year on year to ¥8,296 million. This result was mainly due to lower gas unit sales process for LPG sales. Meanwhile, segment income (operating income) rose 22.9% year on year to ¥564 million, owing to lower costs of sales stemming from lower raw materials costs.

3. Other Businesses

Net sales declined 11.2% year on year to ¥9,320 million, mainly due to lower revenues from facilities construction. Segment income (operating income) was ¥370 million, an increase of 28.2% compared to the same period in the prior fiscal year. This increase was mainly due to lower operating expenses.

(2) Qualitative Information Regarding Consolidated Financial Position

Total assets at the end of the first nine months of the consolidated fiscal year amounted to ¥111,477 million. This was a ¥6,448 million decrease compared to the end of the prior fiscal year, owing mainly to a decrease in raw materials due to lower LNG prices and a decrease in notes and accounts receivable-trade.

Liabilities decreased ¥11,476 million compared to the prior fiscal year end, amounting to ¥39,165 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 the decrease in LNG prices, as well as to repayments of short-term loans payable.

Net assets rose ¥5,027 million to ¥72,311 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 57.9%.

(3) Qualitative Information Regarding Consolidated Business Forecasts

Based on the cumulative consolidated earnings results through the first nine months of the current fiscal year, as well as revised projections in crude oil prices and exchange rates for the fourth quarter, the Company has revised our full-year earnings forecast. As a result, we now forecast net sales of ¥146,070 million, operating income of ¥10,530 million, ordinary income of ¥11,040 million, and net income of ¥7,180 million.

(Reference) Crude Oil Price/Exchange Rate Projections

Crude oil price (Japan CIF)	Previous forecast	US\$62/bbl (4Q)
	Revised forecast	US\$51/bbl (4Q)
Exchange rate	Previous forecast	US\$1/125 yen (4Q)
	Revised forecast	US\$1/123 yen (4Q)

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 before income taxes and minority interests for the current consolidated fiscal year including the consolidated third quarter. We multiply this effective tax rate by quarterly income 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 contained in 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 nine 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 third 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 before income taxes and minority interests for the cumulative consolidated third quarter.

Consolidated Balance Sheets

	Millions of yen	
	December 31, 2014	September 30, 2015
Assets		
Non-current assets		
Property, plant and equipment		
Production facilities	15,850	13,953
Distribution facilities	38,378	36,987
Service and maintenance facilities	5,604	5,387
Other facilities	4,290	4,158
Construction in progress	359	1,203
Total property, plant and equipment	64,483	61,689
Intangible assets	1,374	1,150
Investments and other assets		
Investment securities	10,199	12,286
Long-term loans receivable	8,535	8,395
Deferred tax assets	454	414
Other investments and other assets	1,553	1,566
Allowance for doubtful accounts	(129)	(132)
Total investments and other assets	20,614	22,530
Total non-current assets	86,471	85,370
Current assets		
Cash and deposits	470	5,032
Notes and accounts receivable - trade	14,588	10,303
Merchandise and finished goods	379	285
Raw materials and supplies	11,725	7,566
Deferred tax assets	605	622
Other current assets	3,728	2,334
Allowance for doubtful accounts	(43)	(38)
Total current assets	31,454	26,107
Total assets	117,926	111,477

Note: Amounts under one million yen are omitted.

Millions of yen

December 31, 2014 September 30, 2015

Liabilities

Non-current liabilities

Long-term loans payable	16,267	13,434
Deferred tax liabilities	1,093	336
Net defined benefit liability	1,908	4,005
Other non-current liabilities	319	236
Total non-current liabilities	19,588	18,013

Current liabilities

Current portion of non-current liabilities	6,237	5,183
Accounts payable - trade	11,209	7,824
Short-term loans payable	7,237	15
Accounts payable - other	1,486	2,806
Income taxes payable	2,096	2,593
Deferred tax liabilities	2	—
Provision for bonuses	452	1,057
Other current liabilities	2,330	1,670
Total current liabilities	31,053	21,152
Total liabilities	50,641	39,165

Net assets

Shareholders' equity

Capital stock	6,279	6,279
Capital surplus	4,626	4,626
Retained earnings	45,592	50,316
Treasury shares	(1,252)	(1,252)
Total shareholders' equity	55,246	59,970

Accumulated other comprehensive income

Valuation difference on available-for-sale securities	4,405	4,642
Deferred gains or losses on hedges	—	(18)
Foreign currency translation adjustment	—	(206)
Remeasurements of defined benefit plans	167	165
Total accumulated other comprehensive income	4,572	4,583

Subscription rights to shares

34 71

Minority interests

7,431 7,686

Total net assets 67,284 **72,311**

Total liabilities and net assets 117,926 **111,477**

Note: Amounts under one million yen are omitted.

Consolidated Statements of Income

First three quarters ended September 30	Millions of yen	
	2014	2015
Net sales	124,826	114,300
Cost of sales	99,759	83,783
Gross profit	25,066	30,516
Selling, general and administrative expenses	19,726	19,803
Operating income	5,339	10,713
Non-operating income		
Interest income	119	119
Dividend income	91	100
Amortization of negative goodwill	21	—
Share of profit of entities accounted for using equity method	170	16
Miscellaneous income	217	318
Total non-operating income	619	554
Non-operating expenses		
Interest expenses	279	222
Miscellaneous expenses	11	30
Total non-operating expenses	291	252
Ordinary income	5,667	11,015
Extraordinary income		
Gain on sales of non-current assets	—	526
Total extraordinary income	—	526
Income before income taxes and minority interests	5,667	11,541
Income taxes	1,733	3,558
Income before minority interests	3,934	7,982
Minority interests in income	718	736
Net income	3,215	7,245

Note: Amounts under one million yen are omitted.

Consolidated Statements of Comprehensive Income

	Millions of yen	
First three quarters ended September 30	2014	2015
Income before minority interests	3,934	7,982
Other comprehensive income		
Valuation difference on available-for-sale securities	100	237
Deferred gains or losses on hedges	(6)	(18)
Remeasurements of defined benefit plans, net of tax	—	(1)
Share of other comprehensive income of entities accounted for using equity method	—	(206)
Total other comprehensive income	93	11
Comprehensive income	4,028	7,994
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,309	7,256
Comprehensive income attributable to minority interests	718	737

Note: Amounts under one million yen are omitted.

Segment Information

Net Sales and Profit (Loss) by Reportable Segment

Nine Months Ended September 30, 2014							Millions of yen
	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	108,066	9,743	117,810	7,015	124,826	—	124,826
Inter-segment sales and transfers	932	314	1,247	3,484	4,732	(4,732)	—
Total	108,999	10,058	119,057	10,500	129,558	(4,732)	124,826
Segment income	6,990	459	7,449	288	7,738	(2,398)	5,339

Notes:

1. The Other Business 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 (¥2,398) million in segment income adjustments includes ¥191 million in inter-segment eliminations and (¥2,590) 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.

Nine Months Ended September 30, 2015							Millions of yen
	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	99,675	8,119	107,795	6,505	114,300	—	114,300
Inter-segment sales and transfers	878	176	1,055	2,815	3,870	(3,870)	—
Total	100,553	8,296	108,850	9,320	118,171	(3,870)	114,300
Segment income	12,169	564	12,734	370	13,104	(2,391)	10,713

Notes:

1. The Other Business 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 (¥2,391) million in segment income adjustments includes ¥188 million in inter-segment eliminations and (¥2,580) 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.