



Flash Report for the First Half of 2016 [Japan GAAP] (Consolidated)

August 3, 2016

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
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 Date for presentation of the quarterly report: August 10, 2016
 Date of dividend payment: September 1, 2016
 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, 2016)

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

(1) Operating Results

	Net sales (¥ million)		Operating income (¥ million)		Ordinary income (¥ million)	
Reporting first half	60,883	(26.4)%	11,077	25.2%	11,412	30.4%
Previous first half	82,746	(3.2)	8,844	101.9	8,750	82.9

Note: Total comprehensive income (¥ million)
 Reporting first half: 5,951((17.6%)) Previous first half: 7,221(118.3%)

	Profit attributable to owners of parent (¥ million)		Profit per share (¥)	Diluted profit per share (¥)
Reporting first half	7,632	37.6%	103.47	103.33
Previous first half	5,546	92.5	75.23	75.14

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Equity ratio (%)
Reporting first half	108,929	77,598	64.5
Previous full term	115,466	73,148	56.5

Note: Net assets excluding subscription rights to shares and non-controlling interests (¥ million)
 Reporting first half: 70,313 Previous full term: 65,223

2. Dividend Payment

	Annual dividend per share (¥)				
	1Q	2Q	3Q	Term-end	Total
FY 2015	—	6.00	—	6.00	12.00
FY 2016	—	6.50	/	/	/
FY 2016 (forecast)	/	/	—	6.50	13.00

Note: Revision of previously announced dividend forecasts: No

3. Consolidated Business Forecasts for Current Term (January 1 through December 31, 2016)

(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	111,160 (23.9)	9,710 (16.0)	10,200 (15.4)	6,610 (13.5)	89.61

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 “Summary Information (Notes) (1) Application of Special Accounting Methods in 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 treasury shares)

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:	2,422,180
Previous full term:	2,464,080
 - c) Average number of shares outstanding during the term

Reporting first half:	73,756,930
Previous first half:	73,728,912

Disclosure of implementation status for Quarterly Review Procedures

The quarterly review procedure based on the Financial Instruments and Exchange Act does not apply to this quarterly flash report. And the quarterly review procedure based on the Financial Instruments and Exchange Act had not been completed at the time of the release of this quarterly flash report.

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 1 through June 30) amounted to ¥60,883 million, a 26.4% decrease year on year.

Operating income amounted to ¥11,077 million, representing a 25.2% year-on-year increase. This increase was mainly due to significant declines in raw materials prices resulting from falling oil costs. Ordinary income amounted to ¥11,412 million (30.4% increase), and profit attributable to owners of parent increased 37.6% to ¥7,632 million.

The following describes our performance by segment.

Note that segment earnings include inter-segment transactions.

1. Gas

Gas sales volume increased 6.8% year on year, up to 742 million m³. This increase was mainly due to higher wholesale gas sales with the full operation of the Shizuhama Trunk Line beginning October 2015.

Gas net sales fell 29.2% year on year to ¥51,824 million. This decrease was mainly due to downward revisions in gas unit sales prices necessitated under the gas rate adjustment system. However, segment income (operating income) rose 24.0% to ¥11,993 million, owing mainly to lower raw materials prices resulting from lower oil costs.

2. LPG and Other Energy Services

Net sales decreased 8.7% year on year to ¥5,548 million, mainly due to decreases in LPG unit gas sales prices. Segment income (operating income) fell 27.0% to ¥474 million. This decrease was mainly due to lower costs of sales stemming from lower materials costs.

3. Other Businesses

Net sales increased 4.3% year on year to ¥6,284 million, mainly due to increases in gas appliance sales and facilities construction. Segment income (operating income) was 278 million, an increase of 44.6% 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 ¥108,929 million. This was a ¥6,537 million decrease compared to the end of the prior fiscal year, owing mainly to a decrease in investment securities due to the impact of the stock market, a decrease in notes and accounts receivable-trade, and a decrease in raw materials due to LNG price declines.

Liabilities decreased ¥10,987 million to ¥31,330 million. This result was mainly due to a decrease in accounts payable-trade in connection with the timing of raw materials payment settlements and repayments of long-term loans payable.

Net assets rose ¥4,450 million to ¥77,598 million as a result of increased retained earnings stemming from profit attributable to owners of parent. The Company's equity ratio at the end of the period stood at 64.5%.

2. Cash Flows

Cash and cash equivalents as of the end of the first six months of the consolidated fiscal year amounted to ¥11,426 million, a year-on-year increase of ¥1,427 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 ¥10,946 million (compared to ¥17,360 million for the first six months of the prior fiscal year). This result was mainly due to decreases in inventories and notes and accounts payable – trade.

(Cash Flows from Investing Activities)

Net cash used in investing activities amounted to ¥5,969 million (compared to ¥3,352 million for the first six months of the prior fiscal year). This result was mainly due to reloading facilities and power generation facilities construction.

(Cash Flows from Financing Activities)

Net cash used in financing activities amounted to ¥3,393 million (compared to ¥11,789 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 and revised projections for oil prices and foreign exchange for the third quarter and beyond.

(Reference) Crude Oil Price/Exchange Rate Projections

Crude oil price (Japan CIF)	Previous forecast	US\$60/bbl (2nd Half)
	Revised forecast	US\$50/bbl (2nd Half)
Exchange rate	Previous forecast	US\$1/125 yen (2nd Half)
	Revised forecast	US\$1/105 yen (2nd Half)

2. Summary Information (Notes)

(1) 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 second quarter. We multiply this effective tax rate by the quarterly profit before income taxes 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 Business Combinations

Beginning with the first quarter of the consolidated fiscal year under review, the Company has applied the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013), Accounting Standard for Consolidated Financial Statements (ASBJ No. 22, September 13, 2013), and Accounting Standard for Business Divestitures (ASBJ No. 7, September 13, 2013). Under these standards, the Company will record differences stemming from changes in equity in subsidiaries for which the Company continues to exercise control as capital surplus. At the same time, the Company will now record acquisition-related costs as expenses for the consolidated fiscal year in which they are incurred. For business combinations conducted on or after the beginning of the consolidated first quarter under review, adjustments to the allocation of finalized acquisition costs stemming from provisional accounting treatments will be reflected on the quarterly consolidated financial statements of the quarterly consolidated period in which the date of the business combination occurred. The Company has changed the nominal presentation of profit, as well as changing the nominal presentation of minority interests to non-controlling interests. The quarterly consolidated financial statements and consolidated financial statements for the cumulative consolidated first half and for the prior consolidated fiscal year have been reclassified to reflect these changes in presentation.

The Company has made the transitional application of these accounting standards beginning on the first day of the first quarter of the consolidated fiscal year under review as provided under Article 58-2(4) of the Accounting Standard for Business Combinations, Article 44-5(4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4(4) of the Accounting Standard for Business Divestitures.

Under the consolidated statement of cash flow for the six months ended June 30, 2016, cash flows associated with payments or proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation are included in the category of "cash flows from financing activities." Cash flows associated with the costs related to the purchase of shares of subsidiaries resulting in change in scope of consolidation or the costs incurred with respect to payments or proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation are included in the category of "cash flows from operating activities."

This change in accounting policy has no material effect on the Company's financial statements for the first half of the current consolidated fiscal year.

Change in depreciation method

With the revision to the Corporation Tax Act, the Company has adopted the Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes (Accounting Standards Board of Japan Practical Issue Task Force No. 32, June 17, 2016) beginning with the second consolidated quarter of the current fiscal year. Accordingly, the Company has changed from the declining-balance method of depreciation to the straight-line method for the equipment attached to buildings and structures which were acquired on or after April 1, 2016.

This change in accounting policy will not have a material effect on Company operating income, ordinary income, or profit before income taxes for the cumulative consolidated first half.

Consolidated Balance Sheets

	Millions of yen	
	December 31, 2015	June 30, 2016
Assets		
Non-current assets		
Property, plant and equipment		
Production facilities	13,413	12,668
Distribution facilities	37,100	36,148
Service and maintenance facilities	5,316	5,198
Other facilities	4,110	6,098
Construction in progress	2,518	2,824
Total property, plant and equipment	62,458	62,939
Intangible assets	1,069	968
Investments and other assets		
Investment securities	12,814	9,686
Long-term loans receivable	7,867	7,536
Deferred tax assets	404	474
Other investments and other assets	1,565	1,665
Allowance for doubtful accounts	(126)	(129)
Total investments and other assets	22,525	19,233
Total non-current assets	86,053	83,141
Current assets		
Cash and deposits	10,024	11,452
Notes and accounts receivable - trade	10,771	8,398
Merchandise and finished goods	276	213
Raw materials and supplies	4,952	2,804
Deferred tax assets	676	647
Other current assets	2,750	2,302
Allowance for doubtful accounts	(40)	(30)
Total current assets	29,412	25,788
Total assets	115,466	108,929

Note: Amounts under one million yen are omitted.

	Millions of yen	
	December 31, 2015	June 30, 2016
Liabilities		
Non-current liabilities		
Long-term loans payable	13,688	12,454
Deferred tax liabilities	690	103
Net defined benefit liability	4,033	3,719
Other non-current liabilities	156	123
Total non-current liabilities	18,569	16,400
Current liabilities		
Current portion of non-current liabilities	5,272	4,491
Accounts payable - trade	8,084	3,401
Accounts payable - other	3,845	1,329
Income taxes payable	3,166	3,422
Provision for bonuses	456	459
Other current liabilities	2,921	1,824
Total current liabilities	23,748	14,929
Total liabilities	42,317	31,330
Net assets		
Shareholders' equity		
Capital stock	6,279	6,279
Capital surplus	4,626	4,644
Retained earnings	50,709	57,899
Treasury shares	(1,252)	(1,230)
Total shareholders' equity	60,363	67,592
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,893	2,880
Deferred gains or losses on hedges	(39)	66
Foreign currency translation adjustment	(180)	(418)
Remeasurements of defined benefit plans	186	192
Total accumulated other comprehensive income	4,859	2,720
Subscription rights to shares	70	79
Non-controlling interests	7,854	7,205
Total net assets	73,148	77,598
Total liabilities and net assets	115,466	108,929

Note: Amounts under one million yen are omitted.

Consolidated Statements of Income

	Millions of yen	
First half ended June 30	2015	2016
Net sales	82,746	60,883
Cost of sales	60,630	36,896
Gross profit	22,116	23,987
Selling, general and administrative expenses	13,271	12,909
Operating income	8,844	11,077
Non-operating income		
Interest income	79	72
Dividend income	97	100
Share of profit of entities accounted for using equity method	—	115
Miscellaneous income	227	179
Total non-operating income	404	468
Non-operating expenses		
Interest expenses	148	126
Share of loss of entities accounted for using equity method	333	—
Miscellaneous expenses	17	6
Total non-operating expenses	499	133
Ordinary income	8,750	11,412
Extraordinary income		
Gain on sales of non-current assets	278	—
Total extraordinary income	278	—
Extraordinary losses		
Loss on valuation of investment securities	—	86
Total extraordinary losses	—	86
Profit before income taxes	9,029	11,326
Income taxes	2,950	3,235
Profit	6,078	8,091
Profit attributable to non-controlling interests	531	458
Profit attributable to owners of parent	5,546	7,632

Note: Amounts under one million yen are omitted.

Consolidated Statements of Comprehensive Income

	Millions of yen	
First half ended June 30	2015	2016
Profit	6,078	8,091
Other comprehensive income		
Valuation difference on available-for-sale securities	1,177	(2,014)
Deferred gains or losses on hedges	(34)	106
Remeasurements of defined benefit plans, net of tax	0	6
Share of other comprehensive income of entities accounted for using equity method	—	(237)
Total other comprehensive income	1,143	(2,139)
Comprehensive income	7,221	5,951
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,688	5,493
Comprehensive income attributable to non-controlling interests	533	458

Note: Amounts under one million yen are omitted.

Consolidated Statements of Cash Flows

First half ended June 30	Millions of yen	
	2015	2016
Cash flows from operating activities		
Profit before income taxes	9,029	11,326
Depreciation	5,050	4,899
Loss on retirement of property, plant and equipment	20	51
Loss (gain) on valuation of securities	—	86
Increase (decrease) in allowance for doubtful accounts	(10)	(7)
Increase (decrease) in net defined benefit liability	(360)	(307)
Increase (decrease) in provision for bonuses	1	2
Interest and dividend income	(177)	(173)
Interest expenses	148	126
Share of (profit) loss of entities accounted for using equity method	333	(115)
Loss (gain) on sales of property, plant and equipment	(278)	—
Decrease (increase) in notes and accounts receivable - trade	2,749	2,370
Decrease (increase) in inventories	7,991	2,209
Increase (decrease) in notes and accounts payable - trade	(9,142)	(4,655)
Decrease/increase in consumption taxes receivable/payable	2,050	(1,995)
Other, net	1,278	(5)
Subtotal	18,684	13,813
Interest and dividend income received	177	173
Interest expenses paid	(153)	(152)
Income taxes paid	(1,346)	(2,888)
Net cash provided by (used in) operating activities	17,360	10,946
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	(3,549)	(6,338)
Proceeds from sales of property, plant and equipment and intangible assets	288	9
Purchase of investment securities	(4)	(4)
Collection of loans receivable	97	331
Proceeds from contribution for construction	—	263
Other, net	(184)	(230)
Net cash provided by (used in) investing activities	(3,352)	(5,969)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(7,221)	—
Proceeds from long-term loans payable	—	1,100
Repayments of long-term loans payable	(3,134)	(2,956)
Cash dividends paid	(368)	(442)
Dividends paid to non-controlling interests	(1,065)	(1,093)
Other, net	—	(1)
Net cash provided by (used in) financing activities	(11,789)	(3,393)
Effect of exchange rate change on cash and cash equivalents	(6)	(156)
Net increase (decrease) in cash and cash equivalents	2,211	1,427
Cash and cash equivalents at beginning of period	446	9,999
Cash and cash equivalents at end of period	2,657	11,426

Note: Amounts under one million yen are omitted.

Segment Information

Net Sales and Income (Loss) by Reportable Segment

Six Months Ended June 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	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.

Six Months Ended June 30, 2016							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	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 (loss) is adjusted to reflect operating income as recorded on the Company's quarterly consolidated statements of income.