

Flash Report for the First Half of 2018 [Japan GAAP](Consolidated)

August 8, 2018

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 Date for presentation of the quarterly report: August 10, 2018
 Date of dividend payment: September 3, 2018
 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, 2018)

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

(1) Operating Results

	Net sales (¥ million)		Operating profit (¥ million)		Ordinary profit (¥ million)	
Reporting First Half	70,476	15.5%	5,159	7.1%	5,639	7.8%
Previous First Half	61,004	0.2	4,817	(56.5)	5,233	(54.1)

Note: Total comprehensive income (¥ million)

Reporting First Half: 3,012 ((24.3%)) Previous First Half: 3,980 ((33.1%))

	Profit attributable to owners of parent (¥ million)		Profit per share (¥)	Diluted profit per share (¥)
Reporting First Half	3,600	11.8%	48.77	48.67
Previous First Half	3,218	(57.8)	43.62	43.54

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Equity ratio (%)
Reporting First Half	107,844	83,973	71.9
Previous full term	109,229	82,472	69.1

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

Reporting First Half: 77,518 Previous full term: 75,459

2. Dividend Payment

	Annual dividend per share (¥)				
	1Q	2Q	3Q	Term-end	Total
FY 2017	—	7.00	—	7.00	14.00
FY 2018	—	7.50	/	/	/
FY 2018(forecast)	/	/	—	7.50	15.00

Note: Revision of previously announced dividend forecasts: No

3. Consolidated Business Forecast for Current Term (January 1 through December 31, 2018)

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

	Net sales (¥ million)	Operating profit (¥ million)	Ordinary profit (¥ million)	Profit attributable to owners of parent (¥ million)	Profit per share (¥)
Full term	143,930 17.9%	4,130 (46.4)%	4,840 (42.0)%	2,790 (44.0)%	37.79

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(2) 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: 2,380,505

Previous full term: 2,406,480

c) Average number of shares outstanding during the term

Reporting First Half: 73,808,865

Previous First Half: 73,780,858

Quarterly Review

Quarterly financial results are exempt from quarterly review.

Notes on proper use of forecast, and other matters

Business forecast 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 forecast will be achieved. Actual earnings may differ significantly from business forecast 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 Forecast” on P3.

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, 2018) amounted to ¥70,476 million, an increase of 15.5% year on year. This result was mainly due to higher gas sales volume and upward revisions in gas unit sales prices necessitated under the gas rate adjustment system. An increase in electricity sales also contributed to higher overall performance.

Operating profit rose 7.1% year on year to ¥5,159 million, while ordinary profit rose 7.8% to ¥5,639 million. Profit attributable to owners of parent amounted to ¥3,600 million, an increase of 11.8% compared to the prior fiscal year. This performance improvement was mainly due to higher gas sales volume while raw material costs increased.

(2) Qualitative Information Regarding Consolidated Financial Position

1. Assets, Liabilities, and Net Assets

Total assets as of the end of the first six months of the consolidated fiscal year amounted to ¥107,844 million, a decrease of ¥1,385 million compared to the end of the prior consolidated fiscal year. This decrease was mainly due to a decrease in non-current assets associated with ongoing depreciation and amortization.

Liabilities decreased ¥2,886 million to ¥23,871 million. This result was mainly due to repayments of long-term loans payable.

Net assets increased ¥1,501 million compared to the end of the prior consolidated fiscal year, up to ¥83,973 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 71.9%.

2. Cash Flows

Cash and cash equivalents as of the end of the first six months of the consolidated fiscal year amounted to ¥12,641 million, a year-on-year increase of ¥2,616 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 ¥8,269 million (compared to ¥5,843 million for the first six months of the prior fiscal year). This result was mainly due to the impact of profit before income taxes and depreciation, despite cash outlays in payment of income taxes.

(Cash Flows from Investing Activities)

Net cash used in investing activities amounted to ¥2,564 million (compared to ¥3,179 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 amounted to ¥3,064 million (compared to ¥3,688 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 Forecast

The Company has revised its full-year earnings 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.

As a result, we now forecast net sales of ¥143,930 million, operating profit of ¥4,130 million, ordinary profit of ¥4,840 million, and profit attributable to owners of parent of ¥2,790 million, lower than our previous forecast.

(Reference) Crude Oil Price/Exchange Rate Projections

Crude oil price (Japan CIF)	Previous forecast	US\$65/bbl(3Q through 4Q)
	Revised forecast	US\$75/bbl(3Q through 4Q)
Exchange rate	Previous forecast	US\$1/110yen(3Q through 4Q)
	Revised forecast	US\$1/110yen(3Q through 4Q)

2. Quarterly Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

	(¥ million)	
	December 31, 2017	June 30, 2018
Assets		
Non-current assets		
Property, plant and equipment		
Production facilities	9,628	8,815
Distribution facilities	34,954	34,321
Service and maintenance facilities	5,235	5,105
Other facilities	8,425	8,201
Construction in progress	205	298
Total property, plant and equipment	58,449	56,742
Intangible assets	878	867
Investments and other assets		
Investment securities	12,665	11,118
Long-term loans receivable	6,542	6,214
Deferred tax assets	220	351
Other investments and other assets	1,632	1,715
Allowance for doubtful accounts	(94)	(96)
Total investments and other assets	20,966	19,303
Total non-current assets	80,294	76,914
Current assets		
Cash and deposits	10,048	12,729
Notes and accounts receivable-trade	10,686	10,562
Merchandise and finished goods	332	326
Raw materials and supplies	4,808	4,995
Deferred tax assets	508	497
Other current assets	2,585	1,845
Allowance for doubtful accounts	(33)	(27)
Total current assets	28,935	30,929
Total assets	109,229	107,844

Note: Amounts under one million yen are omitted.

	(¥ million)	
	December 31,2017	June 30,2018
Liabilities		
Non-current liabilities		
Long-term loans payable	9,055	8,038
Deferred tax liabilities	851	632
Net defined benefit liability	3,340	2,990
Other non-current liabilities	214	200
Total non-current liabilities	13,461	11,861
Current liabilities		
Current portion of non-current liabilities	2,646	2,420
Accounts payable-trade	4,025	3,833
Short-term loans payable	—	70
Accounts payable-other	1,772	1,352
Income taxes payable	1,570	1,827
Provision for bonuses	531	429
Other current liabilities	2,748	2,077
Total current liabilities	13,295	12,010
Total liabilities	26,757	23,871
Net assets		
Shareholders' equity		
Capital stock	6,279	6,279
Capital surplus	4,692	4,705
Retained earnings	60,501	63,585
Treasury shares	(1,222)	(1,209)
Total shareholders' equity	70,250	73,360
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,019	3,993
Deferred gains or losses on hedges	(32)	4
Foreign currency translation adjustment	(147)	(202)
Remeasurements of defined benefit plans	368	363
Total accumulated other comprehensive income	5,208	4,157
Subscription rights to shares	104	117
Non-controlling interests	6,908	6,337
Total net assets	82,472	83,973
Total liabilities and net assets	109,229	107,844

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	2017	2018
Net sales	61,004	70,476
Cost of sales	43,351	52,212
Gross profit	17,653	18,264
Selling, general and administrative expenses	12,835	13,104
Operating profit	4,817	5,159
Non-operating income		
Interest income	66	60
Dividend income	108	115
Share of profit of entities accounted for using equity method	95	125
Foreign exchange gains	85	14
Miscellaneous income	172	262
Total non-operating income	527	578
Non-operating expenses		
Interest expenses	95	77
Miscellaneous expenses	15	20
Total non-operating expenses	111	97
Ordinary profit	5,233	5,639
Extraordinary losses		
Loss on valuation of investment securities	31	—
Total extraordinary losses	31	—
Profit before income taxes	5,201	5,639
Income taxes	1,467	1,572
Profit	3,734	4,067
Profit attributable to non-controlling interests	515	467
Profit attributable to owners of parent	3,218	3,600

Note: Amounts under one million yen are omitted.

Consolidated Statements of Comprehensive Income

	(¥ million)	
First Half ended June 30	2017	2018
Profit	3,734	4,067
Other comprehensive income		
Valuation difference on available-for-sale securities	218	(1,030)
Deferred gains or losses on hedges	(7)	36
Foreign currency translation adjustment	1	(3)
Remeasurements of defined benefit plans, net of tax	10	(5)
Share of other comprehensive income of entities accounted for using equity method	23	(52)
Total other comprehensive income	245	(1,054)
Comprehensive income	3,980	3,012
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,458	2,549
Comprehensive income attributable to non-controlling interests	521	463

Note: Amounts under one million yen are omitted.

(3) Consolidated Statements of Cash Flows

First Half ended June 30	(¥ million)	
	2017	2018
Cash flows from operating activities		
Profit before income taxes	5,201	5,639
Depreciation	4,530	4,338
Loss on retirement of property, plant and equipment	16	10
Loss (gain) on valuation of securities	31	—
Increase (decrease) in allowance for doubtful accounts	0	(4)
Increase (decrease) in net defined benefit liability	(366)	(363)
Increase (decrease) in provision for bonuses	(52)	(108)
Interest and dividend income	(174)	(175)
Interest expenses	95	77
Share of (profit) loss of entities accounted for using equity method	(95)	(125)
Decrease (increase) in notes and accounts receivable-trade	(1,442)	221
Decrease (increase) in inventories	2,516	(160)
Increase (decrease) in notes and accounts payable-trade	(4,224)	(344)
Decrease/increase in consumption taxes receivable/payable	1,302	222
Other, net	(228)	(89)
Subtotal	7,111	9,138
Interest and dividend income received	174	175
Interest expenses paid	(127)	(104)
Income taxes paid	(1,315)	(941)
Net cash provided by (used in) operating activities	5,843	8,269
Cash flows from investing activities		
Payments into time deposits	(13)	(15)
Proceeds from withdrawal of time deposits	13	70
Purchase of property, plant and equipment and intangible assets	(3,809)	(3,002)
Proceeds from sales of property, plant and equipment and intangible assets	45	10
Purchase of investment securities	(4)	(4)
Proceeds from sales of investment securities	0	65
Proceeds from redemption of investment securities	—	127
Collection of loans receivable	340	327
Proceeds from contribution received for construction	453	18
Other, net	(205)	(160)
Net cash provided by (used in) investing activities	(3,179)	(2,564)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(8)	(15)
Proceeds from long-term loans payable	240	—
Repayments of long-term loans payable	(2,043)	(1,430)
Cash dividends paid	(479)	(513)
Dividends paid to non-controlling interests	(1,104)	(1,085)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(291)	(43)
Other, net	0	23
Net cash provided by (used in) financing activities	(3,688)	(3,064)
Effect of exchange rate change on cash and cash equivalents	(42)	(23)
Net increase (decrease) in cash and cash equivalents	(1,067)	2,616
Cash and cash equivalents at beginning of period	11,421	10,024
Cash and cash equivalents at end of period	10,353	12,641

Note: Amounts under one million yen are omitted.

(4) Notes

(1) Note on Going Concerns' Premise

Not applicable.

(2) 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.

(3) Note on Significant Change in Shareholders' Equity

Not applicable.

Segment Information

Net Sales and Income (Loss) by Reportable Segment

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	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 include orders for construction related to the gas business, sales of gas appliances, remodeling, and leasing.
2. The (¥1,723) million in segment income adjustments include ¥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 profit as recorded on the Company's quarterly consolidated statements of income.

Six Months Ended June 30, 2018

(¥ 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	56,279	9,052	65,332	5,144	70,476	—	70,476
Inter-segment sales and transfers	996	151	1,148	2,098	3,246	(3,246)	—
Total	57,276	9,204	66,480	7,242	73,723	(3,246)	70,476
Segment income	5,838	649	6,488	204	6,692	(1,533)	5,159

Notes:

1. The Other businesses category consists of businesses not categorized as individual reportable segments. Other businesses include orders for construction related to the gas business, sales of gas appliances, remodeling, and leasing.
2. The (¥1,533) million in segment income adjustments include ¥119 million in inter-segment eliminations and (¥1,652) 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 profit as recorded on the Company's quarterly consolidated statements of income.