

Flash Report for the First Half of 2011 [Japan GAAP] (Consolidated)

August 4, 2011

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Date for presentation of the quarterly report: August 11, 2011
 Date of dividend payment: September 1, 2011
 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, 2011)

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

(1) Operating Results

	Net sales (¥ million)		Operating income (¥ million)		Ordinary income (¥ million)	
Reporting first half	¥62,003	4.1%	¥ 2,627	(32.7)%	¥ 2,752	(30.6)%
Previous first half	59,565	6.7	3,902	(75.0)	3,966	(74.5)

	Net income (¥ million)		Net income per share (¥)
Reporting first half	¥1,284	(41.4)%	¥ 16.86
Previous first half	2,190	(74.8)	28.76

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Equity ratio (%)	Owners' equity per share (¥)
Reporting first half	¥106,974	¥56,931	45.9%	¥644.98
Previous full term	108,362	56,155	44.6	634.36

Note: Owners' equity (¥ million)

Reporting first half:	¥49,110
Previous full term:	¥48,302

2. Dividend Payment

	Annual dividend per share (¥)				
	Q1	Q2	Q3	Term-end	Total
Fiscal 2010	—	¥5.00	—	¥4.00	¥9.00
Fiscal 2011	—	¥4.50	/	/	/
Fiscal 2011 (forecast)	/	/	—	4.50	9.00

Note: Revision made to the dividend forecast during the reporting quarter: Not applicable

Breakdown of dividend payment for the first half of the term ended December 31, 2010:

Ordinary dividend: ¥4.00; Commemorative dividend (centennial anniversary): ¥1.00

3. Consolidated Earnings Forecast for Current Term (January 1 through December 31, 2011)

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

	Net sales (¥ million)		Operating income (¥ million)		Ordinary income (¥ million)		Net income (¥ million)		Earnings per share (¥)
Full term	130,340	10.2	1,950	(72.9)	2,070	(71.3)	670	(84.4)	8.79

Note: Revisions made during the reporting quarter to earnings forecast: Applicable

4. Others

(Please refer to the section "2.Other information" on P4-5)

(1) Major changes in subsidiaries: None

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: Applicable

Note: Application of simplified accounting and special accounting methods for preparing quarterly consolidated financial statements

(3) Changes in accounting policy

a) Changes in accounting standards: Applicable

b) Other: None

Note: Changes in procedures and methods of presentation for preparing the quarterly consolidated financial statements (changes described in "Changes in significant matters forming the basis of preparing the quarterly consolidated financial statements")

(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: 51,225

Previous full term: 50,773

c) Average number of shares outstanding during the first half

Reporting first half: 76,141,963

Previous first half: 76,142,522

Presentation of quarterly review procedure status

This quarterly earnings 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 not completed based on the Financial Instruments and Exchange Act.

Note: In consideration of our recent business performance, we have revised our full-year business forecasts for the current term ending December 31, 2011, which was released on May 10, 2011. For further details, please refer to page four of the attachment, "(3) Qualitative Information regarding Consolidated Earnings Forecasts"

Disclaimer: The preceding earnings forecasts are based on information available as of the date of the publication of this document. Actual earnings may differ from forecasts due to various factors occurring in the future.

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Qualitative Information regarding Consolidated Operating Results

Given increased gas sales volume and an upward revision of gas sales unit prices based on the rate adjustment system, gas sales for the first half of the current fiscal year (January through June 2011) amounted to ¥52,501 million, a ¥2,062 million year-on-year increase. Consolidated net sales as a whole, including LPG/Other Energy Services net sales and Other Business net sales, reached ¥62,003 million, an increase of ¥2,438 million year on year.

At the same time, cost of sales experienced a year-on-year increase of ¥3,716 million due to an increase in feedgas volume and raw materials prices, amounting to ¥47,331 million. As a result, cost of sales grew more than net sales during the period.

Consequently, operating income decreased ¥1,274 million year-on-year, amounting to ¥2,627 million. Ordinary income amounted to ¥2,752 million, a year-on-year decline of ¥1,214 million. Likewise, net income decreased by ¥906 million, reaching ¥1,284 million.

(2) Qualitative Information regarding Consolidated Financial Position

1. Assets, Liabilities, and Net Assets

Total assets as of the end of the second quarter of the current fiscal year decreased by ¥1,388 million compared to the last day of the fiscal year ended on December 31, 2010. (“prior fiscal year end”), amounting to ¥106,974 million. Noncurrent assets decreased by ¥1,988 compared to the prior fiscal year end, amounting to ¥87,350 million. Although capital was invested in Shizuhama Trunkline construction, existing facilities depreciated further. Current assets increased by ¥600 million compared to the prior fiscal year end, amounting to ¥19,623 million. While other current assets decreased due to the refund of consumption taxes, cash and deposits increased.

Liabilities decreased by ¥2,163 million compared to the prior fiscal year end, amounting to ¥50,043 million. This decrease was mainly due to reduced accounts payable associated with the timing of raw material payments and other factors. Long-term loans payable also decreased.

Compared to the prior fiscal year end, net assets increased ¥775 million, reaching ¥56,931 million. This increase was mainly due to higher retained earnings from quarter net income.

As a result, the company equity ratio was 45.9%.

2. Cash Flows

Cash and cash equivalents as of the end of the second quarter of the current fiscal year were ¥1,816 million, a ¥1,078 million increase compared to the prior fiscal year end.

The following describes second quarter cash flows and the related main reasons for changes.

(Cash Flows from Operating Activities)

Net income before depreciation and amortization was ¥8,469 million; however, reduced notes and accounts payable due to the timing of raw material payments and other factors led to a net cash inflow of ¥6,149 million in operating activities.

(Cash Flows from Investing Activities)

Capital investment in Shizuhama Trunkline construction and other projects led to a net cash outlay of ¥3,611 million in investing activities.

(Cash Flows from Financing Activities)

Although we borrowed new capital funds, we made progress in repayments of existing long-term loans payable, resulting in a net cash outlay ¥1,454 million in financing activities.

(3) Qualitative Information regarding Consolidated Earnings Forecasts

The full-year earnings forecast was revised due to the revision in crude oil price and exchange rate projections for the third quarter and beyond and based on earnings for the first half of the fiscal year. As a result, our forecast calls for net sales, operating income, ordinary income and net income to amount to ¥130,340 million, ¥1,950 million, ¥2,070 million and ¥670 million.

(Reference) Crude Oil Price/Exchange Rate Projections

Crude Oil Price (Japan CIF)	Previous Forecast	\$110/bbl (Q3 through Q4)
	Revised Forecast	\$114.5/bbl (Q3 through Q4)
Exchange Rate	Previous Forecast	¥85/dollar (Q3 through Q4)
	Revised Forecast	¥81.3/dollar (Q3 through Q4)

2. Other Information

(1) Overview of Major Changes in Subsidiaries

Not applicable.

(2) Overview of Application of Simplified Accounting Methods and Special Accounting Methods

1. Simplified Accounting Methods

(a) Calculating estimated uncollectible accounts

Estimated uncollectible accounts were estimated using the historical write-off ratio at the end of the previous consolidated fiscal year, as the ratio at the end of the second quarter of the current consolidated fiscal year was not significantly different from that of the end of the previous consolidated fiscal year.

(b) Valuation of inventories

Inventory write-down was based on the current net sales value of items on which profit margins have declined significantly.

(c) Calculation of income taxes, deferred tax assets and deferred tax liabilities

Determinations regarding recoverability of deferred tax assets were made based on earnings forecasts and tax planning (as in the previous consolidated fiscal year), as there have been no significant changes in the operating environment and in temporary differences since the end of the previous consolidated fiscal year.

2. Special Accounting Methods

Calculation of Tax Expense

Tax expense was calculated by multiplying the estimated effective tax rate by quarterly income before income taxes and minority interest (cumulative period). We made a rational estimate of the effective tax rate after applying tax-effect accounting to income before income taxes and minority interest for the consolidated fiscal year (including the second quarter of the current consolidated fiscal year).

Income tax adjustments are included in the presentation of income taxes.

(3) Overview of Changes in Accounting Treatment, Principles, Procedures, Presentation, Etc.

Accounting standard for asset retirement obligations

Beginning with the first quarter of the current consolidated fiscal year, we have applied the □ *“Accounting Standard for Asset Retirement Obligations”* (Accounting Standards Board of Japan Statement No. 18; March 31, 2008) and the *“Guidance on Accounting Standard for Asset Retirement Obligations* (Accounting Standards Board of Japan Guidance No. 21; March 31, 2008).

The application of these accounting standards has not had a material impact on profits or losses.

Consolidated Balance Sheets

	Millions of yen	
	June 30, 2011	December 31, 2010
Assets		
Noncurrent assets:		
Property, plant and equipment –		
Production facilities	¥ 27,043	¥ 29,291
Distribution facilities	31,488	32,951
Service and maintenance facilities	3,855	3,981
Other facilities	4,679	4,940
Construction in progress	4,595	3,385
Total property, plant and equipment	71,662	74,550
Intangible assets	2,049	1,580
Investments and other assets –		
Investment securities	6,752	7,239
Long-term loans receivable	4,514	3,811
Deferred tax assets	1,659	1,544
Other investments and other assets	957	859
Allowance for doubtful accounts	(245)	(246)
Total investments and other assets	13,638	13,208
Total noncurrent assets	87,350	89,339
Current assets:		
Cash and deposits	1,839	756
Notes and accounts receivable – trade	9,586	8,989
Merchandise and finished goods	353	305
Raw materials and supplies	5,144	4,573
Deferred tax assets	840	831
Other current assets	1,913	3,625
Allowance for doubtful accounts	(55)	(58)
Total current assets	19,623	19,023
Total assets	¥106,974	¥108,362

Note: Amounts under one million yen are omitted.

	Millions of yen	
	June 30, 2011	December 31, 2010
Liabilities		
Noncurrent liabilities:		
Long-term loans payable	¥ 28,078	¥ 29,248
Deferred tax liabilities	8	19
Provision for retirement benefits	2,750	2,941
Provision for gas holder repairs	204	196
Negative goodwill	608	725
Other noncurrent liabilities	551	674
Total noncurrent liabilities	32,200	33,807
Current liabilities:		
Current portion of noncurrent liabilities	7,903	6,882
Accounts payable – trade	3,907	5,083
Short-term loans payable	1,025	1,586
Accounts payable – other	1,191	957
Income taxes payable	1,657	1,056
Provision for bonuses	447	447
Other current liabilities	1,709	2,384
Total current liabilities	17,842	18,399
Total liabilities	50,043	52,206
Net assets		
Shareholders' equity:		
Capital stock	6,279	6,279
Capital surplus	4,589	4,589
Retained earnings	36,697	35,718
Treasury stock	(26)	(26)
Total shareholders' equity	47,540	46,560
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,573	1,753
Deferred gains or losses on hedges	(2)	(12)
Total valuation and translation adjustments	1,570	1,741
Minority interests	7,820	7,853
Total net assets	56,931	56,155
Total liabilities and net assets	¥106,974	¥108,362

Note: Amounts under one million yen are omitted.

Consolidated Statements of Income

First half ended June 30	Millions of yen	
	2010	2011
Net sales	¥59,565	¥62,003
Cost of sales	43,614	47,331
Gross profit	15,950	14,671
Selling, general and administrative expenses	12,048	12,044
Operating income	3,902	2,627
Non-operating income:		
Interest income	34	50
Dividends income	92	85
Amortization of negative goodwill	122	117
Miscellaneous income	164	195
Total non-operating income	413	448
Non-operating expenses:		
Interest expenses	335	298
Miscellaneous expenses	13	24
Total non-operating expenses	349	323
Ordinary income	3,966	2,752
Extraordinary income		
Gain on sales of noncurrent assets	—	77
Gain on sales of investment securities	1	—
Compensation for transfer	73	—
Total extraordinary income	75	77
Extraordinary loss:		
Loss on sales of noncurrent assets	2	—
Loss on valuation of investment securities	10	233
Total extraordinary losses	13	233
Income before income taxes and minority interests	4,028	2,595
Income taxes	1,457	910
Income before minority interests	—	1,685
Minority interests in income	380	401
Net income	¥ 2,190	¥ 1,284

Note: Amounts under one million yen are omitted.

Consolidated Statements of Cash Flows

First half ended June 30	Millions of yen	
	2010	2011
Net cash provided by (used in) operating activities:		
Income before income taxes and minority interests	¥4,028	¥2,595
Depreciation and amortization	6,347	5,874
Amortization of negative goodwill	(122)	(117)
Loss on retirement of property, plant and equipment	33	29
Loss (gain) on valuation of investment securities	10	233
Increase (decrease) in allowance for doubtful accounts	0	(3)
Increase (decrease) in provision for retirement benefits	(199)	(191)
Increase (decrease) in provision for gas holder repairs	15	7
Increase (decrease) in provision for bonuses	5	(0)
Interest and dividends income	(126)	(135)
Interest expenses	335	298
Loss (gain) on sales of property, plant and equipment	2	(77)
Loss (gain) on sales of investment securities	(1)	—
Decrease (increase) in notes and accounts receivable – trade	(2,540)	(595)
Decrease (increase) in inventories	(2,859)	(616)
Increase (decrease) in notes and accounts payable – trade	(4,634)	(1,244)
Decrease/increase in consumption taxes receivable/payable	(1,739)	966
Other, net	(724)	(776)
Subtotal	(2,169)	6,245
Interest and dividends income received	127	135
Interest expenses paid	(341)	(303)
Income taxes (paid) refund	(3,212)	70
Net cash provided by (used in) operating activities	(5,595)	6,149
Net cash provided by (used in) investing activities:		
Payments into time deposits	(19)	(13)
Proceeds from withdrawal of time deposits	22	13
Purchase of property, plant and equipment and intangible assets	(4,681)	(3,770)
Proceeds from sales of property, plant and equipment and intangible assets	5	83
Purchase of investment securities	(19)	(2)
Proceeds from sales of investment securities	11	—
Payments of loans receivable	(900)	(810)
Collection of loans receivable	114	106
Proceeds from contribution received for construction	272	23
Other, net	865	758
Net cash provided by (used in) investing activities	(4,327)	(3,611)
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	5,830	(561)
Proceeds from long-term loans payable	3,150	2,150
Repayment of long-term loans payable	(3,046)	(2,299)
Cash dividends paid	(304)	(308)
Cash dividends paid to minority shareholders	(13)	(434)
Other, net	(0)	(0)
Net cash provided by (used in) financing activities	5,615	(1,454)
Net increase (decrease) in cash and cash equivalents	(4,308)	1,082
Cash and cash equivalents at beginning of period	5,046	734
Cash and cash equivalents at end of period	¥ 738	¥1,816

Note: Amounts under one million yen are omitted.

Segment Information

Segment information by business category

(Amounts under one million yen are omitted.)

First half ended June 30, 2010

	Gas	LPG and other energy services	Other businesses	Total	Elimination or corporate	Consolidated
Net sales						
Outside customers	50,064	5,931	3,569	59,565	—	59,565
Inter-segment	374	167	2,639	3,181	(3,181)	—
Total	50,438	6,098	6,208	62,746	(3,181)	59,565
Operating income	4,717	632	(18)	5,331	(1,429)	3,902

(Segment information)

① Reporting Segment Overview

Shizuoka Gas Group reporting segments are those segments capable of providing separate financial information, and which the board of directors regularly reviews to determine the allocation of management resources and evaluate performance results.

The basic business of the Shizuoka Gas Group is the development of general energy businesses, mainly in city gas and LPG adoption. We have identified two reporting segments along product/ service lines: (1) Gas and (2) LPG/Other Energy Services.

The following details the principal products and services offered by each reporting segment.

Gas: Natural gas; liquefied natural gas (LNG)

LPG and other energy services: LPG; on-site energy services

② Information related to net sales and profit and loss amounts by reporting segment

(Amounts under one million yen are omitted.)

First half ended June 30, 2011

	Reporting segment			Other businesses (Note1)	Total	Elimination or corporate (Note2)	Amount recorded on consolidated statement of income (Note3)
	Gas	LPG and other energy services	Total				
Net sales							
Outside customers	52,218	5,989	58,207	3,795	62,003	—	62,003
Inter-segment	282	195	478	1,699	2,178	(2,178)	—
Total	52,501	6,185	58,686	5,494	64,181	(2,178)	62,003
Operating income	3,435	640	4,076	18	4,094	(1,466)	2,627

Note:

- The "Other businesses" classification consists of businesses not defined as reporting segments, and include construction of facilities/gas piping installations and gas appliance sales, remodeling, and leasing.
- The -¥1,466 million in segment income adjustments includes ¥136 million in eliminations of inter-segment transactions and -¥1,603 million of corporate expenses not allocated to the respective reporting segments. Corporate expenses are general and administrative expenses not attributable to reporting segments.
- The segment income is adjusted to reflect operating income as recorded on our quarterly consolidated statements of income.

(Additional information)

Beginning with the first quarter of the current consolidated fiscal year, we have applied the *Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related information* (Accounting Standards Board of Japan Statement No.17; March 27, 2009) and the *Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* (Accounting Standards Board of Japan Guidance No. 20; March 21, 2008).