

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

May 10, 2011

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## 1. Consolidated Business Results for the First Quarter (January 1 through March 31, 2011)

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

### (1) Operating Results

	Net sales (¥ million)		Operating income (¥ million)		Ordinary income (¥ million)	
Reporting first quarter	¥31,996	7.1%	¥ 3,070	17.6%	¥ 3,051	17.9%
Previous first quarter	29,867	(2.9)	2,611	(65.0)	2,588	(64.9)

  

	Net income (¥ million)		Net income per share (¥)	
Reporting first quarter	¥1,605	12.0%	¥ 21.08	
Previous first quarter	1,432	(59.8)	18.81	

### (2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Equity ratio (%)	Owners' equity per share (¥)
Reporting first quarter	¥114,871	¥57,140	43.1%	¥650.07
Previous full term	108,362	56,155	44.6	634.36

Note: Owners' equity (¥ million)

Reporting first quarter:	¥49,497
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	—	/	/	/	/
Fiscal 2011 (forecast)	/	¥4.50	—	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 (¥)
Cumulative second quarter	¥ 62,140	4.3%	¥1,860	(52.3)%	¥1,910	(51.8)%	¥720	(67.1)%	¥9.45
Full term	131,940	11.5	1,850	(74.2)	1,910	(73.5)	540	(87.5)	7.09

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 quarter 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 quarter: 76,192,950

Previous full term: 76,192,950

b) Number of treasury shares at end of the period

Reporting first quarter: 50,944

Previous full term: 50,773

c) Average number of shares outstanding during the first quarter

Reporting first quarter: 76,142,064

Previous first quarter: 76,142,654

#### 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 business forecasts for the current term ending

December 31, 2011, which were released on February 8, 2011 simultaneously with the account settlement for the previous period ended December 31, 2010. For further details, please refer to "(3) Qualitative Information regarding Consolidated Earnings Forecasts" on P4.

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 due to the rate adjustment system, gas sales for the first quarter of the current fiscal year (January through March 2011) amounted to ¥26,599 million, a ¥1,743 million year-on-year increase. Consolidated net sales as a whole, including LPG/Other Energy Services net sales and Other Business net sales, reached ¥31,996 million, an increase of ¥2,128 million.

At the same time, cost of sales experienced a year-on-year increase of ¥1,553 million due to increase in feedgas volume, amounting to ¥22,901 million.

As a result, operating income increased ¥458 million year-on-year, amounting to ¥3,070 million. Ordinary income amounted to ¥3,051 million, a year-on-year increase of ¥463 million. Likewise, net income increased by ¥172 million, reaching ¥1,605 million.

### (2) Qualitative Information regarding Consolidated Financial Position

#### 1. Assets, Liabilities, and Net Assets

Total assets as of the end of the first quarter of the current fiscal year increased by ¥6,508 million compared to the last day of the fiscal year ended on December 31, 2010. (“prior fiscal year end”), amounting to ¥114,871 million. While other current assets decreased due to the refund of consumption taxes, cash and deposits increased, and a rise in raw materials prices led to an increase in raw materials and supplies.

Liabilities increased by ¥5,523 million compared to the prior fiscal year end, amounting to ¥57,730 million. This increase was mainly due to increased accounts payable associated with rising raw materials prices and other factors leading to higher current liabilities.

Compared to the prior fiscal year end, net assets increased ¥984 million, reaching ¥57,140 million. This increase was mainly due to higher retained earnings from quarter net income. Company equity ratio was 43.1%.

#### 2. Cash Flows

Cash and cash equivalents as of the end of the first quarter of the current fiscal year were ¥7,660 million, a ¥6,926 million increase compared to the prior fiscal year end.

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

##### (Cash Flows from Operating Activities)

Net income before depreciation and amortization was ¥5,738 million. Rising raw materials prices and other factors led to an increase in inventories; however, increased notes and accounts payable and other factors led to a net cash inflow of ¥6,484 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 1,872 million in investing activities.

##### (Cash Flows from Financing Activities)

While we made progress in repayments of existing long-term loans payable, the acquisition of new capital funds led to a net cash inflow of ¥2,305 million in financing activities.

### (3) Qualitative Information regarding Consolidated Earnings Forecasts

Considering the soaring crude oil prices from the beginning of the year, and reflecting our first quarter results, we revised our projections of raw materials prices for the second quarter and beyond. Our consolidated second quarter earnings forecast calls for a ¥1,110 million increase in net sales to ¥62,140 million due to increased gas sales unit prices based on the rate adjustment system. However, we now project even greater price increases for raw materials, as well as a more significant impact from the time lag before seeing LNG price fluctuations reflected in gas sales unit prices. Accordingly, we have revised our operating income forecast downward by ¥1,570 million to ¥1,860 million, our ordinary income forecast downward by ¥1,550 million to ¥1,910 million, and our net income forecast downward by ¥1,120 million to ¥720 million.

For the same reasons given above, we have revised our full-year earnings forecasts as follows: net sales upward by ¥8,870 million to ¥131,940 million; operating income downward by ¥3,390 million to ¥1,850 million; ordinary income downward by ¥3,390 million to ¥1,910 million, and net income downward by ¥2,340 million to ¥540 million.

Gas sales volume will remain at our originally projected levels, though there will be some fluctuations on a customer-by-customer basis due to the impact of the March 11 earthquake in eastern Japan.

(Reference) Crude Oil Price/Exchange Rate Projections

Crude oil Price (All Japan CIF)	Original Forecast	\$85/bbl (Q2 through Q4)
	Revised Forecast	\$110/bbl (Q2 through Q4)
Exchange Rate	Original Forecast	¥85/dollar (Q2 through Q4)
	Revised Forecast	¥85/dollar (Q2 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 first 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

For inventories at the end of the first quarter of the current consolidated fiscal year, a valuation was determined by using a reasonable method based on physical inventory count at the end of the previous consolidated fiscal year. No physical inventory count was performed.

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 first quarter of the current consolidated first quarter).

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	
	March 31, 2011	December 31, 2010
<b>Assets</b>		
Noncurrent assets:		
Property, plant and equipment –		
Production facilities	¥ 28,161	¥ 29,291
Distribution facilities	32,146	32,951
Service and maintenance facilities	3,909	3,981
Other facilities	4,835	4,940
Construction in progress	4,544	3,385
Total property, plant and equipment	73,597	74,550
Intangible assets	2,004	1,580
Investments and other assets –		
Investment securities	6,844	7,239
Long-term loans receivable	4,571	3,811
Deferred tax assets	1,579	1,544
Other investments and other assets	916	859
Allowance for doubtful accounts	(255)	(246)
Total investments and other assets	13,656	13,208
Total noncurrent assets	89,258	89,339
Current assets:		
Cash and deposits	7,682	756
Notes and accounts receivable – trade	9,506	8,989
Merchandise and finished goods	331	305
Raw materials and supplies	5,811	4,573
Deferred tax assets	826	831
Other current assets	1,512	3,625
Allowance for doubtful accounts	(59)	(58)
Total current assets	25,612	19,023
Total assets	¥114,871	¥108,362

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

	Millions of yen	
	March 31, 2011	December 31, 2010
<b>Liabilities</b>		
Noncurrent liabilities:		
Long-term loans payable	¥ 28,980	¥ 29,248
Deferred tax liabilities	17	19
Provision for retirement benefits	2,996	2,941
Provision for gas holder repairs	200	196
Negative goodwill	666	725
Other noncurrent liabilities	637	674
<b>Total noncurrent liabilities</b>	<b>33,499</b>	<b>33,807</b>
Current liabilities:		
Current portion of noncurrent liabilities	7,750	6,882
Accounts payable – trade	7,004	5,083
Short-term loans payable	4,025	1,586
Accounts payable – other	1,388	957
Income taxes payable	1,144	1,056
Provision for bonuses	1,014	447
Other current liabilities	1,903	2,384
<b>Total current liabilities</b>	<b>24,230</b>	<b>18,399</b>
<b>Total liabilities</b>	<b>57,730</b>	<b>52,206</b>
<b>Net assets</b>		
Shareholders' equity:		
Capital stock	6,279	6,279
Capital surplus	4,589	4,589
Retained earnings	37,019	35,718
Treasury stock	(26)	(26)
<b>Total shareholders' equity</b>	<b>47,861</b>	<b>46,560</b>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,626	1,753
Deferred gains or losses on hedges	9	(12)
<b>Total valuation and translation adjustments</b>	<b>1,636</b>	<b>1,741</b>
Minority interests	7,642	7,853
<b>Total net assets</b>	<b>57,140</b>	<b>56,155</b>
<b>Total liabilities and net assets</b>	<b>¥114,871</b>	<b>¥108,362</b>

Note: Amounts under one million yen are omitted.

## Consolidated Statements of Income

First quarter ended March 31	Millions of yen	
	2010	2011
Net sales	¥29,867	¥31,996
Cost of sales	21,348	22,901
Gross profit	8,519	9,094
Selling, general and administrative expenses	5,908	6,024
Operating income	2,611	3,070
Non-operating income:		
Interest income	15	23
Dividends income	1	1
Amortization of negative goodwill	62	58
Miscellaneous income	66	62
Total non-operating income	145	145
Non-operating expenses:		
Interest expenses	165	150
Miscellaneous expenses	3	14
Total non-operating expenses	169	164
Ordinary income	2,588	3,051
Extraordinary loss:		
Loss on sales of noncurrent assets	2	—
Loss on valuation of investment securities	—	219
Total extraordinary losses	2	219
Income before income taxes and minority interests	2,585	2,831
Income taxes	951	1,004
Income before minority interests	—	1,826
Minority interests in income	200	221
Net income	¥ 1,432	¥ 1,605

Note: Amounts under one million yen are omitted.



## Consolidated Statements of Cash Flows

First quarter ended March 31	Millions of yen	
	2010	2011
Net cash provided by (used in) operating activities:		
Income before income taxes and minority interests	¥2,585	¥2,831
Depreciation and amortization	3,163	2,906
Amortization of negative goodwill	(62)	(58)
Loss on retirement of property, plant and equipment	12	7
Loss (gain) on valuation of investment securities	—	219
Increase (decrease) in allowance for doubtful accounts	9	9
Increase (decrease) in provision for retirement benefits	33	54
Increase (decrease) in provision for gas holder repairs	7	3
Increase (decrease) in provision for bonuses	569	566
Interest and dividends income	(16)	(24)
Interest expenses	165	150
Loss (gain) on sales of property, plant and equipment	2	—
Decrease (increase) in notes and accounts receivable – trade	(2,218)	(526)
Decrease (increase) in inventories	(1,361)	(1,262)
Increase (decrease) in notes and accounts payable – trade	(2,378)	1,995
Decrease/increase in consumption taxes receivable/payable	(1,330)	911
Other, net	(1,021)	(679)
Subtotal	(1,839)	7,105
Interest and dividends income received	16	24
Interest expenses paid	(208)	(188)
Income taxes paid	(3,204)	(449)
Net cash provided by (used in) operating activities	(5,236)	6,492
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	(3,489)	(2,494)
Proceeds from sales of property, plant and equipment and intangible assets	2	1
Purchase of investment securities	(1)	(1)
Payments of loans receivable	(900)	(810)
Collection of loans receivable	54	49
Proceeds from contribution received for construction	79	23
Other, net	443	1,357
Net cash provided by (used in) investing activities	(3,807)	(1,872)
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	4,604	2,438
Proceeds from long-term loans payable	3,150	2,150
Repayment of long-term loans payable	(2,041)	(1,550)
Cash dividends paid	(304)	(296)
Cash dividends paid to minority shareholders	(13)	(434)
Other, net	—	(0)
Net cash provided by (used in) financing activities	5,394	2,305
Net increase (decrease) in cash and cash equivalents	(3,648)	6,926
Cash and cash equivalents at beginning of period	5,046	734
Cash and cash equivalents at end of period	¥1,398	¥7,660

Note: Amounts under one million yen are omitted.

## Segment Information

### Segment information by business category

(Amounts under one million yen are omitted.)

First quarter ended March 31, 2010

						Millions of yen	
	Gas	LPG and other energy services	Other businesses	Total	Elimination or corporate	Consolidated	
Net sales							
Outside customers	24,664	3,144	2,058	29,867	—	29,867	
Inter-segment	191	96	1,278	1,566	(1,566)	—	
Total	24,855	3,241	3,337	31,434	(1,566)	29,867	
Operating income	2,891	384	24	3,300	(689)	2,611	

(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 quarter ended March 31, 2011

	Reporting segment				Total	Elimination or corporate (Note2)	Amount recorded on consolidated statement of income (Note3)
	Gas	LPG and other energy services	Total	Other businesses (Note1)			
Net sales							
Outside customers	26,458	3,245	29,704	2,291	31,996	—	31,996
Inter-segment	140	104	245	806	1,052	(1,052)	—
Total	26,599	3,350	29,950	3,098	33,048	(1,052)	31,996
Operating income	3,365	347	3,712	94	3,807	(736)	3,070

Note:

1. 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.

2. The -¥736 million in segment income adjustments includes ¥68 million in eliminations of inter-segment transactions and -¥805 million of corporate expenses not allocated to the respective reporting segments. Corporate expenses are general and administrative expenses not attributable to reporting segments.

3. 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).