

Flash Report for the First Half of 2022 [Japan GAAP](Consolidated)

August 3, 2022

Company Name: SHIZUOKA GAS CO., LTD. Listing: Tokyo Stock Exchange
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 Date for presentation of the quarterly report: August 9, 2022
 Date of dividend payment: September 1, 2022
 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, 2022)

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

(1) Operating Results

	Net sales (¥ million)		Operating profit (¥ million)		Ordinary profit (¥ million)	
Reporting First Half	94,795	51.7%	7,962	44.7%	8,835	36.2%
Previous First Half	62,480	(6.3)	5,500	97.3	6,487	123.9

Note: Total comprehensive income (¥ million)

Reporting First Half: 7,063 (20.6%) Previous First Half: 5,858 (—%)

	Profit attributable to owners of parent (¥ million)		Profit per share (¥)	Diluted profit per share (¥)
Reporting First Half	5,961	37.7%	80.42	80.30
Previous First Half	4,330	423.0	58.46	58.36

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Equity ratio (%)
Reporting First Half	129,370	98,636	71.7
Previous full term	123,996	92,150	69.6

Note: Net assets excluding share acquisition rights and non-controlling interests (¥ million)

Reporting First Half: 92,793 Previous full term: 86,308

2. Dividend Payment

	Annual dividend per share (¥)				
	1Q	2Q	3Q	Term-end	Total
FY 2021	—	9.00	—	9.00	18.00
FY 2022	—	9.50	/	/	/
FY 2022(forecast)	/	/	—	9.50	19.00

Note: Revision of previously announced dividend forecast: No

3. Consolidated Business Forecast for Current Term (January 1 through December 31, 2022)

(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	206,750 55.5%	5,190 4.0%	6,590 1.8%	3,960 (3.8)%	53.41

Note: Revision of previously announced consolidated business forecast: 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 “(4) Notes Application of Special Accounting Methods in Preparation of Quarterly Consolidated Financial Statements” on P8)

(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 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: 2,043,810

Previous full term: 2,090,713

c) Average number of shares outstanding during the term

Reporting First Half: 74,124,877

Previous First Half: 74,073,290

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.

Quarterly Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(Million yen)

	As of December 31,2021	As of June 30,2022
Assets		
Non-current assets		
Property, plant and equipment		
Production facilities	4,736	4,386
Distribution facilities	33,926	34,063
Service and maintenance facilities	6,000	5,876
Other facilities	7,984	8,729
Construction in progress	2,343	2,781
Total property, plant and equipment	54,992	55,837
Intangible assets	1,266	1,789
Investments and other assets		
Investment securities	10,113	13,610
Long-term loans receivable	4,030	3,704
Deferred tax assets	703	597
Other investments	1,937	2,141
Allowance for doubtful accounts	(71)	(71)
Total investments and other assets	16,713	19,982
Total non-current assets	72,972	77,609
Current assets		
Cash and deposits	13,658	18,597
Notes and accounts receivable - trade	15,013	-
Notes and accounts receivable - trade, and contract assets	-	17,263
Merchandise and finished goods	565	673
Raw materials and supplies	9,193	12,515
Accounts receivable - other	10,478	424
Other current assets	2,167	2,328
Allowance for doubtful accounts	(53)	(41)
Total current assets	51,024	51,761
Total assets	123,996	129,370

(Million yen)

	As of December 31,2021	As of June 30,2022
Liabilities		
Non-current liabilities		
Long-term borrowings	5,124	4,807
Deferred tax liabilities	389	350
Retirement benefit liability	2,739	2,647
Other noncurrent liabilities	98	191
Total non-current liabilities	8,352	7,997
Current liabilities		
Current portion of non-current liabilities	1,500	1,308
Accounts payable - trade	15,189	10,987
Short-term borrowings	-	1,570
Accounts payable - other	1,882	2,325
Income taxes payable	1,724	3,371
Provision for bonuses	411	405
Other current liabilities	2,784	2,768
Total current liabilities	23,494	22,737
Total liabilities	31,846	30,734
Net assets		
Shareholders' equity		
Share capital	6,279	6,279
Capital surplus	4,984	5,003
Retained earnings	72,403	78,290
Treasury shares	(1,062)	(1,038)
Total shareholders' equity	82,604	88,534
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,938	3,619
Deferred gains or losses on hedges	320	34
Foreign currency translation adjustment	(59)	150
Remeasurements of defined benefit plans	503	454
Total accumulated other comprehensive income	3,703	4,258
Share acquisition rights	91	85
Non-controlling interests	5,749	5,757
Total net assets	92,150	98,636
Total liabilities and net assets	123,996	129,370

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the six months ended June 30,2021	For the six months ended June 30,2022
Net sales	62,480	94,795
Cost of sales	43,439	72,795
Gross profit	19,041	22,000
Selling, general and administrative expenses	13,540	14,037
Operating profit	5,500	7,962
Non-operating income		
Interest income	42	43
Dividend income	542	295
Share of profit of entities accounted for using equity method	275	402
Miscellaneous income	198	263
Total non-operating income	1,058	1,004
Non-operating expenses		
Interest expenses	37	43
Foreign exchange losses	22	50
Miscellaneous expenses	12	37
Total non-operating expenses	72	131
Ordinary profit	6,487	8,835
Profit before income taxes	6,487	8,835
Income taxes	1,623	2,317
Profit	4,863	6,518
Profit attributable to non-controlling interests	533	556
Profit attributable to owners of parent	4,330	5,961

Consolidated Statements of Comprehensive Income

(Million yen)

	For the six months ended June 30,2021	For the six months ended June 30,2022
Profit	4,863	6,518
Other comprehensive income		
Valuation difference on available-for-sale securities	543	670
Deferred gains or losses on hedges	480	(285)
Foreign currency translation adjustment	4	13
Remeasurements of defined benefit plans, net of tax	(29)	(49)
Share of other comprehensive income of entities accounted for using equity method	(4)	196
Total other comprehensive income	994	545
Comprehensive income	5,858	7,063
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,317	6,516
Comprehensive income attributable to non-controlling interests	541	546

(3) Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended June 30,2021	For the six months ended June 30,2022
Cash flows from operating activities		
Profit before income taxes	6,487	8,835
Depreciation	4,107	4,210
Loss on retirement of property, plant and equipment	10	12
Increase (decrease) in allowance for doubtful accounts	7	(11)
Increase (decrease) in retirement benefit liability	(125)	(141)
Increase (decrease) in provision for bonuses	(2)	4
Interest and dividend income	(584)	(338)
Interest expenses	37	43
Share of loss (profit) of entities accounted for using equity method	(275)	(402)
Decrease (increase) in trade receivables	(1,287)	(2,041)
Decrease (increase) in inventories	(2,450)	(3,440)
Increase (decrease) in allowance for ship allocation adjustment	(2,900)	-
Increase (decrease) in trade payables	(3,273)	(4,482)
Decrease/increase in consumption taxes receivable/payable	(497)	1,320
Decrease (increase) in accounts receivable - other	50	8,446
Other, net	(606)	781
Subtotal	(1,301)	12,796
Interest and dividends received	584	338
Interest paid	(54)	(59)
Income taxes refund (paid)	(1,889)	46
Net cash provided by (used in) operating activities	(2,661)	13,121
Cash flows from investing activities		
Payments into time deposits	(51)	(76)
Proceeds from withdrawal of time deposits	55	73
Purchase of property, plant and equipment and intangible assets	(4,231)	(5,608)
Proceeds from sale of property, plant and equipment and intangible assets	2	2
Purchase of investment securities	(803)	(2,104)
Proceeds from sale of investment securities	0	1
Proceeds from collection of loans receivable	361	361
Proceeds from contribution received for construction	-	0
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(118)
Other, net	(437)	(377)
Net cash provided by (used in) investing activities	(5,104)	(7,846)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	1,100
Proceeds from long-term borrowings	100	119
Repayments of long-term borrowings	(923)	(803)
Dividends paid	(629)	(667)
Dividends paid to non-controlling interests	(537)	(536)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(0)	(0)
Other, net	0	0
Net cash provided by (used in) financing activities	(1,990)	(788)
Effect of exchange rate change on cash and cash equivalents	27	178
Net increase (decrease) in cash and cash equivalents	(9,729)	4,664
Cash and cash equivalents at beginning of period	31,615	13,548
Cash and cash equivalents at end of period	21,885	18,213

(4) Notes

(Note on Going Concerns' Premise)

Not applicable.

(Note on Significant Change in Shareholders' Equity)

Not applicable.

(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.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition and Other Standards)

The Company has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan Statement No. 29, issued on March 31, 2020, hereinafter "Accounting Standard for Revenue Recognition") and other standards since the beginning of the first quarter of the current fiscal year. The new standard recognizes revenues for goods or services based on the amount estimated to be received in exchange for such goods or services at the point when control of the promised goods or services is transferred to the customer. The main changes caused by adopting the new standard are described below.

Revenues associated with the electricity business and LPG business were previously recognized based on monthly meter readings, but the method of revenue recognition has been changed to recognize the revenue which reflects the estimated usage between the last meter reading day in the account closing month and the closing date. Also, we were previously recognizing revenue for the charges collected from customers under the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities based on the feed-in tariff system for renewable energy. However, we are no longer recognizing the charges as revenue from the beginning of the first quarter of the current fiscal year because it is collected on behalf of a third party.

The Company has applied the Accounting Standard for Revenue Recognition transitionally, in accordance with the proviso in Article 84 of the standard. The cumulative effect of retroactively applying the new accounting policy to before the start of the first quarter of the current fiscal year has been added to or deducted from the retained earnings at the start of the current fiscal year. The new accounting policy has been applied from said starting balance. However, the new accounting policy has not been applied retrospectively to the contracts in which almost all of revenues has been recognized before the beginning of the first quarter of the current fiscal year in accordance with the previous treatment by applying the method stipulated in Article 86 of the standard. Furthermore, using the method specified in explanatory note (1) of Article 86 in the standard, retained earnings at the beginning of the first quarter of the current fiscal year are adjusted by the cumulative effect of contract terms and conditions effective after applying all contractual changes made before the beginning of the first quarter of the current fiscal year.

As a result, retained earnings at the beginning of the first quarter of the current fiscal year increased by ¥591 million, net sales for the first six months of the current fiscal year decreased by ¥1,627 million, cost of sales decreased by ¥1,419 million, selling, general and administrative expenses decreased by ¥51 million, operating profit, ordinary profit and profit before income taxes decreased by ¥156 million respectively.

Due to the adoption of the Accounting Standard for Revenue Recognition and other standards, "Notes and accounts receivable - trade" which were included in "Current assets" in the consolidated balance sheet for the previous fiscal year, have been included in "Notes and accounts receivable - trade, and contract assets" since the first quarter of the current fiscal year.

In accordance with the transitional treatment stipulated in Article 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous fiscal year have not been restated. Moreover, in accordance with the transitional treatment stipulated in Article 28-15 of the Accounting Standard for Quarterly Financial

Reporting (Accounting Standards Board of Japan Statement No. 12, issued on March 31, 2020), a breakdown of income from contracts with customers has not been presented for the first six months of the previous fiscal year.

(Application of Accounting Standard for Fair Value Measurement and Other Standards)

The Company has applied the Accounting Standard for Fair Value Measurement (Accounting Standards Board of Japan Statement No. 30, issued on July 4, 2019, hereinafter “Fair Value Accounting Standards”) and other standards since the beginning of the first quarter of the current fiscal year. In accordance with the transitional treatment set forth in Article 19 of Fair Value Accounting Standards and Article 44-2 of the Accounting Standard for Financial Instruments (Accounting Standards Board of Japan Statement No. 10, issued on July 4, 2019), the Fair Value Accounting Standards and others have been adopted prospectively. There is no impact on the quarterly consolidated financial statements by adopting the standard.

(Additional Information)

(Payment related to the LNG procurement contract)

We postponed the delivery of a certain portion of contracted volume to subsequent years based on the LNG procurement contract in response to the dramatic decrease in demand caused by COVID-19. We paid US\$24 million during the first quarter of the previous fiscal year. This payment does not affect the consolidated financial statements for the current fiscal year.

This payment may be used to reduce future payments by allocating said payment to the price when taking delivery of the volume in question in subsequent years. However, based on projected demand as of the end of the current consolidated First Half and the circumstances surrounding LNG procurement contracts, we have not yet determined the timing of said delivery.

(Impact of COVID-19 on Accounting Estimates)

We have not made significant changes to the assumptions regarding the impact of COVID-19 described in the securities report for the previous consolidated fiscal year.

However, assumptions regarding the impact of COVID-19 involve a high degree of uncertainty, and any future changes in circumstances or impact may have an impact on our consolidated financial statements.

Segment Information

Net Sales and Income (Loss) by Reportable Segment

Six Months Ended June 30, 2021

(¥ 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	47,211	10,313	57,525	4,954	62,480	—	62,480
Inter-segment sales and transfers	971	157	1,128	2,341	3,470	(3,470)	—
Total	48,182	10,471	58,654	7,296	65,950	(3,470)	62,480
Segment income	5,636	927	6,564	477	7,041	(1,540)	5,500

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 (¥1,540) million in segment income adjustments include ¥139 million in inter-segment eliminations and (¥1,680) 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, 2022

(¥ 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	77,031	12,920	89,952	4,843	94,795	—	94,795
Inter-segment sales and transfers	1,879	204	2,084	2,291	4,375	(4,375)	—
Total	78,911	13,125	92,036	7,135	99,171	(4,375)	94,795
Segment income	8,438	782	9,220	277	9,497	(1,535)	7,962

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 (¥1,535) million in segment income adjustments include ¥157 million in inter-segment eliminations and (¥1,692) 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.