

Shizuoka Gas Company, Ltd.

9543 Tokyo Stock Exchange First Section

15-Dec.-15

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■ Full-year outlook for FY12/15 is a decline in sales but a significant increase in profits

Shizuoka Gas <9543> (hereafter, also “the Company”) sells city gas for residential use and industrial use, mainly to the central and eastern parts of Shizuoka Prefecture, and is also a city gas wholesaler supplier to city gas businesses inside and outside of the prefecture. Domestically, it ranks fourth in terms of gas sales volume and tenth for the number of customers.

In the Q3 FY12/15 consolidated results (cumulative totals) announced on November 6, net sales declined 8.4% YoY to ¥114,300mn, but operating profit increased 100.6% to ¥10,713mn. While net sales declined due to the downward adjustment of the gas sales unit price following the fall in the price of raw materials, profits greatly increased, including due to the impact of the time lag until the price of raw materials is reflected in the sales unit price.

After looking at the results trends up to Q3, the Company revised its FY12/15 consolidated results forecast following the review of the expectations for the price of crude oil and the exchange rate in Q4. The net sales forecast announced in August of ¥149,110mn was revised to ¥146,070mn, down 12.3% YoY, while operating profit was revised from the previous forecast of ¥9,980mn to ¥10,530mn, up 83.0%. Due to the falls in the sales unit price and the industrial-use sales volume, net sales are now expected to be slightly below the previous forecast, while a decline in the price of raw materials greater than anticipated will contribute to the increase in profits. Looking at operating profit after the correction to exclude the effects of the time lag until the price of raw materials is reflected in the sales unit price, a slight decline is expected, from ¥7.3bn in the previous fiscal period to ¥5.2bn in this fiscal period.

In the medium-term three-year plan announced in February 2015, the targets for the plan’s final year of FY12/17 are net sales of ¥180.3bn and operating profit of ¥8.6bn. The gas sales volume is expected to grow by an annual 5.2% from the expansion in wholesale and industrial-use sales. In addition to the full opening from October 2015 of the “Shizuhama Trunkline,” a pipeline between Shizuoka and Hamamatsu, and the resulted expected increase in wholesale to Chubu Gas <9540>, the Company is capturing industrial-use electric power demand and increasing its gas sales volume through providing multi-energy solution proposals utilizing technologies such as cogeneration systems (hereafter, cogeneration).

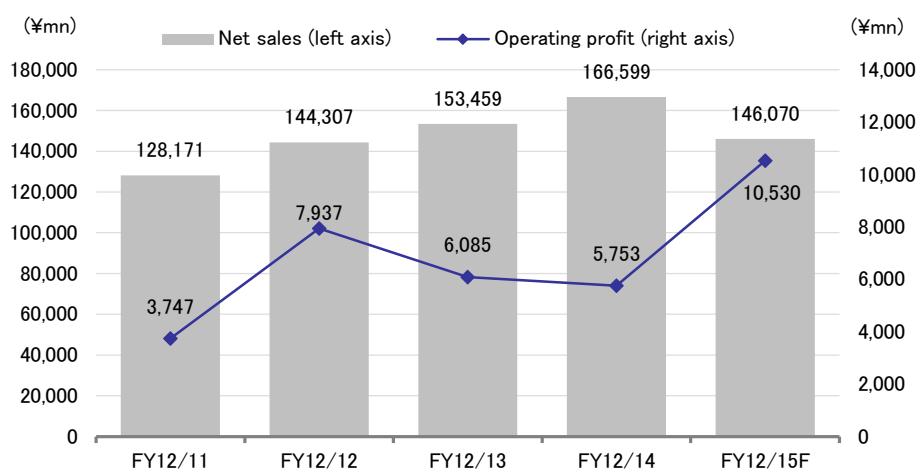
As a long-term strategy, the Company is searching for possibilities to develop its energy solutions service business overseas. In July 2015 in Thailand, through its subsidiary it conducted a capital participation in EPEC, which is an IPP (independent power producer), with the idea of acquiring management expertise, conducting market research, and building a network.

The Company’s shareholder return policy is to pay a dividend stably and continuously while determining the dividend amount by considering factors such as results and dividend on equity (DOE). In FY12/15, it plans to pay a dividend of ¥12.0, an increase of ¥2.0 YoY.

■ Check Point

- Its main gas business contributes 90% of net sales and profits
- In the full-year results forecasts, net sales have been downwardly revised, but profits upwardly revised
- The Company’s policy is to pay a dividend while considering results and dividend on equity, and the forecast for FY12/15 is a 2¥ dividend increase

Results trends



■ Company profile

Established in 1910 as a city gas production and sales company

(1) Company history

Shizuoka Gas was established in 1910 in Shizuoka Prefecture as a city gas production and sales company. As of the end of 2014, it sold city gas to approximately 340,000 residential-use and industrial-use customers, mainly to the central and eastern areas within the prefecture. In addition, in 2003 it began wholesales to city gas companies within the prefecture and in 2007 it connected to the pipeline of the INPEX Corporation <1605> (hereafter, INPEX), beginning wholesales to INPEX from 2010.

In 2005, the Company launched an on-site energy services business to improve the energy consumption efficiency at customer plants, and in 2014, it established Shizuoka Gas & Power, Ltd. for electric power generation and sales. In such ways, it is strengthening its multi-energy solutions services not only for gas, but for electric power also.

Moreover, in April 2015 it opened a representative office in Singapore to collect information on procuring LNG and to build a network, while in July of the same year, through a subsidiary it invested a capital contribution of 28% to participate in the management of Eastern Power and Electric Co. Ltd. (hereafter, EPEC), which is an IPP (independent power producer) in Thailand. The objective of the capital participation in EPEC was to acquire management expertise and build a network overseas in order to search for possibilities for developing an energy solutions services business overseas.

Company history

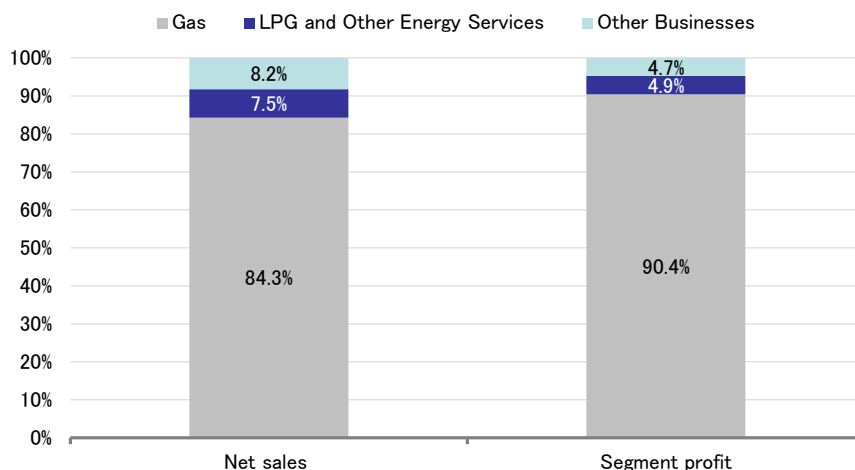
Date	Main events in the Company's history
Apr. 1910	Established in Shizuoka Prefecture with capital of ¥500,000
Aug. 1961	Established Shizuoka Liquefied Gas, Company, Ltd. (currently, Shizuoka Gas Energy Company, Ltd.)
Sept. 1968	Established Shizuoka Central Heating Company, Ltd. (currently, Shizuoka Gas Engineering Company, Ltd.)
Sept. 1983	Established SG Credit Service Company, Ltd. (currently, Shizuoka Gas Credit Services Company, Ltd.)
June 1987	Established SG Living Company, Ltd. (currently, Shizuoka Gas Living Company, Ltd.)
Aug. 1992	Established Shimizu LNG Company, Ltd.
July 1996	Began importing LNG (liquefied natural gas) from Malaysia
Jan. 2001	Established Shizuoka Gas System Solution Company, Ltd.
Dec. 2001	Listed on the Tokyo Stock Exchange (TSE) 2nd Section
Dec. 2003	Listing reassigned to the TSE 1st Section
Jan. 2005	Launched the on-site energy services business
May 2005	Began receiving LNG from Australia
Jan. 2010	Began wholesales for INPEX Corporation
Dec. 2011	Concluded a LNG sales and purchase agreement with Qatargas Operating Company Limited
July 2014	Established Shizuoka Gas & Power Company, Ltd.
Apr. 2015	Opened a representative office in Singapore
July 2015	Invested (capital contribution ratio 28%) in Thai IPP (independent power producer) Eastern Power Electric Company Limited through its subsidiary SG Bang Bo Power Holdings
Oct. 2015	Completed the full opening of the Shizuhama Trunkline (between Shizuoka and Hamamatsu), which is a joint project with Chubu Gas Co, Ltd.

Its main Gas business contributes 90% of net sales and profits

(2) Business description

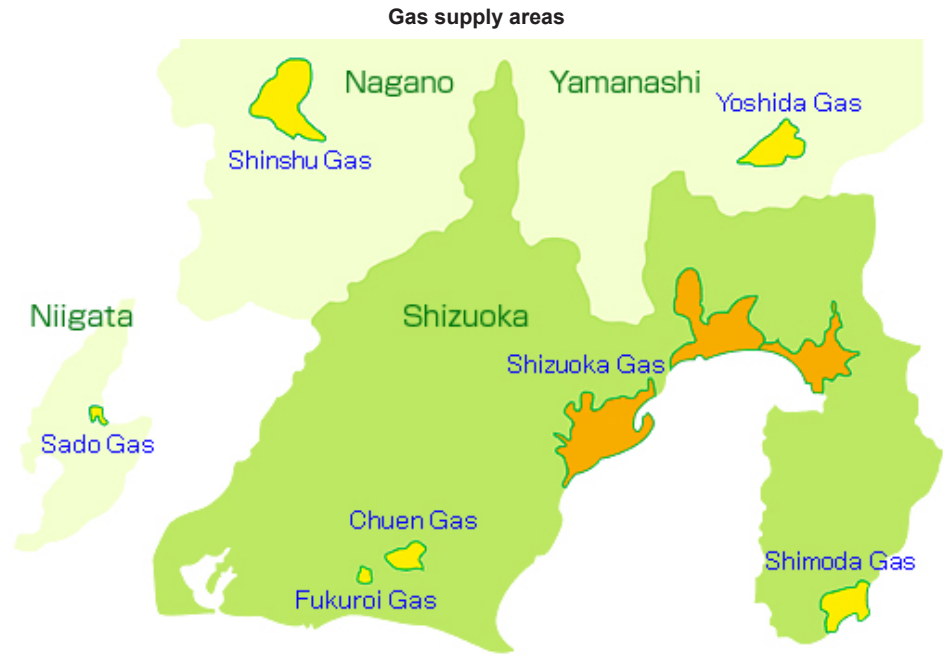
The Company's business is comprised of three business segments; Gas, LPG and Other Energy Services, and Other Businesses, Gas is the main business providing around 90% of both net sales and segment profit.

Percentages by business segment (FY12/14)



○ Gas business

The Company and its subsidiaries supply and sell gas and sell LNG. The Company supplies and sells gas to the central and eastern areas within Shizuoka Prefecture. It also has four consolidated subsidiaries within Shizuoka Prefecture and one in each of Yamanashi Prefecture, Nagano Prefecture, and Niigata Prefecture. In addition, Shimizu LNG Company, Ltd., its consolidated subsidiary that manages an LNG terminal and produces gas, is included in this business segment. Other than these companies, Shizuhama Pipeline Company, Ltd. was established as a joint venture with Chubu Gas (the Company's capital contribution ratio, 50%) and is an equity method affiliate.



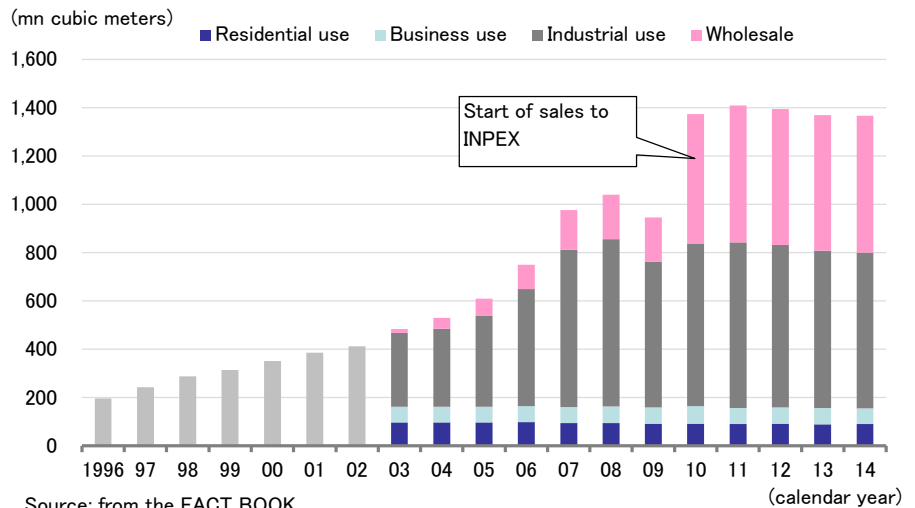
■ Shizuoka Gas Service Area ■ Service Area of Subsidiary Companies

Source: Company HP

Gas sales customers are categorized into four groups; residential use, business use, industrial use, and wholesale. As of the end of December 2014, the number of contracts on a consolidated basis was 342,000 (non-consolidated, 314,000). Looking at the trends in gas sales volume on a non-consolidated basis since 1996, which is when LNG was introduced, it has increased by around 7 times mainly from the growth in sales from industrial use and wholesales. Wholesales have expanded greatly since 2010 following the start of the supply to INPEX. Compared to the two major gas companies, a characteristic of the Company is that in its composition ratios, the ratios for residential and business use are low, but high for wholesales. In addition, looking at the percentages of sales volume provided by large customers by industry, paper and pulp provides 36.1% and chemicals 26.2%, meaning these two industries account for more than 60%.

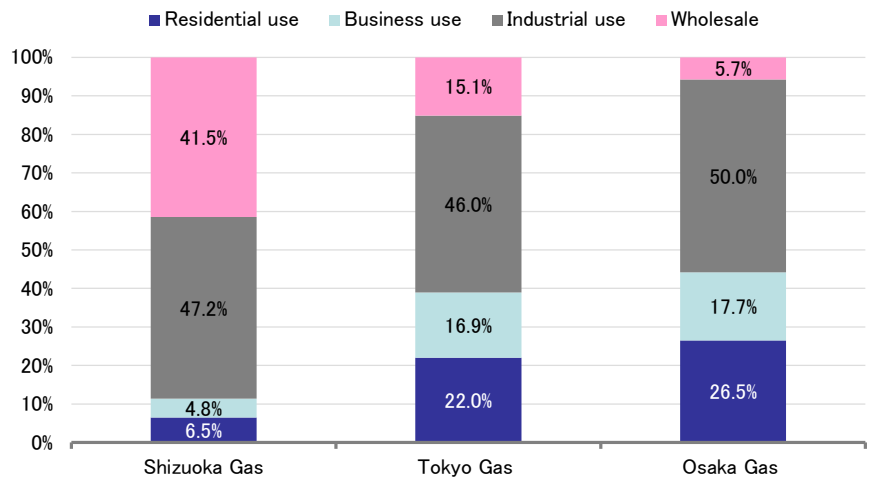
In terms of the Company's position in the industry, within the 209 city gas business companies nationwide, it ranks fourth in gas sales volume and tenth in the number of customer contracts.

City gas sales volume (non-consolidated basis)

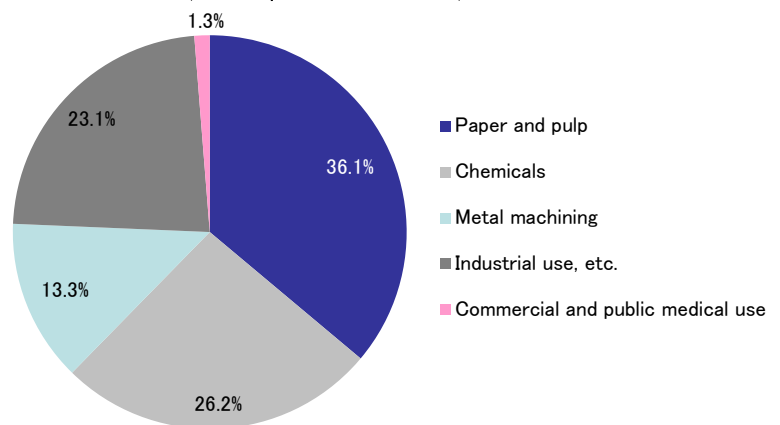


Source: from the FACT BOOK

Gas sales volume ratios (non-consolidated basis, FY12/14)



Sales volume ratios by industry large customers (FY2014, non-consolidated)



Source: FACT BOOK 2014

○ **LPG and Other Energy Services**

The majority of sales in the LPG and Other Energy Services business is from sales of LPG by consolidated subsidiary Shizuoka Gas Energy Company, Ltd. (including wholesales to Group companies), sales of accompanying equipment, and pipeline construction work. This business includes the on-site energy service business the Company is currently developing. On-site energy services refers to the business of installing cogeneration equipment and air conditioning heat source equipment, which contribute to improving energy consumption efficiency, into customer plants and other such sites that consume large volumes of heat and electrical energy, and then selling the electricity and heat energy generated by operating this equipment to customer companies. The equipment has mainly been introduced into plants in the paper and pulp and chemical industries.

In addition, in July 2014, Shizuoka Gas & Power Company, Ltd. was established as a new company for the purpose of generating power and trading power in anticipation of the liberalization of power retailing, and is also included in this business segment (will begin operations from 2016).

○ **Other Businesses**

Other Businesses include gas piping construction work and gas equipment sales carried out by the Company and its gas sales subsidiaries. It also includes the businesses of subsidiaries conducting related operations, including the conservation and construction of gas facilities, air conditioning construction work, sales of gas and fire alarm equipment, renovation business, leasing business, and the development of information systems.

Consolidated subsidiary conditions

Company name	Description of main business	Net sales	Operating profit	Net profit	(unit: ¥mn)
					Capital contribution ratio
Yoshida Gas	Gas business in Fujiyoshida City, Yamanashi Prefecture	2,153	231	156	69.1%
Shimoda Gas	Gas business in Shimoda City, Shizuoka Prefecture	473	12	9	65.3%
Shinshu Gas	Gas business in Iida City, Nagano Prefecture	598	47	31	69.1%
Sado Gas	Gas business in Sado City, Niigata Prefecture	264	11	9	64.3%
Fukuroi Gas	Gas business in Fukuroi City, Shizuoka Prefecture	1,623	75	53	50.0%
Chuen Gas	Gas business in Kakegawa City, Shizuoka Prefecture	1,605	49	38	50.3%
Gotemba Gas	Gas business in Gotemba City, Shizuoka	386	-67	-67	62.3%
Shizuoka LNG	Management of the LNG terminal and gas production and sales	121,773	3,474	2,337	65.0%
Shizuoka Gas Energy	Sales of LPG and LPG equipment	11,282	339	245	100.0%
Shizuoka Gas Credit	Leasing of gas consumption equipment, vehicles, etc.	793	79	17	100.0%
Shizuoka Gas Living	Sales of gas and fire alarm equipment and renovation business	4,798	362	227	100.0%
Shizuoka Gas Engineering	Conservation of gas facilities, construction of gas and air conditioning equipment	2,488	102	65	100.0%
Shizuoka Gas Service	LPG delivery and LNG transportation	607	41	29	100.0%
Shizuoka Gas System Solutions	Information processing and systems development businesses	900	31	19	100.0%
Shizuoka Gas Insurance Service	Insurance agency	72	5	13	98.0%
Shizuoka Gas & Power	Power generation and power trading businesses	-	-1	-3	100.0%

Note: the results are for FY12/14

Source: FACT BOOK 2014

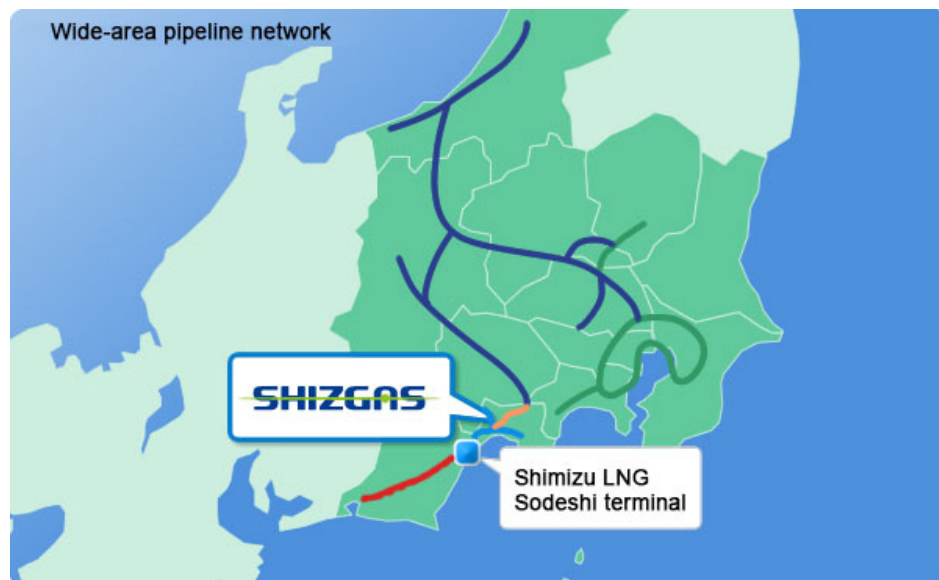
Strengths include the excellent location of its LNG terminal in Shimizu Port and a wide-area pipeline network

(3) The Company's strengths

The Company has three main strengths. First is the favorable location of the Sodeshi terminal of Shimizu LNG Company, Ltd., which is a terminal for receiving LNG. This terminal benefits from Shimizu Port being a deep-water port, which means large LNG carriers are able to dock easily. LNG carriers dock at a pace of once every approximately 20 days, and the Company imports around 1.1 million tons annually from countries including Malaysia, Australia, and Indonesia. The favorable location of the LNG terminal is also a strength for the future development of the business of re-exporting (hereafter, "reload"), which will help to reduce the LNG procurement price, and providing storage services.

The second strength is that the Company is building a wide-area pipeline network with the LNG terminal as a hub terminal in order to expand its supply of gas sales to outside its own supply area, including to city gas companies in neighboring areas. In 2007, it installed the Minami Fuji Trunkline (between Fuji City and Gotemba City) and connected to the INPEX pipeline. In addition, in October 2015, the Shizuhama Trunkline (between Shimizu Port in Shizuoka and Hamamatsu City), which is a joint project with Chubu Gas, was fully opened, enabling it to supply gas as far as the Hamamatsu City area.

Wide-area pipeline network



Source: company HP

The third strength is its technological capabilities that enable it to propose highly efficient multi-energy solutions using cogeneration and other technologies to its large industrial-use customers, and that it is accumulating expertise in this area. Within the diversification of energy use, including the advance of renewable energy, demand for improved energy consumption efficiency is growing, and it is considered that this will increase the opportunities for the Company to acquire customers.

■ Results trends

In Q3 results, sales declined due to the downward adjustment of the gas sales unit price, but profits greatly increased

(1) Q3 FY12/15 results (cumulative totals)

In the Q3 FY12/15 consolidated results (cumulative totals) announced on November 6, net sales decreased 8.4% YoY to ¥114,300mn, operating profit increased 100.6% to ¥10,713mn, recurring profit grew 94.3% to ¥11,015mn, and net profit rose 125.3% to ¥7,245mn. Although sales declined due to the downward adjustment of the gas sales unit price following the fall in the price of raw materials, profit items greatly increased because of factors such as the impact of the timing until the price of raw materials is reflected in the sales unit price.

Q3 FY12/15 consolidated results

(unit: ¥mn)

	FY12/14 3Q cumulative total		FY12/15 3Q cumulative total		YoY
	Results	% sales	Results	% sales	
Net sales	124,826	100.0%	114,300	100.0%	-8.4%
Gross profit	25,066	20.1%	30,516	26.7%	21.7%
SG&A expenses	19,726	15.8%	19,803	17.3%	0.4%
Operating profit	5,339	4.3%	10,713	9.4%	100.6%
Recurring profit	5,667	4.5%	11,015	9.6%	94.3%
Extraordinary income and loss	-	-	526	0.5%	-
Net profit	3,215	2.6%	7,245	6.3%	125.3%

Looking at results trends by segment, in the main Gas business, net sales declined 7.7% YoY to ¥100.5bn, but segment profit increased 74.1% to ¥12.1bn. Although the gas sales volume fell for both residential use and industrial use, the increases for business use and wholesale meant it trended steadily, rising 0.2% YoY to 1,032mn cubic meters. Net sales declined because of the downward adjustment in the gas sales unit price arising from the cost adjustment system for raw materials, but profits greatly increased because of factors such as the timing until the price of raw materials is reflected in the sales unit price.

In the LPG and Other Energy Services business, net sales fell 17.5% YoY to ¥8.2bn, but segment profit rose 22.9% to ¥0.5bn. LPG sales declined due to the fall in the gas sales unit price, while the reduction in the price of raw materials was the main factor behind the increase in profits.

In Other Businesses, net sales declined 11.2% YoY to ¥9.3bn, while segment profit increased 28.2% to ¥0.3bn. The reduction in facilities construction projects was a factor behind the lower sales, but profits increased as the pace of the decline of operating expenses was greater than the decline in sales.

In the full-year results forecasts, net sales have been downwardly revised, but profits upwardly revised

(2) FY12/15 results outlook

After looking at the results up to Q3, the Company revised its FY12/15 consolidated results forecasts upon reviewing the expectations for the price of crude oil and the exchange rate in Q4. The outlook is for net sales to decline 12.3% YoY to ¥146,070mn, operating profit to increase 83.0% to ¥10,530mn, recurring profit to rise 84.1% to ¥11,040mn, and net profit to grow 146.8% to ¥7,180mn. This means that compared to the initial targets, net sales have been slightly downwardly revised, but every profit item has been upwardly revised. The forecast price of crude oil in Q4 (*) has been changed from the previous assumption of 62 dollars/bbl (barrel) to the current forecast of 51 dollars/bbl, and similarly the exchange rate forecast has been revised from ¥125/dollar to ¥123/dollar. The effects of fluctuations in the exchange rate and in the price of crude oil on the gross profits on a fiscal half-year basis is that an appreciation of the yen of 1¥/dollar increases profits by ¥0.07bn, while a fall in the price of crude oil of 1dollar/bbl increases profits by 0.09¥bn.

FY12/15 consolidated results outlook

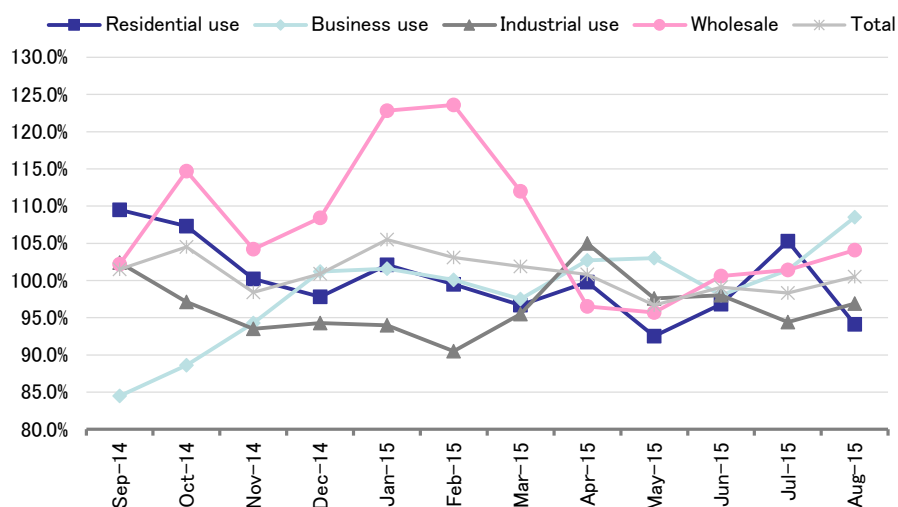
(unit: ¥mn)

	FY12/14		FY12/15				
	Results	% sales	Initial target	Adjusted target	% sales	YoY	vs. initial target
Net sales	166,599	-	149,110	146,070	-	-12.3%	-2.0%
Operating profit	5,753	3.5%	9,980	10,530	7.2%	83.0%	5.5%
Recurring profit	5,996	3.6%	10,410	11,040	7.6%	84.1%	6.1%
Extraordinary income and loss	-	-	-	-	-	-	-
Net profit	2,909	1.7%	6,670	7,180	4.9%	146.8%	7.6%

The gas sales volume is forecast to rise 1.0% YoY to 1,380mn cubic meters on a non-consolidated basis from the increase in wholesales. But due to the effects of factors including the adjustment in the sales unit price following the fall in the price of raw materials and changes to the sales ratios, net sales are forecast to decline for the first time in six fiscal periods. However, the timing until the fall in the price of raw materials is reflected in the sales unit price means that on a profits basis, this timing factor will push up profits ¥5.5bn. After being corrected to exclude the change in profits due to timing, operating profit in FY12/14 was ¥7.3bn, and in FY12/15 will be ¥5.0bn.

In the monthly trend in gas sales volume, as a whole from May onwards it trended slightly sluggishly, while the January to September cumulative total was a 0.3% increase YoY. The main factors behind this were that industrial use from May onwards slumped below the level of the previous year, and the fall was warmer than usual, while residential demand was also slack. In wholesale also, the sales volume was sluggish in these few months due to declines from some users, but following the full opening of the Shizuhamu Trunkline in October, sales to Chubu Gas are expected to increase in the future.

Gas sales volume growth rate (YoY)



The price of crude oil is from the trade statistics for cost of insurance and freight (CIF)

(unit: mn cubic meters)

Gas sales volume, non-consolidated	FY12/12	FY12/13	FY12/14	FY12/15F	Change in volume
Residential use	91	88	89	87	-2
Business use	68	68	66	67	1
Industrial use	673	651	645	627	-18
Wholesale supply	562	562	567	599	32
Total	1,393	1,369	1,366	1,380	14
Of which, sales to large customers (direct sales)	665	642	637	619	-18

■ Medium- to long-term strategy

From the gas business to a multi-energy solutions business, including electric power

In the context of the changes to the market environment, including the retail liberalization of electric power and gas, the declining population, and the diversification of customer needs, the Company is viewing these environmental changes as business opportunities and is aiming for growth by evolving its business structure from a gas business to an energy solutions business.

Its management vision is to be “the regional No.1 solutions company,” and toward realizing this vision, in April 2015 it changed its organizational structure from the previous organization by area (3 branch office system of Shizuoka, Fuji, and the eastern area) to by business department (Living Business Department, Multi-Energy Business Department, Terminals Business Department, and Pipeline Network Business Department). The aim of establishing this system of business departments is to clarify the roles and responsibilities of each business department and to carry out flexible management.

In the medium-term three-year plan announced in February 2015, the targets for the plan’s final year of FY12/17 are net sales of ¥180.3bn and operating profit of ¥8.6bn. Gas sales volume is expected to grow by an annual 5.2% due to the expansion in wholesale and industrial-use sales, while operating profit is forecast to increase by 1.2 times from ¥7.3bn, after excluding the effects of the timing of the price of raw materials and the sales price in FY12/14. The outlook for the cumulative total for investment in facilities in the three year period up to 2017 is in the range of ¥25.0bn, mainly for pipeline investment (around ¥5.0bn annually), which is within the range of depreciation costs, while fixed costs, including personnel costs, are expected to remain basically unchanged. As a long-term goal, the Company is targeting net sales of ¥250.0bn (an increase of 1.5 times YoY) in 2025. Below, the measures for each business department are summarized.



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The Living Business Department is aiming to increase sales by utilizing points-of-contact for residential customers

(1) Life solutions by living design

The Living Business Department targets residential customers and 293,000 households have gas contracts with the Company on a non-consolidated basis and around 360,000 on a consolidated basis, with these numbers trending basically unchanged in the last 10 years. Considering that the population will decline in the future, there seems little prospective for growth in the number of contract households. Therefore, the Company is promoting the greater use of energy consumption-efficient gas heaters and is working to increase the gas and LPG sales volume per contract household. Its policy is also to try to increase sales by proposing equipment solutions according to energy use in homes that combine, for example, ENE-FARM (residential use fuel cells) and solar power equipment.

In response to the liberalization of electric power sales from April 2016, while the Company's business area straddles the business areas of both Tokyo Electric Power <9501> (50Hz) and Chubu Electric Power <9502> (60Hz) with the River Fuji as the boundary, it plans to first carry out sales activities within the Tokyo Electric Power-jurisdiction area. However, it does not intend to implement measures to develop customers without thinking about profitability, such as introducing a set discount, and its policy is to focus on electric power sales from industrial use.

In residential use, a strength of the Company is the penetration of its "point-of-contact sales" for customers. Generally, the employees of gas sales companies visit their customers' homes once every three years for the legally required inspection, but in the Company's case, it visits its customers every year. Sales activities are prohibited when carrying out the legal inspection, but are allowed for other visits, and during these visits the Company's employees will provide customers with consultations on any problems with the fixtures and fittings in their home, such as water pipes, and thereby aim to capture demand for the resulting repair and renovation work. Going forward, the Company is aiming to create businesses by supply new products and services to meet the various customer needs it ascertains from the living-related data collected during these business visits. The Company's goal is to increase renovation and living service net sales from the forecast ¥7.5bn in 2015 to ¥25.0bn in 2025.

The main targets in the Living business

	2015	2025	
Number of ENE-FARM equipment in use	1,700 units	31,700units	Penetration rate 12%
Gas heater penetration rate	15%	22%	Detached-housing basis
Gas and LPG sales volume	102mn m ³	110mn m ³	
Electric power sales volume	-	150mn kWh	The Company Group's customer share, around 10%
Renovation and living services net sales	¥7.5bn	250bn	Renovation market share, around 15%

Note: 2015 values are the initial Company targets

Source: February 2015 Company financial reports briefing materials

Promoting a regional dispersion-type energy management business model utilizing cogeneration

(2) The best solutions from multi-energy

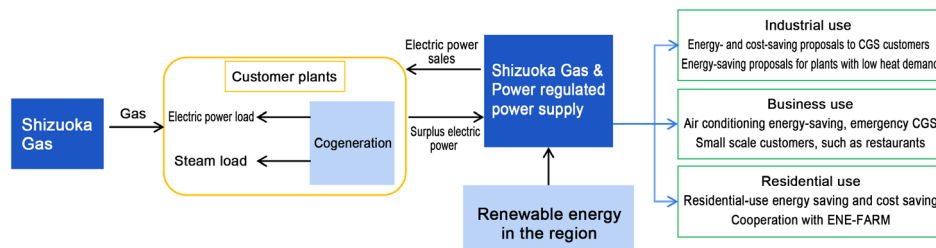
The Company is aiming to further increase sales to industrial-use and business-use customers by proposing to them the best possible total solution that combines gas (LNG and LPG) and electric power. In particular, its strategy is to promote a regional dispersion-type energy management business model utilizing cogeneration.

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Model utilizing electric power cogeneration



Source: Company materials

The core of these measures is a framework in which Shizuoka Gas & Power Company, Ltd., which was established in 2014, purchases the surplus electric power produced by the cogeneration equipment at customers' plants and sells it to companies and residential customers. When the electric power supply is insufficient, energy is also purchased from in-house power generation facilities and regional renewable energy in order to realize a stable supply. Therefore, the Company is preparing an in-house regulated power supply of 15MW (for 50Hz), which is scheduled to be operational from April 2016.

The Company is aiming to increase the cogeneration power generation capacity of customer companies from 140MW, which is the forecast for 2015, to 220MW by 2025. It has recently concluded two new contracts and expects them to have a combined power generation capacity of approximately 40MW. Converting this to gas sales volume, it is equivalent to an increase in around 60mn cubic meters. The increase in cogeneration will contribute to the expansion in the industrial-use gas sales volume, and the target for electric power sales volume is 300mn kWh in 2025.

The main multi-energy business targets

	2015	2025
Gas and LPG sales volume	1,490mn m ³	1,880mn m ³
(within which, the wide-area sales volume)	760mn m ³	980mn m ³
Cogeneration power generation capacity	140MW	220MW
Electric power sales volume	-	300mn kWh

Note: 2015 values are the initial Company targets

Source: February 2015 Company financial reports briefing materials

On the other hand, for gas wholesale there are two large change factors in the future. The first is that following the full opening of the Shizuhamu Trunkline, wholesales to Chubu Gas is expected to increase. Previously, the supply to Chubu Gas was transported by lorry, with sales of around 60mn cubic meters in 2014 and forecast sales of 50 to 60mn cubic meters in 2015. However, from October 2015, supply by pipeline will be possible and from 2016 onwards, a sales volume of over 100mn cubic meters is expected. The medium-term target at Chubu Gas is to expand the gas sales volume from the recent level of 300mn cubic meters to 500mn cubic meters, and if it achieves this target, it is possible that the Company's wholesale volume to Chubu Gas will grow to as much as 160mn cubic meters. Chubu Gas's strategy is to increase sales volume by developing new customers through providing them with multi-energy solutions utilizing cogeneration and other technologies, and the Company is also supporting its customer development while cooperating with it.

The second change factor is that the wholesale volume to INPEX will decline from 2017. This is because when INPEX's new LNG Naoetsu terminal becomes operational, the volume it procures from the Company will decline, and so the contracted amount is expected to fall from the usual 36mn cubic meters a year to 24mn cubic meters from 2017 onwards. Therefore, sales from wholesale will increase in 2016 but decrease in 2017, and compared to the FY12/14 total of 567mn cubic meters, the target for FY12/17 is an increase to 674mn cubic meters.

Aiming to effectively utilize the LNG terminal, including for the re-exporting business

(3) Utilizing LNG terminal solutions

The Company is aiming to effectively utilize the favorable location of its LNG terminal and lower the LNG procurement price. Specifically, in addition to measures in its LNG reload (re-exporting) business, it is providing services for docked LNG carriers, including a cool-down service and gas-testing service.

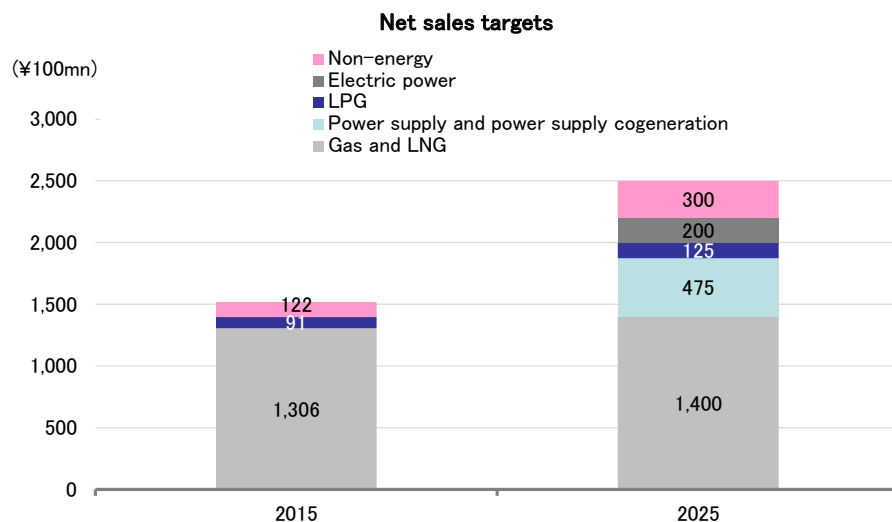
Opportunities to acquire profits are being created in the reload business in the context of the fluidization of the LNG market due to the rise of shale gas. To collect information on reload, the Company opened a representative office in Singapore in April 2015. Currently, it is constructing facilities in order to supply LNG from the terminal scheduled for completion in April 2016 (investment amount, ¥2.5bn). The impact on total revenues will be minor, but we will be paying attention to this business as it will result in a reduction in the LNG procurement cost.

Also, on idle land in the Sodeshi district adjacent to Tonen General Sekiyu <5012>, a plan to construct a LNG-fueled power plant has been announced, and if this plan is realized, it will be necessary to newly add 1 LNG tank terminal. In terms of the scale of the power generated from this plan, a thermal power plant of a maximum of about 1.7 million kW is to be constructed, and it is scheduled to begin operations in 2021. On October 30, three companies, Tonen General Sekiyu, the Company, and Shimizu Corporation <1803> established the joint venture Shimizu Natural Gas Power Company (capital ¥100mn; the Company's capital contribution ratio is 5%) in order to jointly proceed with the preparatory work for the power plant construction project. Currently, the environmental assessment is being carried out, and the decision whether to go ahead with the project will be decided upon by comprehensively considering factors such as the domestic electric power business environment, the energy situation, and economic returns. But if this project is implemented, it will contribute to an increase in the Company's gas sales volume. The tank facilities investment amount is in the region of ¥22bn to ¥25bn per terminal (straight-line depreciation over 15 years).

Even after the liberalization of sales, the Company will continue pipeline networks as an in-house business

(4) The pipelines network business

At the end of December the Company had a pipelines networks of 4,216 km. The major three gas companies have decided on the direction of the separation of pipeline networks within a certain period of time following the liberalization of sales in April 2017, but the Company will continue it as an in-house business. Therefore, it is considered that the liberalization of gas sales will not have any negative effects. The earthquake resistance rate of its pipelines is currently 92.6% which is higher than the national average, and it plans to have all pipelines earthquake resistant by 2023.



Source: February 2015 Company financial reports briefing materials

■ Financial Position and Shareholder Return Policy

Financial position is improving for all indicators of management stability

(1) Financial Position

Looking at the Company's financial position at the end of September 2015, total assets had declined ¥6,449mn compared to the end of the previous fiscal period to ¥111,477mn. Within this total, current assets fell ¥5,347mn, mainly due to the reduction in inventory following the decrease in the LNG price. Cash and deposits are increasing, but as this is from the recovery of accounts receivable, basically these two items cancel each other out. Also, tangible fixed assets declined ¥2,794mn compared to the end of the previous fiscal period due to the progress in depreciation, while investments and other assets rose ¥1,916mn following the increase in investment securities.

Liabilities declined ¥11,476mn compared to the end of the previous fiscal period to ¥39,165mn, mainly due to the reduction of ¥11,110mn in interest bearing debt. Net assets rose ¥5,027mn to ¥72,311mn, primarily because of the increase in retained earnings.

Looking at the main management indicators, all of the indicators of financial stability, including the current ratio, equity ratio, and interest bearing debt ratio, continue to improve, and it is thought that the Company is making steady progress in strengthening its financial structure.



Shizuoka Gas
Company, Ltd.

9543 Tokyo Stock Exchange First
Section

15-Dec.-15

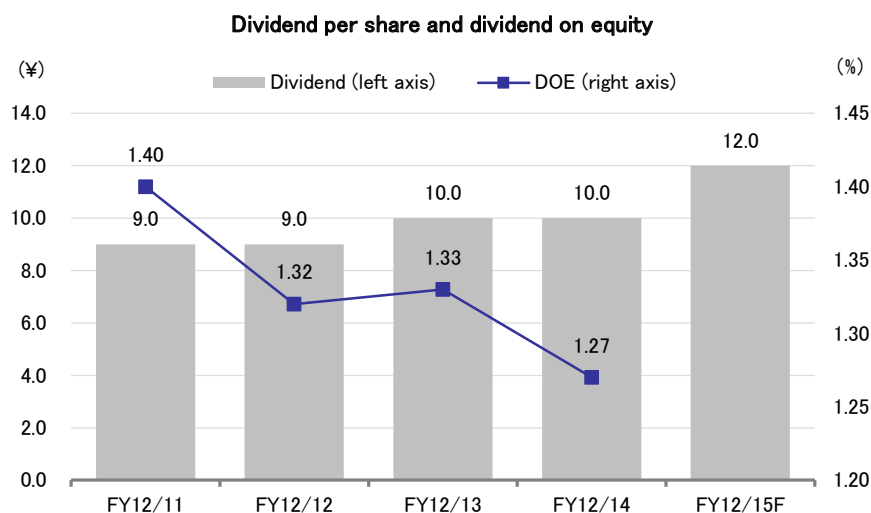
Consolidated balance sheet

	FY12/12	FY12/13	FY12/14	FY12/15 Q3	Change
(unit: ¥mn)					
Current assets	26,722	27,740	31,454	26,107	-5,347
(cash and deposits)	497	526	470	5,032	4,562
(inventory)	9,838	10,662	12,104	7,851	-4,253
Tangible fixed assets	68,845	67,659	64,483	61,689	-2,794
Intangible fixed assets	1,884	1,640	1,374	1,150	-224
Investments, etc.	15,977	18,706	20,614	22,530	1,916
Total assets	113,429	115,746	117,926	111,477	-6,449
Current liabilities	28,121	27,756	31,053	21,152	-9,901
Fixed liabilities	25,786	23,298	19,588	18,013	-1,575
(interest bearing debt)	35,733	30,688	29,742	18,632	-11,110
Total liabilities	53,907	51,055	50,641	39,165	-11,476
Net assets, total	59,521	64,691	67,284	72,311	5,027
(financial stability)					
Current ratio	95.0%	99.9%	101.3%	123.4%	
Equity ratio	45.7%	49.4%	50.7%	57.9%	
Interest bearing debt ratio	31.5%	26.5%	25.2%	16.7%	

The Company's policy is to pay a dividend while considering results and dividend on equity, and the forecast for FY12/15 is a ¥2 dividend increase

(2) Shareholder return policy

The Company's shareholder return policy is to pay stable and continuous dividends while determining the dividend amount by considering factors such as results and dividend on equity (DOE). In FY12/15, it plans to pay a dividend of ¥12.0, an increase of ¥2.0 YoY.



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