

Consolidated Financial Statements for the Six Months Ended September 30, 2021 [Japanese GAAP]



November 11, 2021

Company name: **TAIHEI DENGYO KAISHA, LTD.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 1968

URL: <https://www.taihei-dengyo.co.jp/>

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Scheduled date of filing quarterly report: November 12, 2021

Scheduled date of commencing dividend payments: -

Preparation of supplementary explanatory materials: Yes

Quarterly financial results briefing: Yes

(Amounts of less than one million yen are rounded down.)

1. Consolidated Results for the Six Months Ended September 30, 2021 (April 1, 2021 – September 30, 2021)

(1) Consolidated Operating Results (Cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2021	59,988	(0.7)	6,599	48.3	8,011	70.4	5,469	79.0
September 30, 2020	60,394	14.6	4,450	81.3	4,700	88.7	3,054	79.5

(Note) Comprehensive income: Six months ended September 30, 2021: 6,087 million yen [67.3%]

Six months ended September 30, 2020: 3,638 million yen [156.3%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2021	287.90	-
September 30, 2020	160.85	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity-to-asset ratio
	Million yen	Million yen	%
As of September 30, 2021	124,561	77,618	61.3
As of March 31, 2021	128,757	73,113	55.9

(Reference) Equity: As of September 30, 2021: 76,409 million yen

As of March 31, 2021: 71,936 million yen

2. Cash Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2021	-	-	-	80.00	80.00
Year ending March 31, 2022	-	-			
Year ending March 31, 2022 (Forecast)			-	100.00	100.00

(Note) Changes from the most recent dividends forecast: None

**3. Forecast of Consolidated Results for the Fiscal Year Ending March 31, 2022
(April 1, 2021 - March 31, 2022)**

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	127,000	(0.6)	8,800	18.9	10,700	28.5	7,100	26.5	373.71

(Note) Changes from the most recent results forecast: Yes

*** Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Application of special accounting methods for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Total number of shares issued and outstanding (common shares)

1) Number of shares issued and outstanding at the end of the period (including treasury shares):

September 30, 2021: 20,341,980 shares

March 31, 2021: 20,341,980 shares

2) Number of treasury shares at the end of the period:

September 30, 2021: 1,343,371 shares

March 31, 2021: 1,343,371 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year):

September 30, 2021: 18,998,609 shares

September 30, 2020: 18,992,258 shares

* These financial results are outside the scope of quarterly review by certified public accountants or audit corporations.

* Explanation of the proper use of performance forecast and other notes

The earnings forecast and other forward-looking statements herein are based on the information currently available and certain assumptions deemed reasonable by the Company, and thus actual results may differ significantly from these forecasts due to a wide range of factors.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

Regarding the Japanese economy in the six months ended September 30, 2021, the economic outlook remained severe. Although consumer spending and some exports were on the recovery trend after the lifting of the state of emergency, there have been potential downward risks due to the trend of the COVID-19 infection in and outside Japan as well as supply chain disruptions, and the level of economic activity needs to be raised according to the COVID-19 situation.

The electric power industry, the main business of the TAIHEI DENGYO KAISHA Group (the TDK Group), has been expanding the use of renewable energy, promoting stable supply and economic efficiency on the premise of safety, and pursuing innovation in thermal power generation and other areas from the perspective of “S+3E” (safety, energy security, economic efficiency, and environment). As such, the industry has been promoting effective measures to reduce CO₂ emissions while building a PDCA cycle.

Under these circumstances, the TDK Group has continued to work on achieving the targets set forth in the Mid-Term Business Plan (FY2020 - FY2022), which started in April 2020 and focuses on “Enhancing the corporate foundation for sustainable growth” and “Securing a revenue base that responds to changes in the business environment.” Furthermore, the Group is implementing initiatives that take the new fields of design and material procurement into consideration, along with its conventional businesses. In this context, we established in August 2021 Taihei Engineering Service Co., Ltd., a subsidiary dedicated to engineering work, and are striving to build an order-receiving system aimed at further business expansion. As part of ESG efforts, we are carrying out a joint project with a partner company for the purpose of reducing CO₂ emissions at construction sites. In terms of our own power plants, we are endeavoring to build a business model for a recycle-oriented society where we segregate, collect, and store CO₂ emissions and use them to grow agricultural products.

As a result, in the six months ended September 30, 2021, orders received amounted to 52,542 million yen (a decrease of 8.1% YoY) and net sales amounted to 59,988 million yen (a decrease of 0.7% YoY) including 2,684 million yen (a decrease of 16.5% YoY) for overseas works.

Regarding profits, operating profit amounted to 6,599 million yen (an increase of 48.3% YoY), ordinary profit amounted to 8,011 million yen (an increase of 70.4% YoY) and profit attributable to owners of parent amounted to 5,469 million yen (an increase of 79.0% YoY).

The “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29; March 31, 2020) and others have been applied from the beginning of the first quarter of the current consolidated fiscal year. Details are stated in “2. Quarterly Consolidated Financial Statements and Primary Notes, (4) Notes to Quarterly Consolidated Financial Statements, (Changes in accounting policies).”

Performance results by business segment are as follows.

(Construction Segment)

Orders received amounted to 18,816 million yen (a decrease of 20.9% YoY, composition ratio: 35.8%). Orders received in works for thermal power plants for business use and works for iron and steel-related plants decreased, resulting in a decrease for the overall segment.

Net sales amounted to 24,273 million yen (a decrease of 14.6% YoY, composition ratio: 40.5%). Despite an increase in that for works for thermal power plants for private use and works for iron and steel-related plants, net sales of works for thermal power plants for business use decreased, resulting in a decrease for the overall segment. Segment profit amounted to 2,467 million yen (an increase of 33.4% YoY) due to improved profit rates for works for thermal power plants for business use and works for iron and steel-related plants.

(Maintenance and Renovation Segment)

Orders received amounted to 33,726 million yen (an increase of 1.1% YoY, composition ratio: 64.2%). Despite a decrease in orders received in works for nuclear power plants, orders for thermal power plants for business use increased, resulting in an increase for the overall segment.

Net sales amounted to 35,715 million yen (an increase of 11.7% YoY, composition ratio: 59.5%). Despite a decrease in that for works for iron and steel-related plants, net sales of works for thermal power plants for business use and works for thermal power plants for private use increased, resulting in an increase for the overall segment. Segment profit amounted to 5,739 million yen (an increase of 37.7% YoY).

(2) Explanation of Financial Position

(a) Assets

Current assets amounted to 88,324 million yen, down 6,183 million yen from the end of the previous consolidated fiscal year. This was due mainly to a decrease of 8,474 million yen in cash and deposits despite increases of 3,000 million yen in securities and 2,246 million yen in costs on construction contracts in progress.

Non-current assets amounted to 36,236 million yen, up 1,988 million yen from the end of the previous consolidated fiscal year. This was due mainly to an increase of 1,149 million yen in investment securities.

(b) Liabilities

Current liabilities amounted to 32,621 million yen, down 7,866 million yen from the end of the previous consolidated fiscal year. This was due mainly to a decrease of 3,795 million yen in other current liabilities.

Non-current liabilities amounted to 14,321 million yen, down 835 million yen from the end of the previous consolidated fiscal year. This was due mainly to a decrease of 842 million yen in long-term borrowings.

(c) Net assets

Net assets amounted to 77,618 million yen, up 4,505 million yen from the end of the previous consolidated fiscal year. This was due mainly to an increase of 3,894 million yen in retained earnings.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The Company revised the consolidated financial results forecast for the full year ending March 31, 2022 (April 1, 2021 to March 31, 2022) from the forecast announced on May 14, 2021. For more details on the revised forecast, please see “Notice concerning the Revision of the Financial Results Forecast for the Full Year Ending March 31, 2022” published today on November 11, 2021 (available in Japanese).

Forward-looking statements, such as performance forecasts, made in this document are based on information currently available to the Company and certain assumptions deemed reasonable, and actual results, etc. may differ significantly due to various factors.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: ¥1 million)

	As of March 31, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	31,151	22,676
Notes receivable, accounts receivable from completed construction contracts	40,058	-
Notes receivable, accounts receivable from completed construction contracts, and contract assets	-	34,666
Electronically recorded monetary claims - operating	6,480	6,429
Securities	-	3,000
Costs on construction contracts in progress	16,002	18,248
Raw materials and supplies	65	52
Other	754	3,254
Allowance for doubtful accounts	(3)	(3)
Total current assets	94,508	88,324
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,189	18,312
Accumulated depreciation and impairment	(10,214)	(10,455)
Buildings and structures, net	7,974	7,857
Machinery and vehicles	14,648	14,479
Accumulated depreciation	(10,489)	(10,479)
Machinery and vehicles, net	4,158	3,999
Tools, furniture and fixtures	2,337	2,385
Accumulated depreciation and impairment	(2,076)	(2,128)
Tools, furniture and fixtures, net	261	256
Land	7,610	7,635
Leased assets	298	417
Accumulated depreciation	(152)	(192)
Leased assets, net	146	224
Construction in progress	314	517
Total property, plant and equipment	20,466	20,491
Intangible assets		
Goodwill	48	36
Other	371	338
Total intangible assets	420	375
Investments and other assets		
Investment securities	9,427	10,576
Long-term loans receivable	182	184
Retirement benefit asset	6	13
Real estate for rent	1,782	2,095
Accumulated depreciation	(785)	(801)
Real estate for rent, net	996	1,293
Deferred tax assets	1,081	841
Long term-bank cash	271	273
Other	1,608	2,399
Allowance for doubtful accounts	(213)	(213)
Total investments and other assets	13,362	15,369
Total non-current assets	34,248	36,236
Total assets	128,757	124,561

TAIHEI DENGYO KAISHA, LTD. (1968)
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(Unit: ¥1 million)

	As of March 31, 2021	As of September 30, 2021
Liabilities		
Current liabilities		
Notes payable, accounts payable for construction contracts	10,485	8,411
Electronically recorded obligations - operating	11,336	11,071
Current portion of bonds payable	4,400	1,200
Current portion of long-term borrowings	1,685	1,685
Lease obligations	95	114
Income taxes payable	1,561	2,324
Advances received on construction contracts in progress	4,088	-
Contract liabilities	-	4,769
Provision for bonuses	967	1,194
Provision for bonuses for directors (and other officers)	124	66
Provision for warranties for completed construction	152	96
Provision for loss on construction contracts	229	120
Other	5,361	1,565
Total current liabilities	40,487	32,621
Non-current liabilities		
Bonds payable	5,000	5,000
Long-term borrowings	5,778	4,936
Lease obligations	125	166
Deferred tax liabilities	1	1
Retirement benefit liability	3,939	3,894
Provision for share awards for directors (and other officers)	109	109
Provision for retirement benefits for directors (and other officers)	104	108
Other	97	104
Total non-current liabilities	15,156	14,321
Total liabilities	55,643	46,942
Net assets		
Shareholders' equity		
Share capital	4,000	4,000
Capital surplus	4,917	4,917
Retained earnings	63,624	67,519
Treasury shares	(2,156)	(2,156)
Total shareholders' equity	70,385	74,280
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,476	2,912
Foreign currency translation adjustment	(225)	(195)
Remeasurements of defined benefit plans	(700)	(588)
Total accumulated other comprehensive income	1,550	2,128
Non-controlling interests	1,176	1,209
Total net assets	73,113	77,618
Total liabilities and net assets	128,757	124,561

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(2) Quarterly Consolidated Statement of Income and Comprehensive Income
Six Months Ended September 30, 2020 and 2021

(Unit: ¥1 million)

	For the six months ended September 30, 2020	For the six months ended September 30, 2021
Net sales	60,394	59,988
Cost of sales	51,972	49,180
Gross profit	8,422	10,808
Selling, general and administrative expenses	3,972	4,208
Operating profit	4,450	6,599
Non-operating income		
Interest income	5	5
Dividend income	119	134
Share of profit of entities accounted for using equity method	80	41
Rental income from non-current assets	107	116
Subsidy income	-	1,000
Other	124	278
Total non-operating income	436	1,577
Non-operating expenses		
Interest expenses	17	18
Foreign exchange losses	50	49
Rental expenses on non-current assets	75	69
Loss on retirement of non-current assets	3	6
Other	38	21
Total non-operating expenses	185	165
Ordinary profit	4,700	8,011
Extraordinary income		
Gain on sale of non-current assets	94	1
Total extraordinary income	94	1
Extraordinary losses		
Loss on sale of non-current assets	18	-
Loss on valuation of investment securities	-	24
Other	-	0
Total extraordinary losses	18	25
Profit before income taxes	4,776	7,987
Income taxes – current	1,511	2,457
Income taxes – deferred	14	(0)
Total income taxes	1,525	2,457
Profit	3,250	5,530
Profit attributable to		
Profit attributable to owners of parent	3,054	5,469
Profit attributable to non-controlling interests	195	60
Other comprehensive income		
Valuation difference on available-for-sale securities	332	436
Foreign currency translation adjustment	2	8
Remeasurements of defined benefit plans, net of tax	52	111
Share of other comprehensive income of entities accounted for using equity method	0	0
Total other comprehensive income	388	556
Comprehensive income	3,638	6,087
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,442	6,024
Comprehensive income attributable to non-controlling interests	196	62

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Financial Results for the Six Months Ended September 30, 2021 [Japanese GAAP]

(3) Quarterly Consolidated Statement of Cash Flows

(Unit: ¥1 million)

	For the six months ended September 30, 2020	For the six months ended September 30, 2021
Cash flows from operating activities		
Profit before income taxes	4,776	7,987
Depreciation	808	812
Amortization of goodwill	12	12
Increase (decrease) in allowance for doubtful accounts	5	(0)
Increase (decrease) in other provisions	(94)	8
Increase (decrease) in retirement benefit liability	54	106
Interest and dividend income	(124)	(140)
Interest expenses	17	18
Borrowing fee	5	5
Foreign exchange losses (gains)	49	50
Subsidy income	-	(1,000)
Share of loss (profit) of entities accounted for using equity method	(80)	(41)
Other non-operating expenses (income)	(149)	(181)
Loss (gain) on sale and retirement of property, plant and equipment	(72)	5
Loss (gain) on valuation of investment securities	-	24
Decrease (increase) in trade receivables	8,844	6,144
Decrease (increase) in costs on construction contracts in progress	(1,422)	(2,227)
Increase (decrease) in trade payables	(562)	(2,349)
Decrease (increase) in consumption taxes refund receivable	606	(2,743)
Increase (decrease) in accrued consumption taxes	(14)	(2,648)
Other, net	(961)	(433)
Subtotal	11,699	3,407
Interest and dividends received	137	150
Interest paid	(17)	(18)
Subsidies received	-	200
Income taxes paid	(2,443)	(1,741)
Other, net	149	158
Net cash provided by (used in) operating activities	9,524	2,156
Cash flows from investing activities		
Payments into time deposits	(194)	(200)
Proceeds from withdrawal of time deposits	571	155
Purchase of securities	-	(3,000)
Purchase of property, plant and equipment	(1,086)	(1,570)
Proceeds from sale of property, plant and equipment	114	1
Purchase of intangible assets	(5)	(21)
Proceeds from sale of intangible assets	-	0
Purchase of investment securities	(300)	(451)
Proceeds from sale of investment securities	-	10
Loan advances	(72)	-
Proceeds from collection of loans receivable	29	1
Other, net	95	18
Net cash provided by (used in) investing activities	(848)	(5,056)

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	For the six months ended September 30, 2020	For the six months ended September 30, 2021
Cash flows from financing activities		
Proceeds from short-term borrowings	3,000	-
Repayments of short-term borrowings	(3,000)	-
Repayments of long-term borrowings	(842)	(842)
Payments of borrowing fee	(3)	(4)
Redemption of bonds	(200)	(3,200)
Purchase of treasury shares	(0)	-
Proceeds from sale of treasury shares	7	-
Repayments of lease obligations	(61)	(63)
Dividends paid	(1,711)	(1,526)
Dividends paid to non-controlling interests	(5)	(8)
Net cash provided by (used in) financing activities	(2,817)	(5,646)
Effect of exchange rate change on cash and cash equivalents	(56)	27
Net increase (decrease) in cash and cash equivalents	5,802	(8,519)
Cash and cash equivalents at beginning of period	16,974	30,941
Cash and cash equivalents at end of period	22,777	22,422

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29; March 31, 2020) (the "Revenue Recognition Standard") and others from the beginning of the first quarter of the current consolidated fiscal year. Revenue is recognized in the amount expected to be received in exchange for promised goods or services when control of said goods or services is transferred to the customer.

Previously, the percentage-of-completion method was applied to construction contracts for which results are deemed certain in terms of the progress portion, and the completed-contract method was applied to other construction contracts. However, due to the application of this Revenue Recognition Standard, the method has been changed such that if performance obligations are satisfied over a certain period of time, revenue is recognized over a certain period of time based on an estimated progress rate for the satisfaction of performance obligations. If the progress rate for the satisfaction of performance obligations cannot be reasonably estimated, but recovery of expenses to be incurred can be expected, revenue is recognized using the cost recovery method. For construction contracts in which the period from the start date in the contract to the estimated time of fully satisfying the performance obligations is very short, revenue is recognized when the performance obligations are fully satisfied.

With regard to the application of the Revenue Recognition Standard, etc. in accordance with the transitional treatment stipulated in the proviso to Paragraph 84 of the Revenue Recognition Standard, the cumulative effect of retroactively applying the new accounting policy prior to the beginning of the first quarter of the current consolidated fiscal year has been added to or subtracted from retained earnings at the beginning of the first quarter of the current consolidated fiscal year, and the new accounting policy has been applied from the beginning of said period.

As a result, for the six months ended September 30, 2021, net sales increased by 1,366 million yen, cost of sales increased by 1,426 million yen, and operating profit, ordinary profit, and profit before income taxes each decreased by 59 million yen. Retained earnings at the beginning of the current period decreased by 46 million yen.

Due to the application of the Revenue Recognition Standard, etc., "notes receivable, accounts receivable from completed construction contracts" under "current assets" and "advances received on construction contracts in progress" under "current liabilities" in the consolidated balance sheets for the previous fiscal year have been included in "notes receivable, accounts receivable from completed construction contracts, and contract assets" and "contract liabilities," respectively, from the first quarter of the current consolidated fiscal year. In accordance with the transitional treatment stipulated in Paragraph 89-2 of the Revenue Recognition Standard, figures for the previous fiscal year have not been reclassified in accordance with the new approach to presentation.

(Application of the Accounting Standard for Fair Value Measurement)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30; July 4, 2019) (the "Fair Value Standard") and others from the beginning of the first quarter of the current consolidated fiscal year. New accounting policies based on the Fair Value Standard have been applied prospectively in accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10; July 4, 2019). There is no impact on the quarterly consolidated financial statements.

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(Segment information, etc.)

Segment		Six months from April 1, 2020 to September 30, 2020		Six months from April 1, 2021 to September 30, 2021		Increase (decrease)
		Amount (¥ million)	Composition ratio (%)	Amount (¥ million)	Composition ratio (%)	Amount (¥ million)
Orders received	Construction Segment	23,793	41.6	18,816	35.8	(4,977)
	Maintenance and Renovation Segment	33,365	58.4	33,726	64.2	361
	Total	57,158	100.0	52,542	100.0	(4,615)
Net sales	Construction Segment	28,421	47.1	24,273	40.5	(4,147)
	Maintenance and Renovation Segment	31,973	52.9	35,715	59.5	3,741
	Total	60,394	100.0	59,988	100.0	(406)
Order backlog	Construction Segment	43,204	50.8	45,281	58.2	2,077
	Maintenance and Renovation Segment	41,881	49.2	32,561	41.8	(9,319)
	Total	85,085	100.0	77,843	100.0	(7,241)

- (Notes)
1. Construction Segment includes businesses such as installation and reconstruction works, etc., for thermal power plants, nuclear power plants, iron and steel-related plants, environmental preservation plants and chemical plants, etc., electric and instrumentation work, and insulation and painting works incidental to these facilities, as well as demolition and decommissioning, etc., of various plants and facilities.
 2. Maintenance and Renovation Segment includes businesses such as periodic inspection, daily maintenance, renovation, etc., for the various plants and facilities mentioned above as well as the power generation business.