Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

May 15, 2023

Consolidated Financial Results for the Nine Months Ended March 31, 2023 (Under Japanese GAAP)

Company name: TESS Holdings Co., Ltd.
Listing: Tokyo Stock Exchange
Securities code: 5074
URL: https://www.tess-hd.co.jp/english/
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Scheduled date to file quarterly securities report: May 15, 2023
Scheduled date to commence dividend payments: –
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results briefing: Yes (for institutional investors and analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the nine months ended March 31, 2023 (from July 1, 2022 to March 31, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2023	24,047	(10.0)	4,257	(12.6)	3,646	(17.5)	2,327	(18.1)
March 31, 2022	26,708	3.7	4,873	56.8	4,422	62.9	2,843	75.1

Note: Comprehensive income For the nine months ended March 31, 2023: ¥2,516 million [(16.2)%]
For the nine months ended March 31, 2022: ¥3,004 million [65.1%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
March 31, 2023	66.23	65.78
March 31, 2022	81.50	80.37

Note: At the close of the fiscal year ended June 30, 2022, the Company finalized the provisional accounting treatment for a business combination. As a result, figures for the nine months ended March 31, 2022 reflect the finalization of the provisional accounting treatment.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
March 31, 2023	96,656	26,918	27.8
June 30, 2022	94,256	25,239	26.7

Reference: Equity
As of March 31, 2023: ¥26,854 million
As of June 30, 2022: ¥25,206 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2022	–	0.00	–	21.00	21.00
Fiscal year ending June 30, 2023	–	0.00	–		
Fiscal year ending June 30, 2023 (Forecast)				21.00	21.00

Note: Revisions to the cash dividends forecasts most recently announced: None

3. Forecast of consolidated financial results for the fiscal year ending June 30, 2023 (from July 1, 2022 to June 30, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending June 30, 2023	33,400	(4.4)	5,400	4.9	4,600	(1.2)	2,900	7.6	82.59

Note: Revisions to the consolidated financial results forecasts most recently announced: None

* **Notes**

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

Newly included: – companies
Excluded: – companies

(2) Application of specific accounting for preparing quarterly consolidated financial statements: Yes

Note: For details, please refer to “2. Quarterly consolidated financial statements (3) Notes to quarterly consolidated financial statements (Application of specific accounting for preparing quarterly consolidated financial statements)” on page 13 of the attached material.

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

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

Note: For details, please refer to “2. Quarterly consolidated financial statements (3) Notes to quarterly consolidated financial statements (Notes - Changes in accounting policies)” on page 13 of the attached material.

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2023	35,332,100 shares
As of June 30, 2022	35,244,100 shares

(ii) Number of treasury shares at the end of the period

As of March 31, 2023	130,070 shares
As of June 30, 2022	130,070 shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Nine months ended March 31, 2023	35,146,669 shares
Nine months ended March 31, 2022	34,893,055 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(Caution regarding forward-looking statements)

Forward-looking statements in this document, including the results forecasts, etc., are based on the information available as of the date of the release of this document and the preconditions that the Company deemed to be reasonable; they are not meant to be a commitment by the Company, and a variety of factors in the future may cause actual results to differ materially from these forecasts. Please refer to “1. Qualitative information on the quarterly financial results (3) Explanation of forward-looking statements such as forecast of consolidated financial results” on page 8 of the attached material for the preconditions for the earnings forecasts and items to exercise caution in the use of these earnings forecasts.

Attached Material

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1. Qualitative information on the quarterly financial results

(1) Explanation of operating results

During the nine months ended March 31, 2023, the impact of the novel coronavirus disease (COVID-19) that began spreading around the world in early 2020 led to polarization in corporate earnings and personal consumption in the Japanese economy. Due to this, along with other issues such as sharp rises in global prices for materials and energy, the worsening situation in Ukraine and the impact of a weak yen, it remains difficult to predict business conditions going forward.

In the energy industry in which the Group operates, developments such as the advocacy of the Sustainable Development Goals (SDGs)*1 by the United Nations in 2015, and the negotiation of the Paris Agreement*2 have led to an acceleration of initiatives to continue the global decarbonization of energy sources. In Japan, the Sixth Strategic Energy Plan*3 approved by the Cabinet in October 2021 set out the course for an energy policy directed at realizing carbon neutrality by 2050 and achieving a new target for reducing greenhouse gas emissions (by 46% from their FY2013 level) by 2030. The Plan calls for increased pursuit of energy efficiency maximization and sets the goal of making renewable energy account for 36 to 38% of Japan's power source mix by 2030 (from 18% in FY2019).

In this external environment, the Group has used its "Total Energy Savings & Solutions" management philosophy as a base on which to continue developing its operations, with a focus on the three business areas of "renewable energy as main power source," "energy efficiency maximization," and "intelligent energy infrastructure."

As a result of the above, for the nine months ended March 31, 2023, net sales were ¥24,047 million (down 10.0% year on year), operating profit was ¥4,257 million (down 12.6% year on year), ordinary profit was ¥3,646 million (down 17.5% year on year), and profit attributable to owners of parent was ¥2,327 million (down 18.1% year on year).

Operating performance by segment was as follows.

(Millions of yen)

	Reportable segments			Adjustment (Note 1)	Total (Note 2)
	Engineering Segment	Energy Supply Segment	Total		
Net sales					
Goods transferred at a point in time	1,152	12,397	13,549	–	13,549
Goods transferred over time	7,815	2,682	10,498	–	10,498
Revenue from contracts with customers	8,968	15,079	24,047	–	24,047
Revenues from external customers	8,968	15,079	24,047	–	24,047
Intersegment sales and transfers	1,428	–	1,428	(1,428)	–
Total	10,396	15,079	25,475	(1,428)	24,047
Segment profit	588	3,392	3,981	276	4,257

Notes: 1. Adjustment for segment profit includes eliminations of intersegment transactions and corporate expenses that are not allocated to reportable segments.

2. Segment profit has been reconciled with operating profit in the quarterly consolidated statement of income.

3. Intersegment transactions include EPC (Engineering, Procurement and Construction) project performed by our consolidated subsidiary TESS Engineering Co., Ltd. for another of our consolidated subsidiaries Kumamoto Nishiki Green Power LLC at TESS Nishiki-machi Kinoe-nishi Biomass Power Plant (Nishiki-machi, Kuma-gun, Kumamoto Prefecture, generation capacity of approximately 2.0 MW).

(i) Engineering Segment

Commissioned type

This segment consists of EPC commissioned by customers, such as engineering services to address customer needs for energy-saving facilities, cost reductions and environmental initiatives. It also includes engineering for power generation facilities and facilities for in-house consumption of generated power, using FIT certification[*4] obtained by customers using part of renewable energy facilities.

During the nine months ended March 31, 2023, the Company created a variety of solutions in response to customer needs, such as implementing decarbonization initiatives, securing stable supplies of power as part of BCP measures, reducing energy usage as part of improvements to energy efficiency, and implementing renewable energy programs. As a result, sales were recorded in accordance with the revenue-recognition method over a certain period of time for EPC projects for co-generation systems[*5], EPC projects for fuel conversion facilities[*6] such as LPG satellite facilities and LNG vaporizers, EPC projects for utility facilities[*7], EPC projects related to solar power generation systems for industrial applications in Japan, and an EPC project for a biomass energy generation system.

From among these, construction of two EPC projects for co-generation systems (with a combined generation capacity of approximately 9.6 MW), two EPC projects for fuel conversion facilities such as LPG satellite facilities and LNG vaporizers, three EPC projects for utility facilities such as boiler and transformer equipment, one EPC project for energy management systems, and 16 EPC projects related to solar power generation systems for industrial applications in Japan (with a combined generation capacity of approximately 24.4 MW) were completed in the nine months ended March 31, 2023.

Development type

This segment consists of EPC projects in which the Group proactively engages in purchasing (or renting) land and acquiring approvals and rights so as to provide a full set of development solutions to customers.

In the nine months ended March 31, 2023, the Group recorded sales of ¥2,285 million contributed by steady progress made at an EPC project for a major solar power generation plant in Miyako-machi, Miyako-gun, Fukuoka Prefecture, a development-type project using a Feed-In Tariff scheme (FIT scheme)[*8]. This will have generation capacity of approximately 67.0 MW, comprising a northern power plant with capacity of approximately 23.2 MW and a southern power plant with capacity of approximately 43.8 MW. The northern power plant was completed in the previous fiscal year, while the southern power plant was completed in the third quarter under review.

As a result of the above, the Engineering Segment recorded net sales of ¥10,396 million (down 24.8% year on year) and segment profit of ¥588 million (down 74.8% year on year).

(ii) Energy Supply Segment

Renewable energy power plant ownership, operation and electricity sales

As of the end of the third quarter under review, the Group's consolidated subsidiaries owned 83 renewable energy power plants in Japan with a combined generation capacity of approximately 210.6 MW, of which 15 were of the on-site PPA model[*9], with generation capacity of approximately 17.5 MW, and companies in which the Group has made investments (equity-method affiliates and silent partnerships where a limited liability company investing in the silent partnership is the operator) owned 12 renewable energy power plants in Japan with a combined generation capacity of approximately 88.1 MW[*10].

In the nine months ended March 31, 2023, generation capacity for both renewable energy power plants (excluding power plants owned by companies other than consolidated subsidiaries) utilizing FIT schemes and those not utilizing FIT schemes that the Group has already brought online is rising steadily, and income from electricity sales is increasing accordingly. In addition, the amount of electricity sold during the period includes ¥549 million as development costs to shorten the construction period until the operation of the southern power plant is transferred to the SPC (Fukuoka Miyako Solar Power LLC). This amount is equivalent to the amount of electricity sold by the large-scale solar power generation plant in Miyako-machi, Miyako-gun, Fukuoka Prefecture.

In the nine months ended March 31, 2023, while there were no new power plants utilizing FIT schemes, for which the Group engaged in their development and EPC, there were eight plants that were newly acquired after they had begun operations (secondary projects): “TESS Miyazaki Takajo No.1 Solar Plant (Miyakonojo-shi, Miyazaki Prefecture) (generation capacity of approximately 1.0 MW),” “TESS Miyazaki Takajo No.2 Solar Plant (Miyakonojo-shi, Miyazaki Prefecture) (generation capacity of approximately 1.0 MW),” “TESS Miyazaki Takajo No.3 Solar Plant (Miyakonojo-shi, Miyazaki Prefecture) (generation capacity of approximately 1.0 MW),” “TESS Miyazaki Takajo No.4 Solar Plant (Miyakonojo-shi, Miyazaki Prefecture) (generation capacity of approximately 0.9 MW),” “TESS Fukushima Tazawa Solar Plant (Fukushima-shi, Fukushima Prefecture) (generation capacity of approximately 0.8 MW),” “TESS Fukushima Futagozuka Solar Plant (Fukushima-shi, Fukushima Prefecture) (generation capacity of approximately 0.3 MW),” “TESS Fukushima Machiniwasaka Solar Plant (Fukushima-shi, Fukushima Prefecture) (generation capacity of approximately 1.0 MW),” and “TESS Fukushima Matsukawa-machi Solar Plant (Fukushima-shi, Fukushima Prefecture) (generation capacity of approximately 0.5 MW).” Also, while the Group completed the sale of nine solar power plants (total generating capacity: 15.3 MW) owned by Prime Solar LLC and T&M Solar LLC to outside the Group on March 31, 2023, it expects to continue recording the electricity sales income from the said nine power plants on a consolidated basis till the end of the fiscal year under review.

Further, in March 2023 the Group switched the electricity sales from existing two solar power plants owned by Prime Solar 3 LLC (total generating capacity: approximately 0.6 MW) from FIT scheme to FIP scheme.

<Renewable energy power plants utilizing FIT schemes which the Group newly acquired during the nine months under review>

Name of power plant	Name of operator	Capacity (MW)	Type of power generation	Feed-in tariff (per kWh) (Yen)	Date on which generation commenced	Date on which power plant was acquired
TESS Miyazaki Takajo No.1 Solar Plant	Prime Solar 3 LLC	1.0	Solar	40	June 2013	December 2022
TESS Miyazaki Takajo No.2 Solar Plant	Prime Solar 3 LLC	1.0	Solar	40	July 2013	December 2022
TESS Miyazaki Takajo No.3 Solar Plant	Prime Solar 3 LLC	1.0	Solar	40	August 2014	November 2022
TESS Miyazaki Takajo No.4 Solar Plant	Prime Solar 3 LLC	0.9	Solar	40	December 2014	December 2022
TESS Fukushima Tazawa Solar Plant	TESS Engineering Co., Ltd.	0.8	Solar	36	February 2016	February 2023
TESS Fukushima Futagozuka Solar Plant	TESS Engineering Co., Ltd.	0.3	Solar	40	October 2013	February 2023
TESS Fukushima Machiniwasaka Solar Plant	TESS Engineering Co., Ltd.	1.0	Solar	36	May 2014	February 2023
TESS Fukushima Matsukawa-machi Solar Plant	TESS Engineering Co., Ltd.	0.5	Solar	36	July 2015	February 2023

Note: Generation capacity for facilities is given on a module basis (the sum of maximum output for all solar power modules).

In terms of projects that do not make use of FIT schemes, seven new on-site PPA model projects started offering electricity supply services.

<Renewable energy power plants not utilizing FIT schemes at which the Group began operations during the nine months under review>

Supplied to	Location	Name of operator	Capacity (MW)	Type of power generation	Date on which supply commenced
Haruna Factory, Haruna Produce Inc.	Takasaki-shi, Gunma Prefecture	TESS Engineering Co., Ltd.	0.4	Solar (equipped with 15 kWh-class storage battery system)	February 2023
Tanigawa Factory, Haruna Produce Inc.	Minakami-machi, Tone-gun, Gunma Prefecture	TESS Engineering Co., Ltd.	0.3	Solar (equipped with 15 kWh-class storage battery system)	February 2023
Wakayama Factory, Haruna Produce Inc.	Kainan-shi, Wakayama Prefecture	TESS Engineering Co., Ltd.	0.4	Solar (equipped with 15 kWh-class storage battery system)	February 2023
YAMAGATA Plant, THK CO., LTD.	Higashine-shi, Yamagata Prefecture	TESS Engineering Co., Ltd.	2.8	Solar (equipped with 15 kWh-class storage battery system)	February 2023
Iga Campus, DMG MORI CO., LTD. (Phase 1)	Iga-shi, Mie Prefecture	TESS Engineering Co., Ltd.	5.4	Solar	February 2023
Anotsu FACTORY IMURAYA CO., LTD.	Tsu-shi, Mie Prefecture	TESS Engineering Co., Ltd.	0.7	Solar (equipped with 1,000 kWh-class storage battery system)	March 2023
Akagi Plant, NSK Steering Systems Co., Ltd.	Maebashi-shi, Gunma Prefecture	TESS Engineering Co., Ltd.	0.1	Solar	March 2023

Note: Generation capacity for facilities is given on a module basis (the sum of maximum output for all solar power modules).

Operation and maintenance (O&M)

In the nine months ended March 31, 2023, favorable performances as scheduled in maintenance services, operations services, 24-hour remote monitoring services, and energy management services, as well as unexpected maintenance operations such as repairs and replacements caused by failures at customer facilities resulted in solid revenues for operation and maintenance (O&M) as a whole.

Electricity retailing

The Group provides electricity to corporate customers in nine regions of Japan: Hokkaido, Tohoku, Tokyo, Chubu, Hokuriku, Kansai, Chugoku, Shikoku and Kyushu. In the nine months ended March 31, 2023, the Group took measures to curb the impact of increased cost of sales related to the procurement of power source. As part of these measures, we sought to reduce the amount of power supplied, including measures like suspending the acceptance of new applications and requesting existing customers to cancel of their contract. Another part of these measures was to take steps such as raising the unit prices of the electricity supplied for existing customers. In addition to the contribution to sales from increasing fuel adjustment expenses due to the impact of the external environment in electricity retailing, unit price in the wholesale electricity market traded at a level lower than what the Group expected, which led to a decrease in cost of sales related to procurement of electric power. As a result, performance of electricity retailing exceeded the Group’s plan.

In ERAB[*11] services, 20 projects were selected for use by general power transmission and distribution operators seeking bids to provide supply-demand adjustment capacity, and we recorded sales for contributing supply-demand adjustment capacity as a resource aggregator[*12] and an aggregation coordinator[*13].

Others

Sales of fuel supplied to customers operating co-generation systems were strong. In addition, sales of PKS[*14] fuel to biomass power generation plants in Japan during the nine months under review came to ¥1,118 million.

As a result of the above, net sales for the Energy Supply Segment were ¥15,079 million (up 11.7% year on year), and segment profit came to ¥3,392 million (up 45.4% year on year).

*1 Sustainable Development Goals (SDGs):
These are shared goals for international society to be addressed by both developing and developed nations as part of the 2030 Agenda for Sustainable Development adopted by the United Nations in September 2015, and consist of 17 goals whose initiatives cover energy, economic growth, employment, and climate change, amongst other matters.

*2 The Paris Agreement:
An international treaty adopted at the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) in December 2015, based on the approval of 196 countries, including Japan, as a global framework for determining targets for reductions in CO2 emissions in order to combat global warming. In response to this agreement, Japan set a target of reducing greenhouse gas emissions by 46% from the 2013 level by 2030.

*3 Strategic Energy Plan:
A basic plan on energy supply and demand formulated in order to promote measures on energy supply and demand on a long-term, comprehensive and systematic basis, as set forth in Article 12 of the Basic Act on Energy Policy.

*4 FIT certification:
This is the certification of renewable energy power generation business plans by the Minister of Economy, Trade and Industry, as set forth in the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities.

*5 Co-generation system (CGS):
A type of distributed energy resource, consisting of a combined heat and electricity supply system that uses the heat emitted during power generation for air conditioning and heating, or in production processes. It may also be referred to as CHP (Combined heat & power).

*6 Fuel conversion facilities:
Facilities to convert fuel used for heat sources in a factory from oil to natural gas.

*7 Utility facilities:
Facilities that provide the electricity, steam, water, compressed air, fuel, etc. required for the operation of a factory's production facilities.

*8 Feed-In Tariff scheme (FIT scheme):
A system, based on the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities, under which the state promises that electricity utilities will purchase electricity generated from renewable energy, such as solar, wind, or biomass, at a set price and for a set period of time.

*9 On-site PPA model:
A form of contract in which the Group acts as a power generation company, owning, maintaining, and managing solar power generation plants for in-house consumption, and providing the electricity generated by these plants to customers.

*10 Due to an increase in the number of solar power generation plants owned by companies in which the Group has made investments (equity-method affiliates and silent partnerships where a limited liability company investing in the silent partnership is the operator), the Group has reviewed the method for notating the generation capacity of renewable energy power plants from the third quarter under review. Specifically, the Group previously notated the combined generation capacity of renewable energy power generation facilities owned by consolidated subsidiaries and equity-method affiliates. However, from the third quarter under review, the Group draws a division between consolidated subsidiaries and companies in which the Group has made investments (equity-method affiliates and silent partnerships where a limited liability company investing in the silent partnership is the operator), and notates the capacity of the renewable energy power generation facilities owned by each of them. When using the previous notation method, as of the end of the third quarter under review, the Group's consolidated subsidiaries and equity-method affiliates owned 84 renewable energy power plants in Japan with a combined generation capacity of approximately 216.4 MW, of which 15 were of the on-site PPA model, with generation capacity of approximately 17.5 MW.

*11 ERAB (Energy Resource Aggregation Business):
The use of DR*15 and VPP*16 to provide a variety of services to business partners such as general power transmission and distribution operators, electricity retailers, customers, and renewable energy power generation companies, with the aim of securing supply-demand adjustment capacity, avoiding imbalances*17, reducing electricity charges, avoiding output suppression, etc.

*12 Resource aggregator:
An operator that enters into an agreement with customers for the adjustment of supply and demand, and regulates energy resources.

*13 Aggregation coordinator:
An operator that bundles the electric power regulated by resource aggregators and conducts electric power transactions directly with general power transmission and distribution operators, and electricity retailers.

*14 PKS:
An abbreviation for Palm Kernel Shell, referring to the shells of the palm tree that remain after palm oil has been extracted.

*15 DR (Demand response):
Refers to changes in electric power demand patterns made by the owners of customer-side energy resources*18, or third parties, through the regulation of those energy resources.

*16 VPP (Virtual power plant):
Use of IoT technology to remotely perform integrated regulation of distributed energy resources, so that they appear to function as a single power generation plant, allowing the balance between supply and demand of electric power to be adjusted.

*17 Imbalance:
The difference between the demand and procurement plan for the retail provision of electricity formulated by the electricity retailer, and the actual figures.

*18 Customer-side energy resources:
A general term for energy resources that are connected at the customer’s side (“behind the meter”) on the supply connection (such as power generation facilities, power storage facilities, and demand facilities).

(2) Explanation of financial position

Current assets

Total current assets as of the end of the third quarter under review amounted to ¥30,318 million, a decrease of ¥8,515 million compared with the end of the previous fiscal year. The principal contributory factors were a decrease in cash and deposits of ¥7,090 million, a decrease in contract assets of ¥2,413 million, and an increase in real estate for sale of ¥2,287 million.

Non-current assets

Total non-current assets as of the end of the third quarter under review amounted to ¥66,338 million, an increase of ¥10,915 million compared with the end of the previous fiscal year. The principal contributory factor was an increase in construction in progress of ¥11,838 million.

Current liabilities

Total current liabilities as of the end of the third quarter under review amounted to ¥21,394 million, a decrease of ¥189 million compared with the end of the previous fiscal year. The principal contributory factor was a decrease in other current liabilities of ¥1,449 million and an increase in short-term borrowings of ¥1,316 million.

Non-current liabilities

Total non-current liabilities as of the end of the third quarter under review amounted to ¥48,344 million, an increase of ¥911 million compared with the end of the previous fiscal year. The principal contributory factor was an increase in long-term deposits received of ¥483 million and an increase in lease liabilities of ¥293 million.

Net assets

Net assets as of the end of the third quarter under review amounted to ¥26,918 million, an increase of ¥1,678 million compared with the end of the previous fiscal year. The principal contributory factor was an increase in retained earnings of ¥1,590 million.

(3) Explanation of forward-looking statements such as forecast of consolidated financial results

Forecast of consolidated financial results for the full year is unchanged from that disclosed in "Consolidated Financial Results for the Six Months Ended December 31, 2022," released on February 14, 2023.

Moreover, the forecast of consolidated financial results incorporates judgments based on information available to the Group at the time that material was released, and may differ from actual results, etc. for a variety of reasons.

2. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of June 30, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	22,600	15,510
Notes receivable - trade	147	241
Accounts receivable - trade	2,408	2,290
Accounts receivable from completed construction contracts	245	1,094
Contract assets	3,593	1,179
Merchandise and finished goods	317	271
Work in process	43	87
Real estate for sale	–	2,287
Costs on construction contracts in progress	65	110
Costs on real estate business	2,157	2,116
Raw materials and supplies	81	113
Advance payments to suppliers	4,927	3,419
Other	2,263	1,607
Allowance for doubtful accounts	(17)	(12)
Total current assets	38,834	30,318
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,910	3,522
Accumulated depreciation	(937)	(930)
Accumulated impairment	(94)	(94)
Buildings and structures, net	2,878	2,497
Machinery, equipment and vehicles	40,952	39,379
Accumulated depreciation	(9,491)	(10,004)
Accumulated impairment	(13)	(13)
Machinery, equipment and vehicles, net	31,447	29,362
Tools, furniture and fixtures	235	257
Accumulated depreciation	(169)	(187)
Tools, furniture and fixtures, net	65	69
Land	4,804	4,747
Leased assets	2,265	2,265
Accumulated depreciation	(1,218)	(1,348)
Accumulated impairment	(32)	(32)
Leased assets, net	1,014	884
Construction in progress	985	12,824
Total property, plant and equipment	41,196	50,386
Intangible assets		
Goodwill	624	599
Contract-based intangible assets	5,807	6,743
Other	660	614
Total intangible assets	7,092	7,957
Investments and other assets		
Investment securities	579	573
Shares of subsidiaries and associates	1,019	1,080
Deferred tax assets	2,856	2,605
Other	2,735	3,788
Allowance for doubtful accounts	(57)	(53)
Total investments and other assets	7,133	7,994
Total non-current assets	55,422	66,338
Total assets	94,256	96,656

(Millions of yen)

	As of June 30, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	844	1,060
Accounts payable for construction contracts	1,356	953
Short-term borrowings	12,133	13,450
Current portion of long-term borrowings	3,880	4,156
Lease liabilities	288	503
Income taxes payable	142	411
Contract liabilities	480	150
Provision for bonuses	191	129
Provision for contract loss	265	–
Provision for warranties for completed construction	7	35
Other	1,993	543
Total current liabilities	21,584	21,394
Non-current liabilities		
Long-term borrowings	42,870	42,882
Lease liabilities	1,937	2,230
Deferred tax liabilities	764	808
Asset retirement obligations	1,473	1,567
Provision for contract loss	71	–
Retirement benefit liability	295	312
Long-term deposits received	–	483
Other	19	59
Total non-current liabilities	47,432	48,344
Total liabilities	69,017	69,738
Net assets		
Shareholders’ equity		
Share capital	17	25
Capital surplus	13,573	13,581
Retained earnings	11,589	13,180
Treasury shares	(0)	(0)
Total shareholders’ equity	25,179	26,786
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3	3
Deferred gains or losses on hedges	(73)	48
Foreign currency translation adjustment	96	15
Total accumulated other comprehensive income	27	68
Non-controlling interests	32	63
Total net assets	25,239	26,918
Total liabilities and net assets	94,256	96,656

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

(Quarterly consolidated statement of income)
(For the nine months ended March 31, 2023)

(Millions of yen)

	Nine months ended March 31, 2022	Nine months ended March 31, 2023
Net sales	26,708	24,047
Cost of sales	19,389	17,104
Gross profit	7,319	6,942
Selling, general and administrative expenses	2,445	2,684
Operating profit	4,873	4,257
Non-operating income		
Interest income	4	2
Dividend income	10	0
Insurance claim income	139	–
Share of profit of entities accounted for using equity method	15	–
Foreign exchange gains	67	85
Surrender value of insurance policies	6	20
Subsidy income	132	482
Other	63	22
Total non-operating income	439	613
Non-operating expenses		
Interest expenses	593	567
Loss on tax purpose reduction entry of non-current assets	79	430
Share of loss of entities accounted for using equity method	–	28
Commission expenses	204	150
Other	12	47
Total non-operating expenses	890	1,224
Ordinary profit	4,422	3,646
Profit before income taxes	4,422	3,646
Income taxes	1,520	1,146
Profit	2,901	2,500
Profit attributable to non-controlling interests	57	172
Profit attributable to owners of parent	2,843	2,327

(Quarterly consolidated statement of comprehensive income)
(For the nine months ended March 31, 2023)

(Millions of yen)

	Nine months ended March 31, 2022	Nine months ended March 31, 2023
Profit	2,901	2,500
Other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Deferred gains or losses on hedges	55	121
Foreign currency translation adjustment	46	(106)
Share of other comprehensive income of entities accounted for using equity method	–	0
Total other comprehensive income	102	16
Comprehensive income	3,004	2,516
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,955	2,368
Comprehensive income attributable to non-controlling interests	48	147

(3) Notes to quarterly consolidated financial statements

Uncertainties of entity's ability to continue as going concern

Not applicable.

Notes when there are significant changes in amounts of equity

Not applicable.

Application of specific accounting for preparing quarterly consolidated financial statements

Tax expense calculation

Tax expenses are calculated by multiplying the profit before income taxes by the reasonably estimated effective tax rates after the application of tax effect accounting to the profit before income taxes for the fiscal year including the third quarter under review.

Notes - Changes in accounting policies

Application of Accounting Standard for Fair Value Measurement, Etc.

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the first quarter of the fiscal year under review, and it has applied the new accounting policy provided for by the Implementation Guidance on Accounting Standard for Fair Value Measurement prospectively in accordance with the transitional measures provided for in paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement.

This change has no impact on the quarterly consolidated financial statements for the nine months under review.

Notes - Business combinations

Significant review of the initially allocated amounts of the acquisition costs in comparative information

Regarding the business combination with Imari Green Power Co., Ltd. implemented on September 14, 2021, the Company conducted a provisional accounting treatment in the first quarter of the previous fiscal year, but determined the treatment at the end of the previous fiscal year.

In line with this determination of the provisional accounting treatment, significant review was made on the initially allocated amounts of the acquisition costs in the comparative information included in the quarterly consolidated financial statements for the nine months under review. Accordingly, the Company recorded an increase in contract-based intangible assets of ¥2,647 million, an increase in deferred tax liabilities of ¥739 million, and a decrease in goodwill of ¥1,859 million.

As a result, for the quarterly consolidated statement of income for the nine months of the previous fiscal year, selling, general and administrative expenses decreased by ¥47 million, and operating profit, ordinary profit, and profit attributable to owners of the parent increased by ¥47 million each.

Segment information, Etc.

I Nine months ended March 31, 2022 (from July 1, 2021 to March 31, 2022)

1. Disclosure of sales and profit (loss) for each reportable segment, and information on disaggregation of revenue

(Millions of yen)

	Reportable segments			Adjustment (Note 1)	Total (Note 2)
	Engineering Segment	Energy Supply Segment	Total		
Net sales					
Goods transferred at a point in time	625	10,726	11,352	–	11,352
Goods transferred over time	12,585	2,770	15,355	–	15,355
Revenue from contracts with customers	13,211	13,497	26,708	–	26,708
Revenues from external customers	13,211	13,497	26,708	–	26,708
Intersegment sales and transfers	618	–	618	(618)	–
Total	13,829	13,497	27,326	(618)	26,708
Segment profit	2,332	2,334	4,667	206	4,873

Notes: 1. Adjustment for segment profit includes eliminations of intersegment transactions and corporate expenses that are not allocated to reportable segments.

2. Segment profit has been reconciled with operating profit in the quarterly consolidated statement of income.

II Nine months ended March 31, 2023 (from July 1, 2022 to March 31, 2023)

1. Disclosure of sales and profit (loss) for each reportable segment, and information on disaggregation of revenue

(Millions of yen)

	Reportable segments			Adjustment (Note 1)	Total (Note 2)
	Engineering Segment	Energy Supply Segment	Total		
Net sales					
Goods transferred at a point in time	1,152	12,397	13,549	–	13,549
Goods transferred over time	7,815	2,682	10,498	–	10,498
Revenue from contracts with customers	8,968	15,079	24,047	–	24,047
Revenues from external customers	8,968	15,079	24,047	–	24,047
Intersegment sales and transfers	1,428	–	1,428	(1,428)	–
Total	10,396	15,079	25,475	(1,428)	24,047
Segment profit	588	3,392	3,981	276	4,257

Notes: 1. Adjustment for segment profit includes eliminations of intersegment transactions and corporate expenses that are not allocated to reportable segments.

2. Segment profit has been reconciled with operating profit in the quarterly consolidated statement of income.

3. Segment information for the nine months of the previous fiscal year discloses the amounts that reflect significant review of the initially allocated amounts of the acquisition costs in accordance with the determination of the provisional accounting treatment described in “Notes - Business combinations.”