

Consolidated Financial Statements for the Nine Months Ended December 31, 2023 [Japanese GAAP]



February 9, 2024

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

Stock exchange listing: Tokyo Stock Exchange

Code number: 1968

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

Representative: Jo Nojiri, Representative Director, President and Chief Executive Officer

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Scheduled date of filing quarterly report: February 9, 2024

Scheduled date of commencing dividend payments: -

Preparation of supplementary explanatory materials: No

Quarterly financial results briefing: No

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

1. Consolidated Results for the Nine Months Ended December 31, 2023 (April 1, 2023 – December 31, 2023)

(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	%
Nine months ended								
December 31, 2023	92,059	1.1	5,994	(46.6)	7,156	(40.3)	5,463	(34.7)
December 31, 2022	91,015	1.5	11,230	59.8	11,985	30.0	8,364	34.9

(Note) Comprehensive income: Nine months ended December 31, 2023: 6,795 million yen [(24.7)%]

Nine months ended December 31, 2022: 9,021 million yen [40.1%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2023	287.16	-
December 31, 2022	439.88	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity-to-asset ratio
	Million yen	Million yen	%
As of December 31, 2023	147,397	94,030	63.0
As of March 31, 2023	147,039	89,533	60.0

(Reference) Equity: As of December 31, 2023: 92,843 million yen

As of March 31, 2023: 88,225 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, 2023	-	-	-	120.00	120.00
Year ending March 31, 2024	-	-	-		
Year ending March 31, 2024 (Forecast)				135.00	135.00

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

**3. Forecast of Consolidated Results for the Fiscal Year Ending March 31, 2024
(April 1, 2023 - March 31, 2024)**

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	Basic earnings per share	
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen	
	135,000	7.3	11,900	(17.0)	12,700	(15.9)	8,400	(20.9)	441.50

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

*** 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: None

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):

December 31, 2023: 20,341,980 shares

March 31, 2023: 20,341,980 shares

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

December 31, 2023: 1,315,868 shares

March 31, 2023: 1,315,784 shares

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

December 31, 2023: 19,026,167 shares

December 31, 2022: 19,015,763 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

During the nine months ended December 31, 2023, the Japanese economy trended toward a moderate recovery owing to an uptick in personal spending and an improved employment situation as social and economic activities normalized after COVID-19 ceased to prevail. However, the outlook continues to be uncertain given the situation in Ukraine, conditions in the Middle East and other geopolitical risks, as well as the rise in interest rates resulting from monetary tightening around the world.

Under these circumstances, the TDK Group launched the new Mid-Term Business Plan (FY2023-FY2025) in April 2023, based on the three key concepts of “management that defends by being able to respond quickly to changes in social structure,” “management that goes on the offense to contribute to social development,” and “management that co-creates to bring about new corporate value.” In July, the Safety and Quality Assurance Division was set up to strengthen safety and quality control, which is the foundation for any construction company. Furthermore, we strove to win orders for works for environmental preservation plants, expand the areas of works related to the re-opening of nuclear power plants, and establish new construction methods specific to dismantling onshore wind power generation facilities as well as new timber collection methods for green projects that we are pushing.

As a result, for the nine months ended December 31, 2023, the TDK Group recorded orders received of 99,560 million yen (an increase of 15.6% YoY) and net sales of 92,059 million yen (an increase of 1.1% YoY) including 5,389 million yen (a decrease of 38.4% YoY) for overseas works.

Regarding profits, operating profit amounted to 5,994 million yen (a decrease of 46.6% YoY), ordinary profit amounted to 7,156 million yen (a decrease of 40.3% YoY), and profit attributable to owners of parent amounted to 5,463 million yen (a decrease of 34.7% YoY).

Performance results by business segment are as follows.

(Construction Segment)

Orders received amounted to 35,904 million yen (an increase of 15.1% YoY, composition ratio: 36.1%). Increases in orders received in works for nuclear power plants and works for thermal power plants for private use resulted in an increase for the overall segment.

Net sales amounted to 33,251 million yen (an increase of 2.4% YoY, composition ratio: 36.1%). Despite a decrease in works for thermal power plants for private use, works for environmental preservation plants increased, resulting in an increase for the overall segment. Segment profit amounted to 416 million yen (a decrease of 88.7% YoY).

(Maintenance and Renovation Segment)

Orders received amounted to 63,656 million yen (an increase of 15.9% YoY, composition ratio: 63.9%). Despite a decrease in works for iron and steel-related plants, works for thermal power plants for business use and works for nuclear power plants increased, resulting in an increase for the overall segment.

Net sales amounted to 58,808 million yen (an increase of 0.5% YoY, composition ratio: 63.9%). Despite a decrease in works for iron and steel-related plants, works for thermal power plants for private use increased, resulting in an increase for the overall segment. Segment profit amounted to 8,451 million yen (a decrease of 18.5% YoY).

(2) Explanation of Financial Position

(a) Assets

Current assets amounted to 103,581 million yen, down 734 million yen from the end of the previous fiscal year. This was due mainly to a decrease of 9,476 million yen in cash and deposits, despite increases of 4,227 million yen in costs on construction contracts in progress and 3,160 million yen in other current assets.

Non-current assets amounted to 43,815 million yen, up 1,092 million yen from the end of the previous fiscal year. This was due mainly to an increase of 2,303 million yen in investment securities, despite a decrease of 1,020 million yen in deferred tax assets.

(b) Liabilities

Current liabilities amounted to 40,106 million yen, up 1,356 million yen from the end of the previous fiscal year. This was due mainly to an increase of 5,000 million yen in current portion of bonds payable, despite a decrease of 3,948 million yen in other current liabilities.

Non-current liabilities amounted to 13,259 million yen, down 5,495 million yen from the end of the previous fiscal year. This was due mainly to a decrease of 5,000 million yen in bonds payable.

(c) Net assets

Net assets amounted to 94,030 million yen, up 4,497 million yen from the end of the previous fiscal year. This was due mainly to an increase of 3,171 million yen in retained earnings.

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

There is no change to the consolidated financial results forecast for the full year from the forecast in the “Consolidated Financial Statements for the Fiscal Year Ended March 31, 2023” published on May 11, 2023.

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, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	48,944	39,467
Notes receivable, accounts receivable from completed construction contracts, and contract assets	42,545	42,566
Electronically recorded monetary claims - operating	1,792	3,124
Costs on construction contracts in progress	9,954	14,182
Raw materials and supplies	71	73
Other	1,009	4,169
Allowance for doubtful accounts	(1)	(2)
Total current assets	104,316	103,581
Non-current assets		
Property, plant and equipment		
Buildings and structures	19,384	19,662
Accumulated depreciation and impairment	(11,160)	(11,516)
Buildings and structures, net	8,224	8,145
Machinery and vehicles	13,454	13,480
Accumulated depreciation	(10,088)	(10,498)
Machinery and vehicles, net	3,366	2,981
Tools, furniture and fixtures	2,661	2,726
Accumulated depreciation and impairment	(2,365)	(2,461)
Tools, furniture and fixtures, net	295	265
Land	8,989	9,047
Leased assets	540	709
Accumulated depreciation	(192)	(278)
Leased assets, net	348	431
Construction in progress	53	68
Total property, plant and equipment	21,275	20,939
Intangible assets		
Other	272	252
Total intangible assets	272	252
Investments and other assets		
Investment securities	11,499	13,803
Long-term loans receivable	259	269
Real estate for rent	7,016	7,057
Accumulated depreciation	(886)	(932)
Real estate for rent, net	6,129	6,124
Deferred tax assets	1,292	271
Long term-bank cash	317	333
Other	1,936	2,085
Allowance for doubtful accounts	(259)	(265)
Total investments and other assets	21,174	22,623
Total non-current assets	42,723	43,815
Total assets	147,039	147,397

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(Unit: ¥1 million)

	As of March 31, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Notes payable, accounts payable for construction contracts	9,879	9,836
Electronically recorded obligations - operating	8,916	13,728
Current portion of bonds payable	-	5,000
Current portion of long-term borrowings	968	950
Lease liabilities	134	168
Income taxes payable	3,120	112
Contract liabilities	7,988	7,580
Provision for bonuses	1,018	305
Provision for bonuses for directors (and other officers)	123	62
Provision for warranties for completed construction	127	116
Provision for loss on construction contracts	685	406
Other	5,787	1,838
Total current liabilities	38,750	40,106
Non-current liabilities		
Bonds payable	5,000	-
Long-term borrowings	9,255	8,742
Lease liabilities	236	287
Deferred tax liabilities	4	18
Retirement benefit liability	3,832	3,813
Provision for share awards for directors (and other officers)	151	151
Provision for retirement benefits for directors (and other officers)	50	43
Other	225	204
Total non-current liabilities	18,755	13,259
Total liabilities	57,506	53,366
Net assets		
Shareholders' equity		
Share capital	4,000	4,000
Capital surplus	4,917	4,988
Retained earnings	79,166	82,338
Treasury shares	(2,087)	(2,159)
Total shareholders' equity	85,997	89,168
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,852	4,119
Foreign currency translation adjustment	(235)	(138)
Remeasurements of defined benefit plans	(388)	(307)
Total accumulated other comprehensive income	2,228	3,674
Non-controlling interests	1,308	1,187
Total net assets	89,533	94,030
Total liabilities and net assets	147,039	147,397

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(2) Quarterly Consolidated Statement of Income and Comprehensive Income
Nine Months Ended December 31, 2022 and 2023

(Unit: ¥1 million)

	For the nine months ended December 31, 2022	For the nine months ended December 31, 2023
Net sales	91,015	92,059
Cost of sales	72,866	78,944
Gross profit	18,148	13,115
Selling, general and administrative expenses	6,917	7,120
Operating profit	11,230	5,994
Non-operating income		
Interest income	11	18
Dividend income	292	357
Share of profit of entities accounted for using equity method	136	182
Rental income from non-current assets	282	291
Foreign exchange gains	145	346
Other	175	203
Total non-operating income	1,043	1,401
Non-operating expenses		
Interest expenses	32	35
Rental expenses on non-current assets	113	128
Loss on retirement of non-current assets	0	0
Borrowing fee	66	9
Other	76	64
Total non-operating expenses	288	239
Ordinary profit	11,985	7,156
Extraordinary income		
Gain on sale of investment securities	74	506
Gain on recovery of money transfer scam at overseas branch	238	32
Other	-	0
Total extraordinary income	312	540
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Loss on valuation of investment securities	2	29
Total extraordinary losses	2	29

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(Unit: ¥1 million)

	For the nine months ended December 31, 2022	For the nine months ended December 31, 2023
Profit before income taxes	12,295	7,667
Income taxes - current	3,363	1,810
Income taxes - deferred	347	545
Total income taxes	3,711	2,355
Profit	8,584	5,311
Profit attributable to		
Profit attributable to owners of parent	8,364	5,463
Profit (loss) attributable to non-controlling interests	219	(152)
Other comprehensive income		
Valuation difference on available-for-sale securities	51	1,266
Foreign currency translation adjustment	320	134
Remeasurements of defined benefit plans, net of tax	65	81
Share of other comprehensive income of entities accounted for using equity method	(0)	1
Total other comprehensive income	437	1,484
Comprehensive income	9,021	6,795
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,711	6,909
Comprehensive income attributable to non-controlling interests	309	(114)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.

(Segment information, etc.)

Segment		Nine months from April 1, 2022 to December 31, 2022		Nine months from April 1, 2023 to December 31, 2023		Increase (decrease)
		Amount (¥ million)	Composition ratio (%)	Amount (¥ million)	Composition ratio (%)	Amount (¥ million)
Orders received	Construction Segment	31,194	36.2	35,904	36.1	4,709
	Maintenance and Renovation Segment	54,930	63.8	63,656	63.9	8,726
	Total	86,124	100.0	99,560	100.0	13,435
Net sales	Construction Segment	32,485	35.7	33,251	36.1	765
	Maintenance and Renovation Segment	58,529	64.3	58,808	63.9	278
	Total	91,015	100.0	92,059	100.0	1,043
Order backlog	Construction Segment	40,035	53.9	57,972	58.8	17,937
	Maintenance and Renovation Segment	34,301	46.1	40,582	41.2	6,281
	Total	74,336	100.0	98,555	100.0	24,219

- (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 operation of the power plants.

(Significant subsequent events)

(Issuance of the first and the second series of stock acquisition rights with exercise price revision clauses (moving strike warrants), by third-party allotment)

The Company resolved at a meeting of its Board of Directors held on February 9, 2024 to issue the first and second series of stock acquisition rights (individually or collectively, the "Stock Acquisition Rights") by way of third-party allotment. The overview of this is as follows.

(1) Allotment date	The date shall be any day between March 4, 2024 and March 6, 2024. However, it shall be the day 15 days after the date of determination of the conditions set forth in "(3) Issue price" below, or if that day is a holiday, the following business day.
(2) Total number of stock acquisition rights	20,000 units First series of stock acquisition rights: 10,000 units Second series of stock acquisition rights: 10,000 units
(3) Issue price	Total issue price of 26,500,000 yen (2,450 yen per first series stock acquisition right, and 200 yen per second series stock acquisition right) However, in the event the result of the calculation using the same method as that used to determine the issue price above exceeds 2,450 yen for the first series of stock acquisition rights and 200 yen for the second series of stock acquisition rights on any day between February 16, 2024 and February 20, 2024 (the "Condition Determination Date"), which is determined by the Company's Board of Directors as the day on which the final conditions regarding the Stock Acquisition Rights are determined upon considering various circumstances, including stock price fluctuations as of that date, the issue price shall be the amount determined based on the calculation result on the Condition Determination Date.

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	The total amount of the issue price shall be the issue price per one unit of Stock Acquisition Rights for each series multiplied by the total number of Stock Acquisition Rights (first series of stock acquisition rights: 10,000 units; second series of stock acquisition rights: 10,000 units).
(4) Number of potential shares due to the issue	<p>Number of potential shares: 2,000,000 shares (100 shares per stock acquisition right)</p> <p>First series of stock acquisition rights: 1,000,000 shares</p> <p>Second series of stock acquisition rights: 1,000,000 shares</p> <p>No maximum exercise price.</p> <p>The minimum exercise price shall be determined on the Condition Determination Date of either series of Stock Acquisition Rights, but at the minimum exercise price, the number of potential shares is also 2,000,000 (1,000,000 shares for the first series of stock acquisition rights and 1,000,000 shares for the second series of stock acquisition rights).</p> <p>For the shares to be delivered upon exercise of the Stock Acquisition Rights, the Company plans to utilize treasury shares held by the Company (1,219,134 shares (as of January 31, 2024)).</p>
(5) Amount of financing (estimated net proceeds)	8,861,500,000 yen (Note)
(6) Exercise price and conditions for revision of exercise price	For either series of Stock Acquisition Rights, the initial exercise price shall be either the closing price (in the event there is no closing price on the same day, the closing price shall be the closing price of the immediately preceding day, the “Tokyo Stock Exchange Closing Price”) of the Company’s common stock in regular trading on the Tokyo Stock Exchange, Inc. (the “Tokyo Stock Exchange”) on the trading day immediately preceding the date of the Condition Determination Date, or the minimum exercise price, whichever is higher. The exercise price of each series of Stock Acquisition Rights shall be revised to an amount equal to 92% of the Tokyo Stock Exchange Closing Price on the trading day immediately preceding the day on which the notice of each exercise request of Stock Acquisition Rights is given, after the trading day following the allotment date. However, if the revised price would be lower than the minimum exercise price of each series of Stock Acquisition Rights, the minimum exercise price of each Stock Acquisition Rights series shall be the exercise price after the revision, respectively.
(7) Method of offering or allocation (allottee)	Third-party allotment method to Nomura Securities Co., Ltd.
(8) Exercise period	The exercise period shall be approximately five years from the trading day following the allotment date (from any day between March 5, 2024 and March 7, 2024, to March 5, 2029). However, exercise requests may not be made on the shareholder determination date pertaining to the Company’s common stock, the business day preceding such date, the two business days preceding such date, or any other date deemed necessary by Japan Securities Depository Center, Incorporated.
(9) Use of proceeds	Capital investment funds for renovation of plants with the goal of enhancing productivity, etc., research and development expenses in agriculture and forestry related to green projects, growth investment funds for future M&A and capital and business alliances, etc., and capital investment funds for green projects
(10) Other	The Company may designate the exercise of each series of the Stock Acquisition Rights and the number of Stock Acquisition Rights to be exercised for each series

	to Nomura Securities Co., Ltd. (the “Allottee”). The Company may designate a period during which the Allottee may not exercise all or part of the Stock Acquisition Rights in each series. The Allottee may, in certain cases, request the Company to acquire the Stock Acquisition Rights by giving notice to the Company, and if such request is made, the Company shall acquire the Stock Acquisition Rights in accordance with the conditions of issuance of each series of the Stock Acquisition Rights. The Allottee is expected to agree in a purchase agreement, to be concluded between the Company and the Allottee, that after the notification regarding the offering of the Stock Acquisition Rights under the Financial Instruments and Exchange Act comes into effect, the Allottee will not transfer each series of the Stock Acquisition Rights without the Company’s approval by a resolution of the Board of Directors, and other conditions.
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(Note) The amount of procured funds is the sum of the total amount to be paid in for the Stock Acquisition Rights plus the total value of the assets to be contributed upon exercise of the Stock Acquisition Rights, less an estimated amount of expenses for issuance related to the Stock Acquisition Rights. The total amount to be paid in for the Stock Acquisition Rights is an estimated amount calculated based on the Tokyo Stock Exchange Closing Price, etc. on the trading day immediately preceding the date of resolution of the issuance. In addition, the total value of the assets to be contributed upon exercise of the Stock Acquisition Rights is based on the assumption that the Tokyo Stock Exchange Closing Price on the trading day immediately preceding the date of resolution of the issuance is the initial exercise price of each series of the Stock Acquisition Rights, and that all Stock Acquisition Rights are exercised at the Tokyo Stock Exchange Closing Price on the trading day immediately preceding the date of resolution for issuance. However, the final amount to be paid in for the Stock Acquisition Rights and the initial exercise price shall be determined on the Condition Determination Date, and the actual amount of funds raised will increase or decrease depending on the level of the exercise price. Moreover, if all or part of the Stock Acquisition Rights are not exercised within the exercise period, or if the Stock Acquisition Rights acquired by the Company are cancelled, the amount of funds raised will be reduced.

*Marketability of second series of stock acquisition rights

Of the financing methods used for the above, the second series of stock acquisition rights are “sustainable trigger-type” stock acquisition rights, which are considered financing that combines the features of sustainable finance with the flexibility of the stock acquisition rights financing method. The Company discloses matters relating to the acquisition of land for construction of woody biomass power plants or the execution of lease agreements for land for construction via TDnet, and makes capital investments in green projects, which is a use of the funds to be procured through the payment and exercise of the second series of stock acquisition rights. Also, regarding capital investment in green projects, which is the use of the funds to be procured through the payment and exercise of the second series of stock acquisition rights, and the environmental and social impact created by such capital investment, based on the determination of the construction site in question, the second series of stock acquisition rights may be exercised if the Company obtains a Sustainability Impact Review from Japan Research Institute, Limited to the effect that the Company complies with the characteristics indicated in the “Green Bond Principles 2023,” the “Social Bond Principles 2023,” and the “Sustainability Bond Guidelines 2021” that are guidelines formulated by the International Capital Market Association. Consequently, if such conditions do not arise, the exercise of the second series of stock acquisition rights will be suspended until the expiration of their exercisable period, and the Allottee will not be able to exercise the second series of stock acquisition rights. This structure’s design takes into consideration the dilution of shareholder value for existing shareholders, and secures growth capital at the necessary timing. However, in the event that there is an urgent demand for funds and the Company’s Board of Directors resolves to cancel the suspension designation, the suspension designation will cease to be effective as of the time of announcement of the relevant cancellation resolution, and the Allottee will be able to exercise the second series of stock acquisition rights.